Vol 20 No 5 May 2009

it's our business

newspad of the Employee Share Ownership Centre

Bankers bite back with big salary and bonus rises

Governments and regulators are losing the battle to rein back salaries and bonuses in the financial sector, it emerged this week.

Banks in both Europe and the US are awarding substantial basic salary increases to their senior executives and managers in order to blunt the impact of any government or regulator-inspired clampdown on bonuses – which are widely blamed for the current economic crisis.

Even Goldman Sachs is cocking a snook at the US Treasury, from which it took $10 bn of capital last year. David Viniar, Goldman's chief financial officer, said: “There are pretty minor executive compensation restrictions and we'd like to get out from under those." In other words, *as soon as we’ve paid that back, you wont see the size of our bonuses for dust*.

The expected regulatory backlash on executive reward is not happening, or more precisely, it is not being properly co-ordinated worldwide.

Recommended controls on executive and bank trader reward packages have been proposed by the European Commission, but – even if accepted by the EU institutions as a whole- they will not be compulsory in every member state (*see story inside*).

In the UK, the government, which faces a General Election within a year, appears unwilling to intervene. Instead, the Financial Services Authority will merely keep an eye on the way banks structure reward packages, but the Association of British Insurers is not alone in fretting about the big salary increases being awarded in city boardrooms and elsewhere. A few companies are introducing ‘false’ bonus claw-back terms in their executive contracts, but only after pressure from institutional shareholders.

Only in the US has a serious attempt been made to curb salary and bonus excesses by legislative means. The US Treasury Department and lawmakers have already capped CEO salaries and outlawed bonuses at firms that take significant federal bailout and stimulus cash. But the credibility of the Securities & Exchange Commission remains crippled by the $50bn Bernie Madoff missing funds scandal.

Meanwhile, more than 70 percent of financial services employees got a bonus for 2008 despite the worst financial crisis for 80 years. A survey by recruitment firm Morgan McKinley revealed that 16 percent of respondents admitted their bonus was higher than the previous year. City bankers are set to reap almost £7bn in bonuses this spring, despite the billions pumped into the banks to prevent them collapsing. Analysis of preliminary pay data from the Office for National Statistics shows that in the first three months of the bonus season to February the financial sector has shared £5bn in bonuses, half the level of the same period last year. More was paid out in March and April. "These figures are alarming and show a complete lack of awareness in the city to the extent of the financial crisis, their role in creating it and the extent to which they are ultimately answerable to the taxpayer," said the Liberal Democrats' Treasury spokesman, Vince Cable.

After a blip last year, bankers are raking it in. City and Wall Street bonuses are likely to bounce back in 2009, virtually unhindered by remuneration committees or draconian rules, wrote Telegraph columnist Tracy Corrigan. At the darkest hour of the financial crisis, it

From the Chairman

By all accounts the use of employee equity by UK executives is rising fast. Remuneration consultants have a stream of profitable work in the pipeline as companies and individual executives queue up to find ways of reducing the impact of the new 50 percent Income Tax band, combined with gradual abolition of personal allowances for the highly paid and the restriction on higher rate tax relief for pension contributions. By contrast, many rank and file employees are struggling to keep their contributions up to date in SAYE-Sharesave, or to keep making regular share purchases via the Share incentive Plan.

The Chancellor could have used his Budget to improve the terrain for broad-based employee share ownership, which is the principal mission of the Centre. We gave him plenty to go on - eg giving share scheme participants longer contribution-free holidays during these difficult times. What we got was a glimpse of jam tomorrow. We shall make a major effort to set out our stall so the Brown era can fulfill the esop promise which characterised its early days.

Malcolm Hurlston

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looked as if investment bankers' glory days were over - at least for a respectable interlude - while the corpses were buried and the injured carried off the field. But in recent months, profits have staged a remarkable recovery, as financial markets stabilised. Barclays and Goldman Sachs reported a sharp improvement in their fixed income, currencies and commodities businesses in the first quarter, while J P Morgan enjoyed record results in credit trading, emerging markets and rates.

