United States Senate

COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6250

October 20, 2008

The Honorable Henry Paulson
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Secretary Paulson:

The enclosed article, "Wall Street banks in $70bn staff payout," indicates that financial statements issued by a handful of financial institutions, Citigroup, Goldman Sachs, JPMorgan Chase, Merrill Lynch, and Morgan Stanley, include $70 billion in compensation for employees, including funds for bonuses and severance payments. The article asserts these payouts are being made by the same financial institutions scheduled to receive, under the Emergency Economic Stabilization Act, billions of taxpayer dollars in new capital.

As indicated in my letter to you last week, a key objective for providing $250 billion, at taxpayer expense, to U.S. financial institutions is to unlock the credit markets and revive the U.S. economy. Those funds are not intended to finance excessive executive pay. In fact, the Emergency Economic Stabilization Act states that Treasury "shall require that the financial institution[s] meet appropriate standards for executive compensation." This requirement, which the Bush Administration initially resisted but later accepted, is aimed at ensuring that taxpayer dollars are used to strengthen financial markets, not subsidize outsized pay packages.

It is unacceptable for financial institutions that have generated billions of dollars in losses, damaged the U.S. economy, and accepted a taxpayer bailout, to maintain past levels of compensation. For each financial institution that accepts taxpayer dollars, Treasury should require it to detail its compensation plans publicly, prevent the payment of bonuses or severance payments, and require use of taxpayer dollars to get credit flowing again.

Please describe your Department's plans and timetable for obtaining compensation data from each of the financial institutions receiving taxpayer funds, issuing appropriate compensation standards, and requiring compliance with those standards.

Sincerely,

Carl Levin

Carl Levin
Chairman
Permanent Subcommittee on Investigations

Enclosure

Wall Street banks in $70bn staff payout

Pay and bonus deals equivalent to 10% of US government bail-out package

The Guardian

Saturday, October 18, 2008

By Simon Bowers

Demonstrators protesting in New York before the $700bn Wall Street bail-out earlier this month. Photograph: Nicholas Roberts/AFP/Getty images

Financial workers at Wall Street's top banks are to receive pay deals worth more than $70bn (£40bn), a substantial proportion of which is expected to be paid in discretionary bonuses, for their work so far this year - despite plunging the global financial system into its worst crisis since the 1929 stock market crash, the Guardian has learned.

Staff at six banks including Goldman Sachs and Citigroup are in line to pick up the payouts despite being the beneficiaries of a $700bn bail-out from the US government that has already prompted criticism. The government's cash has been poured in on the condition that excessive executive pay would be curbed.

Pay plans for bankers have been disclosed in recent corporate statements. Pressure on the US firms to review preparations for annual bonuses increased yesterday when Germany's Deutsche Bank said many of its leading traders would join Josef Ackermann, its chief executive, in waiving millions of euros in annual payouts.

The sums that continue to be spent by Wall Street firms on payroll, payoffs and, most controversially, bonuses appear to bear no relation to the losses incurred by investors in the banks. Shares in Citigroup and Goldman Sachs have declined by more than 45% since the start of the year. Merrill Lynch and Morgan Stanley have fallen by more than 60%. JP MorganChase fell 6.4% and Lehman Brothers has collapsed.

At one point last week the Morgan Stanley $10.7bn pay pot for the year to date was greater than the entire stock market value of the business. In effect, staff, on receiving their remuneration, could club together and buy the bank.

In the first nine months of the year Citigroup, which employs thousands of staff in the UK, accrued $25.9bn for salaries and bonuses, an increase on the previous year of 4%. Earlier this week the bank accepted a $25bn investment by the US government as part of its bail-out plan.

At Goldman Sachs the figure was $11.4bn, Morgan Stanley $10.73bn, JP Morgan $6.53bn and Merrill Lynch $11.7bn. At Merrill, which was on the point of going bust last month before being taken over by Bank of America, the total accrued in the last quarter grew 76% to $3.49bn. At Morgan Stanley, the amount put aside for staff compensation also grew in the last quarter to the end of August by 3% to $3.7bn.

Days before it collapsed into bankruptcy protection a month ago Lehman Brothers revealed $6.12bn of staff pay plans in its corporate filings. These payouts, the bank insisted, were justified despite net revenue collapsing from $14.9bn to a net outgoing of $64m.

None of the banks the Guardian contacted wished to comment on the record about their pay plans. But behind the scenes, one source said: "For a normal person the salaries are very high and the bonuses seem even higher. But in this world you get a top bonus for top performance, a medium bonus for mediocre performance and a much smaller bonus if you don't do so well."

Many critics of investment banks have questioned why firms continue to siphon off billions of dollars of bank earnings into bonus pools rather than using the funds to shore up the capital position of the crisis-stricken institutions. One source said: "That's a fair question - and it may well be that by the end of the year the banks start review the situation."

Much of the anger about investment banking bonuses has focused on boardroom executives such as former Lehman boss Dick Fuld, who was paid $485m in salary, bonuses and options between 2000 and 2007.

Last year Merrill Lynch's chairman Stan O'Neal retired after announcing losses of $8bn, taking a final pay deal worth $161m. Citigroup boss Chuck Prince left last year with a $38m in bonuses, shares and options after multibillion-dollar write-downs. In Britain, Bob Diamond, Barclays president, is one of the few investment bankers whose pay is public. Last year he received a salary of £250,000, but his total pay, including bonuses, reached £36m.