THE WALL STREET JOURNAL.
WSJ.com

JUNE 10, 2009

# Salaries Safe, Bonuses Hit

*Obama Drops Tough Plan on Bank Compensation; 10 Lenders Repay Bailout Cash*

By DEBORAH SOLOMON

The Obama administration is dropping its plan to cap salaries at firms receiving government bailout money, leaving them subject to congressionally imposed limits on bonuses, according to people familiar with the matter.

The move is likely to end months of confusion on Wall Street about separate pay directives from the White House and Congress.

The administration is expected to announce the compromise on Wednesday. In addition to standing behind the restrictions passed by Congress in February, the administration plans to push for broad changes in compensation practices across the financial-services industry, these people say.

It also will appoint a "pay czar" to monitor the firms receiving the most government aid. Treasury Secretary Timothy Geithner is expected to push all firms -- not just those receiving funds from the government's Troubled Asset Relief Program -- to more closely tie incentive compensation to long-term performance by paying employees in restricted stock, rather than cash.

The expected announcement will come one day after the Treasury Department told 10 of the largest U.S. financial institutions that they may repay $68 billion in government-bailout cash. The announcement set the stage for giant banks like J.P. Morgan Chase & Co., securities firms Goldman Sachs Group Inc. and Morgan Stanley and the other approved companies to escape the grip of tight restrictions.

The pay provisions were a key motivator for some banks to repay the TARP money. The most restrictive portions of Congress's rules targeted senior executives and top earners at firms receiving more than $500 million in government funds, limiting bonuses to no more than a third of total annual compensation.

The push to revamp compensation practices at all financial firms suggests the administration hasn't dropped its goal of making far-reaching changes to how banks pay employees. But this element of the plan will likely come in the form of recommendations, which may raise questions about how effective they can be.

The Treasury's decision to drop the salary caps culminates a months-long debate within the administration about how to marry compensation restrictions required by Congress, under a provision authored by Democratic Connecticut Sen. Christopher Dodd, with the pay guidelines the president outlined earlier this year.

In a ballyhooed February announcement, the administration said it planned to limit salaries to no more than $500,000 for top executives at firms receiving "exceptional assistance."

But taken together, the two efforts were more punitive than the administration had intended. The effort spooked Wall Street banks and prompted worries that overseas competitors would swoop in and steal their best people. Government officials have been wrestling with the right mix of restrictions, given the concerns of Wall Street about attracting and retaining talent.

Top officials within the administration felt that restricting salaries would potentially put some firms at a competitive disadvantage by encouraging talented workers to seek employment at overseas firms or hedge funds and private-equity shops. That would hurt the firms and ultimately the government's investments in them.

Although the compensation rules are weaker than some would like to see, Wall Street banks are going to remain under

close supervision from Washington even after they repay TARP funds. The administration is in the final stages of drafting plans to revamp oversight of financial markets that could radically change how big financial firms do business. As part of that, the Federal Reserve has been discussing rules to curb banks' ability to pay employees in a way that would threaten the "safety and soundness" of the bank.

"The return of these funds does not provide forgiveness for past excesses or permission for future misdeeds," President Barack Obama said Tuesday.

The question of how to tackle soaring Wall Street pay has become an explosive one in Washington since the beginning of the financial crisis. Companies receiving TARP funds have been pushed to drop many manifestations of largess, including corporate sponsorships, jets and bonuses. President Obama himself has lambasted banks for the size of bonuses they have paid.

Some lawmakers have made the case that banks' compensation practices pushed executives to seek short-term profits by making overly risky bets in areas such as subprime mortgages. The topic became supercharged after American International Group Inc. paid retention bonuses to executives in the unit that caused many of AIG's problems. Congress threatened to clamp down on all bonuses, but ultimately backed off that threat.

Kenneth Feinberg, who oversaw the government's efforts to compensate Sept. 11 victims, will act as the government's watchdog over pay at firms receiving the most government aid. He will have to sign off on compensation practices, with the goal of making sure that firms receiving "exceptional assistance" aren't offering compensation packages that are exorbitant or encourage risky behavior.

Firms likely to fall into that category include AIG, Citigroup Inc., General Motors Corp. and lender GMAC LLC.

Government officials said the "pay czar" will have wide authority, and will be able to determine, for example, whether a trader at Citigroup should be paid a certain amount. He's also expected to act as a resource for all TARP firms more generally, providing guidance and helping interpret rules as needed.

The broader guidance that will be offered to the rest of the financial industry will be voluntary, along the lines of "best practices" that banks will be expected to abide by.

**Write to** Deborah Solomon at deborah.solomon@wsj.com

Printed in The Wall Street Journal, page A1