Senior City head hunters confirmed that basic pay rises for senior bank staff were rising sharply, with US banks seeing big hikes. Two anecdotes illustrate the sudden change of mood: *Senior bankers at Deutsche Bank are considering their positions after heated rows over the decision not to pay bonuses at the group, which unveiled hefty first Q profits. They are furious at the decision of the ceo, Josef Ackermann, to not take his bonus. Senior staff felt compelled to follow suit. *Royal Bank of Scotland has allegedly failed to respond to requests made nearly two months ago by the Treasury Select Committee for information on pay and bonuses. The request for information on how many people at UK banks rescued by public funds earn more than £100,000 and those who earn more than £1m was made by the committee as part of its inquiry into the banking crisis.

Evidence is growing that bankers, especially in Europe, are refusing to play the 'villain' role allotted to them by the media in the witchhunt to personalise the crisis. Some foreign based banks are paying London staff increases of up to 20 percent at a time when many UK employees are forced to take wage freezes. Big pay rises for financiers will inevitably spark concern that UK banks will be forced to compete on basic pay or see an exodus of their brightest talent to foreign-owned banks. Lloyds Banking Group, which took over HBOS, is awarding staff an average of three percent this year, though some senior staff are thought to be seeing higher rises. Bankers argue that if the culture that encouraged risk-taking to scoop huge bonuses is ending, a rise in basic pay is needed.

Sadly, there is still no consensus on how to pay people a lot of money without encouraging excessive risk-taking. Former US Federal Reserve chief Paul Volcker said that remuneration systems removed the incentive to worry about risk, and Lord Turner of the FSA has pointed out how the pursuit of bonuses amplified the excesses.

Leading companies excuse paying large amounts to executives saying that a large proportion is performance-related. However, comparisons on basic pay are revealing. The basic salaries of 24 of the 35 directors from FTSE100 companies can be compared and just two of them — Michael McLintock of insurance group Prudential and Stephen Green of the HSBC banking group — saw their basic salary frozen last year. Twenty-two got pay rises in their basic salary and 13 are in double percentage figure terms when earnings generally rose on average by 2.9 percent, said Labour Research. The rises ranged from 32 percent for Paul Adams, ceo of BAT, down to a modest 2.9 percent for Mike Geoghegan, ceo of HSBC. Year-on-year comparisons can be made for total pay packages of 25 top directors, and 18 got a pay increase last year. Ten directors got a rise of at least 16 percent.

By contrast, a few leading companies are enforcing savage pay cuts for their boards, with German engineering group Bosch saying overall remuneration fell last year, from €18m (£16m) in 2007 to €13m - and directors would suffer a pay freeze in 2009.

Goldman Sachs said bonuses accounted for 58 percent of total reward last year, down from 80 percent last year. UBS Investment Bank and Nomura also cut the proportion of reward paid out in bonuses last year to 48 percent from 63-64 percent in previous years. At Deutsche Bank last year, they accounted for less than 20 percent.

The think tank Economic Policy Institute thinks that high pay has led to a vicious circle of pay inflation for ceos and their lieutenants, squeezing money from company bottom lines, which ultimately belong to shareholders. A typical CEO made about 27 times what rank-and-file workers made in the 1970s, but that pay gap had soared to 275 times by 2007, according to EPI.

Unintended Budget boost for Eso

The new 50 percent Income Tax band announced in the Budget will prove an unintended boost for Eso, member practitioners told the Centre. Furthermore, the basic personal tax allowance will gradually be reduced to nil for individuals with adjusted net income over £100,000 and a general increase in NICs by 0.5 percent (for both employees and employers) from the 2011/2012 tax year has been confirmed in the Budget.

The estimated 300,000 UK employees who earn more than £150,000 pa are phoning their accountants and other advisers in record numbers, asking the same question – how can we cope with this? As a result, companies and their reward consultants may put in not only more performance-based incentive schemes, but also more equity awards, rather than cash, into the basic executive salary. This will be doubly tempting in the case of many more middle-ranking managers, whose next salary rise would take them into the £150K + salary bracket.

