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## Citigroup's top executives to forgo '08 bonuses

By Eric Dash and Louise Story

**(January 1, 2009)** Wall Street is hitting its bankers where it hurts — in the wallet.

Citigroup's chief executive and chairman said on Wednesday that they would forgo their bonuses for 2008 and slash the amounts paid to other senior bankers, joining a growing list of financial executives who are passing up some pay.

In a memo to bank employees, Vikram Pandit, Citigroup's chief executive, said that he and Winfried Bischoff, the bank's chairman, would not take year-end rewards.

"The harsh realities of 2008, primarily our earnings results, mean that our bonus pool is dramatically lower than last year," Pandit wrote about a year in which the bank has so far announced more than \$10 billion in losses. "The most senior leaders should be affected the most."

But Pandit's remarks may strike some as several weeks late, if not a few million dollars short. Citigroup, one of the biggest recipients of taxpayer money, has taken in \$45 billion in capital from the government's bailout funds.

Nearly every chief executive on Wall Street has indicated that he will decline a 2008 bonus, with Kenneth Lewis of Bank of America and John Stumpf of Wells Fargo being the holdouts so far.

Other banks have clamped down on pay even more than Citigroup under pressure from Congress, regulators and investors. Wachovia, for example, said it was slashing compensation not just in the executive suite, but all the way down through its ranks as its merger with Wells Fargo neared completion on the last night of the year.



Jin Lee/Bloomberg News

Vikram Pandit, Citigroup's chief executive, told employees "the most senior leaders should be affected the most" by the bank's poor performance this year.

"What's different about this year versus last year is that the U.S. taxpayer is part of the equation, so how things appear is important," said Rakesh Khurana, a professor at Harvard Business School.

On Wall Street, compensation is always a hot button. But now the tension is heightened: pay too much and risk a political backlash; pay too little and risk losing talented employees. The prospect of losing workers to hedge funds and private equity firms has helped drive up pay in the industry in past years.

**"The argument is always made about this excessive compensation, that it's necessary to keep these people," said Richard Cellini, a senior vice president at Integrity Interactive, a consulting firm in Waltham, Massachusetts. "That will now be tested, and I'm not sure if there's anywhere for them to go."**

The government provided few guidelines about Wall Street compensation when it injected billions of dollars into banks late last year, and only described limits on pay to the highest-ranking executives. That gave the banks great discretion over the size and form of bonuses for traders, midlevel executives and others.

Many banks, like Citigroup, are making the biggest reductions to their senior executives' pay. Bonuses at the top of Citigroup will be down at least 40 percent for 10 members of its senior leadership team, according to a corporate filing released on Wednesday. Robert Rubin, an influential Citigroup board member and senior adviser to its leadership team, also turned down his 2008 bonus.

But other banks have taken more aggressive actions. Credit Suisse, Morgan Stanley and UBS have extended so-called clawback agreements to cover all employees, allowing the banks to recover a portion of bonuses if they are later shown to have been based on flawed bets. Citigroup's new clawback policy applies only to its executives.

Pandit said that Citigroup would continue to pay the bulk of its employees well as long as they performed.

"Meritocracy requires differentiation in pay," Pandit said.

That is in stark contrast to the 2008 pay plan at Wachovia, where bonuses were drastically slashed for the rank and file. Many of Wachovia's senior executives, though, could still reap riches from the bank's shotgun merger with Wells Fargo.

In a conference call on Dec. 19, Tim Sloan, a Wells Fargo executive who will head the global markets and investment banking unit, told a group of Wachovia bankers that they would not receive big bonuses. Instead, their allocated bonus money will be returned to shareholders.

He also said there would be no retention packages, according to a Wachovia employee who listened to the call. A Wells Fargo spokeswoman declined to comment.

"I know that's very painful to hear, but that's the reality," Sloan told the employees, as recounted by the participant. "It just would have been irresponsible to the company's shareholders to do anything else."

But some employees complained that the rules were being changed late in the game. One employee who identified himself as a third-year vice president said the bank's decision was

putting its employees in "financial extremis" and, in some cases, at risk of not making their mortgage payments.

Wachovia's senior executives — including Robert Steel, who served as chief executive for just a few months — will not take home a discretionary bonus for 2008. Of course, that is not to say that all of them will wind up empty-handed.

According to corporate filings, 10 of Wachovia's senior executives are eligible to receive up to \$98.2 million in severance payouts upon the completion of the merger with Wells Fargo.

Christy Phillips-Brown, a Wachovia spokeswoman, said that the payouts were "contractual obligations" and could turn out to be less if four Wachovia executives who accepted positions remain at Wells Fargo. Steel, who already announced his departure, will not receive any severance pay.

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