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## Banks Try New Ways to Handle Bonuses

By Louise Story and Eric Dash

**(January 3, 2009)** It may be the season to be wealthy — at least on Wall Street, where banks are awarding annual bonuses despite a growing outcry over pay.

But this bonus season is shaping up to be like no other. The normal buzz of money — big money — is all but silenced. While many bankers will still collect six- or even seven-figure bonuses, the average payout for rank-and-file employees will be cut substantially.

The changes are palpable. Like a growing number of senior executives, Jamie Dimon of JPMorgan Chase and Robert E. Rubin of Citigroup will not request bonuses, people familiar with their plans said.

Goldman Sachs will cap its partners' cash payouts at \$222,000, although it will also pay them in stock.

And on Thursday, Credit Suisse, the Swiss financial giant, told its senior investment bankers that they would be paid, in part, by using some of the bank's troubled investments, an arrangement that could pay off — or yield little.

In a call with bankers on Thursday, a Credit Suisse executive acknowledged that many ordinary people are angry that bankers will collect bonuses given the pain in the markets and the broader economy.

"In an industry where many competitors have gone out of business, people have lost their jobs, where regulators are ratcheting up their requirements, the public at large doesn't believe investment bankers should be paid much, if anything," said Paul Calello, the head of the investment bank, according to two people who were on the phone call.

Many bankers and traders say the financial turmoil is not their fault and they depend on bonuses for the bulk of their pay. Critics counter that no bonuses should be paid, given the billions of dollars of taxpayer money that has been injected into banks and the financial system.

"This should be a year of no bonuses for any firm that took bailout money," said Peter Singer, a philosophy professor at Princeton and a pre-eminent ethicist. Nearly every chief executive in the industry and many other top executives have declined to take bonuses, though some, like John A. Thain of Merrill Lynch, did so begrudgingly. While Mr. Dimon of JPMorgan does not intend to request a bonus, his deputies are expected to receive bonuses based on their divisions' performance, said people briefed on the situation. JPMorgan's board will make the final decisions in January.

Two chief executives who have not publicly said they would decline bonuses are Kenneth D. Lewis of Bank of America and Vikram S. Pandit, who inherited the problems at Citigroup last

December.

Mr. Pandit has not decided whether to accept a bonus, people familiar with his plans said. But Mr. Rubin, an influential Citigroup board member and adviser, will not request a bonus for the second year in a row. That decision comes as Mr. Rubin faces criticism that he failed to prevent Citigroup's ill-fated push into the mortgage business.

Citigroup's board will not determine the awards for any of its executives until next year, said Shannon Bell, a spokeswoman for the bank. The spotlight on the industry has also generated more discussion of boomerang bonuses — payments that can be pulled back later if a trader's bets turn out to have been flawed or if they leave the firm.

Credit Suisse's move on Thursday followed decisions by Morgan Stanley and UBS to introduce policies for recovering compensation that was based on inaccurate earnings, and others are expected to follow. Such policies are meant to damp the likelihood that employees will focus only on the short-term performance of their investments.

Credit Suisse is the first bank to link bonuses to troubled assets left over from its past. The bank — one of the few that did not receive taxpayer money — said it would put \$5 billion of the assets into a new investment vehicle. Shares of the vehicle, which mostly includes commercial mortgage loans and leveraged loans, will be given to its managing directors and directors as part of their bonuses, replacing some of the stock that would have been paid in bonus money.

The plan could turn out to be a bonanza for Credit Suisse bankers. The bank has marked the assets down to 65 cents on the dollar, on average, so the bank's shareholders have already suffered much of the pain. That means if the assets appreciate, the bank's employees — not shareholders — will benefit.

However, the asset plan allows the bank to save money on compensation this year, which benefits shareholders, a spokeswoman said. And many banks have sold troubled assets to outsiders at steep discounts, passing on any future gains.

To be sure, Wall Street bonuses, although diminished, are still far higher than those in many other industries. At Goldman, for instance, partners who were paid \$12 million to \$15 million last year will be paid \$3 million to \$4 million this year — an 80 percent reduction, people briefed on the matter said. But everything above \$222,000 of those lofty sums will be paid in restricted stock and stock options. Workers at Goldman who are not partners could receive more than that amount in cash in their bonuses.

Morgan Stanley, which notified workers of their bonuses on Tuesday, has reduced its bonus pool by roughly 50 percent this year, to \$2 billion. That pool includes the amount that will be paid in cash or stock this year, though it does not include the hundreds of millions of dollars in deferred compensation that could be paid if those workers remain at the bank, people familiar with the matter said. Bonuses were cut more than 60 percent for members of the bank's management and operating committees.

Merrill Lynch will be the next bank to notify workers of its bonuses, beginning Friday and continuing into next week. Its new parent, Bank of America, played a role in limiting bonuses. The questions that linger among compensation experts are how much this year's pull-back in pay and new rules will change behavior in the industry when more lucrative times return.

**"Wall Street disproportionately focuses on short-term results compared to other industries," said Richard Cellini, a senior vice president at Integrity Interactive, a consulting firm in Waltham, Mass. "In the short run, we all look like geniuses. It's the middle run that counts in most businesses."**

This article has been revised to reflect the following correction:

Correction: December 20, 2008 Because of an editing error, an article on Friday about annual bonuses at some Wall Street firms misstated Goldman Sachs's plans for its partners' bonuses this year. The company will cap all partners' cash payouts at \$222,000 — not just some of them.

<http://www.wallstreetimplode.com/2009/01/banks-try-new-ways-to-handle-bonuses.html>