Czar Blocks BofA Chief’s Pay

Lewis to Return $1 Million as U.S. Objects to Retirement Deal; Feinberg Flexes Muscle

BY DEBORAH SOLOMON AND DAN FITZPATRICK

WASHINGTON—The Treasury Department’s pay czar pushed outgoing Bank of America Corp. Chief Executive Kenneth D. Lewis into giving back about $1 million he received so far this year and forgoing the rest of his $1.5 million salary for 2009, say people familiar with the matter.

The move makes Mr. Lewis the biggest target so far of Kenneth Feinberg, the Treasury’s “special master” for compensation. He also asked that Mr. Lewis pass up any 2009 bonus from the Charlotte, N.C., bank.

Mr. Feinberg pushed for the deal because he thought the package of retirement benefits and unvested stock Mr. Lewis takes with him when he steps down at year’s end—currently worth at least $69.3 million, according to securities filings—was large enough, and possibly too big. Mr. Feinberg doesn’t have the authority to modify the retirement package because it was awarded before this year, when he was charged with overseeing pay practices at seven firms receiving large sums of government aid.

A Bank of America spokesman said Mr. Lewis voluntarily agreed to the deal, which was completed Thursday.

“Mr. Feinberg suggested that Ken Lewis should take no compensation for 2009. Mr. Lewis agreed. Mr. Lewis added that he felt it was not in the best interest of Bank of America for him to get involved in a dispute with the paymaster,” the spokesman said.

The move angered many on Wall Street, which has been anxiously awaiting Mr. Feinberg’s rulings on compensation at the seven federal wards, which also include Citigroup Inc. and General Motors Co. Mr. Feinberg had been expected to clamp down on compensation by cutting highly paid employees’ salaries. But until now, there has been little indication he would take away an employee’s entire pay.

Mr. Feinberg’s demand is an

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U.S. Objects to Retirement Deal

The Cost of Goodbye
Payments and benefits to CEOs who left since the financial crisis erupted

<table>
<thead>
<tr>
<th>Name</th>
<th>Company</th>
<th>Benefit/Detail</th>
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<tbody>
<tr>
<td>Martin J. Sullivan</td>
<td>American International Group</td>
<td>$34.9 million</td>
</tr>
<tr>
<td>Fred Goodwin</td>
<td>Royal Bank of Scotland</td>
<td>£700,000 annual pension</td>
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<tr>
<td>Charles Prince</td>
<td>Citigroup</td>
<td>$29.5 million</td>
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<tr>
<td>Stan O’Neal</td>
<td>Merrill Lynch</td>
<td>$161.5 million</td>
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Some payments frozen amid outside probe of the company’s compensation. Goodwin agreed to forgo half of his pension. Prince didn’t receive severance pay. O’Neal didn’t receive severance pay.

Note: £700,000 = U.S. $1,117,900 at the current rate

He recently persuaded Citigroup to unload its energy-trading unit to defuse a potential showdown over a $100 million pay package slated for a star trader.

Mr. Feinberg’s pay reviews are due at the end of this month. He is working with companies to renegotiate some contracts with top employees. In the process, he is pushing many employees to accept less money or take more pay in the form of stock that can be sold later, company and government officials say.

Many within the Obama administration and the Federal Reserve believe that Wall Street’s pay practices contributed to last year’s meltdown by encouraging executives, traders and brokers to take on too much risk.

Mr. Feinberg’s remit covers a handful of institutions receiving aid under the Troubled Asset Relief Program, although the administration hopes his final conclusions will be viewed as standard protocol for the industry. Rules due imminently from the Fed, officials say, would cover all employees at banks under its purview.

Congress restricted bonuses earlier this year for TARP firms and is considering legislation to give shareholders a nonbinding vote on executive pay. The pay czar’s move bookends a tumultuous year for Mr. Lewis,
once heralded as one of America's top bankers. Last fall, he was hailed for helping avert financial disaster by snapping up teetering mortgage giant Countrywide Financial Corp. and rescuing Merrill Lynch. His fortunes soon turned as he was forced to take government funds to help his bank digest Merrill. He was eventually stripped of his chairman title by angry bank shareholders.

Thursday's decision caps a rocky relationship between Mr. Lewis and the U.S. government. Mr. Lewis had been an initial supporter of the government's efforts to stabilize the financial sector. At a meeting of top bank executives in October 2008, Mr. Lewis forcefully urged other CEOs to put aside their reservations and accept the initial round of government aid policymakers were asking financial titans to take.

