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# ASEAN Workshop

Budgeting and Behaviour  
Part II

Why do  
certain  
behaviors  
keep  
happening?

Citigroup Inc

+ Add to myFT

## Citi suspends senior bond trader over alleged theft from canteen

Paras Shah was one of the highest-profile traders in Europe's junk bond market

Robert Smith in London FEBRUARY 4 2020



Citigroup has suspended one of its most senior bond traders in London after the US investment bank accused him of stealing food from the office canteen.

Paras Shah abruptly left his post last month as Citi's head of high-yield bond trading for Europe, the Middle East and Africa.

The bank suspended Mr Shah after alleging he had stolen food from the canteen at its European headquarters in Canary Wharf, London, according to four people familiar with the matter.

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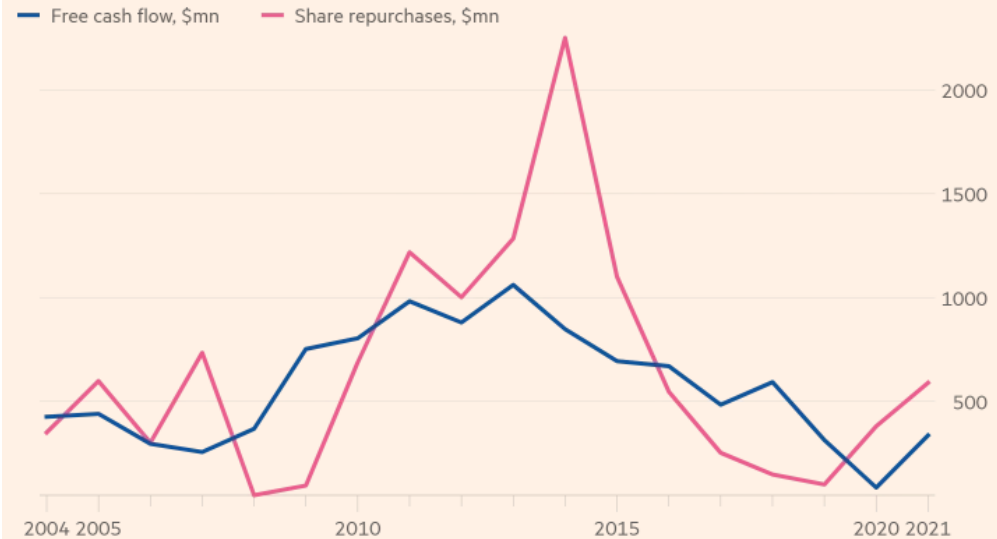
## Bed Bath & Buybacks

After yesterday's [piece](#) about the collapse of Bed Bath & Beyond, a reader, David Giudicelli, wrote to point out that I had missed an important point. In the decade running up to its collapse, the company spent billions buying back its own shares. This huge investment, in bankruptcy, will fall to roughly zero.

The numbers are eye-watering. Bed Bath & Beyond spent \$11.7bn in buybacks between 2004 and 2021. For context, over that period the company's free cash flow was \$9.6bn. It spent all the cash profit it generated after capital expenditures, and more, buying back its own equity. Here is a chart:

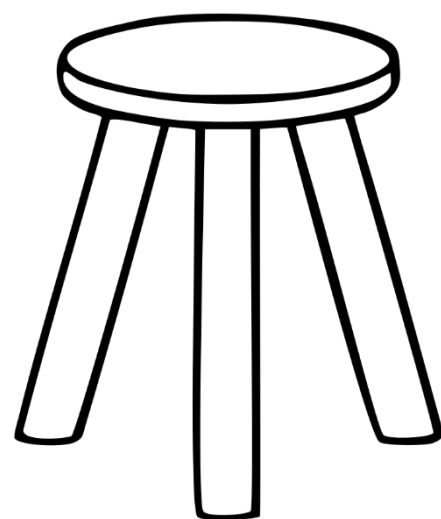
### Don't do this

Bed Bath & Beyond



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Why did the management and board of the company spend all its extra cash on buybacks when operational problems were looming larger and larger? It is worth looking at their incentives. Its [proxy statement](#) for the fiscal year that ended in March 2015 — the year buybacks peaked, at \$2.2bn — describes how the size of equity bonuses were determined by the company's operating margin and return on invested capital relative to peers. Most of the weight was placed on the former.



