Banker-Pay Limits May Hurt Citigroup, Bank of America

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Sept. 29 (Bloomberg) -- Citigroup Inc., Bank of America Corp. and smaller banks seeking to attract talent and regain ground on stronger peers may face a new obstacle from the global push to rein in executive pay.

Group of 20 standards barring bonus guarantees for more than one year and requiring deferred pay for top executives would take recruitment tools away from banks already burdened by diminished share prices and damaged reputations, some recruiters said. The plan adopted at last week's G-20 summit may benefit Goldman Sachs Group Inc., JPMorgan Chase & Co. and Morgan Stanley, which have been quicker to repay government aid.

"Limiting guarantees to one year could hurt banks like Citigroup and Bank of America by putting them at another disadvantage in hiring," said Colleen Westbrook, a partner with Morrison Cohen LLP in New York and a former counsel at the Federal Reserve Bank of New York.

Bank of America, the biggest U.S. bank by assets, and Citigroup, the third largest, are already under compensation constraints because they haven't repaid the $45 billion each got from the U.S. Troubled Asset Relief Program. They are among seven firms required to submit compensation plans for their 100 highest-paid employees to the Obama administration's special master, Kenneth Feinberg, who may rule on them next month.

Citigroup hasn't given any multiyear contracts worldwide since January in its institutional clients group, said Alexander Samuelson, a company spokesman. He said the firm has still been able to hire senior people from firms including New York-based rivals Morgan Stanley, JPMorgan and Goldman Sachs.

'Paying Competitively'

"We are focused on paying competitively in a way that aligns associate, shareholder and taxpayer interests," said Scott Silvestri, a spokesman for Charlotte, North Carolina- based Bank of America.

Spokesmen for JPMorgan and Morgan Stanley declined to comment. Ed Canaday, a spokesman for Goldman Sachs in New York, said the firm "has never given multiyear guaranteed bonuses and we do not think they're appropriate."

The G-20 leaders, including U.S. President Barack Obama, U.K. Prime Minister Gordon Brown and Japanese Prime Minister Yukio Hatoyama, at last week's summit agreed on a plan to better align economic policies and build banks' capital buffers. They also vowed to keep stimulus measures in place until growth takes root and to narrow disparities in trade and savings.

Pay Standards

The pay standards designed by the Financial Stability Board, a group of regulators led by Bank of Italy Governor Mario Draghi, would require senior executives and others with a “material impact” on a firm’s risk-taking, including traders, to have a “substantial” part of their pay tied to individual, unit and company performance.

Some of that compensation, “such as 40 to 60 percent,” couldn’t be paid out for at least three years. The guidelines would also permit firms to recoup, or claw back, pay if losses occur later.

Some FSB guidelines have already been adopted by financial companies. Goldman Sachs has implemented policies limiting bonus guarantees to one year and paying a larger share of bonuses in stock as amounts increase. Zurich-based Credit Suisse Group AG and Morgan Stanley are among firms that have created systems to claw back bonuses.

Stephen Hester, chief executive officer of Royal Bank of Scotland Group Plc, said today that Britain’s biggest government-controlled bank will be less affected than others by proposals to curtail pay because it adopted deferred bonuses and clawbacks last year. Chancellor of the Exchequer Alistair Darling, in a speech to the Labour party’s annual conference yesterday, pledged to end “automatic” bonuses and to punish banks’ risky pay policies through higher capital requirements.

‘Perverse Incentives’

Bank of America and San Francisco-based Wells Fargo & Co. have pledged to repay U.S. aid. Citigroup Chairman Richard Parsons said Sept. 14 he had “every confidence that Citi will be able to exit the TARP program, and actually be able to give the American taxpayer a decent return.” He didn’t set a date.

The agreements reached during the Pittsburgh summit still require approval by governments of the G-20 nations.

Investor advocates including Lucian Bebchuk, a professor of economics and finance at Harvard Law School, say guaranteed bonuses create “perverse incentives” for executives to take excessive risks.

Goldman Sachs, which set aside a record $11.4 billion to pay compensation in the first six months of this year, doesn’t need to offer guarantees for longer than one year because they pay more than rivals, said Gustavo Dolfino, president of Whiterock Group LLC, a New York-based executive search firm.

Reduce the Risk

“Junior people don’t get multiyear guarantees, only senior people do,” Dolfino said. “Senior people that go to Goldman don’t really need a multiyear guarantee because what they get at Goldman is more than they would get somewhere else.”

Douglas J. Elliott, a Brookings Institution fellow and a former investment banker, said he switched firms twice during his 20 years as a banker because he was offered two-year guarantees. The offers reduce the risk of moving to a company that the banker doesn't know well or that is starting a new business area, Elliott said.

Eliminating multiyear bonuses "could be one of the things that entrenches the existing giants," he said. "There's very little risk in taking a job at Goldman, so they don't in general need to offer multiyear guarantees."

Banks could say "OK, you can't have a three-year guarantee or a five-year guarantee but we're going to give you five times what the guy at Goldman earns in year one, or we'll give you a forgivable loan over five years," said Henry Higdon, managing partner at recruitment firm Higdon Partners LLC in New York.

The G-20 guidelines "may well hurt Citi" and weaker banks, said Paul Hodgson, a senior research associate on compensation at the Portland, Maine-based Corporate Library, which focuses on governance issues. "But we'd rather see guaranteed bonuses banned altogether."

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