These changes mean that tax-approved share plans (both discretionary and all-employee) should be even more attractive to companies and employees, said **Clifford Chance** in its latest Employee Benefit News. However, in some cases their use may already have been maximised and many private equity-backed companies do not have access to such plans owing to legislative requirements (against which the Centre is currently lobbying). All companies should review their current unapproved arrangements (for both existing and future awards/grants) in order to maximise tax efficiency in the current and future tax years. In some cases, it may be appropriate to accelerate compensation payable under existing arrangements (e.g. long-term cash bonuses) so that it is received during the current tax year. Alternatively, for existing share awards (for example, share options, conditional share awards or restricted stock units) that are not due to vest until after April 5 2010, it may be better to amend plans to accelerate the vesting date, but with a post-vesting holding period. If structured correctly, income tax and NICs would then be payable in the current tax year, added CC.

The area with the greatest potential for tax planning will be around share-based incentives, said William Cohen, partner in **Deloitte**'s Global Employer Services division. Instead of delivering awards through LTIPs or share options where income tax and national insurance is generally charged when participants are in receipt of shares, there may be opportunities to bring any compensation representing value growth within the CGT 18 percent rate. This would also reduce the NICs costs for the employer and employee. The ways in which this could be achieved include: *Linking LTIP awards with an HMRC approved share plan to generate tax savings on the first £30,000 of any awards *Offering participants the ability to purchase shares subject to the award at the outset but with payment being deferred to the point of vesting/disposal of the shares *Creating a jointly owned interest so that the participant's interest in the growth in value of the company's equity can fall into the CGT regime *Making greater use of subsidiary based share schemes. One consequence of some of these strategies is a reduction in the corporation tax relief available, however this may be offset given the employer NI savings and any adjustment in award sizes. It should be possible to structure the delivery of the awards in a way that is neutral or advantageous for the employer, whilst being attractive for the employee.

The sums of money at stake are substantial: If A, who already earns £1m a year, is given a ten percent salary rise, then the 50 percent tax band will take an extra £10,000. The jointly owned equity plans that give capital gains treatment to increases in share value and HMRC approved share plans will be of increasing importance, said **Alvarez & Marsal Taxand LLP**. "Salary sacrifice arrangements particularly to those hovering around the £150,000 limit will be very useful. "Companies when designing remuneration plans and reward strategies must now take tax into consideration since such a significant amount is going to be payable to HMRC." However, companies who reduce basic executive salaries in an attempt to get round this (by – say - diverting part payment into stock) will risk heavy HMRC penalties under the recent tax evasion measures.

The Government announced measures to improve the administration of SAYE. These will support companies and administrators who run SAYE schemes to do so more efficiently and with minimal admin burdens. Several procedural changes are being made concerning the rate of tax-free bonus payable under the SAYE plan. The most significant change addresses bonus rate changes between the initial invitation to employees to participate in the plan and the employee signing up to the plan. Currently, where this occurs, the employee's application is, technically, invalid as the invitation reflects the old bonus rate, which has been withdrawn. In future however, HMRC will be able specify that the old rate will be applicable to any applications received within 30 days of the date of the change. Responsibility for setting the bonus rate rested with HM Treasury but in future, the rates will be set by HMRC. When changes in bonus rates are to be communicated by HMRC to the savings carrier, these may be implemented by e-mail and internet notices, rather than by post. The minimum period between the notification of the change of interest rates and the revised rates taking effect will be reduced from 28 days to 15 days. The changes apply to the bank or building society to which employees make their monthly contributions. However, they will be of relevance to those companies who offer an SAYE plan to their employees. The changes came into effect on April 29 and were generally welcomed as employers and employees will know, at the time of invitation, what bonus rate will actually be available to the employee. They allow bonus rates to be adjusted more swiftly to reflect market conditions. Ministers promised to keep tax-advantaged share schemes under review to ensure that the widest range of employees can benefit from them.

