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Record bonuses at Canada's banks

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Globe and Mail Update

Despite pressure in other countries, executives defend payouts on basis of Canadian sector's health

Canada's bankers are set to receive larger bonuses this year as their embattled colleagues around the world face a political uproar over pay.

Bonuses at the country's six largest banks will reach a record \$8.3-billion for fiscal 2009, an increase of 18 per cent from last year and about 4-per-cent higher than in 2007, according to an analysis by The Globe and Mail. Some investment bankers will see their compensation increase by significantly more than that.

The higher pay, which comes at a time politicians in Britain and other countries are trying to restrict compensation in the financial sector, underscores Canadian banks' status as the some of the healthiest in the world. None of the biggest six banks lost money, three of them earned more than \$3-billion and three enjoyed an increase in profit over 2008.

One reason for the pay increase is the strong performance of the banks' corporate, investment banking and trading divisions, which benefited from a major rally in the equity and credit markets.

"Collectively, the banks' performance is up, and it's particularly up in the wholesale markets," Bank of Nova Scotia chief executive officer Rick Waugh said in an interview. "And it comes after a time when compensation by the Canadian banks was down the year before - rightly so, because performance of those markets was down."

Bill Vlaad, of Toronto-based executive search firm Vlaad and Co., said investment bankers generally saw their bonuses decline by 30 to 50 per cent last year. But even with the recovery, many bankers will still find this year's bonuses falling short of what they earned in 2007.

For example, mergers and acquisition specialists, normally among the highest-paid bankers, had a relatively slow year as companies held off on big deals. Bond traders, on the other hand, made millions for their employers, as did financiers who raise money for mining and oil and gas companies.

Colleen Watson, president of search firm Watson Gardner Brown and a former investment banker, said some of the biggest raises are going to risk-management executives and other employees with the skills needed to navigate the next crisis.

Several investment banks are expanding in Canada, including London-based Barclays Capital and Australia's Macquarie Group, and Ms. Brown and other headhunters said that recruiting is putting upward pressure on

compensation.

Banks are just beginning to tell investment bankers how much their 2009 bonuses will be; the fiscal year end for Canada's banks end Oct. 31. A number of bankers said they resent that their sector's compensation is facing scrutiny that does not apply to other industries, such as mining or oil.

Bank of Montreal chief executive officer Bill Downe said that incentive compensation at all companies ought to be looked at on an individual basis, based on that employee's contribution.

"I think the critical issue for shareholders is that there is a program in place that's well-defined and well-communicated, and that there is proper board oversight," he said. "That's what the public deserves to know, and what the regulator wants to be reassured about."

A spokesman for the Office of the Superintendent of Financial Institutions said that the banks are making progress when it comes to aligning their compensation practices with new global standards.

Each of the major Canadian banks has changed the way they pay their investment bankers in the wake of the credit crisis, shifting toward more deferred compensation and introducing new tools such as clawbacks that give employers the right to reclaim a bonus if it winds up losing money because of something the employee did.

Regulators and the G20 have asked banks around the world to ensure that their pay schemes don't give employees an incentive to take on too much risk. OSFI and a number of other regulators have said that their concern lies in the methods used to determine bonuses, not the amounts.

Bank executives said they have not felt pressure from the federal government to keep bonuses at a certain level, but they acknowledged that there is global pressure not to hand out massive cheques.

Not surprisingly, executives railed against the bonus tax that Britain has imposed, arguing that such measures will do nothing to ensure that bonuses are tied to risk.

"When you rush into changing your tax system without doing all the analysis, we have seen time and time again in Canada and other countries that it can have adverse implications," Mr. Waugh said.

Government officials noted yesterday that the situation in Canada is very different from that in Britain, adding there was no need for a bank bailout here.

The NDP and the Bloc Québécois have already called for limits on bonuses and said yesterday that Britain is providing an example to Canada. "This is exactly the kind of thing that Canadians should be looking at," said NDP Leader Jack Layton, who described some corporate bonuses as outrageous.

With files from reporter Bill Curry in Ottawa

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