BDA Bond Dealers of America

2010 Bond Dealers of America Fixed-Income Compensation Survey

Executive Summary

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Transmittal Letter from BDA

September, 2010

As the only organization representing the unique interests of securities dealers and banks focused primarily on the U.S. fixed income markets, the Bond Dealers of America (BDA) is pleased to present the results of the second annual Fixed Income Dealer Compensation Survey.[1] It is our hope that the BDA 2010 compensation survey will serve as a valuable tool to enhance and inform your compensation management and strategic planning process and decisions.

At the outset, we wish to gratefully acknowledge the leadership of our Steering Committee for its continued support and advice in the development of the survey instrument and presentation of the results, as well as the regional fixed-income dealers who participated in the survey. The survey definitions and methodology may be found as Annexes to the report.

Based on the success of the first report, there was strong agreement to continue with the series and produce the second annual compensation survey report. As was the case last year, the decision to produce the compensation report was a member-driven one. Once again, we consulted with our members. Our members communicated to us that the BDA Compensation Survey was both unique and of high value as it addresses both compensation (including salary, commission, and bonus) by position trends and broader strategic and financial management issues, as they relate to staffing and compensation policies of the middle market fixed-income securities dealer industry.

The Survey's value extends across our membership to the industry and the marketplace. The BDA Survey is the only compensation and strategic survey specifically tailored to the needs of regional and middle-market fixed-income dealers and their managements.

The timing of the first survey report covering 2007-2008 was somewhat propitious and perhaps uniquely valuable to the regional bond dealer community as the firms began to plan for the fixed-income market recovery from the 2008 crisis.

Fortunately, the more recent 2009-10 period covered in this survey has generally been a much stronger one for the fixed-income markets and regional dealers. Indeed, the results of the survey reflect strong performance and participation in the markets by regional firms. Both employment – full-time equivalents or FTEs – and fixed-income revenues were higher in 2009 than 2008 among the survey participants.

There are new sets of strategic challenges awaiting the industry today in the wake of the new financial regulation law and constantly shifting market conditions. We expect this year's survey to be equally useful – if not more so – in the new emerging environment

[1] The terms BDA Regional Dealer Fixed-Income Compensation Survey and Compensation Survey may be used as substitutes for each other.

Regional firms may perhaps be better positioned in the developing marketplace and the evolving regulatory and operating environment to continue to grow and maintain and capture market share. Within this environment, insights about compensation levels, trends and policies would appear to be valuable tools for the middle-market dealers as their securities firms develop, fine-tune and implement strategies; decide how to allocate resources; and grow and manage capital in 2010 and beyond.

To enhance the value to regional firms, responses, where appropriate, are presented nationally and segmented by primary geographic region, revenue level and Full-Time Equivalent (FTE) staff size. In addition to collecting the same information as last time, this year's report added *new information: percentage breakdown of revenues by market sector, to what extent firms outsource the technology function and tax-deferred retirement programs.*

The results are divided into 12 topical areas within six report sections summarized below which include two new sets of questions on retirement programs and the composition of regional dealers' fixed income revenues. We encourage you to read the methodology and definitions annexes at the end of the report in conjunction with the tables and results. By doing that, you will have a fuller understanding of our approach, the definitions used in the tables and how we arrived at the reported data.

- **Compensation by position:** 49 positions, including executive management and departments: compliance, trading, sales, investment banking, public finance, operations and technology research, risk management and accounting. Within each department, compensation results are separated between senior, intermediate and junior positions, generally based on level of responsibility and seniority.
    - Averages, medians, maximums, minimums and medians are provided by position, including total 2009 compensation, and by bonus (2008 and 2009), salary (2009), commission (2009), and sum of commission, salary and bonus (2009). Where appropriate, comparisons are made to 2007 bonus data based on information collected in last year's survey.

    - Data were presented nationally and by region (three regions - West, Midwest, and South & East), FTE (two peers, up to 100 and above 100) and revenue (two peers, above $95 million and below $95 million in 2009 fixed-income revenue) peer groups.

    - Comparison of median bonus levels by position from 2007 to 2009.

- **Trader compensation by market:** Average, median, maximum, and minimum salary, commission, bonus and total compensation for municipal, agency and government, securitization, corporate bond and money markets for senior and mid-level trading professionals nationally. Averages are presented for trading by market sector depending on whether sufficient responses were received by FTE (2 groups, above and below 100) and fixed-income revenue (2 groups, above and below $95 million annually) peer groups**.** This section was incorporated to provide more detailed breakdown for trader compensation among market sectors than is provided in the general compensation tables.