B & B employee shareholders to get compo

Employee shareholders in the failed Bradford & Bingley Building Society – now owned by taxpayers – could be awarded compensation later this year, the Government confirmed in a website news update. Last month applications closed at the Treasury for the position of an independent valuer to assess any compensation that may be payable. HMRC hopes that the valuer can begin work in the middle of the year. In a Q & A format posted by HMRC, the text suggested that compo is a possibility for the thousands of employee shareholders apparently left with nothing when the bowler hatter B & B collapsed after investing in poisoned debt parcels and being fooled by massive Buy-To-Let frauds: *B & B employees who were in a SAYE share option scheme in September last year will not be able to exercise options and obtain shares when their three or five year savings contract ends. They may be able to keep paying into the savings plan, and receive a tax-free bonus when it ends. Any compensation they receive from the Government will be taxable as income of the tax year in which they receive it.*

The Centre welcomes into membership **Vistra Corporate Services Limited** an independent, management-owned, international provider of trust and corporate services. Formed in 2006, Vistra is a young and dynamic organisation, with offices in 12 key jurisdictions across the globe, employing more than 200 professionals. The group is led by a highly-rated management team with over 20 years experience in developing offshore businesses and provides a full range of cross-border solutions for wealth protection and the structuring of assets and cash. Vistra's Corporate Services division offers trustee and administration services for the full range of executive incentive plans and international pensions, to both listed and private companies. It believes that companies and their participating executives require a high level of customer service of outstanding quality and flexibility, at reasonable cost. Vistra's independence allows it to focus on the job in-hand and it is under no pressure to use in-house services. Vistra can work either with the client's preferred providers, or introduce them to its network of well-established advisors, banks, brokers, and custodians. This flexibility, together with the expertise of its specialist staff, including lawyers, chartered accountants, and taxation experts, ensures that Vistra's clients always get the personal attention and individual solution they require. The main contacts are Carola Breusch, Director, on 01534 504746 and at carola.breusch@vistra.com and Michael Richards, Associate Director, on 01534 504738 and at michael.richards@vistra.com. More information is available at www.vistra.com

CONFERENCES

The aftermath of the G20 summit was very much in the minds of participants in the joint share schemes conference hosted by The Esop Centre and STEP Worldwide at Old Government House Hotel in **Guernsey** on April 24, which attracted 45 speakers and delegates. The event was hard on the heels of the summit and the report by the Organisation for Economic Co-operation & Development, confirming Guernsey and Jersey's status on their white list of jurisdictions that comply with regulations about banking secrecy.

Malcolm Hurlston, chairman of the Esop Centre, told delegates: "Employee equity plans are still big business worldwide, despite the recession. There are 4m employee share scheme participants in the UK alone and a further 12m in the US, and the Esop Centre is involved in efforts to introduce employee share schemes to the Middle East, in particular the GCC and MENA countries. The Centre has helped ensure that the EBT is being studied with interest by leading members of the UAE. The Channel Islands jurisdictions are in many ways more regulated than their mainland cousins, and maintaining the carefully built reputation of trusts has never been more important."

Karen Cooper from Osborne Clarke and Kevin Lim from RBC cees gave a joint presentation about Employee Benefit Trusts. In light of the increases in income tax and NICs recently announced in the Budget, there would be new opportunities for share-based remuneration, said Karen. Some of the major challenges facing companies are underwater options and performance conditions not being met, but companies were using current low share prices to their advantage and looking at flexible benefits to get the most out of their staff.

