

PRESS CUTTING

European Daily Information 20 November 2008

TUC and IoD join forces in calling for City bonus reform

The TUC and the Institute of Directors joined forces today to call for a reform of City bonuses in the wake of the banking crisis which has led to the nationalisation of Northern Rock and taxpayers bailing out HBOS, Lloyds TSB and the Royal Bank of Scotland.

Brendan Barber, TUC general secretary, and Miles Templeman, director general of the Institute of Directors, surprisingly agreed more than disagreed on the need for major reforms to the system, when they gave evidence to the Commons Treasury committee this afternoon. The committee took evidence from both as part of its inquiry into City bonuses.

Templeman told MPs that the system had to change after the banking crash and backed the case for the reform of remuneration committees that decide top bankers' pay, the disclosure of big bonuses paid to other senior staff and the need for a tough code of guidance from the Financial Services Authority on the future running of the banking system.

Barber went further when he condemned remuneration committees as "a cosy club often employing the same people who work on boards of other big companies". Templeman - while disassociating himself from describing them as cosy clubs - backed Barber's call for more independent and knowledgeable people on the committees. He also said that there should be "external disclosure" of bonuses and salaries paid to other senior staff in banks - though he emphasised this should not apply to other businesses.

Barber wanted tougher sanctions from the FSA to ensure that banks had enough capitalisation to prevent further collapses in the banking system. Templeman did not want the FSA to lay down specific figures but backed them taking action against individual banks if they were seriously undercapitalised.

Barber, after denouncing the "wild" salaries paid to bankers, was caught out by Labour MPs on the committee when asked whether he thought footballers and pop stars were also overpaid. He defended multi-million salaries paid to premier league players and to England's former captain David Beckham adding "the remuneration paid to David Beckham is part of a system which does not apply to the rest of the human race". The TUC's members include the Professional Footballers Association which negotiates on behalf of some star players and lower league players.

Earlier this afternoon a team of experts gave evidence to the committee, including Carol Arrowsmith, a partner with accountants Deloitte and Ronnie Fox, principal of the City law firm Fox.

Fox clashed with Labour MPs George Mudie, MP for Leeds, East and the chairman, John McFall, when he said the level of salaries and bonuses paid to City traders and bank directors had "nothing to do with the financial crisis". He blamed the crisis on the "economic situation" and said he was believer in the free market.

When challenged by Mudie over what action should be taken he said "that is up to politicians". Fox has negotiated many of the deals for City traders. In evidence to the committee, Deloitte and Touche, said it did not believe that the remuneration system had caused the entire crisis.

"It is apparent that there is no one remuneration structure in place across all the companies that are experiencing problems ... Performance linked remuneration is undoubtedly a good

thing but it is possible to have too much of a good thing and we believe that a model where bonus forms such a very large proportion of an individual's annual pay may encourage risk taking."

Deloitte also said that changes that led to the publication of top executive pay had "undoubtedly been a contributing factor in increases in executive pay and to some extent has influenced the design and operation of incentive plans."