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Why sellers of bonds are still raking in high commissions

As firestorm builds over Wall Street bonuses, smaller brokers are paying 40 per cent or more

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As a firestorm builds over Wall Street bonuses, some of the market's top bond salespeople have found a different road to riches: Smaller brokers paying them commissions of 40 per cent or more.

In their own rebellion against the bonus model, salespeople have jumped ship from firms such as Bear Stearns, Lehman Brothers and Citigroup Inc , which either imploded during last year's credit crisis or retrenched as losses piled up. They have been beating a path to boutique firms like Hexagon Securities or to regional brokers or U.S. arms of foreign banks offering salespeople fixed commissions that can reach $3-million (U.S.) a year, compensation experts said.

Bonuses are expected to rise this year after a dismal 2008 but may not reach pre-crisis levels at some firms as scrutiny mounts on Wall Street pay. Washington's pay czar Kenneth Feinberg has hinted he could try to recover compensation from some companies that received government bailout funds.

“There's really no upside to staying at a large bank that took money from the government if you have a pay czar that's going to tell you how much you can make," said Gustavo Dolfino, founder of executive search firm WhiteRock Group.

During the credit crisis, when bigger brokers all but stopped functioning, regional brokers and other commission-based shops that could match buyers and sellers by hiring salespeople with good contacts came into their own.

“Some of our salesmen here have had the best years of their career at Mizuho," said Timothy Cox, executive director in debt capital markets at Mizuho Securities USA in New York.

Starting with about a dozen commission-based salespeople dealing mostly in Treasury and agency debt, Mizuho has built out a U.S. credit team over the past two years and now has a sales force numbering nearly 40, Mr. Cox said. It has hired salespeople from JPMorgan , Bear Stearns, ABN Amro, Lehman Brothers and HSBC , he said. Once the norm on Wall Street, commissions were replaced over the years by discretionary bonuses at major brokers as the firms put more of their own capital at risk and wanted control over how their employees would be paid.

Known as “eat what you kill," the commission model lets salespeople earn a share of trading profits at once instead of waiting until year end for an uncertain, discretionary payout.

Tom Benninger, San Francisco-based co-founder of investment firm Global Leveraged Capital, said it made sense for start-ups to pay commissions because the salespeople were bringing in new accounts. He said he trades regularly with some of the boutiques and likes the attention they pay to getting the best price for his bonds.

At the major dealers, “a lot of the problem is that the sales guys were gone; they were getting fired," he said. “All of a sudden, you are calling up and you're assigned to some guy who doesn't even know who you are."