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Schapiro's $9M payout enrages advisers

In-house report lets Finra off the hook

By Dan Jamieson

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The disclosure that Mary Schapiro received nearly $9 million last year when she left her post as Finra's chief executive to become chairman of the Securities and Exchange Commission was greeted with outrage by brokerage industry participants last week.

“Nine million dollars? For a non-profit? That defies logic,” said John Busacca, owner of the Broker Dealer Exchange LLC and one of the founders of the Securities Industry Professional Association, which represents broker-dealer firms and registered representatives.

“It's absolutely obscene,” said Dan Roberts, founder of Roberts & Ryan Investments Inc. The payout shows that the Financial Industry Regulatory Authority Inc. is “out of touch” with its members, he said.

Critics have hammered Finra for paying Ms. Schapiro and other managers a total of $35 million in salaries and bonuses in 2008 despite a stream of regulatory failures and $567 million in investment losses. Ms. Schapiro's payout was $8.98 million and included $7.6 million in vested retirement benefits.

“What company on earth loses $600 million and pays its CEO $9 million to leave?” Mr. Busacca said.

“What has she done to deserve a $9 million payout?” said Steve Stahler, founder of the Stahler Group Inc., a brokerage firm which manages about $60 million for clients. “She's done nothing for the investment community, and we have a worse reputation now than ever [before].”

Ms. Schapiro's payout was disclosed last week for the first time in a 100-page report by an investigative committee of the Finra board, which conducted a seven-month inquiry in response to a request from Amerivet Securities Inc. Amerivet asked that the regulator commence legal action against Finra officers, board members, legal advisers and consultants to recover investment losses and allegedly excessive pay.

Amerivet maintains that Finra managers didn't deserve their pay after failing to detect Bernard Madoff's Ponzi scheme and overseeing collapsed investment banks such as The Bear Stearns Cos. Inc. and Lehman Brothers Holdings Inc.

The report absolved Finra officials of any wrongdoing.

Finra's executive salaries were found to be justified because Mercer LLC, the regulator's compensation consultant, recommended that pay levels for Ms. Schapiro and other Finra executives be based on comparisons with brokerage firms, investment banks and insurance companies. The regulator "competed primarily with the financial services industry for talent," the report found.

Amerivet's attorney, Jonathan Cuneo of Cuneo Gilbert & LaDuca LLP, found that argument spurious.

"That explains why the top executives [at Finra] make between five and 10 times as much as the head of the SEC," he said.

Ms. Schapiro earns $165,300 a year as SEC chairman.

A Finra tax filing from last November showed that she received $3.26 million in 2008 — a $937,961 salary, bonus and incentive pay worth $1.75 million, and additional compensation totaling $565,995.

The fact that Ms. Schapiro's payout included retirement benefits earned during her 13-year tenure with Finra caused some to backtrack on their initial indignation.

"That definitely ameliorates the initial shock" of hearing the amount," said Ron Kovack, founder of Kovack Securities Inc. "If a good portion of that was a retirement benefit, [then] that would not seem out of line."

The retirement payout amounts to "almost $800,000 a year" in retirement benefits, assuming no growth, said Yaron "Ron" Reuven, chief executive of Reuven Enterprises Securities Division LLC.

"It's still a lot of money," he said.

"I'm not saying she doesn't deserve it; it's just hard to determine how much she deserves," Mr. Reuven said.

Before the report was made public, the only indication of the size of Ms. Schapiro's payout was a government disclosure form from early last year saying that she had received between $5 million and $25 million. That had led some to speculate that she had received an amount closer to the high end of the range.

The Finra report also looked into the regulator's investment policy decisions, which resulted in a $567 million loss on its $1.5 billion portfolio in 2008. The report said that Finra was justified in shifting more of its portfolio into equities and private equity, beginning in 2003.

It further stated that the loss stemmed from a strategy meant to match a diversified college endowment and had been approved by board members with “no personal interests” that conflicted with the watchdog's other members.

One Finra board member, William Heyman, an executive vice president and chief investment officer of the St. Paul Travelers Companies Inc., had warned his colleagues about the risks of illiquid investments, urging instead safer fixed-income investments, the report said.

Mr. Cuneo said that he was still considering further legal action regarding Finra's pay and investment policies.

He represents Amerivet in a pending suit against Finra concerning release of internal Finra documents and in a separate suit brought by two other brokerage firms over issues related to the merger of NASD and the New York Stock Exchange's regulatory unit.

This story was supplemented with reporting from Bloomberg News.

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