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Bankers' bonus bill in Queen's Speech looks threatening but has no teeth

With no overall bonus cap, the Financial Services Bill announced in the Queen's Speech, is likely to have a limited effect on the level of bonuses paid out

Bettina Bender

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The Financial Services Bill gives the Financial Services Authority, in effect, the power to tear up bankers' contracts that include guaranteed bonuses if they appear to reward undue risk-taking.

The bill is designed to address what is perceived to be excessive pay in financial services. The recent banking crisis has been blamed on paying large bonuses to bankers who engaged in unduly risky activity for short-term gain. The crisis has fed the debate on how employee performance should be rewarded, especially how reward should be balanced against employee actions that expose an employer to risk. The control exercised by company shareholders – supervising remuneration levels and ensuring company interests are safeguarded – is often criticised as ineffective.

Some have said with dismay that the bill will put an end to "free market" employment contracts: the government is ruling our commercial agreements between employer and employee.

In practice, the guaranteed bonuses targeted by the bill are comparatively rare, although large sums tend to be involved when they are paid. Most bankers are paid purely discretionary annual bonuses, usually partly in shares and partly cash. Guaranteed bonuses are generally offered as "sign-on" enticements for a particularly attractive job candidate and are often paid over a year or two. They are also used to retain key staff looking to move elsewhere, both in banking and other industries.

The government has said there are no immediate plans to cap bankers' bonuses, guaranteed or discretionary, so the banks will be free to award large discretionary bonuses if they choose. With no overall cap, the practical effect of the bill in terms of reducing the level of bonuses paid is likely to be limited.

The new rules will not affect bonus payments for 2009, which is still expected to be a bumper year for the banks. [The Centre for Economics and Business Research](#) recently estimated that £6 billion will be paid in City bonuses this year, compared with £4 billion last year. To most people these sums seem eye-wateringly large, especially since some of the banks had to be bailed out by taxpayers and many have lost their jobs in the wake of the financial crisis.

There is little time left in the parliamentary timetable for all the bills proposed in the Queen's Speech to become law, although assurances have been given that the Financial Services Bill (the full text of which is yet to be published) will be enacted before the election.

The debate on appropriate remuneration levels for bankers and senior industry figures, and how these are monitored and controlled, is not likely to be resolved any time soon.

Further Info

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