Barney Frank: Ban risky bonuses

Bill would make Wall St. reveal how execs compensated

By Jerry Kronenberg | Saturday, July 18, 2009 | **http://www.bostonherald.com** | **Business & Markets**

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U.S. Rep Barney Frank wants federal regulators to review Wall Street pay packages, banning any bonuses that promote reckless risk-taking.

"We've all seen this situation where companies got into terrible trouble, but their CEOs were still highly compensated," said Frank, a Newton Democrat who chairs the powerful House Financial Services Committee. "Wall Street's bonus system was structured as 'heads they won, tails they broke even.' "

Frank yesterday unveiled a bill requiring firms to disclose how they compensate top executives, prohibiting any bonus that "encourages inappropriate risks (that) could have serious adverse effects on (the economy)."

The measure would apply to all U.S. banks, brokerages and other financial firms, but only cover CEOs, traders and other top executives who decide how much risk companies take on.

Frank said his bill aims to prevent a repeat of the recent market meltdown that saw some of Wall Street's biggest firms either collapse or come close to doing so.

He said many companies lost big on credit default swaps and other securities purchased because executives got fat bonuses if the investments paid off - and suffered little consequence if they didn't.

"Citicorp, Bank of America, Merrill Lynch, Bear Stearns, Fannie Mae - they all did very risky things, and in some cases CEOs were paid for taking risks that didn't pay off," Frank said. "Obviously you want businesses to take risk, but the (pre-meltdown) structure of compensation gave executives incentive to take more risk than they should have."

But Mark Calabria of the Cato Institute believes the government only has the right to review bonuses at banks backed by the Federal Depositors Insurance Corp.

"To say that regulators can get together and set compensation (rules) for any financial firm they decide is important strikes me as excessive," he said.

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