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# REGULATION

## German business leaders slam 'pure populism' of pay legislation

**BERLIN, Germany - BRIAN PARKIN AND RAINER BUERGIN (Bloomberg News) –** Chancellor Angela Merkel's coalition pushed a law through parliament aimed at restricting manager pay at German public companies, going further than steps proposed in the United States or Britain.

The package of measures includes steps to give supervisory boards more power to set salaries and financial penalties for executives who are found guilty of negligence. While the government said the aim is to make compensation more transparent and geared to a company's long-term interests, executives said politicians should butt out of corporate management.

"Mrs. Merkel should have empowered shareholders to determine pay," Anton Boerner, president of the Berlin-based BGA exporters group, said in an interview. "The door's been opened to lawmakers to meddle in the intricacies of boardroom pay-setting." Lawmakers, who've been working on the legislation since the beginning of 2008, have tightened the proposed clamps on manager pay as the financial and economic crisis has unfolded in an election year, sending Germany's benchmark DAX down 29 per cent in the past 12 months. The steps go beyond proposals in the U.S. and U.K. to curb pay and bonuses at financial institutions bailed out with public money.

"It's not about envy or an emotional overreaction to the current crisis," Joachim Poss, finance spokesman for Merkel's Social Democratic coalition partners, told parliament in Berlin yesterday before the vote. "This is about the kind of society we want to live in and how the product of combined efforts in our companies is to be distributed." The law extends the period after which share options can be exercised to four years from two and requires that bonus payments be spread over the life-cycle of investments. Managers found liable for negligence by a court face fines equivalent to a minimum of 18 months pay, according to parliament's daily bulletin.

In the U.S., Treasury Secretary Timothy Geithner announced plans on June 10 to require companies that got aid through the Troubled Asset Relief Program to give shareholders a non-binding vote on pay, without setting limits.

In the U.K., the government ordered its Financial Services Authority to evaluate banks' pay policies and consider whether some institutions should be required to maintain higher levels of capital to compensate for risks incurred by bonus awards.

Ms. Merkel's Christian Democrats and the Social Democrats, coalition partners since 2005 and rivals at Sept. 27 national elections, have wrangled over the moves. The parties agreed only this week on a compromise that excludes bonuses from sanctions while raising fines on fixed salaries for negligent executives.

Even so, Manfred Wennemer, the former chief executive officer of tire maker Continental AG, dismissed the steps as "pure populism." Companies have already reined in top managers' pay during the crisis, showing that market mechanisms function adequately, he said in a television interview.

Chief executives at DAX companies earned on average 3.68-million ($5.8-million) in 2008, 24 per cent less than in 2007, according to business consultant Towers Perrin in Frankfurt. At the same time, earnings per share for the 30 companies in the benchmark index fell an average 58 per cent.

Martin Winterkorn, the chief executive of Volkswagen AG, was paid the most among DAX managers last year, earning 12.7-million, according to company figures. Josef Ackermann, the chief executive of Deutsche Bank AG, volunteered a 90 per cent pay cut last year to 1.38-million.


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