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Banks bow to EU over limit to bonuses

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By Patrick Jenkins and Brooke Masters in London and Alex Barker in Brussels


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Bankers' bonuses across the European Union are set to be limited by law, with many bank lobbyists admitting in private that they have lost the fight against a European Parliament initiative to limit the size of bonuses relative to salary.

Some banks still hope to increase the proposed ratio from 1:1 to 2:1 or beyond, while others are trying to limit the restriction to upfront cash bonuses, excluding deferred payouts. But many bankers now accept the principle of a ratio as inevitable.

"It's dawning on many banks that this is game over," said one senior lobbyist. "Many are now resigned to the 1:1 ratio."

The European Parliament, reflecting continued public anger over bankers' pay levels at a time of austerity, has taken an unusually aggressive stance in pushing through the proposal, inserted into a draft law on capital rules for financial institutions in April.

The rules, as currently planned, would apply to senior staff working for EU-based banks anywhere in the world as well as to EU-based staff of US and Asian banks. They would cover all forms of bonus, including so-called long-term incentive plans for senior staff, proving disruptive to highly paid bank chief executives such as Barclays' Bob Diamond, as well as top-ranking traders.

The European Parliament must agree the text with EU member states for it to become law, but it is in an unusually strong bargaining position. There is a solid cross-party consensus behind outlawing any banker bonuses that exceed fixed pay and tepid resistance from EU member states.

Critics, including bank lobbyists, say banks will circumvent the spirit of the changes by increasing fixed salaries or finding other methods of remunerating staff that avoid the specific wording of the new rules. "You don't have to call everything a bonus," said one lobbyist.

Tightening regulation has already driven up bankers' base salaries, increasing the fixed costs of businesses even as they struggle with volatile markets.

City institutions had hoped that the UK Treasury and British regulators would help fend off European legislation. But bankers have been told by Treasury officials not to fight a high-profile rearguard action. While Britain is against setting strict ratios, banks have been warned that there are limits to what can be done, particularly given the public anger on pay and fears that populist anti-banker sentiment could easily be reignited.

Ministers also fear that fighting bonus curbs may encourage parliament to unpick and endanger some of the hard-fought compromises on bank capital rules agreed between member states.

The European Banking Authority, which oversees bank regulation in Europe, recently published an assessment of bonus levels across the continent, anonymising the results by bank and by country. It found that in one country – widely assumed to be the UK – a bank was paying maximum bonuses averaging 940 per cent of fixed pay.

Denmark, which is negotiating for all 27 member states, on Wednesday put forward a potential compromise package at its own initiative.

It included a bonus cap of three times fixed pay for top executives and five times fixed salary for "risk takers", along with a provision that empowered shareholders to set a higher ratio.

The Danish proposal is not yet backed by all member states. But even this is unlikely to sway MEPs. Philippe Lamberts, the Belgian Green MEP who led calls for the bonus cap, told the Financial Times that EU member states were "getting away with acting as a trade union for top bankers without paying the political price".

Negotiations on the bonus restrictions will continue on Thursday. Those involved do not expect the summer deadline for agreeing the bank rules to be missed, which would push the talks into the autumn. Bonuses are likely to be one of the key trade-offs in the final bargain.

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