

BofA Said to Limit Bonuses for Investment Bankers, Traders

By Dawn Kopecki and Hugh Son

Jan. 26 (Bloomberg) -- Bank of America Corp., the U.S. lender seeking to preserve capital, will freeze base salary levels and limit cash bonuses to \$150,000 for some investment bankers, said two people with knowledge of the plans.

The cap on cash payments applies to those getting as much as \$1 million in total year-end bonuses, with the rest coming in shares of the Charlotte, North Carolina-based lender, said the people, who asked for anonymity because the matter is private. Employees are being told of their payments today and can sell some of the stock starting on Feb. 15, the people said.

"I can't think of one banker who doesn't have two or three times that in expenses," said Gustavo Dolfino, a former UBS AG banker and now president of WhiteRock Group LLC, a New York-based executive search firm, referring to the \$150,000 limit. "They are probably making exceptions for their superstars. You haven't seen the end of this, there will be musical chairs."

Wall Street firms are getting bolder in curbing pay and shifting compensation methods as companies move to limit expenses. Bank of America Chief Executive Officer Brian T.

Moynihan, 52, has said he may target as much as \$3 billion in cost cuts in units including the investment bank as part of his plan to revive profit.

Cuts Are Coming

Earlier this month, Bank of America told investment bankers to expect compensation that averages 25 percent less than last year, people said this week. Employees in some departments were told packages were 30 percent smaller, and some managing directors will get no bonuses, said one of the people.

Awards include a combination of cash and shares, some of which can't be sold for as long as three years. The firm's decision to leave salaries unchanged comes after companies boosted them in 2009 to de-emphasize bonuses, which lawmakers said encouraged unwarranted risks that fueled the financial crisis. The bank uses a tiered system based on the size of the bonus when determining the percentage to pay in cash.

At Bank of America, a typical vice president's base salary is about \$175,000, while a director may make \$250,000 and managing directors may earn \$400,000, the people said. Bonuses, especially for senior workers, can be several times base pay.

Who Gets Cash

The restricted part of bonuses typically rises with the size of the total payout. For instance, bonuses less than \$100,000 will be paid all in cash, the people said. Awards above that amount are a combination of cash and stock that vests over three years and unrestricted shares that can be sold immediately.

Bank of America said last week that it would issue about \$1 billion in new stock to replace some cash incentives. The bonuses are called “special equity awards,” the people said.

Jessica Oppenheim, a spokeswoman for the company, said she couldn't comment. Reuters reported last week that the bank plans to give investment bankers more of their bonuses in stock.

Traders and investment bankers getting from \$100,000 to \$249,999 were told they will get 20 percent of that in cash, 20 percent in restricted stock and 60 percent in the new unrestricted shares, the people said. Employees in this level typically received about 70 percent of awards in cash and 30 percent in restricted shares.

Bonus Allocations

Payouts between \$250,000 and \$499,999 will be split among 18.75 percent in cash, 25 percent in restricted stock and 56.25 percent in unrestricted stock. Historically, bonuses of that size would be split between 60 percent cash and 40 percent restricted stock.

Bonuses between \$500,000 and \$999,999 will be paid 15 percent in cash, 40 percent in restricted stock and the rest in unrestricted shares. That breakdown is more closely aligned with the historical practice of paying out 60 percent of awards in cash and 40 percent in restricted shares. Senior managers will get about 70 percent of their packages in restricted shares with the rest in cash or unrestricted shares.

The division, run by co-chief operating officer Thomas K. Montag, posted annual profit that plunged by half to \$2.97 billion in 2011 as the European sovereign-debt crisis roiled markets. Montag, 55, told employees on Jan. 19 that the investment bank was rebounding after credit-rating downgrades last year sparked concern among clients.

Fees from investment banking, which includes advising clients on mergers and acquisitions as well as managing sales of shares and bonds, declined 35 percent in the fourth quarter to \$1.1 billion, the bank said. The market was “challenging” because of Europe and the fallout from Standard & Poor's downgrade of the U.S. credit rating, the lender said.

Cash Bonus

Compensation declines at Bank of America mirror actions by other firms. Morgan Stanley is reducing pay for senior investment bankers and traders by an average of 20 percent to 30 percent for 2011, people with knowledge of the move said. The firm is also capping immediate cash bonuses at \$125,000 as it seeks to defer the pay of senior executives.

Credit Suisse Group AG, the second-biggest bank in Switzerland, told senior investment bankers that compensation for 2011 will be 30 percent lower on average than the previous year, four people briefed on the discussions said. Goldman Sachs

Group Inc. Chief Financial Officer David Viniar said last week that discretionary compensation declined “significantly more” than the firm’s 26 percent drop in revenue.