

# Can the Netherlands lead way on bonuses?

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## A new code limiting executive pay could serve as model for world

BY DAVID JOLLY

As leader of the Dutch opposition Social Democrats before the November 2006 elections, Wouter Bos demanded in a televised debate with Prime Minister Jan Peter Balkenende that he name three things he had done to make the Netherlands' highest-paid workers contribute to fixing the country's finances.

Mr. Balkenende was stumped: He could not name even one example, much less three.

That debate helped to secure Mr. Bos's party a place as a junior partner in the coalition government led by Mr. Balkenende's Christian Democrats and put Mr. Bos in the post of finance minister.

Having campaigned on his belief that economic pain should be shared equitably — even before the global financial crisis erupted in its full fury — Mr. Bos is now trying to spread his vision of how to rein in executive pay and bonuses just as the issue has risen to the top of the global agenda.

But can the Netherlands point the way forward for the rest of the world?

Mr. Bos won a victory of sorts Wednesday when the Netherlands Bankers Association announced it was adopting a far-reaching voluntary code of conduct to strengthen risk management and put new constraints on executive bonuses, primarily by limiting them to the amount of a banker's fixed compensation.

"I think that would be an incredible help if something like this could be agreed worldwide," he said in an interview Tuesday before the measures were made public formally. "If a country wants to cap bonuses at an absolute level, that is something we should deal with through tax policy, and every country can deal with that individually. But the structure of pay, I believe, is something we should coordinate internationally."

Boele Staal, chairman of the banking association, said the new code "sets out the principles you need for a good bonus policy," though he acknowledged that bank executives would still have latitude to set bonuses for traders at what they see as the appropriate level.

In addition to the question of fairness, Mr. Bos said the main problem with the way many top executives are paid — particularly bankers — is that it provides a perverse incentive to take excessive risks. He also said that the concern was not so much the overall level of executive pay but the fact that bonuses and stock options make up such a large share of total compensation.

"A pay structure with a low variable and a higher fixed salary," he said, "actually provides better incentives, even if the overall sum is the same."

Mr. Bos first took up the issue of executive pay at the European level in early 2007. "When I started the discussion, absolutely no one reacted" among European finance officials, he said.

But in the summer of that year, he recalled, Joaquín Almunia, the European economic and monetary affairs commissioner, started calling on Europeans to seek lower raises so as to maintain the bloc's international competitiveness. "I said, 'Look, if I have to ask workers in my country to moderate their wage demands at the same time you see these huge bonuses at the top, that's just not going to work,'" Mr. Bos said.

That year, with the famously egalitarian Dutch in an uproar over big payouts to the departing chief executives of two big local companies, ABN AMRO and Numico, Mr. Bos put in place a measure that taxes bonuses over €500,000, or \$822,000, at a higher rate for those leaving a company. He also helped to enact special tax rates on large pension benefits and a third measure that seeks to reduce the conflicts of interest that executives involved in discussions about mergers and acquisitions may face.

"Even if the €500,000 bonus tax was symbolic, it was the right symbol," he said.

As finance minister, Mr. Bos became a leading shareholder in the Netherlands' financial sector after the state moved, at the height of the crisis in October 2008, to bail out ING, the country's largest bank, with €10 billion and nationalized the Dutch unit of the financial services firm Fortis and Fortis's stake in ABN AMRO at a cost of €16.8 billion.

"We speak about 'exit strategies' from the financial crisis but that's not a very precise concept," he said. In terms of fiscal policy, "what that means is budget cuts or tax rises," he said. "If you want the ordinary people to support that, they will ask us to be fair and tough on the financial sector as well because they believe that's where it all started."

Ewout Irrgang, the opposition Socialist Party's expert on financial affairs in the lower house of Parliament, echoed that point but he said that Mr. Bos was not going far enough.

"The Dutch think the banks are being treated very lightly at the same time that they're being saved with taxpayers' money," he said. "And now they're going back to paying billions of euros in bonuses. I think, and quite rightly, that people are enraged by that."

Mr. Irrgang said he had "no problem" with the measures currently being discussed by the leaders of the Group of 20 developed and emerging nations, which include requiring that bonus payments be stretched over several years so that short-term profits don't lead to outsized gains for executives. "But I don't think this will represent any real change from the current practice," he said.

He added that the new Dutch bankers

code would not make much of a difference, either, because it only requires that institutions either comply with its provisions or explain to their shareholders why they have not.

"We have a comply-or-explain rule in the Netherlands for mortgages," he said. "That has led to 30 percent to 40 percent of mortgages being explained."

Jordan Otten, a professor at the Rotterdam School of Management, agreed, saying that the Netherlands was likely to push ahead with tougher measures, even if other countries do not follow. He said he worried that, in the end, any moves would prove more symbolic than real.

Mr. Staal said, "We think the code can be a model for other countries. It sets out the principles you need for a good bonus policy."



RICK NEDERSTIGT/EPA

Wouter Bos, the Dutch finance minister.