# Misunderstanding I: Incentive Pay

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- Goldman's regulatory filing about its 2013 pay to UK staff said that it awarded a substantial proportion of bankers' bonuses in company shares. [This](#) "encourages a long-term, firm-wide focus because its value is realised through long-term responsible behaviour and the financial performance of the firm", the filing added.
- Goldman also said it had reviewed its remuneration policy in response to the introduction of the EU bonus cap.
- Mark Carney, Bank of England governor, in November suggested a broad overhaul of bankers' remuneration. He floated the idea that salaries as well as bonuses could be clawed back in cases of wrongdoing.



# Misunderstanding I: Incentive Pay

- But incentive pay does work!
- That is, mainly if
  1. workers respond to higher pay,
  2. more efforts lead to more output,
  3. output can accurately be measured at low cost,
  4. employees are not risk averse,
  5. workers control the risks they face.
- Which jobs qualify?

## ANZ moves sales incentives

nunds • 13:07, Aug 08 2018



## ANZ executive pay and revamps bonuses

...ion policy to bolster executive accountability following scandals

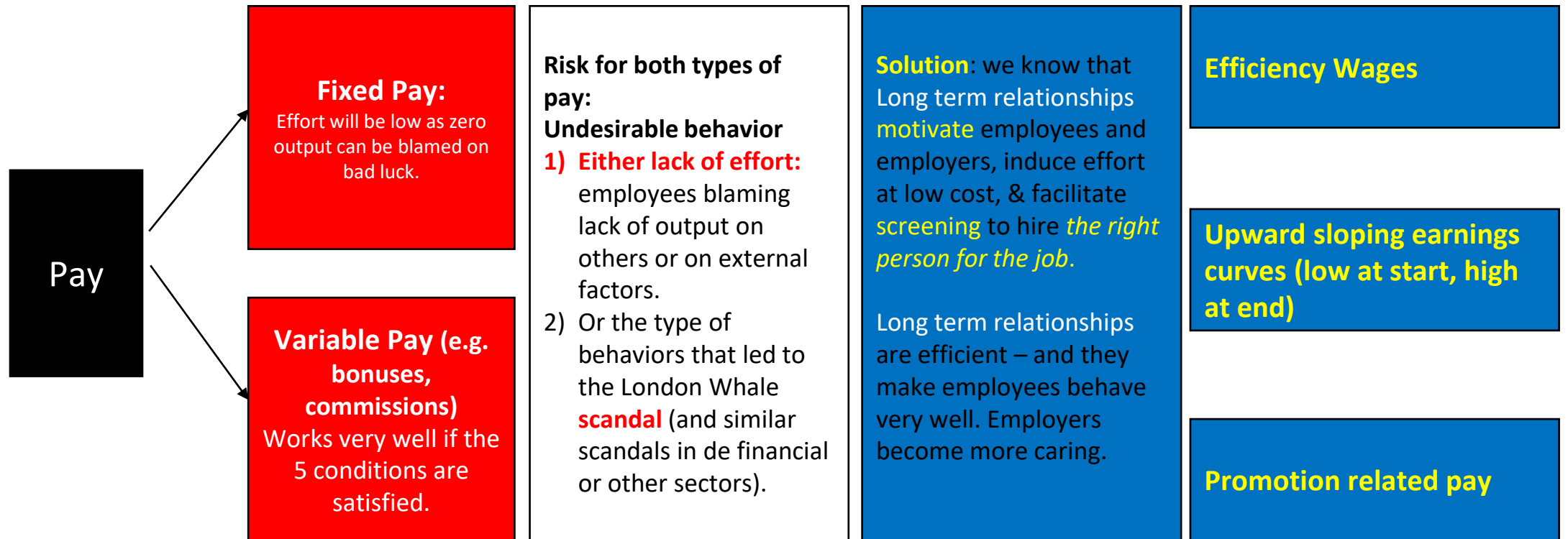
in Sydney SEPTEMBER 19, 2018



[ANZ Australia Bank](#) is slashing executive pay and has introduced a new remuneration framework to sharpen its “customer focus”, following scandals



# Misunderstanding I: Incentive Pay





# Misunderstanding I: Incentive Pay

- Critical note on Goldman Sach's explanation for high bonus pay:
  - “this encourages a long-term, firm-wide focus because its value is realized through long-term responsible behavior and the financial performance of the firm”, the filing added. Goldman also said it had reviewed its remuneration policy in response to the introduction of the EU bonus cap.
- If pay at Goldman is largely variable, ... .

# Case = London whale

- Please apply The Framework to the London Whale Case.
- See: <https://github.com/blucap/asean>
- Please identify issues of
  - Decision making
    - Decisions may have been based on incorrect information ...
  - Control
    - Job descriptions, limits
    - Performance measurement
    - Rewards:
    - Linking knowledge to responsibilities?
- How can accounting help overcome these problems?