

U.S. to Propose Wider Oversight of Compensation

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The Obama administration plans to require banks and corporations that have received two rounds of federal bailouts to submit any major [executive pay](#) changes for approval by a new federal official who will monitor compensation, according to two government officials.



Doug Mills/The New York Times

Compensation is a minefield for President Obama and Timothy F. Geithner, the Treasury chief.

The proposal is part of a broad set of regulations on executive compensation expected to be announced by the administration as early as this week. Some of the rules are required by legislation enacted in the wake of the worst [financial crisis](#) since [the Great Depression](#), and they would apply only to companies that received taxpayer money. Others, which are being described as broad principles, would set standards that the government would like the entire financial industry to observe as banks and other companies compensate their highest-paid executives, though it is not clear how stringent regulators will make them.

“This is the government trying to tell the TARP banks not to worry, because everyone else’s compensation will be monitored, too,” Gustavo Dolfino, president of the WhiteRock Group, a financial recruiter, said of the industrywide principles. “We’re in a world of TARP and non-TARP.”

[Citigroup](#), [Bank of America](#), the [American International Group](#), General Motors and its finance arm, [GMAC](#), which all received two taxpayer infusions, will face the strictest scrutiny from the new federal official charged with vetting compensation, [Kenneth R. Feinberg](#). He is known for overseeing payouts to the families of the victims of the Sept. 11, 2001, attacks.

In the past, banks had free rein to determine the base salary and bonuses they awarded their employees. When the economy was riding high, bonuses for top Wall Street executives and traders soared to tens of millions of dollars. Critics say the bonuses often encouraged excessive risk-taking since star bankers could walk away with more money even if the bets they took failed to pay off.

But executive pay has been a delicate issue for the Obama administration and Congress, particularly since it was revealed that A.I.G., the recipient of at least \$180 billion in taxpayer money, was handing out \$165 million in bonuses. The episode left officials struggling with just how to balance public anger with compensation rules that would not put the industry at a competitive disadvantage or derail other economic recovery initiatives.

With the government handing out billions in bailouts, Congress passed legislation banning all companies that received support from the [Troubled Asset Relief Program](#), or TARP, from paying their top 25 executives bonuses greater than a third of their salary, though they were not subject to specific salary cap.

The banking industry had been lobbying the Obama administration to exclude traders and other highflying salespeople from the top 25, fearing it would lose top talent to competitors not constrained by the rules of a taxpayer bailout. A number of bankers at Citigroup and [Merrill Lynch](#) have already fled to higher-paying jobs with rivals. But officials say that the guidelines will apply to the top 25 earners, including the traders.

Banks that received money from the relief program must also curb outsize severance packages, and pull back bonuses that were based on fraudulent or misstated results. But without clear rules, many banks have been altering their compensation policies, with some ratcheting up salaries to get around the restrictions until the legislation was codified. The industry has eagerly awaited the fine print.

In a sign of how eager corporations are to escape government diktats on pay, at least nine of the nation's biggest banks have asked to repay bailout money. The administration is expected to start granting approvals as early as Tuesday, allowing banks to leave the bailout program far earlier than many had envisioned. The early approvals are a sign that regulators and the banking industry believe that the worst of the crisis may have passed, even though the economy remains fragile.

[Goldman Sachs](#), [JPMorgan Chase](#) and a handful of others have worked to rid themselves of their ties to the government in order to shed restrictions on pay that they say put them at a competitive disadvantage. But under the administration's new plans, even companies that repay the taxpayer money will not escape some form of oversight on their compensation structure.

"The industry has already adapted to the political and economic realities," said Scott E. Talbott, the chief lobbyist for the Financial Services Roundtable, an industry group made up of the nation's biggest banks and insurance companies. "If they are draconian, they could put the financial services industry at a distinct disadvantage in attracting and retaining top personnel. If they are just principles, they will be redundant because the industry has already moved to connect employee compensation with the long-term health of the company."

The set of broad pay principles being drafted by the [Treasury Department](#) would authorize regulators to tell a bank to alter its compensation arrangements if it is found to encourage too much risk-taking. It is not clear how the government will define too much risk. According to the two government officials, the new principles will not include bonus restrictions, although they will encourage banks to set compensation in a way that avoids rewarding risk-taking through short-term bonus awards. They will apply to a broad swath of financial companies, even the United States operations of foreign banks, as well as private companies like hedge funds and private equity firms.

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The strictest oversight of all will come from Mr. Feinberg, the administration's compensation czar, who will actively vet all executive compensation changes at the companies that have received more than one taxpayer lifeline. On Thursday, the House Financial Services Committee will hold a hearing to examine how compensation practices contributed to the financial collapse and encouraged excessive risk-taking.

Treasury Secretary [Timothy F. Geithner](#) plans to testify on compensation on June 18, and that may be when he outlines the principles for the entire industry. Those principles will be permanent: when bailed-out companies return the government money, they will still have to follow those principles.