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Bonuses all around!

By Gegner

(December 19, 2008) Greetings good citizen,

The markets dropped 219 points today despite (the now 'usual') rally just before the close.

As I pointed out about a month ago, the markets seem to be 'masturbating' the 8,000 to 9,000 point level. What we need to recognize is what this 'stroking' means? It is what it looks like, it is a pumping motion and money is being 'pumped' into the markets (most likely from the Fed and Treasuries 'liquidity facilities') and out, into the secret numbered, off-shore accounts of, well, we'd dearly like to know who, precisely.

There were multiple stories today regarding the, um, 'falsehoods' surrounding the government bailout of the banking system as well as the fact that the banking system still isn't functioning 'normally'.

Start a war, pump the Treasury dry, both under 'false pretenses' and then just 'walk away'.

Nice work if you can get it.

It also segues nicely into tonight's offering A second story by the same writer that brought us this tale of Wall Street greed that is lambasted here by Yves Smith of naked capitalism fame.

Banks Try New Ways to Handle Bonuses

By LOUISE STORY and ERIC DASH

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It may be the season to be wealthy — at least on Wall Street, where banks are awarding annual bonuses despite a growing outcry over pay.

But this bonus season is shaping up to be like no other. The normal buzz of money — big money — *is all but silenced*. [wait for it] While many bankers will still collect six- or even seven-figure bonuses, **the average payout for rank-and-file employees will be cut substantially**. [The 'big shots' still get theirs but the 'little people' that make it happen will (as usual) get stiffed!]

The changes are palpable. Like a growing number of senior executives, Jamie Dimon of JPMorgan Chase and Robert E. Rubin of Citigroup will not **request** bonuses, people familiar with their plans said. [So, will they get them anyway...and if they do, will the accept them 'under protest'?)

Goldman Sachs will cap *some* partners' cash payouts at \$222,000, although it will also pay them in stock. [Um a quarter of a million dollars worth of stock is still a quarter of a million dollars...and it is just as likely to increase in value as decrease considering Goldman now has access to the public purse.]

And on Thursday, Credit Suisse, the Swiss financial giant, told its senior investment bankers that they would be paid, in part, *by using some of the bank's troubled investments*, an arrangement that could pay off — or yield little. [What do you suppose the odds are these guys will get stiffed, in light of what Yves has to say about the strategy used by investment banks?]

In a call with bankers on Thursday, a Credit Suisse executive acknowledged that many **ordinary people are angry that bankers will collect bonuses** given the pain in the markets and the broader economy. [Rightly so as many of these 'bonuses' are more than 'ordinary' people make working their asses off all year...and in some cases are more than they will earn in their lifetimes...]

"In an industry where many competitors have gone out of business, people have lost their jobs, where regulators are ratcheting up their requirements, the public at large doesn't believe investment bankers should be paid much, if anything." said Paul Calello, the head of the investment bank, according to two people who were on the phone call.

Many bankers and traders say the financial turmoil *is not their fault* and they depend on bonuses **for the bulk of their pay**. Critics counter that no bonuses should be paid, given the billions of dollars of taxpayer money that has been injected into banks and the financial system. [Not their fault, eh? That money had to 'come' from 'somewhere' and the most likely place it came from was raises working people never got and lower prices working people never saw! Don't forget, bankers aren't the only people that receive huge, year end 'bonuses'.]

"This should be a year of no bonuses for any firm that took bailout money," said Peter Singer, a philosophy professor at Princeton and a pre-eminent ethicist. Nearly every chief executive in the industry and many other top executives have declined to take bonuses, though some, like John A. Thain of Merrill Lynch, did so begrudgingly. While Mr. Dimon of JPMorgan does not intend **to request** a bonus, his deputies are expected to receive bonuses based on their divisions' performance, said people briefed on the situation. JPMorgan's board will make the final decisions in January. [Where is it extremely likely the same people that make this decision will also give themselves fat 'bonuses' ...heck, they 'aren't responsible' for 'this mess' either...or are they? Truth be told, the 'mess' is directly related to 'wage stagnation' that caused workers to go into debt so they could keep reporting to jobs that didn't pay them enough to live on!]

Two chief executives who have not publicly said they would decline bonuses are Kenneth D. Lewis of Bank of America and Vikram S. Pandit, who inherited the problems at Citigroup last December.

Mr. Pandit has not decided whether **to accept a bonus**, people familiar with his plans said. But Mr. Rubin, an influential Citigroup board member and adviser, will not request a bonus for the second year in a row. That decision comes as Mr. Rubin faces criticism that

he failed to prevent Citigroup's ill-fated push into the mortgage business. [What's this 'request' crap? A bonus is a 'reward' for a job well done, given the state of the banking system, none of them 'deserve' to be rewarded whether they 'request' one or not! How many of you are wondering what would happen if you 'requested' a bonus from your boss? How many of you would be lucky not to get canned just for making such a 'request'?]

