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'Pay for failure' angers pension funds

by Elizabeth Pfeuti 25 April 2008

Hefty bonuses for executives of poorly performing companies have angered pension funds which have seen the value of their shares plummet.

Following write downs by financial institutions which have impacted company share prices, pension funds have renewed calls for equality in compensation and risk sharing.

Amy Borrus, director, Council of Institutional Investors (CII), told Global Pensions: "Investment banks have been guilty of risk management failures, but their executives are still receiving bonuses. It's not so much 'pay for performance' as 'pay for failure'."

The UK's National Association of Pension Funds (NAPF) agreed: "Pension funds are concerned about the executive rewards and their connection with shareholders' interests."

Pension funds in Sweden and the Netherlands also said remuneration of company employees was a consideration when allocating asset manager mandates.

The CFA Institute has called for increased disclosure by companies on this issue and published guidelines for shareholders to examine compensation payments.

Jim Allen, director, CFA Institute's Capital Markets Policy Group, said: "This issue of executives being rewarded despite poor performance does not just concern the financial sector and has been building for a number of years. It could now be reaching its zenith."

Allen said matters had improved regarding disclosure, but the guidelines had been designed to show investors how to cut through the material they had been presented with by firms.

He concluded: "Even when shareholders are shown the information they need to make a judgement on compensation, it is often difficult to gauge what is a reasonable amount."

CalPERS corporate governance guidelines on this issue state: "Implicitly in CalPERS' Core Principles related to executive compensation is the belief that the philosophy and practice of executive compensation needs to be more performance-based."

The giant US fund has also maintained its support for "say-on-pay" measures that would give shareowners a right to cast non-binding advisory votes on executive compensation packages.

Borrus concluded: "We have not seen the end of write downs hitting investment bank share prices, so shareholders will continue to hold them responsible for poor risk management exposure."

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