



RBC UPENDS PAY SCHEME

Pay packet changes track global trend

John Greenwood, Financial Post

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Royal Bank of Canada unveiled changes to the way it pays its traders and investment bankers at its huge capital-markets division.

The overhaul includes plans to spread out a larger share of bonuses over several years and a clawback that would come into effect in the event of fraud or other serious misconduct.

The news, delivered to employees of Canada's biggest and most profitable investment bank in a confidential email, comes as Group of 20 nations are expected to announce new rules on executive compensations at this week's gathering in Pittsburgh.

Royal Bank is the latest of the big banks to rejig compensation, and its size and influence show that an industry trend is taking a firmer hold. In May, Bank of Nova Scotia launched a similar plan and, according to analysts, the other big banks are mulling changes.

In wake of the financial crisis, the issue of how bankers are paid has become a lightning rod for public anger, putting it at the centre of the debate over how to reform the financial system. Countries such as France and Germany are calling for absolute caps on compensation while the United States and others are pushing for a softer approach.

Jim Flaherty, the federal Minister of Finance, last week said he favours "spreading out" bonuses over a period of years as a way to avoid the short-term risk-taking that led to massive losses at banks around the world.

However any move to create rules on compensation would only be done in concert with the rest of the G20 countries and it is still far from clear if the group will take such a step.

The memo landed yesterday in the email boxes of about 3,000 employees of the investment-banking division.

The memo indicates the changes to the compensation scheme are aimed at boosting alignment with shareholder interests as well as "emerging regulatory principles."

The main features include increasing the portion of the bonus to be deferred to later years (all the banks, including Royal, already defer part of their bonuses), and requiring managing directors to own a minimum level of company stock. Royal is also considering a clawback policy that would come into effect in the event of fraud or misconduct.

"Once final Board approval is obtained, the full text of the claw back policy will be communicated to you," the memo says.

Royal also appeared to be backing away from dictating bonuses -- and the risky, hypercompetitive culture they engender -- almost purely on the financial performance of the trader or investment banker. In the memo, the bank said it would help lessen the appetite for excessive rise by putting a greater emphasis on an employee's "behaviours" rather than just "results" when determining pay.

News of the plan was hailed by Brian Barsness, vice-president of sales and operations at mutual fund manager Meritas Financial Inc., one of the driving forces behind a campaign to compel banks and other big companies to allow shareholders to vote on executive compensation.

"This is absolutely a good thing," said Mr. Barsness. "We saw the financial system blow up last year because short-term rewards were causing a lot of things that should never have happened. We need to encourage long-term good management decisions."

It was only this year that the big banks finally bowed to pressure from activist investors such as Meritas and agreed to allow shareholders to vote on compensation for chief executives.

"They resisted at first, saying shareholders lacked the expertise. That was the biggest one," he said. "But after the subprime meltdown, it became a foregone conclusion [that we would win.]