Citigroup's board will not determine the awards for any of its executives **until next year**, said Shannon Bell, a spokeswoman for the bank. [And then only after five o'clock on a Friday afternoon!] The spotlight on the industry has also generated more discussion of boomerang bonuses — payments that can be pulled back later if a trader's bets turn out to have been flawed or if they leave the firm.

Credit Suisse's move on Thursday followed decisions by Morgan Stanley and UBS *to introduce policies for recovering compensation that was based on inaccurate earnings, and others are expected to follow*. Such policies are meant to damp the likelihood that employees **will focus only on the short-term performance of their investments**.

Credit Suisse is the first bank to link bonuses to troubled assets left over from its past. The bank — one of the few that did not receive taxpayer money [Naturally, it is Swiss, not US owned!] — said it would put \$5 billion of the assets into a new investment vehicle. Shares of the vehicle, which mostly includes commercial mortgage loans and leveraged loans, *will be given to its managing directors and directors as part of their bonuses, replacing some of the stock that would have been paid in bonus money*. [I don't know about the rest of you but I'm loving this idea!]

The plan could turn out to be a bonanza for Credit Suisse bankers. The bank has marked the assets down to 65 cents on the dollar, on average, so the bank's shareholders have already suffered much of the pain. That means **if the assets appreciate, the bank's employees — not shareholders — will benefit**. [Trust me good citizen, there is very little chance of that happening!]

However, the asset plan allows the bank to save money on compensation this year, which benefits shareholders, a spokeswoman said. *And many banks have sold troubled assets to outsiders at steep discounts, passing on any future gains*. [See what I mean, the banks already know the 'toxic paper' is worthless...and will remain so.]

To be sure, Wall Street bonuses, although diminished, are still far higher than those in many other industries. At Goldman, for instance, partners who were paid \$12 million to \$15 million last year will be paid \$3 million to \$4 million this year — an 80 percent reduction, people briefed on the matter said. But everything above \$222,000 of those lofty sums will be paid in restricted stock and stock options. Workers at Goldman *who are not partners could receive more than that amount in cash in their bonuses*. [Which begs the question of 'where' that cash is coming from in light of their reported \$ 2 billion dollar loss this quarter?]

Morgan Stanley, which notified workers of their bonuses on Tuesday, has reduced its bonus pool by roughly 50 percent this year, to \$2 billion. That pool includes the amount that will be paid in cash or stock this year, *though it does not include the hundreds of millions of dollars in deferred compensation that could be paid if those workers remain at the bank*, people familiar with the matter said. Bonuses were cut more than 60 percent for members of the bank's management and operating committees. [Once again, these people should not be getting ANY bonuses, especially with the taxpayer supporting these 'institutions'.]

Merrill Lynch will be the next bank to notify workers of its bonuses, beginning Friday and continuing into next week. Its new parent, Bank of America, *played a role in limiting bonuses*. [Starting with Mr. Thain's we assume...]

The questions that linger among compensation experts are how much this year's pull-back in pay and new rules will change behavior in the industry **when more lucrative times return**. [Um, I'm thinking 'IF' is a more apt question and it's not looking good.]

"Wall Street disproportionately focuses on short-term results compared to other industries," said Richard Cellini, a senior vice president at Integrity Interactive, a consulting firm in Waltham, Mass. "In the short run, we all look like geniuses. It's the middle run that counts in most businesses."

There are very few industries that are publicly traded that look further than quarterly results.

Remember, most of the nation's wealthy owe their 'fortune' to the price of their share holdings.

Around this time last year I ran a couple of pieces that reported some companies spent more than they earned buying back their own shares (likely because the CEO's 'bonus' was attached to the share price.)

It is precisely the practice of 'rewarding' what really boils down to theft by executives and stock brokers so handsomely that has destroyed the US worker's purchasing power.

We can't pay our debts, keep a roof over our heads or wheels under our backsides so we can go to our underpaid jobs because the people that deserve it least have been waxing 'fat' at our expense (with the help of Fed, that kept the money supply pumped to the max to keep the world's greatest 'Ponzi Scheme' afloat.)

The more they paid themselves, the less what you earned was worth.

This is why justice is so important. So long as they are allowed to do this to the rest of us without consequence, it will continue to happen.

We need more than regulation, we need prosecutions...or the nation will never heal.

Sadly, it's just the way things work. Without 'retribution' there is no way to restore 'trust'...and a society without trust cannot stand.

Thanks for letting me inside your head,

Gegner

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