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Wall Street On Track To Award Record Pay

By AARON LUCCHETTI and STEPHEN GROCER

Major U.S. banks and securities firms are on pace to pay their employees about $140 billion this year -- a record high that shows compensation is rebounding despite regulatory scrutiny of Wall Street's pay culture.

Workers at 23 top investment banks, hedge funds, asset managers and stock and commodities exchanges can expect to earn even more than they did the peak year of 2007, according to an analysis of securities filings for the first half of 2009 and revenue estimates through year-end by The Wall Street Journal.

Total compensation and benefits at the publicly traded firms analyzed by the Journal are on track to increase 20% from last year's $117 billion -- and to top 2007's $130 billion payout. This year, employees at the companies will earn an estimated $143,400 on average, up almost $2,000 from 2007 levels.

The growth in compensation reflects Wall Street firms' rapid return to precrisis revenue levels. Even as the economy is sluggish and unemployment approaches 10%, these firms have been boosted by a stronger stock market, thawing credit market, a resurgence in deal making and the continuing effects of various government aid programs.

The rebound also reflects growing confidence by some Wall Street firms that they can again pay top dollar for top talent, especially once they have repaid the taxpayer-funded capital infusions they received at the height of the crisis. So far, regulators and lawmakers have focused on making sure pay practices discourage excessive risk-taking, leaving to companies the question of how much is too much.

The Journal's analysis includes banking giants J.P. Morgan Chase & Co., Bank of America Corp. and Citigroup Inc.; securities firms such as Goldman Sachs Group Inc. and Morgan Stanley; asset managers BlackRock Inc. and Franklin Resources Inc.; online brokerage firms Charles Schwab Corp. and Ameritrade Holding Corp.; and exchange operators CME Group Inc. and NYSE Euronext Inc.

These firms' total revenues are projected to hit $437 billion, surpassing 2007's $345 billion, according to the analysis. The rise in total revenue and compensation is in part a function of Bank of America's acquisition of Merrill Lynch & Co. and J.P. Morgan's acquisitions of Bear Stearns Cos. and the banking operations of Washington Mutual Inc.

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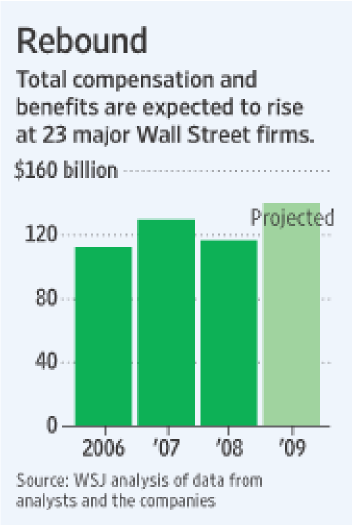

To reach its 2009 projections, the Journal examined publicly disclosed quarterly compensation figures for each firm so far this year. These include salary, health benefits, retirement plans and stock awards, and also typically include money these firms put away throughout the year to fund later bonus payouts.

The Journal calculated each company's compensation as a percentage of revenue. It then projected how much the company would pay at that rate over the full year, using analysts' quarterly and full-year revenue estimates provided by Thomson Reuters. The methodology was reviewed by compensation experts.

Investment banks such as Goldman and Morgan Stanley typically pay employees about 50% of revenue. The rate is lower at commercial banks, whose tellers and other retail-banking employees earn less than traders.

Some companies contacted about the analysis didn't dispute the methodology, though others said it was too early to speculate. Some say they set aside more money for compensation at the beginning of the year, in order to avoid shortfalls, and then ratchet back later.

Goldman disputed the Journal's projection that the bank was on track to pay a record-high $21.85 billion. Spokesman Lucas van Praag said Goldman paid an average of 46.7% of net revenue from 2000 to 2008, lower than the 49% rate used by the Journal.

Based on Goldman's historical average, it would be on pace to report full-year compensation and benefits of about $20 billion. In 2007, Goldman paid out $20.19 billion, its securities filings show.

Bloomberg News

The rebound in pay reflects growing confidence by Wall Street firms that they can again pay top dollar for top talent, especially once they have repaid the taxpayer-funded capital infusions they received at the height of the financial crisis. Above, the Wall Street bull sculpture sits on display between Broadway and Exchange Place.

Another wild card is whether financial firms will bend to public and political pressure to rein in pay. "Compensation played a role in the financial crisis, and yet nothing has changed," says J. Robert Brown, a professor at University of Denver's law school and an expert on corporate governance.

The Obama administration's pay czar, Kenneth Feinberg, is expected to issue as soon as this week his findings on compensation packages at seven firms receiving federal aid, including Bank of America and Citigroup.

Among firms facing scrutiny from Mr. Feinberg, Citigroup is on pace to pay about $22 billion, down 32% from last year. Bank of America is on track to pay about $30 billion, up 64%, the Journal analysis shows. But much of that increase reflects Bank of America's purchases of Merrill Lynch and Countrywide Financial Corp. Both banks are on pace to pay less as a percentage of net revenue than they did in 2008.

Michael Karp, cofounder of recruiting firm Options Group, says he doesn't think "2007 is back," adding Wall Street executives have leeway to pay less and don't want placards in front of their offices decrying big pay packages.

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Indeed, some companies in the analysis are scaling back on compensation, reflecting recent moves to cut jobs, shed businesses or hunker down until they are more confident in the market rebound's staying power. Mutual-fund giant T. Rowe Price Group Inc. has shrunk its work force by about 10% since the end of 2008 and reduced its annual bonus pool in the quarter ended June 30. Its overall compensation bill is on pace to decline by about 16%.

Many financial firms, however, say they need competitive pay packages, pointing to threats from non-U.S. companies, private-equity firms and hedge funds. Mr. van Praag, the Goldman spokesman, said the firm understands public sentiment over bankers' pay, but added: "The easiest way to destroy the firm would be if we didn't pay our people....Destroying a profitable enterprise would not be in anybody's interest."

Goldman also says employees have long had a stake in its long-term results because many are compensated in part with shares they can't touch for several years. Average compensation per employee is on pace to reach about $743,000 this year, double last year's $364,000 and up 12% from about $622,000 in 2007, according to the Journal analysis.

At some firms where revenue is rebounding at a relatively slow rate, more incoming cash is going toward pay. In the first half of 2009, Morgan Stanley paid out or set aside about 70 cents of every $1 in net revenue for compensation and benefits, up from its historic rate of about 50%.

At the recent rate, Morgan Stanley is on pace to pay about $16 billion for 2009, up 33% from last year, despite a projected 6% decline in revenue. Many analysts expect Morgan's ratio to come down in the year's second half.

The New York firm says its revenue has been hurt by a rise in the prices of its bonds, which makes it more expensive for the firm to buy them back. The company added that compensation levels will likely be pushed higher by a brokerage joint venture it introduced this year with Citigroup.

Write to Aaron Lucchetti at aaron.lucchetti@wsj.com and Stephen Grocer at stephen.grocer@wsj.com

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