Goldman Sachs scraps bonus cap for top London-based staff

Goldman Sachs is removing a cap on bonuses for London-based staff, paving the way for it to resume making multimillion pound payouts to its best-performing traders and dealmakers.

Sky News can exclusively reveal that the Wall Street banking giant notified its UK employees on Thursday that it had decided to abolish the existing pay ratio imposed under European Union rules and which the government recently decided to scrap.

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In a video message to staff, Richard Gnodde, chief executive of Goldman Sachs International, which comprises its operations outside the US, said it had decided to bring its remuneration policy in Britain in line with its operations elsewhere in the world.

“We are a global firm and to the extent possible we adopt a consistent global approach across everything we do,” Mr Gnodde said in the message, which has been relayed to Sky News.

“The bonus cap rules were an important factor preventing us from being consistent in the area of compensation.”

He added that the shift would “mean lower fixed pay, but a higher proportion of discretionary compensation”, adding that it “also reflects the prudential objective of our regulators”.

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The removal of the cap means several hundred UK-based Goldman staff will now be eligible for variable pay worth up to 25 times their base salaries, according to insiders.

As a consequence, allowances which were introduced to help those employees deal with the cap will begin to be reduced from July 1, Mr Gnodde told employees.

People close to the bank insisted, however, that the revised approach would not necessarily mean senior employees being paid more, but that they could now be appropriately rewarded for exceptional performance and that the move would allow Goldman more flexibility to manage its fixed cost base.

Goldman is among the first major investment banks to signal its intention to pursue a revised approach to remuneration in the wake of the cap’s abolition by UK regulators last October.

Under it, firms were prohibited from paying their material risk-takers — or most senior staff — more than twice their fixed pay in bonuses.

Some banks used the mechanism of a fixed-pay allowance in addition to employees’ base salaries to give them more flexibility to pay larger bonuses.

While Goldman’s move may draw controversy, the EU bonus cap drew criticism from many influential figures in finance over many years, including from Andrew Bailey, the Bank of England governor, who said in 2014 that it was “the wrong policy [and] the debate around it is misguided”.

During his ill-fated stint as chancellor, Kwasi Kwarteng moved to scrap the EU bonus cap, saying it would boost the international competitiveness of Britain’s financial services sector.

UK regulators agreed that scrapping the cap would aid financial stability by enabling firms to reduce pay faster during downturns or in scenarios where they needed to conserve capital.

Mr Gnodde has publicly endorsed the removal of the cap, saying in 2020 that doing so would “put the UK on the same footing, aside from the EU, with every other major financial centre”.

“Removing that ratio makes London a more attractive place for sure," he said at the time.

"If I move a senior person between New York and London I am driving up the fixed cost of our operations. If that rule doesn't exist, I don't have to think about that."

While Goldman is among the first to notify its employees about its amended stance on bonuses for UK staff, many of its peers, including bosses at lenders such as Deutsche Bank and Santander have also criticised the cap.

At its annual meeting on Friday, HSBC is expected to win shareholder approval to remove the two-to-one pay ratio.

Other firms are also understood to be reviewing their UK compensation practices in light of the cap's abolition.

Many industry executives have argued that the cap actually encouraged greater risk-taking because it put smaller sums of money at risk for senior bankers.

Insiders also pointed out that because the bonus cap does not impose a limit on overall remuneration, it had placed upward pressure on salaries and allowances not linked to longer-term performance, and which could not be reduced or clawed back if failure or previous misconduct had subsequently emerged.

Responding to an enquiry from Sky News, a spokesman for Goldman said: "This approach gives us greater flexibility to manage fixed costs through the cycle and pay for performance.

"It brings the UK closer to the practice in other global financial centres, to support the UK as an attractive venue for talent."

Goldman has often been in the vanguard of responding to changing public policy in relation to bankers' pay.

In 2010, it imposed a £1m pay ceiling on its UK staff after the then Labour government introduced a one-off tax on bank bonuses in response to the public outcry over the financial crisis.

Goldman's decision to remove the two-to-one ratio comes as UK regulators also consult on the length of deferral periods for variable pay for senior bankers.

Mr Gnodde told staff on Thursday that Goldman would continue to lobby for closer global alignment on deferral periods, which would mean reducing the current UK duration from seven years.