Bank Review Wants Pay Disclosure

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REUTERS

LONDON (Reuters) - Banks must disclose how much they pay top employees, a government-sponsored report recommended on Thursday in a bid to quell public anger over "bonuses as usual" in a sector shored up by taxpayer bailouts.

The report published on Thursday from David Walker, former chairman of Morgan Stanley bank's international unit, lays down 39 steps to improve how banks are run.

The government and the Conservatives -- who are tipped to win the election next year -- backed the measures.

Although touted as the toughest set of pay rules in the world, they stop short of actual caps or naming individuals, representing some respite for banks who on Wednesday were also cheered by a court victory over fees.

Nevertheless bankers would have to wait much longer -- up to five years -- to receive some of their remuneration, a tougher condition than agreed globally by the G20 group of countries.

The Institute of Directors said disclosure of millionaire pay packets was justified and gave investors useful information.

Corporate governance services firm PIRC said the review was "tinkering in the face of overwhelming fiduciary failure" and that a sigh of relief will be almost audible among banks.

The Financial Services Authority watchdog said banks will abide by its new remuneration code from January based on the G20 guidelines but the code will be reviewed next year.

British Bankers' Association Chief Executive, Angela Knight, said the industry was already adopting many of Walker's proposals but few countries showed signs of following suit on pay, raising competitive risks for British banks.

Walker said he would have gone "marginally" further if there had been no concerns about compliance elsewhere.

"It's a white cliffs of Dover question. The UK is a small place in a very big world and if we hobble our banks with obligations that are totally different from those that are put in place elsewhere there are large unintended consequences that could do us harm," Walker told BBC radio on Thursday.

Bettina Bender, a partner at CM Murray said it was difficult to see how pay bands will limit bonuses as, despite events of the past 18 months, it was business as usual.

CONSERVATIVE BACKING

Walker also recommends that board members spend more time on the job and pay be closely monitored. Shareholders also have a duty to scrutinise how their companies are run, the report says.

Britain had to shore up its financial sector after the shocks of the credit crunch. It nationalised or took major stakes in several banks such as Northern Rock, Lloyds and RBS.

Walker published his recommendations in draft form in July but toughened up sections on pay as policymakers warn banks there can be no return to "business as usual" of unjustifiably large bonuses.

He also wants the recommendations to be implemented in law, rather than on a "comply or explain" basis outlined in July.

"There will still be public anger over bank pay and bonuses and that's understandable," Walker told Reuters on Wednesday.

"But this disclosure is not designed to appease the great British public," Walker said.

The government said it will introduce all of Walker's recommendations quickly. Last week it published a draft financial services bill with provisions to implement the review.

"Sir David's proposals are the blueprint for how banks must be run in the future," said Chancellor Minister Alistair Darling.

"We will issue draft regulations for consultation in the new year and bring them into force as soon as practicable after enactment of the bill. This will force disclosure for the 2010 performance year," Darling said.

Conservative finance spokesman George Osborne told parliament he backed Walker's shake-up of bank boards and plans to make banks disclose the number of people on high salaries.

"We don't want to see a repeat of what happened at RBS, where an all-powerful chief executive went unchallenged by his own board.

"But what happened to all that talk from the government that there were going to disclose people's names as well?" Osborne said.

TOUGHEST IN THE WORLD

Big listed banks and even unlisted firms such as building societies should report from 2010 all employees and board members whose annual packages top a million pounds.

Disclosure would be in bands, starting at one million to 2.5 million pounds, with a second band at 2.5 to 5 million pounds, with bands in 5 million pound lots thereafter.

In July, Walker recommended disclosure of pay higher than the median of executive board members -- which would typically be around two million pounds.

Remuneration for each of the unnamed employees should be broken down along business lines, salary, cash bonus, deferred shares, performance-related long-term awards and pension contributions. UK-based subsidiaries of foreign banks should also make similar disclosures.

The report also recommends that all big banks abide by rules on pay structures that are tougher than those agreed by the G20 which major banks have already signed up to.

"These recommendations on pay are tougher than anywhere else in the world. But I am not imposing these recommendations on UK banks at this moment of time -- they have to implement these recommendations by 2010," Walker said.

At least half of an employee's variable pay would be in the form of long-term incentives such as shares that vest over a period of up to five years, two years longer than the G20 rules.

No more than a third of a bonus can be paid in the first year and pay can be clawed back if it was unmerited but some fear being too tough will put banks at a disadvantage.

Other recommendations seek to ensure that the chair and non-executive directors of banks spend more time on the job and are suitably qualified to understand the risks in some of the complex products being sold.

Walker also recommended that institutional investors play a more active role as owners of businesses by adopting the Institutional Shareholders' Committee's (ISC) stewardship principles on a "comply or explain" basis.

($1=.6045 pounds)

(Additional reporting by Avril Ormsby, Fiona Shaikh and Tim Castle, editing by David Cowell and Mike Nesbit)

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