

## UPDATE 2-Morgan Stanley boosts pay for senior executives

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- \* Boosting base salaries for officers to \$800,000
- \* Does not expect to change total compensation
- \* Banks changing pay plans as big bonuses draw ire

By Steve Eder

NEW YORK, May 22 (Reuters) - Morgan Stanley said it raised the base salaries of senior officers to \$800,000, but does not plan to raise total compensation, making the bank the latest to change pay packages to avoid political criticism.

Wall Street paid more than \$18 billion of bonuses in 2008, a year in which it needed trillions of dollars of taxpayer support. Politicians have chastised Wall Street executives for paying themselves handsome bonuses, even as their industry failed, which has spurred banks to look for ways to cut bonuses. Under Morgan Stanley's new base-pay arrangements, Chief Executive John Mack's base salary will not change, according to a filing. But co-presidents James Gorman and Walid A. Chammah will receive \$800,000, according to a filing. Colm Kelleher, chief financial officer, Gary G. Lynch, chief legal officer and vice chairman, and Thomas R. Nides, chief administrative officer, will each receive \$750,000, according to the filing. Mack's base salary did not rise because it was already in line with officers at other banks.

Wall Street is changing the way it compensates employees to better align incentives as financial companies globally reel from the effects of more than \$1 trillion of bad assets. Many employees boosted their bonuses by making trades that ultimately ended up losing money years later.

But reducing bonuses and increasing base salaries may not be the best solutions for banks, recruiters said. The top performers at banks may prefer to receive big bonuses when they generate outsized profits for the bank. If regulated, U.S. banks will not provide that, hedge funds and foreign banks may.

**"The people that higher base salaries attract are the people that are desperate for base salary and those people are generally not your money makers," said Gustavo Dolfino, president at New York-based headhunter WhiteRock Group.**

Bank of America Corp and Citigroup Inc have also looked at boosting base salaries. UBS AG, Switzerland's largest bank, said on Sunday it would raise the salaries of some of its investment banking employees to guard against poaching by rivals.

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U.S. Treasury Secretary Timothy Geithner has been especially concerned with executive pay. On Monday, Geithner said at a luncheon that huge Wall Street paychecks have angered Americans and compensation needed to change. In March, outrage followed news that bailed-out insurance giant American International Group Inc planned to pay out \$165 million in employee bonuses. Those contracts were signed in 2008 to retain key staff. "I don't think our government should set caps on compensation," he said. "What I think we need to do is make sure we set in place some broad constraints on the incentives (that) compensation systems create." Compensation rules tied to the \$700 billion bank bailout fund could arrive as early as next week, sources familiar with government discussions told Reuters on Thursday. In 2008, Wall Street slashed cash bonuses for New York City employees by 44 percent as the securities industry tumbled. But even after the decline, bonuses still accounted for \$18.4 billion. Morgan Stanley's Chammah and Kelleher made base salaries of \$323,000 in 2008 and Lynch and Nides each made \$300,000. Gorman's salary was not disclosed. Friday's filing said the new base salaries were not meant to change total compensation, just to adjust the mix of fixed and variable pay. The changes also bring their base salaries in line with peers at competitors, the filing said.

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