Bank bonuses

Wall Street bonuses rise 17% to pre-crisis levels

Cash bonanza in New York buoyed by record fees and binge in leveraged loans

After slipping for years, bonuses are now back where they were before the financial crisis © AFP

Ben McLannahan in New York YESTERDAY

Wall Street bonuses came within a whisker of their pre-crisis highs last year, buoyed by record fees from dealmaking and a big binge in debt issuance.

The average cash bonus paid to employees of securities companies within the state of New York slipped for several years after the financial crisis, as banks hunkered down to repair balance sheets while getting to grips with tougher rules on risk-taking.

But in 2016 average payouts rose 15 per cent to $157,660, boosted in part by brisker trading sparked by the Brexit vote and the election of Donald Trump. In 2017 the average bonus was higher still, up 17 per cent to $184,220, within reach of the record $191,360 of 2006.

The total pool for bonuses came to $31.4bn, also up 17 per cent, not far off the peak levels of $33bn-$34bn recorded in 2006 and 2007, according to preliminary figures released on Monday by the New York State Comptroller.

Recruiters said several factors were at play, including the steady "juniorisation" of the workforce on Wall Street, as banks hire younger people — particularly in technology areas — who are paid more in cash than in stock. The uptick also reflects some unusually poor payouts in 2016, when banks such as Deutsche Bank paid the dreaded "doughnut" — or zero bonus — to swaths of senior traders.

But they said the numbers partly reflected busy conditions in the $940bn market for leveraged loans, where debt-laden companies take on more debt.

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Thomas DiNapoli, the state comptroller

“There’s huge appetite right now for any type of . . . paper,” said Jordan Shapiro, managing director of financial services at the Bachrach Group, an executive search firm based in New York. He noted especially rapid growth in collateralised loan obligations, or CLOs, where loans issued by highly leveraged companies are pooled together and passed on to different classes of owners in various tranches. “I certainly don’t see the demand shrinking in 2018,” he said.

The upturn comes despite tough times in bond trading, a historic engine of many Wall Street banks, where trading desks have been squeezed by new constraints on capital and where traditionally busy clients such as hedge funds have sat on the sidelines. Lloyd Blankfein, chairman and chief executive of Goldman Sachs, noted in a letter to shareholders last week that industry-wide revenues in fixed-income trading had roughly halved from their peak in 2009.

But for many banks including Goldman, declines in trading last year were offset by buoyant conditions in M&A, where fees from completed deals came to $39bn, up 22 per cent from 2016, according to Thomson Reuters figures. Fees from debt underwriting rose 14 per cent, too, to $29bn.

“The large increase in profitability over the past two years demonstrates that the industry can prosper with the regulations and consumer protections adopted after the financial crisis,” said Thomas DiNapoli, the state comptroller.

Nearly one in 10 jobs in the largest city in the US are directly or indirectly associated with the securities industry.

"When Wall Street does well, the city and state benefit from higher tax revenues,” he added.

The comptroller’s estimates are based on personal income tax trends and include cash bonuses for the current year and bonuses deferred from previous years that have been cashed in. The estimates do not include stock options or other forms of deferred pay from which taxes have not yet been withheld.

Mr DiNapoli noted that growth in the bonus pool probably reflected changes in the federal tax code that eliminate the corporate deduction for performance-based pay beginning in 2018. That would encourage companies to move up payments to December 2017, he said.