Rosemary Marr from Investec Trust and chairman of STEP Worldwide said that the spotlight on offshore jurisdictions peaked just before the G20 summit, but the CIs had taken steps to counter the criticism aimed at so-called tax havens. Both Jersey and Guernsey comply with OECD regulations and benefits of using the CI include an experienced workforce, modern innovative legislation and a robust regulatory framework, she said. William Franklin from Pinsent Masons discussed accounting for EBTs. His presentation included an explanation of accounting standard UITF38, three case studies, and an insight into what clients look for when selecting trustees. "Clients are looking for trustees who really understand share plans", William said. The CIs have a reputation for being a centre of excellence for EBTs, which is another factor influencing clients' choice, he added. Rashree Chhatrisha from MM&K examined institutional shareholder attitudes to executive pay. "It is clear that many remuneration committees will face difficult decisions in the coming months," she said. "Our discussions would suggest that there is scope for flexibility in the approach adopted by companies but that a dialogue will need to be maintained with key shareholders and a clear and strong case made for any changes and in particular any relaxation of performance conditions." Catherine Gannon from Gannons presentation included a checklist to consider when implementing a share scheme, eg changes to company law, and common pitfalls. Catherine said companies needed to consider the tax issues, which are notoriously complicated, ensure their scheme fell within the HMRC definition of Esops and not toend up giving away more shares than planned. Graeme Nuttall from Field Fisher Waterhouse advocated employee buyouts: "A buyout may provide a succession solution if there are no family members able and willing to succeed to a business", he said. "An EBO is a way of recognising the contribution employees have made to the success of the business. Continuity of the business can be achieved for customers and suppliers". He explained the role and structure of EBTs in EBOs and design issues that need to be considered.

Cannes July 9 & 10: The Centre has assembled its strongest-ever speaker line-up for its annual Cannes conference, sponsored by Appleby Gloabal and Lloyds TSB Offshore Trust Co, on Thursday July 9 and Friday July 10.

• The Association of British Insurers, which speaks for leading City investment institutions, will explain latest post crisis executive reward guidelines. Patrick Neave, the ABI's senior remuneration analyst, will update delegates on the evolving guidelines as controversy mounts worldwide over executive bonuses and other forms of incentive reward. The ABI is concerned that the Government is not getting the right advice from some quarters about mooted reform of executive reward structures.

• A case study from Centre member Pearson plc - publisher of the Financial Times - will be another highlight. Pearson's share plans manager Gabbi Stopp will tell delegates what this global media group looks for when it conducts 'beauty parades' - putting out to tender the administration of new share schemes

• The Sky TV employee equity plans being introduced this year for executives and rank-and-file employees will be presented by John Daughtrey of Equiniti

• The impact of post-recession regulation on employee equity plans in Spanish companies - a joint presentation by Alvarez & Marsal Taxand UK LLP and by Garrigues of Spain.

• Employee share schemes in China will be discussed by Colin Kendon, Head of Employee Incentives at Bird & Bird LLP

• Two US lawyers from Greenberg Traurig will give delegates an update on corporate governance and executive reward issues in the USA post the economic crisis.

• Employee equity Down Under - a broad-brush 'Where Are We Now?' study report by Dr Shann Turnball, VP of the Australian Employee Ownership Association and a forensic analysis of the impact of the global slowdown on Oz executive reward structures and what multinational companies are looking at in order to deal with this situation - by Michael Whalley, partner at Minter Ellison.

Confirmed speakers: Sarah Pickering - Alvarez & Marsal Taxand • Jaime Sol Espinosa de los Monteros - Garrigues (Spain) • Patrick Neave - Association of British Insurers • Dr Shann Turnball - Australian Employee Ownership Association (Australia) • Colin Kendon - Bird & Bird LLP • Justin Cooper - Capita Registrars • Cato Wille - Capital Analytics • John Daughtrey - Equiniti • Maoiliosa O'Culachain - Global Shares • Jeff Mamory - Greenberg Traurig (USA) • Joe Saburn - Greenberg Traurig (USA) • Leslie Moss - Hewitt Associates • Rosemary Marr - Investec Trut Group & chairman of STEP • Robert Collard - Macarlanes LLP • Michael Whalley - Minter llison • Gabbi Stopp - Pearson plc • Alan Judes - Strategic Remuneration • Malcolm Hurlston - Chairman, Esop Centre. Plus a delegates' open forum debates on executive reward and on the future of employee equity plans.

The brochure, containing the speaker programme, can be downloaded from the Centre website - events section.

