Goldman Blinks on Bonuses:

Top Executives to Forgo Their Cash Awards in Bid to Stamp Out Furor Over Pay

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By Susanne Craig
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Goldman Sachs Group Inc., moving to defuse public outrage over its pay, said its top 30 executives will receive no cash bonuses for 2009 despite the firm's expected record profits.

Thursday's announcement was the biggest concession yet by Goldman in response to the criticism of its compensation barely a year after the New York company received $10 billion in taxpayer-funded aid. Instead of a mix of cash and stock, Chairman and Chief Executive Lloyd C. Blankfein and the rest of Goldman's management committee will be awarded only stock that can't be sold for five years.

But the changes are only for 2009 and don't necessarily affect more than 31,000 other Goldman employees, consultants and temporary workers. That group includes traders and other employees who are fueling most of this year's revenue and profit surge, putting them in line for sharply higher bonuses early next year. In addition, Goldman gave no indication in its announcement that it will buckle to pressure to rein in overall pay levels.

The moves followed weeks of internal debate at the 140-year-old firm and a behind-the-scenes revolt by some of the largest Goldman shareholders. The Wall Street Journal reported last week that some investors have urged Goldman to essentially put its pay culture up for a referendum at next spring's annual meeting.

Goldman's board decided in the past several days to hold a special meeting to discuss and vote on executive pay as well as a shareholder proposal to give investors a nonbinding vote on executive compensation, according to people familiar with the situation. Directors met by phone and agreed to the changes Thursday, these people said.

The say-on-pay proposal was widely applauded by corporate-governance groups. While other big U.S. companies have adopted similar measures, Goldman is the first bank to put its pay practices up for a vote. In a statement, Mr. Blankfein said the company is "further strengthening our dialogue with shareholders on the important issue of compensation."

Hye-Won Choi, head of corporate governance at TIAA-CREF, which owns $1 billion of Goldman shares, said the firm was wise not to wait for say-on-pay legislation, which is pending in Congress. "Goldman has set a high standard for Wall Street firms," she said. "Shareholders should use the vote as an opportunity to provide constructive feedback on the company's compensation disclosures and policies."

U.S. Rep. Barney Frank (D., Mass.) said Goldman "may be moving in the direction we said they should, which is tie it to stock and have a clawback."

Goldman's compensation and benefit pool is on track to top $20 billion this year, a record that would be equivalent to nearly $800,000 per employee. The payout comes just a year after Wall Street's failed gamble on real estate and other high-flying assets backfired, roiling stock markets and throwing the U.S. into recession.

Top Goldman executives didn't receive bonuses in 2008. Mr. Blankfein took home $68.5 million in cash and stock in 2007, a record payday for the head of a publicly traded securities firm.

Bonuses paid to executives at the top of Goldman previously were 70% stock and 30% in cash, with the bonuses vesting over four years. For 2009, their entire bonus will be paid in what Goldman calls "Shares at Risk" that can't be touched for five years, the most rigorous vesting schedule on Wall Street.

Lucian Bebchuk, a Harvard University law professor who focuses on corporate compensation, said the new bonus structure "is a very good way of going about tying compensation with long-term value."

The shares also are subject to toughened claw-back provisions, which currently state that employees caught in acts of fraud or malfeasance may lose their shares. As a result of the changes announced Thursday, any conduct that results a material restatement of financial statements or material harm to a business unit could result in an employee handing back shares.

During its 10 years as a public company, Goldman has never had a material restatement of its earnings.

In November, the Connecticut Retirement Plans & Trust Funds, which owns about $39 million in Goldman shares, submitted a shareholder proposal to Goldman requesting that shareholders be given a nonbinding vote on executive pay. Goldman has received a total of 14 shareholder proposals on subjects ranging from pay to global warming.

Goldman recently reached out to some of its largest shareholders to explain the firm's pay structure and seek input on its compensation practices, a move Goldman hoped would quell shareholder concerns.

While say-on-pay policies are popular among corporate governance-minded stakeholders, some senior Goldman executives have long resisted putting pay to a formal vote, fearing it would lead to too much shareholder meddling.

Executives also worried that shareholder feedback would be diluted by raising the pay issue every year. "There was concern that if this is put to an annual vote it would mean there wouldn't be meaningful debate," said one person familiar with the firm's thinking.

—Damian Paletta contributed to this article.