

Bid to curb City bonuses could lead to legal action

by Louisa Peacock

Attempts to clamp down on the City's bonus culture will encounter major barriers, legal experts have warned.

The Financial Services Authority (FSA) last week threatened tighter controls on bankers' bonuses in response to the current credit crisis.

But Richie Alder, partner at law firm Trowers & Hamblins, said staff would resist moves to cut bonuses in the aftermath of the Lehman Brothers collapse.

"Financial services professionals will want to agree a deal that sees any 'golden hellos' or guaranteed bonus schemes paid out as early as possible, or at least at regular intervals," Alder said. Trowers & Hamblins also pointed out that bank staff who were granted shares rather than cash as part of their bonuses may have seen those shares fall dramatically in value.

Bob Mecrate-Butcher, employment partner at law firm Pinsent Masons, said the FSA action could even result in legal claims from disgruntled employees whose bonuses make up a high proportion of their income.

"It is likely that if investment banks sought to pay no bonuses, or to reduce them beyond the level justified by reduced financial performance, they would be subject to legal challenge," he said.

Ronnie Fox, principle at employment law firm Fox Solicitors, said the approach showed a "fundamental misunderstanding" of the banking sector.

"Bonuses reward good performance and are usually proportionate to the amount of profit generated," he said. "It is impossible to achieve business success without taking risks."

FSA chairman Lord Adair Turner said the authority would examine bonus structures to prevent bankers from taking risky actions that could create "toxic assets".

Turner told BBC News that the FSA would not regulate how much was paid, but could ask banks encouraging risky practices to hold more capital.