

# UBS pay model: they'll be taking home less bacon

David Wighton: Business Editor's commentary

Goodbye, bonus. Hello, malus. With typical Swiss thoroughness, UBS has come up with an elaborate new pay model, designed to prevent the sort of reckless risk-taking that brought the bank to its knees.

The central idea is simple. If you perform well, you get a bonus. But most of this will be held in a special account. And if UBS makes a loss the following year, a deduction will be made from the bonus. UBS describes this a "malus", from the Latin for bad, which is brief and to the point. If the model is ever adopted in America it will presumably be called a "performance-related compensation adjustment component".

The plan makes explicit one big drawback of working for a very large investment bank. If some bozo on the other side of the world loses the company a fortune, you pay the price. The other snag is that it is by no means clear that the new model would have prevented UBS from racking up the huge losses. Lehman Brothers went under despite the fact that the majority of the wealth of the senior executives was in the form of long-term holdings of the company's shares. They were not incentivised to take reckless risks.

It is too soon to say whether UBS will set a precedent. But it is clear that there will be huge pressure on rivals to follow the other pay move announced in recent days – the decision by top executives of Goldman Sachs to waive their bonuses. Lloyd Blankfein, the chief executive, will give up his bonus – which was \$68 million last year but would have been much lower this time – and less senior executives will see theirs slashed. Lower down the bank, the cuts will be less severe. Deutsche Bank has already announced a similar move. But it will be Goldman that rivals will find hard to ignore.

Although Goldman is expected to make a loss in its fourth quarter to the end of this month, it has weathered the credit crisis much better than most. However, its top brass has recognised that the politics demands huge pay cuts after it was required to take \$10 billion of US taxpayers' money. It will now be hard for rivals to say that they need to pay big bonuses to prevent key staff from defecting to . . . er, Goldman Sachs, let alone to struggling hedge funds.

Even banks that have not taken public money believe they will be under huge pressure to slash pay. And some chief executives are genuinely worried that they will be unable to reward top performers properly. Last week, the head of one investment bank complained to me that some bankers may just decide to jack it all in if they are not paid enough to compensate for the high pressure and long hours.

Then again, the risk that some bankers may quit to go off and run a pig farm is probably not the most serious threat we face.