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Bankers’ pay withheld from Lord Hill’s Brussels remit

By Alex Barker in Brussels   Author alerts

Jean-Claude Juncker

Jean-Claude Juncker has deprived Britain’s Lord Hill of lead responsibility for overseeing financial sector pay in a serious setback for London that will help disarm critics in the European parliament.

In recent private meetings in Brussels, the incoming European Commission president has made clear that Lord Hill will have remuneration policy carved out of his job as EU commissioner overseeing Europe’s financial sector, according to two people familiar with the matter.

The decision from Mr Juncker comes as Europe’s banking watchdog prepares to clamp down on allowances designed to sidestep the EU bonus cap, in an intervention next month that threatens to throw pay policies in the City of London into turmoil.

Pay curbs on the City, including enforcement of the banker bonus cap, will now be principally under Věra Jourová, the former Czech minister for regional development who has been nominated to become justice commissioner.

Mr Juncker’s decision is highly political and emerges as Socialist and Green MEPs issue threats to veto Lord Hill’s appointment over fears he will bend to City demands. Gianni Pittella, the leader of the Socialist bloc, had warned he would “reject” any commissioner who refused to tackle the “provocation” of allowances.

Lord Hill’s narrower responsibilities represents a blow to George Osborne, the UK chancellor, who was badly outvoted in Brussels over a bonus cap and is now fighting to overturn it in the courts, arguing it will hurt financial stability.

The cap was legally justified as a prudential measure and is part of the Capital Requirements Directive IV, a banking law whose non-remuneration measures remain among Lord Hill’s most important responsibilities.

Philippe Lamberts, the leader of the Green bloc and one of the father’s of the bonus cap, said that while it made sense for the pay measure to sit with the financial regulation portfolio “it is quite obvious that trusting it to Jonathan Hill would practically mean trusting it to George Osborne, who is adamantly opposing it.”

He added that Mr Juncker’s decision “is an obvious attempt at appeasing the Parliament” but did not change their view that Lord Hill “has has no demonstrated competence for the job at hand” and is not the right person to oversee a big eurozone federalisation project like the banking union.

Mr Juncker has told colleagues that Lord Hill’s brief was clear from the outset and that no changes have been made. He expects his commissioners to work as a team.

Under the overhaul of the Brussels bureaucracy announced when Lord Hill was given his portfolio, the company law team moved to Ms Jourová’s justice department, including the staff specifically handling the banker bonus cap.

But in letters to commissioners explaining their jobs, Mr Juncker gave no hint that banker pay oversight would be moving from the commissioner charged with protecting financial stability. He asked Lord Hill to ensure financial managers were not given “wrong incentives”.

The European Banking Authority is investigating the use of allowances that avoid the bonus cap and draft recommendations show that it is poised to take a much stricter stance than UK regulators on what can count as fixed pay, according to two people familiar with the findings.

If the draft is adopted and enforced by UK authorities, banks including HSBC, Barclays, and Goldman Sachs will be forced to rethink their allowance regimes and recalculate whether staff comply with the bonus cap in the 2014 performance year. The EU curbs limit variable pay to a maximum of twice fixed pay.

To be excluded from the EU bonus cap the draft report concludes that allowances must be awarded for a set period, include no forfeiture provisions if a person hands in their notice, and be impossible to adjust midterm without staff consent.

Lombard on bonuses

Fixed allowances would also be expected to be assigned to particular positions rather than individuals, meaning that bankers or traders with the same role should receive the same allowance, regardless of individual performance.

If finger-wagging Eurocrats had any guts, they would set pay ranges for bankers as if they were civil servants, writes Jonathan Guthrie.

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The regulatory dispute over allowances risks provoking another round of bruising public and investor scrutiny for banks, leaving executives to defend revised policies at shareholder meetings next spring when a British general election campaign is in full swing.

With the approval of the UK's Prudential Regulation Authority, banks hurriedly introduced role-based allowances because they are not caught by the EU cap and can potentially be reviewed and adjusted annually or even monthly.

While the EBA findings on the criteria for allowances are non-binding, the report sets an important benchmark for interpreting the law. Its findings are the basis for drawing up the EBA's formal remuneration guidelines, which are set to be adopted next year.

The PRA is not required to follow the EBA guidelines but it would be asked to explain non-compliance and the EBA can, as a last resort, directly order banks to stop certain practices.

The EBA will look at rules around share payments – a highly sensitive issue for bank chief executives – when it publishes these draft remuneration guidelines. European officials are not examining the question of whether allowances should, like salary, count towards pension or severance rights.

Michel Barnier, the outgoing EU commissioner responsible for financial regulation, has hit out at banks allegedly flouting the bonus cap. "My advice to all financial institutions that want to work in Europe is to fully respect this law, otherwise they will be sanctioned," he told L'Agefi, a newspaper, this week.

London is home to the vast majority of high-earning EU bankers and the UK's PRA has responsibility for enforcing the bonus cap, even though the UK argues that it is unlawful and misconceived.

The recommendations from the EBA fact-finding exercise are still under discussion. The final report is expected to be published early in October.

"It's bad for the competitiveness of the UK and Europe," said the head of investment banking at a Wall Street bank. But he added that only those banks that had taken an aggressive stance on allowances would be hurt by the tightening.

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