

Here's How Bank CEOs Should Be Paid

Description

Compensation consultant Gallagher McDowell Associates released its 2016 Canadian Chief Executive Officer Compensation report April 18; it examines the total compensation of the CEOs of Canada's five largest banks.

To no one's surprise, compensation is heading higher.

Shareholders of all five of these banks should be extremely concerned about this trend given all the [high-pressure](#) sales tactics the banks employ — **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is at the top of the list — to take as much of our hard-earned wages as is humanly possible.

In recent years, corporate governance experts have touted say-on-pay (SOP) initiatives as the road to the promised land when it comes to curbing excessive executive compensation. A new report from U.S. compensation expert Pay Governance LLC suggests these efforts aren't working.

"We found that CEO pay continued to increase after SOP — possibly at a slower rate than historical CEO pay increases — and that CEO pay distribution was narrower after SOP than it was before shareholder voting on executive compensation was implemented," stated the opening paragraph of Pay Governance's conclusion to its report, "Did Say-on-Pay Reduce and/or "Compress" CEO Pay?"

Translation: SOP votes became part of the Dodd-Frank Act in 2011. Since then, CEO pay has continued to increase in the following five years.

Interestingly, since SOP votes came to exist, CEOs at the highest-paying **S&P 500** companies have seen very little in the way of pay increases, while those in the lowest-paying companies have seen significant increases as they try to compete for talented CEOs.

At least, that's the theory.

Pay Governance found that total shareholder returns were the same for companies that haven't increased CEO pay since 2011 as the businesses that have upped the pay of their top executives.

So, if the numbers suggest higher pay does little to influence total shareholder returns, why do companies on both sides of the border continue to do it? They do it because to admit this reality would hinder the revenue growth of executive recruitment firms and all those that benefit from higher compensation.

You've got to keep feeding the beast.

The most shocking part of Gallagher McDowell Associates's report on bank CEO compensation can be found on page eight, in which it highlight's the total financial stakes of the five CEOs.

Included in the figures are three things: (a) the value of the common shares held by each CEO; (b) the

value of the unrealized equity compensation; and (c) the actuarial value of their accrued pension benefits.

Total CEO financial stakes as of October 31, 2016

Company	Total Value at Stake
Bank of Montreal (TSX:BMO) (NYSE:BMO)	\$124.9 million
TD Bank of Nova Scotia (TSX:BNS) (NYSE:BNS)	\$105 million
Royal Bank of Canada (TSX:RY) (NYSE:RY)	\$41.1 million
Canadian Imperial Bank of Commerce (TSX:CM) (NYSE:CM)	\$33.2 million
	\$15.9 million

Source: McDowell Associates report, page eight, table seven

These five CEOs have a combined \$320 million at stake through the end of fiscal 2016, which apparently won't have any effect on how each of their respective bank stocks performs in the next few years.

Here's how CEOs should be paid

My grandfather was president of the Famous Players theatre chain — now owned by **Cineplex** — in the 1960s. I have his 1959 compensation report performed by Price Waterhouse on behalf of Famous Players. At the time of that report, he was vice president and controller of the business.

His compensation consisted of two things:

1. \$400-per-week salary.
2. 2.5% of the company's first \$250,000 in adjusted earnings and 1.66% of everything above \$250,000.

In 1959, he received \$19,550 in salary and \$24,168.76 in additional compensation based on a percentage of adjusted earnings. Also, he was reimbursed for expenses incurred on behalf of the company.

That's it; that's all.

If he wanted to own Famous Players stock, he had to buy it on the open market like every other investor. Millions of dollars of stock options weren't dangled in front of him like a giant carrot, yet he

managed to grow the bottom line just the same — and was grateful for the additional compensation as a result.

Today, despite having SOP rules in place, CEOs of large companies, including the banks, continue to reap rewards most of their customers can only hope for.

It's just plain wrong.

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2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:CM (Canadian Imperial Bank of Commerce)
4. NYSE:RY (Royal Bank of Canada)
5. NYSE:TD (The Toronto-Dominion Bank)
6. TSX:BMO (Bank Of Montreal)
7. TSX:BNS (Bank Of Nova Scotia)
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