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Effort to Rein In Wall Street Pay Hits New Hurdle

By [ERIC DASH](#)

A guaranteed bonus might strike many people as a contradiction in terms. But on Wall Street, banks have become so eager to lure and keep top deal makers and traders that they are reviving the practice of offering ironclad, multimillion-dollar payouts — guaranteed, no matter how an employee performs.

The resurrection of the guaranteed bonus is sure to become a hot-button issue for the Obama administration's pay czar, [Kenneth Feinberg](#), who is preparing this week to review how compensation should be structured at seven companies that received two or more federal bailouts.

The companies must each submit 2009 compensation plans for their top 25 earners by Thursday, and Mr. Feinberg has 60 days to rule on them. He has the authority to single out any of those employees and adjust their pay packages.

In the next phase, he is to review the packages of the next 75 highest earners in each company. For them, he can set pay formulas to be applied broadly.

Mr. Feinberg has met privately with executives at the companies and urged them to voluntarily rework any guarantees for big earners in advance of the submission deadline, according to two executives briefed on the discussions, with the goal of holding out these pay packages as examples for the industry.

The resurgence of bonus guarantees underscores just how difficult it is to control Wall Street pay, despite the public outcry over how taxpayer money is being spent.

And it is not the only tough decision Mr. Feinberg faces. He also must decide how much overall compensation is too much, even when the pay is tied to performance, like the \$100 million package that [Citigroup](#) has

promised to [Andrew J. Hall](#), a top trader.

But guaranteed pay poses a particular problem, some compensation experts say, because it is unhinged from financial results.

“Is Wall Street again going to overpromise, and then when the market turns down, we’ll have another set of pay problems?” asked Alan Johnson, a pay consultant who specializes in financial services.

For a short time, banks had stopped offering guarantees, after the [financial crisis](#) turned their profits into losses and as Washington began to scrutinize their use of public money. But now, with banks apparently rebounding after two consecutive profitable quarters, some have resumed the practice, arguing that such bonuses are needed to attract and retain top performers.

Some of the biggest bonus commitments are being made to bond sales staff workers and traders in currencies and derivatives, and to computer programmers and others who support those operations. Trading has been the main source of the banks’ recent profits.

For now, the guarantees are roughly a third smaller than they were at the market’s height in 2007, although they are bigger than they were last year, Mr. Johnson said. “The absolute levels are by historical standards moderate, but it is a big change from where we were at the beginning of the year,” he said.

In Britain, where banks have begun to make similar guarantees, regulators have said they are concerned that the practice could lead to poor accountability. Last month, Britain’s banking watchdog, the Financial Services Authority, sent bank chiefs a letter warning that the widespread use of guarantees “may be inconsistent with effective risk management.”

In the United States, banks like Citigroup and [Bank of America](#) have offered guarantees, arguing that they are necessary to attract new employees and keep existing ones. Indeed, foreign banks like [Nomura](#) Securities of Japan, [Credit Suisse](#) of Switzerland and [Barclays](#) Capital of Britain are making guarantees in hopes of poaching talent.

Stronger banks that have repaid their bailout money and are not subject to Mr. Feinberg’s restrictions — like

[Goldman Sachs](#), [JPMorgan Chase](#) and [Morgan Stanley](#) — have also begun offering guarantees to star prospects.

Sanaz Zaimi, a former partner in the London office of Goldman Sachs, signed a multimillion-dollar contract recently with Bank of America that she told former associates was worth \$15 million a year for two years and included a guarantee, according to a person with knowledge of her pay.

A Bank of America spokeswoman, Jessica Oppenheim, said that Ms. Zaimi's package had been guaranteed for only one year and she called the amount "wildly exaggerated," but she declined to provide a figure. Ms. Zaimi could not be reached for comment. Bank of America also recently offered Bryan Weadock, a veteran bond salesman, a two-year guaranteed package worth roughly \$6 million annually in cash and stock to leave JPMorgan, according to a person briefed on the offer. That figure is roughly twice the amount he earned the previous year.

"Pay for performance is our standard," Ms. Oppenheim said. "It's a competitive marketplace, and we will take the necessary steps to attract and retain top talent."

In the last few months, Citigroup has lured several senior derivatives traders — including Dan Petherick, Rachel Lord and Stefanos Bitzakidis — away from Morgan Stanley with multimillion-dollar, multiyear guarantees.

A Citigroup spokesman, Stephen Cohen, declined to comment on the agreements but said that attracting and retaining the best talent was "very important" to the success of Citi and all its stakeholders, including taxpayers.

The [American International Group](#) and [GMAC](#), among the other recipients of multiple bailouts, are making similar offers. GMAC granted one-year guaranteed bonuses for about 15 executives, and A.I.G. is set to pay out about \$281 million in guaranteed retention bonuses to scores of its sales staff.

(The automakers [General Motors](#) and [Chrysler](#), as well as Chrysler's finance arm, round out the list of companies that received multiple bailouts.)

Some rivals of the bailed-out banks have already benefited from being out of reach of the government's pay

czar. Jeff Michaels, the head of Citigroup's interest rate trading in the United States, found Nomura Securities knocking at his door in July with an offer that would guarantee him as much as \$10 million for 2009 and 2010. That was nearly twice the \$6 million bonus he received last year when he joined Citigroup from [Lehman Brothers](#), according to a person briefed on the offer.

A Nomura spokesman declined to comment on any of its recent hires.

Morgan Stanley, after posting dismal second-quarter trading results, has been canvassing Wall Street trading units to bolster its ranks. After picking off currency and rate traders at JPMorgan and [Deutsche Bank](#), it recently used one-year guarantees to hire three traders from Citigroup and approached several more with similar offers, according to two people with direct knowledge of the offers.

A Morgan Stanley spokesman said that one-year guarantees were often necessary to recruit people during the middle of the year, but that the bank rarely makes multiyear promises.

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