

# Banks braced for a new backlash over bonuses

It took a Christmas break, but the row over bankers' bonuses is about to explode as the City cashes in on a bumper year, reports **James Moore**

**B**efore the world changed this used to be the bankers' favourite time of year. While everyone else shuddered at the thought of struggling through a long, dark January as credit card bills fell through the letter box, the price of all that Christmas bonhomie, bankers looking forward to their bonuses would start to dream of buying their new holiday homes. Enterprising waiters could often count on earning a few quid extra by selling on the receipts from some of the more spectacular celebratory dinners.

If the figures are to be believed after two very lean years, it's back to the boom time for a select group of people in the City of London. Yesterday the specialist law firm CM Murray estimated that the current bonus round will see £40bn paid out to some of the fattest cats around by the world's investment banks.

Those banks will report bumper profits, and the proportion of payouts to the banks' earnings will probably be nearer to 40 per cent than the 50 per cent or more seen in previous years. But critics argue that those profits have been earned on the back of the taxpayer. Investment banks have rarely enjoyed such a benign trading environment, thanks to the billions of pounds of government money that has been poured into the economy and the historically low interest rates offered by central banks. Thanks to this, asset prices have soared – the stock market alone made 15 per cent last year – and making money in that climate is easy. Simply attach yourself to the market's coat-tails and ride it on up.

Then there are the carry trades – buy up assets that can often yield 6 per cent, and more, then refinance by



**City workers cross London Bridge: Around the world investment banks will share out a bonus pot of £40bn**  
OLI SCARFF/GETTY IMAGES

borrowing from your central bank at next to nothing.

No, it has not been hard to earn money for the investment banks – some of which played a part in creating the credit crisis that still casts a pall over the world economy.

As for Alistair Darling's 50 per cent supertax on banks which pay bonuses above £25,000, expect the big global banks to spread the pain across their operations so it is hardly felt. Deutsche Bank is already planning such a step, and others are quietly preparing to follow suit.

The bonus tax "seems to have had very little practical impact in terms of affecting the amounts paid," says Bettina Bender, partner at CM Murray. "It is expected that most banks will cover this UK tax liability for their staff and whilst some banks

have reportedly sought advice on challenging the introduction of the tax in the courts, the expectation is that any such challenge is unlikely to be successful."

So will we see a return to the diners where bankers celebrate by drinking £5,000 bottles of wine they can barely taste because they are so drunk on success? Probably not. This year's bonus round will see the majority of the money paid in shares which will only be released over three years or more, though don't be surprised if some seek to cash in early by borrowing against those shares.

JP Morgan will light the blue touchpaper at the end of this week, with Goldman Sachs adding fuel to the fire next week. British banks are still insisting that "no decisions have been made". But that can't continue.

**RBS**  
The Royal Bank of Scotland

## What they did last year

The bank in the spotlight thanks to the biggest taxpayer bailout of the lot. Last year introduced deferral of bonuses, clawback and payment of bonuses in subordinated debt (the bank's own debt). Made much about how it has been at the leading edge of reforms to pay. But has also loudly complained that it can't retain its best staff.

**Barclays**

Claims that bonus payments fell by 60 per cent last year. Overall the amount of money Barclays paid to employees fell by £600m to £7.8bn, although that is divided between more than 150,000 staff worldwide. Difficult to quantify how much of that was down to any cuts in bonuses at Barclays Capital, given that the figures are not stripped out.

**Lloyds**

Lloyds directors last year declined to take any bonuses, but then the bank was bailed out by the taxpayer. At the basic level branch staff who met performance criteria received performance-related pay, however, higher grades received only "deferred" bonuses in shares. Bonuses for "integrating" HBOS were, however, paid.

**HSBC**  
The world's local bank

Chairman Stephen Green last year said the "go-go years" of big bonuses must come to an end, however controversy soon followed when details of payments of £30m-plus for five top bankers emerged in its 2008 annual report, rather ruining its reputation as a frugal payer.

**Goldman Sachs**

The credit crunch didn't stop the Goldman's machine, although it did slow it down a bit. In the year to November 2008, Goldman paid \$10.9bn to 30,067 employees; in the year to November 2007, it paid \$20.2bn to 30,522. As a pure investment bank it's quite easy to see what Goldman is paying. No low-paid retail staff to muddy the figures.