You can book your place(s) online, or by email to Fred Hackworth at: fhackworth@hurlstons.com

PM on Channel Isles/I of Man on Banking secrecy

The PM has written to British crown dependencies and overseas territories setting them a September deadline to sign up to agreements to share tax information with the authorities. Mr Brown signalled in his letter that he wants to tackle not just illegal tax evasion through personal offshore bank accounts, but also tax haven companies that are used for tax avoidance by corporations and super-rich individuals. Seven British territories were named and shamed by the OECD when it published a list of havens that had either not agreed to, or not yet implemented, its international tax standards - Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Gibraltar, Montserrat and the Turks and Caicos are on the OECD's ‘grey list’ for failing to deliver on promises to be more transparent, despite signing up to do so, in some cases, several years ago. He has written too to Jersey, Guernsey and the Isle of Man telling them that he expects rapid further progress to end tax and banking secrecy. All three are on the OECD's white list of jurisdictions that have already implemented a number of bilateral agreements to share tax information with other authorities, but the PM thinks that they are still used by companies engaged in tax avoidance. Tax information exchange agreements can require tax inspectors to jump through a series of highly technical hoops to obtain information. Brown has told the dependencies that he expects them to move beyond meeting the OECD's minimum standards on co-operation to a spirit of full transparency. Brown ratcheted up the pressure on tax havens in a special meeting with Michael Foot, a former inspector of banks for the Bahamas' central bank, who is to head a UK Treasury review of offshore financial centres. Foot's preliminary report on regulation of tax havens has been received by No 10. The G20 agreement has already forced rapid concessions from some tax havens. Some countries on the OECD grey list such as Switzerland, Luxembourg, and Belgium, reacted angrily to their classification and accused the British and Americans of hypocrisy because so many offshore financial centres came under their control. Brown's letters signal how far the crackdown on tax abuse has moved up the political agenda.

Although no specific sanctions against unco-operative jurisdictions were outlined, Brazil is an example of the kind of 'stick' that could be used. In September 2008, Brazil adopted a law which includes the US state of Delaware in its definition of tax havens. Corporations based in an area so designated will pay much higher taxes and, although dividends are paid free of taxes in Brazil as long as the distribution comes out of taxed earnings, there is a substantial increase in the withholdings applicable to payments or remittances for royalties, interest and services. Likewise, the withholding applicable for capital gains from the disposition of Brazilian shares or stock by non-residents grows when the transfer is made to a purchaser located in a region deemed a tax haven. Payments made to non-related parties located in Delaware are now treated as if they were made to related parties, and subject to much higher tax rates as well. Meanwhile, the wealth management industry wishes to ensure that there remains a vibrant onshore market for its services. The allure of bank secrecy has been vital to Switzerland's accumulation of funds. While there may be many reasons that the wealthy choose to shield their assets in a country promising to guard their privacy, this facility has become ingrained as a right in the minds of many affluent people as much as it has been crucial to the maintenance of Switzerland's global status. Switzerland is joined on the OECD's recently-published grey list of semi-cooperative states by Luxembourg, Monaco, Liechtenstein, Belgium and Austria.

On the Move

Centre chairman Malcolm Hurlston this week announced the appointment of **Anna Burgess** as Assistant Director of the Esop Centre. Anna has worked on Esop matters - especially UK and Channel Islands conferences - since joining the Centre last year.

Michael Richards has left Sanne Group and has taken up the post of Associate Director at new Centre Member Vistra Corporate Services Ltd (see **new member** entry). Michael can be contacted on 01534 504738 or at michael.richards@vistra.com

COMPANIES

Eircom owner Babcock & Brown Capital (BCM) brushed off an unsolicited takeover approach from its former management as “unacceptable in its current form.” Eircom’s board has set itself against the approach from Mr Topfer, the driving force behind the 2006 Eircom takeover by the fund’s immediate parent, the now-bankrupt investment bank Babcock Brown. BCM owns 57 per cent of Eircom, and the Eircom employee share ownership trust (Esot) owns 35 per cent of the business. In the driving seat will be BCM shareholders, who are nursing heavy losses on their investment in a fund whose stock has lost more than half its value in 12 months.