- **Compensation policies**
  - **Payout Trends:**
    - Sales: Percentage payout of all net transaction revenues and separated by primary market and secondary market transactions segmented by market sectors – municipal, corporate bond, treasury/Federal agency and securitization. As appropriate, the responses are divided between the retail and institutional sales segments.
    - Municipal Market/Public Finance Banking and Trading: Percentage payout for primary market and, as appropriate, broken out between negotiated and competitive sales.
  - **Bonus payment frequency:**
    - Whether sales professionals are paid by commission only. Salary/bonus only or commission and salary/bonus.
    - Whether traders are paid bonus in equity, cash or other form, and frequency of compensation (quarterly, semiannually or annually). Results are presented in percentage terms.
  - **Bonus criteria:**
    - Whether based on objective quantitative basis, subjective basis, or combination of subjective and objective factors.
    - Responses are divided by trading – traders and trading desk managers; sales – sales professionals and managers; investment banking and public finance.
  - **Retirement/deferred compensation programs *(new section)***
    - Whether the firm has a program.
    - Whether the program is based on a formula and what the formula is.

- **Revenue & Staffing Trends**
    - Whether staffing will change and in what direction it will change in 2010 by department (compliance, sales, trading, investment banking, research, operations)
    - Whether revenues changed in 2009 and are expected to change in 2010, and in what direction by market sector (government, Federal agencies, municipal bonds, corporate bonds, securitization).
    - Composition (percentage) of fixed income revenues by market sector *(new section)*
      - Market sectors include agency, treasury, high-yield and investment grade corporate bonds and municipal bonds.
      - Calculated on a median, average and trading revenue weighted average basis.
      - Maximum percentage of trading revenues generated from a particular sector.

- **Operating & Technology Expense Ratios**
  - Operational expenses as a percentage of revenues: Total non-interest operating expenses, technology expenses, Bloomberg terminal and other data service expenses, presenting the minimums, maximums, medians and averages at the national level.
    - Responses broken out by FTE and fixed-income revenue peer groups presenting medians and averages.
  - Whether technology and operations functions are outsourced *(new section)*.

- **Annexes provide detailed explanations about the methodology and definitions used in the survey.**

We hope you find the information useful. We welcome any comments, questions or suggestions for future surveys.

Sincerely,

Michael Nicholas
Chief Executive Officer, Bond Dealers of America

I. *Executive Summary*

COMPENSATION POLICY HIGHLIGHTS

- **Compensation Data for 49 Positions from Senior to Entry-Level Provided**
  Data on all 49 positions are provided including medians, averages, maximum and minimum levels of compensation across departments at the national level, and by primary geographic region, FTE (full-time equivalent) and fixed-income revenue peer groups to the extent there were sufficient responses to tabulate meaningful compensation statistical trends.

- **(Compensation by Position – Section III)**
  Median executive level total compensation was $586,000 for the head of the broker-dealer (maximum of $6.3 million), $1,091,250 for the head of fixed-income (maximum of $2.25 million), and $256,922 (maximum of $3.2 million) for the chief financial officer (CFO).

- **Bonus Levels Rise With Improved Market Conditions, Above 2007 and 2008 Levels (Bonus Trends By Position, 2007-2009 Section III-A)** Bonus trends from 2007 to 2009 are presented for all 49 positions to the extent that the statistical comparison were meaningful. Reflecting business conditions, the average median bonus across positions and departments decreased by 26% from 2007 to 2008, increased by 51% from 2008 to 2009 and by 11% increase from 2007 to 2009 with 6 departments showing an increase in average median bonus from 2007 to 2009, 3 showing a decline and the balance either flat or insufficient data to calculate a meaningful comparison.

- **Trader Bonus is Higher Than Base Salary in Most But Not All Fixed-Income Asset Classes (National Bonus Trends By Positions Trader Compensation – Section IV)**
  The median salary across fixed-income asset classes was about $127,000 (slightly higher than last year's survey of $125,000) and bonus about $316,874 (slightly higher than last year)[2] for all senior traders with dispersion above and below that average depending on the market sector – municipal, corporate, money market, securitization and Federal agency/government. Where sufficient data were available for the market sector (typically in the case of municipal and corporate bond sectors), data were provided for mid-level and junior traders, as well. Unlike the last year, a statistically meaningful number of firms reported paying traders commissions as well as bonus and salary. The average median senior trader level commission across markets among the firms that paid commissions was $462,682. Frequently, firms paying commissions did not pay salaries. (Note that only firms paying a commission were included, and not all firms were included in the commission statistical calculations.) Average median total senior level trader compensation was $456,000. This apparently illogical differential between commission and total compensation where average commission exceeds "total" compensation reflects the inclusion of the lowest median paying sector (money market)

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[2] Comparisons between this year and last year's survey results should be made with care. The survey population (or firms responding to the survey in the two years) differed. That is, some firms that participated this year did not participate last year and *vice versa*.

in the average median total compensation calculation but not in the average median commission calculation since there was not a statistically meaningful number of firms reporting money market trader commission. Excluding money market for a more "apples to apples" comparison, the average median would have been $495,000 and thus higher than the "total compensation" figure.[3] (See Methodology Annex for the definition of "total" compensation.)