Just two months later, the government pressured Mr. Lewis to complete his bank's Merrill purchase after he raised doubts about the deal. Officials threatened to remove Mr. Lewis as CEO if he didn't comply.

The bank's relationship with the federal government worsened in January as the U.S. forced executives to accept strict executive compensation measures and implement a dividend cut. Congress, meanwhile, hauled Mr. Lewis to Capitol Hill and grilled him over the circumstances surrounding the Bank of America-Merrill Lynch deal.

In May, after Mr. Lewis had lost his chairman's seat, regulators slapped the bank with a secret regulatory sanction known as a memorandum of understanding, which shocked the bank's top leadership. Several of Mr. Lewis' allies left the bank and the board, depriving him of key support. On Sept. 30, he told the board that he would step down at the end of the year, earlier than expected.

Mr. Lewis will leave the firm with pension, unvested restricted stock and other benefits currently valued at $89.3 million, according to company filings, plus tens of millions more in shares he acquired or was awarded during his 40 years with the company.

Mr. Feinberg isn't blessing Mr. Lewis's retirement package and may issue an advisory opinion chastising the decision to allow him to leave with that sum, people familiar with the matter said.

A Treasury spokesman said: "Treasury will publish the special master's determination once a decision has been made."
Lawmakers Avoiding Direct Interference in Wall Street Pay

BY MICHAEL R. CRITTENDEN

WASHINGTON—Assailing Wall Street's excesses is as natural as shaking voters' hands for lawmakers who are eager to pull out the pitchforks when executive pay catches the public's attention.

But with banking and investment powerhouses prepared to pay record bonuses less than a year after many were rescued by taxpayers, the reaction from the Democratic majority in Congress has been muted. In sharp contrast to the furor surrounding insurer American International Group Inc. in March, when aggressive taxes on bonuses were seriously debated by Congress, lawmakers instead seem content to carry only a small stick when dealing with the finance industry.

Lawmakers are hesitant to be too active on Wall Street pay because they don't want to be seen as having too big a role in the economy. The financial crisis forced Congress's hand last year, resulting in a number of members casting uncomfortable votes for the $700 billion bailout package. Now that markets are calmer, many are cautious about taking steps that could suppress a fuller recovery.

"I think it's a delicate balance...[Wall Street pay] does seem large, but at the same time you don't want to stifle your sales force," said Scott Talbott, senior vice president for government affairs at the Financial Services Roundtable, a bank lobbying group. That has sparked unease on the left. "I try not to be naive, but I'm surprised at how little is being done to restrain Wall Street so soon after an epic collapse," said Robert Weissman, president of liberal consumer group Public Citizen.

Fundamental changes to compensation rules are instead likely to come through the Treasury Department and Federal Reserve. Kenneth Feinberg, the Obama administration's pay czar, is expected soon to make major changes in the compensation packages for 175 of the most highly paid executives at the seven firms that have received the most government aid. Mr. Feinberg also is reviewing the pay structures for the next 75 top-paid employees at each firm.

The Fed will focus on "incentive compensation" across a firm's entire structure, not just at the executive level, with the goal of identifying situations where pay structures encourage excessive risk-taking. Mortgage brokers being paid to write as many loans as possible, rather than writing quality loans, would be the type of thing regulators would scrutinize.

Fed governor Daniel Tarullo, asked about compensation levels during a Wednesday Senate hearing, said too many financial firms have yet to "come to grips with the fact that things have changed."

"Things are going to change more; that means business models, that means the way of assessing the risk, that means how you run your institution," Mr. Tarullo said.

Congress, which has embarked on the most ambitious rewrite of securities laws since the Great Depression, is embracing a relatively low-key effort on executive pay. Central to the effort is so-called say-on-pay legislation that generally would give shareholders of a company a nonbinding vote on its executives' pay packages. The Obama administration has expressed support for the provision as part of the broader re-vamp of financial regulation. Earlier this year, Congress tamped down Wall Street bonuses, but just for banks receiving cash from the Treasury Department's Troubled Asset Relief Program.

Rep. Barney Frank (D., Mass.), a staunch advocate of the measure, said this year's rebound in Wall Street pay underscores why shareholders should have a greater say. He fended off charges from the left that his plans were too weak. "I don't think the public sector should decide [pay levels], but it's important for shareholders to have more say."

Some lawmakers on Capitol Hill plan to push for more-onerous rules. Rep. Brad Sherman (D., Calif.) said the largest financial firms are benefiting from an implied government guarantee and should face stricter limits than just a nonbinding shareholder vote.

—Aaron Lucchetti contributed to this article.