



Did Peter pay for Paul or will Paul pay for all...The Bonus Boggle

As Investment Banks post their first half results for 2009, in tandem with New York's Attorney General Andrew Cuomo's report on 2008 bonuses paid by Investment Banks in receipt of the TARP bailout, a loud uproar against bonuses can once again be heard echoing across the globe.

On July 31st 2009, the US House of Representatives passed the legislation 237-185, which would let bank agencies and the Securities and Exchange Commission prohibit practices that threaten the financial companies and "could have serious adverse effects on economic conditions." This would effectively give regulators the power to ban Wall Street bonuses in those banks who received TARP funds.

In London, City Minister Lord Myners in a recent interview with the BBC said that he felt that the review of how UK banks are governed needs to be 'more radical', and that the top earners (and their salaries) need to be publicly disclosed. White House senior adviser Valerie Jarrett is quoted as saying 'there is huge disconnect between what the average American worker receives in terms of compensation and some of what we're hearing about on Wall Street.'

So what is this huge disconnect?

Citigroup's scheduled \$100 million bonus to energy trader Andrew J. Hall later this year as stipulated in his contract is causing much outrage but Roger Ehrenberg, a former President and CEO of DB Advisors LLC (a wholly-owned subsidiary of Deutsche Bank AG), argues that "if contracts entered into legally and without prejudice are all of a sudden cast into doubt, the entire foundation of free and fair commerce is in jeopardy."

According to Bloomberg, in June 2009, Swiss Investment Bank UBS brought a lawsuit against rival Investment Bank Jeffries Group (JEF) claiming JEF snatched almost its entire health-care investment banking team in a "massive, premeditated raid."

The issue of compensation was reportedly a main motivator and this coming after the New York Times reported in March of this year "Swiss bank UBS AG is raising the base salary of its senior investment bankers after reducing many bonuses sharply. Some salaries for senior bankers are being raised to about \$429,400 from about \$171,800, still less than what they earned when they received bonuses."

Former Goldman Sachs banker, now bestselling author of *How I Caused the Credit Crunch*, Tetsuya Ishikawa said

recently in a television interview, "the supply of the top bankers is not endless. If one banker is going to bring in \$50 to \$100 million of revenue, then if a bank can't pay him [what he wants], he'll just walk out and go somewhere else."

However, is it really just an issue of bonuses or is it an issue of "total compensation"? For years, banks have told employees to view things in terms of total compensation, base salaries were relatively static and performance bonuses were the "gravy train". If you didn't perform you didn't get the bonuses. Dominic Rushe of the UK's Sunday Times writes in response to Cuomo's report that "Wall Street bonuses are tied very firmly to performance — far more than chief executives' pay... you can bet those who received big bonuses made serious money."

So should we join the "ban the bonus campaign"? Are we being held to ransom by these investment bankers?

Chief Executive of Barclays, John Varley who recently signed two year bonus deals for three of his investment bankers, this in spite of the guidance of the Financial Services Advisory against any bonus for more than one year, used footballers to explain bankers' pay: "The football analogy certainly goes some way I think [to explain bonuses]...There is simply no higher priority that to ensure we field the very best people. That in a sense is exactly the same as a football manager if they are going to win. Our obligation is to ensure we pay appropriately." "I think there is a very clear expectation from customers and shareholders that we employ the best people we can," he said. Footballer Cristiano Ronaldo's recent Real Madrid buyout from Manchester United was quoted at £80million.

Stuart Gulliver, HSBC Investment Bank head used the Hollywood studio example where not only the top actors are paid to bring in the publicity but also the extras. "If a foreign exchange trader makes a deal then they know two days later how much they made. If it's a £5m profit, that is something we can count, we can see it, it's real. And they are part of a successful team". Last year, Hollywood actor Will Smith banked \$80 million.

It is one thing to tackle structural inequality but many times it comes across as taking pot shots at bonuses. If we change the law every time it becomes un-popular; lawlessness and economic chaos is sure to follow. It is those same bankers' bonuses that pay huge taxes to the Governments and those taxes go a long way, much further than those of the average taxpayer.

The International Labour Organisation (ILO), World Bank and Transparency International all agree that fair compensation is a vital anti-corruption technique. This practice was famously adopted by Singapore during the height of its economic instability and corruption in the late 1980s. By paying the decision makers a large salary, it took away their need to earn under the desk.

Another example of the merits of fair compensation can be taken from a USAID Anti-corruption Report which stated: "Paying judges a fair salary and benefits are important steps in creating a competent, independent, and honest judiciary." So if "fair compensation" in the judiciary, and for athletes, actors, even medical practitioners who also call a handsome price based on supply, demand, popularity and expertise are all acceptable then as one Wall Street blogger wrote "what's wrong with the banker's bonuses? Taking home a slice of the pie you bake is the way the industry works."

FINANCIAL & ECONOMIC INDICATORS

As at 6 August, 2009

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	95.46	95.56
Euro	1.43	1.41
Jamaica	88.25	89.09
Guyana	204.90	205.50

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	71.94	66.94
Natural Gas (US\$/mmbtu)	3.78	3.34
Gold (US\$/Troy Ounce)	963.25	934.40

Eurobond Indices (As at 6-Aug-09)

Lehman Brothers Global Aggregate Index (Return % YTD)	3.95
JP Morgan EMBI+ (Basis points)	345
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	23.80

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	0-0.25	0-0.25
Euro Zone	1.00	1.00
Japan	0.11	0.10
Brazil	8.75	8.75
Trinidad	7.25	7.25
Jamaica	16.00	16.00
Barbados	2.50	3.00

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	0.17	0.18
US 10-Yr Treasury	3.75	3.61
3-month UK Libor	0.87	0.89
Japan 90-day T-Bill	0.33	0.33
Brazil 90-day T-Bill	9.01	8.58
TT 90-day T-Bill	2.51	2.51
Jamaica 90-day T-Bill	18.46	18.46
Barbados 90-day T-Bill	3.78	3.78

Sources: Bloomberg, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com

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