**JP Morgan**

Said in its last annual report that compensation costs for 2008 increased slightly from the prior year, predominantly driven by investments in the businesses, including headcount additions associated with the Bear Stearns merger and Washington Mutual rescue. This was largely offset by lower performance-based incentives.

**Notable others**

Almost every other bank – whether in receipt of a state bailout or not – took some sort of flak last year even though payments generally declined. Banks made less money and some of the state bailout plans put limits on what the banks were able to pay out in "discretionary compensation" to their high-rolling staff.

## What they're planning now

Reportedly wants to pay out £1.5bn, despite a second bailout. Reached an agreement with Government on approach to pay and reward and has been granted "consent rights" over the aggregate bonus pool for the 2009 performance year. Only staff on under £39,000 get cash.



## Controversy rating

Sky high. More taxpayer's cash in this bank than any other. Investment bank profitable but in part because of economic stimulus (paid for by taxpayers). Might cut the £1.5bn pool a bit, but there will be fireworks starting at today's Treasury Select Committee. 10/10

Barclays' operations are global in reach and it will likely spread the impact of Alistair Darling's bonus tax across all its operations so that the impact on staff is limited. Made no bones about the fact that it will pay top rates to secure "the best people" and has warned that staff are "mobile". Barclays will ignore the critics and pay up.

Barclays has not taken any taxpayers' cash so its controversy rating is not as high as some. However, expect the bank to offer a robust defence of its remuneration policies which could lead to sparks flying. The head of its investment bank, Bob Diamond, no stranger to bonuses himself, will speak his mind and has a tendency to polarise opinions. 6/10

There is an agreement "in principle" to pay an annual bonus to executives this year, but there won't be any cash element. Expect the bank, which is concentrating on flying under the radar as much as it can, to broadly comply with all of the new rules and agreements over remuneration policy.

Low. Lloyds doesn't have an investment bank to speak of and most of those who wrote big-ticket loans (and might have expected big bucks for doing so) have either had their wings clipped or been fired. Retail banking is the focus and the average pay packet is £25,000 while the average bonus is around £100. 3/10.

The only bank not to return calls yesterday, HSBC will (like Barclays) probably share the pain of Mr Darling's tax across the group and pay up to its top staff while obeying the new rules. Will try to rest on a penny-pinching reputation despite last year's controversy.

HSBC did not receive any taxpayers' cash and, unlike Barclays, will continue to voice platitudes about ending the bonus culture. Still making impressive profits, and will do its best to avoid any political controversy. Could come unstuck, though. Rules in Hong Kong require it to give details of top bankers' pay. 5/10

So far has set aside \$16.7bn to pay as bonuses for the first nine months of the year. Top managers will only get paid in shares, however, and there is talk that the company is considering requiring a donation to charity as part of this year's bonus.



High. Bank has been caught in a storm of controversy over its bonus policies and has been flailing ever since. Trying to address the issue (the charitable donation plan is just the latest) but its once-prized reputation has been taking some severe knocks 9/10.

Staff working at JPMorgan's investment bank stand to collect around \$463,000 on average. The division, which employs about 25,000 people, has already reduced the share of revenue going to the compensation pool from 40 per cent in the first quarter to 37 per cent in the third quarter. Details to come at the end of the week.

High. The US bank has managed without a bailout and, along with Barclays, has been one of the major winners of the crunch. The problem for JP is that it's first out of the starting stalls and as such, everyone will focus on the remuneration numbers in the figures that will be released on Friday. But the storm will be shortlived, for this bank at least. 6/10

Citigroup is bound to create controversy given the amount of propping up it has needed. Most banks will play up the G20 principals covering deferral of awards, payment in shares and clawback. But there will be more stories about huge packages, especially on Wall Street where Darling's tax was seen as evidence that Britain had gone "communist".

We've highlighted the most likely sources of controversy at moment, but there will certainly be others. Think of any of the big name investment banks - Morgan Stanley, Credit Suisse, UBS, Deutsche Bank, Citigroup and their public relations people will know that somewhere there is a potential storm brewing. So, realistically, 10/10.