Lehman, Bear Officials Made $2.5 Billion, Study Says

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Nov. 23 (Bloomberg) -- Lehman Brothers Holdings Inc. and Bear Stearns Cos. executives made $2.5 billion from 2000 to 2008, a sign pay policies may have encouraged risk- taking that doomed the companies, a Harvard University study said.

The top five officials at Lehman, which filed for bankruptcy in September 2008, received $1.03 billion in cash bonuses and proceeds from equity sales during the period, according to the report, "The Wages of Failure," released today by Harvard Law School's Program on Corporate Governance. Bear Stearns's top executives made $1.46 billion in the years before JPMorgan Chase & Co. agreed to buy the firm in 2008.

Losses the executives suffered when the firms failed were outweighed by payoffs in the preceding eight years, the study said, concluding that the "standard narrative" that the meltdown of Lehman Brothers and Bear Stearns wiped out top executive's wealth was incorrect and should be viewed skeptically in the debate over pay regulation.

"Excessive incentives to take risks might have been generated by executives' ability to cash out compensation based on the firms' short-term results," said the report, written by Harvard professors Lucian Bebchuk, Alma Cohen and Holger Spamann. "To the extent that executives did cash out large amounts of such compensation, their decisions might have been distorted by an excessive focus on short-term results."

New Pay Rules

Congress and regulators are considering new rules to ensure compensation doesn't create incentives for the risky investments that brought the financial system to the edge of collapse last year, prompting bailouts of firms including Bank of America Corp. and Citigroup Inc.

The Federal Reserve has offered guidelines on tying pay to risk management. Senator Christopher Dodd, chairman of the Senate banking committee, introduced a bill Nov. 10 that would give shareholders of publicly traded firms a non-binding vote on executive compensation and allow it to be recouped if based on inaccurate financial statements.

Shareholders who held their shares throughout the period analyzed in the report lost most of their initial investment as Bear Stearns executives had a net gain of $664.1 million and Lehman officials cleared $431.9 million, the study said.

"The divergence between how the top executives and their shareholders fared implies that it is not possible to rule out, as standard narrative suggests, that the executives' pay arrangements provided them with excessive risk-taking incentives," the report said.