A shareholders' meeting confirmed the launch of a share ownership plan for Italian bank **UniCredit Group** employees this year, giving them the chance to invest in UniCredit ords at favorable rates, in order to reinforce their sense of belonging and commitment to achieve corporate goals. The plan is open to all employees of the UniCredit Group, provided that no regulatory, fiscal or other limitations exist in the countries in which the Group operates.

The **Yorkshire Building Society** annual report records that an additional 23 companies chose the YBS to administer their new Sharesave schemes last year.

Bonus Corner 2

Bankers' bonuses could be cut and employers given power to claw back windfalls already paid under new proposals from the European Commission. Charlie McCreevy, Europe's internal markets commissioner, attempted to strengthen Brussels' power to clamp down on pay following public anger about the role of bankers in sparking the economic downturn. Brussels' remuneration guidelines of 2004 were largely ignored. The commission issued two sets of non-binding recommendations: on remuneration in financial services and on directors' pay in quoted companies designed to end excessive risk-taking. It is also to present plans to impose tough regulations on fund managers, including in hedge funds and private equity. The majority of any bonus should be delayed to reflect longer-term achievement, it said. To give the new guidelines teeth, Mr McCreevy said he would propose a draft law giving financial regulators the power to intervene in bank remuneration policies if they were deemed to pose risks to the market. Details of the measures will be unveiled in June. They will require the backing of EU members and the European Parliament to take effect. The Commission proposed that remuneration, including directors’ bonuses and stock options, should be fully disclosed, and decided by the board and not delegated to senior management. A further measure would be to limit severance pay - so-called golden parachutes - to two years of the fixed component of a director's salary, the commission said. Traders should be compensated for their work throughout the business cycle, not just in one year.

Mr McCreevy said: "There have been far too many perverse incentives in place in the financial services industry. It is neither sensible nor sane that pay incentives encourage excessive risk-taking for short-term gain. Incentives need to be aligned with long-term, firm-wide profitability." In light of the banking crisis, many see recent bonus scheme maturities and severance pay as rewards for failure. The culture of big bonuses, critics argue, encouraged short-term profit seeking and risk-taking at the expense of longer-term, prudent financial planning. "Financial institutions should be able to claim back already paid bonuses, where data has been proven to be manifestly misstated," it said. Non-executive directors should not receive share options as part of their pay, in order to avoid conflicts of interest.

The UK Financial Services Authority has published a new code on remuneration. Only about 60 percent of the 27 EU countries demand disclosure of remuneration policy and two-thirds require details of directors' pay. Future corporate governance will draw on the new practices of banks such as UBS, which has adopted a compensation model requiring directors and bankers to pay back bonuses if the business under-performs, take less cash in their bonuses and defer the exercise of options for several years. The commission's recommendations apply to EU company directors and traders at financial institutions, but EU governments have the option of not following the recommendations.

Pay-Back: City institutions have found a way of getting back at non-executive directors who did not nothing to stop huge bonuses being awarded at failed banks which had to be bailed out by the UK government. The institutions are getting the ‘guilty ones’ voted off other company boards where they also sit. This tactic looks like claiming the scalp of Bob Scott, the former senior independent director at RBS, who faces a potential shareholder rebellion over his plans to seek reelection as chairman of Yell, the directories publisher. Mr Scott, who was among those who agreed the £703,000 annual pension for Sir Fred Goodwin, is up for re-election at Yell’s agm in July. Leading City institutions are preparing to oppose his continued chairmanship of the company. Mr Scott was one of seven RBS directors ousted from the board of the part-nationalised bank in February. One top-ten shareholder in Yell said: “We will be voting against Bob Scott’s re-election at Yell. He and the chairman of RBS Sir Tom McKillop completely and utterly failed.” Pressure from institutional shareholders forced the resignation of Sir Tom from the board of BP, the oil group, within days of opposition being voiced. Sir Tom said it was not appropriate for him to seek re-election. This will make other non-executive directors think twice before allowing huge bonus packages through on the nod, especially in banks.

The Employee Share Ownership Centre Ltd is a members’ organisation which lobbies, informs and researches on behalf of employee share ownership.