- **Range of Payouts on Transactions (Compensation Policies – Section V)**
  Responses indicate a wide range of compensation practices on payouts to sales professionals from net transaction revenues, typically between 25% and 40% (with secondary market payouts concentrated between 30% and 40%) across fixed-income market sectors. Retail payouts appeared to be slightly higher than institutional payouts, and there were higher percentage payouts generally for secondary market than new issue trades. Relative to last year, payouts appeared to be slightly lower for total and secondary market trades and higher in the primary market. There is similarly a wide range of practices regarding public finance banker payouts in (12% to 50% dependent on the type of sale) with an average in the 20% to 25% range.[4]

- **Diverse Policies Regarding Trader Bonus Pay (Compensation Policies – Section V)**
  Of those reporting such information, about 80% paid institutional traders cash bonuses (with the balance paying bonuses in equity or undisclosed "other" forms) and all of the firms that paid retail traders bonuses paid the bonus in cash. On the institutional side, 63% of the cash bonuses are paid annually and balance pay bonuses either on a quarterly (25%) or semiannual basis (12%). Half of the firms pay retail traders cash bonuses annually with the balance evenly distributed between quarterly and semi-annual payments.

- **Most Firms' Sales Professionals are Paid Commission Only; Some Firms Report Paying Sales Professionals on a Salaried Basis Only (Compensation Policies – Section V)**
  Sales professionals are paid commission only at 77% and a combination of salary and commission is paid at 8% with the balance paying salary/bonus only. Last year, 90% reported paying commission-only, and there were no firms reporting that it paid sales professionals on a salary/commission basis only.

- **Bonus Typically Based on Objective and Measurable Criteria (Compensation Policies – Section V)**
  The majority of firms pay bonuses across professions in the trading, investment banking and public finance groups based on measurable objective criteria or a combination of subjective and objective criteria. Slightly less than half of the firms pay sales professionals (40%) and sales managers (44%) solely on objective, measurable criteria, excluding firms that pay in a commission-only basis. The remaining firms (with one

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[3] More generally, the apparently "high " average commission relative to average "total" compensation reflects the inclusion of all firms in the "total" compensation calculation but only those firms that pay commissions in the commission averages. See the Methodology annex for a fuller explanations.
[4] There were insufficient responses to report results on the taxable investment banking side.

exception which bases sales manager compensation on subjective criteria) base bonus criteria on a combination of objective and subjective criteria.

- **Most Firms Have Deferred Compensation Programs (Deferred Compensation/Retirement Programs – Section V)**

The majority of firms (80%) have deferred compensation retirement programs and those that do not have such programs offer profit sharing. The deferred compensation is generally based on a formula rather than a fixed amount, and most formulas are typically tied to return on equity.

- **Staffing Trends Up Led by Institutional Trading and Public Finance for 2010 (Revenue & Staffing Trends – Section VI)**
  Despite widely reported staffing cuts in the financial services industry over the last few years, the majority expected the staffing level to stay the same except for institutional sales (58%), institutional trading (64%) and public finance (64%) where the majority expected increased staffing. The common themes in these three groups are that they are revenue generating departments and indicate the growing role of regional firms in the institutional investor marketplace. The only department where there was some reported expectation of staff cuts was in technology and operations, perhaps suggesting increasing back-office efficiencies where less than 10% (9%) expect staff cuts.

- **Revenue Trends Strongly Positive in 2009, Trends Expected to Moderate in 2010 (Revenue & Staffing Trends – Section VI)**
  The vibrant fixed-income market recovery in 2009 translated into strong revenue growth with the majority reporting stronger revenues. A large majority of the firms reported revenue increases in every product sector last year across credit market sectors ranging from 77% in mortgage-backed securities to 100% of the firms in the municipal bond sector. The results in 2010 are expected to be flat or more moderate with the majority or plurality in one sector expecting the same level of revenues in 2010 as 2009. The strongest expectation of revenue growth was in municipal finance where 44 percent expected higher revenues while the weakest expectation was in corporate bonds where 40 percent expected lower revenues. According to the survey, the three largest revenue producing sectors in 2009 were municipal bonds followed by corporate (largely investment-grade) and Federal agency securities.

- **Operations and Technology Expenses Trending Lower (Operations & Expense Trends – Section VII)**
  Regional firms have reduced operating and technology expenses significantly as a percentage of fixed-income revenues each year between 2007 and 2009, according to most of the statistical measurements, with median ratios declining to 1.6% from 3.2% for technology expenses and to 2.0% from 5.2% for operations expenses. Most firms (85%) do not outsource the technology function.