On eve of bankruptcy, US firms shower execs with bonuses

Reuters

Nearly a third of more than 40 large companies seeking US bankruptcy protection during the coronavirus pandemic awarded bonuses to executives within a month of filing their cases, according to a Reuters analysis of securities filings and court records.

Under a 2005 bankruptcy law, companies are banned, with few exceptions, from paying executives retention bonuses while in bankruptcy. But the firms seized on a loophole by granting payouts before filing.

Six of the 14 companies that approved bonuses within a month of their filings cited business challenges executives faced during the pandemic in justifying the compensation.

Even more firms paid bonuses in the half-year period before their bankruptcies. Thirty-two of the 45 companies Reuters examined approved or paid bonuses within six months of filing. Nearly half authorized payouts within two months.

Eight companies, including J.C. Penney Co Inc and Hertz Global Holdings Inc, approved bonuses as few as five days before seeking bankruptcy protection. Hi-Crush Inc, a supplier of sand for oil-and-gas fracking, paid executive bonuses two days before its July 12 filing.

J.C. Penney - forced to temporarily close its 846 department stores and furlough about 78,000 of its 85,000 employees as the pandemic spread - approved nearly $10 million in payouts just before its May 15 filing. On Wednesday, the company said it would permanently close 152 stores and lay off 1,000 employees.

The company declined to comment for this story but said in an earlier statement that the bonuses aimed to retain a talented management team that had made progress on a turnaround before the pandemic.

The other companies declined to comment or did not respond. In filings, many said economic turmoil had rendered traditional compensation plans obsolete or that executives getting bonuses had forfeited other compensation.

Luxury retailer Neiman Marcus Group in March temporarily closed all of its 67 stores and in April furloughed more than 11,000 employees. The company paid $4 million in bonuses to Chairman and Chief Executive Geoffroy van Raemdonck in February and more than $4 million to other executives in the weeks before its May 7 bankruptcy filing, court records show. Neiman Marcus drew scrutiny this week on a plan it proposed after filing for bankruptcy to pay additional bonuses to executives. The company declined to comment.

Hertz - which recently terminated more than 14,000 workers - paid senior executives bonuses of $1.5 million days before its May 22 bankruptcy, in part to recognize the uncertainty they faced from the pandemics impact on travel, the company said in a filing.

Whiting Petroleum Corp bestowed $14.6 million in extra compensation to executives days before its April 1 bankruptcy. Shale pioneer Chesapeake Energy Corp awarded $25 million to executives and lower-level employees in May, about eight weeks before filing bankruptcy. Both cited fallout from the pandemic and a Saudi-Russian oil price war, which they said rendered their incentive plans ineffective.

Reuters reviewed financial disclosures and court records from 45 companies that filed for bankruptcy between March 11, the day the World Health Organization declared COVID-19 a pandemic, and July 15. Using a database provided by BankruptcyData, a division of New Generation Research Inc, Reuters reviewed companies with publicly trade stock or debt and more than $50 million in liabilities.

Such bonuses have long spurred objections that companies are enriching executives while cutting jobs, stiffing creditors and wiping out stock investors. In March, creditors sued former Toys 'R' Us executives and directors, accusing them of misdeeds that included paying management bonuses days before its 2017 bankruptcy. The retailer liquidated in 2018, terminating more than 31,000 people.

A lawyer for the executives and directors said the bonuses were justified, given the extra work and stress on management, and that Toys 'R' Us had hoped to remain in business after restructuring.

In June, congressional Democrats responded to the pandemic-induced wave of bankruptcies by introducing legislation that would strengthen creditors rights to claw back bonuses. The bill - the latest iteration of a proposal that has long failed to gain traction - faces slim prospects in a Republican-controlled Senate, a Democratic aide said.

Firms paying pre-bankruptcy bonuses know they would face scrutiny in court on compensation proposed after their filings, said Clifford J. White III, director of the U.S. Trustee Program, a Justice Department division charged with monitoring bankruptcy proceedings. But the trustees have no power to halt bonuses paid even days before a company's bankruptcy filing, he said, allowing firms to escape the transparency and court review.

The 2005 legislation required executives and other corporate insiders to have a competing job offer in hand before receiving retention bonuses during bankruptcy, among other restrictions. That forced failing firms to devise new ways to pay the bonuses, according to some restructuring experts.

After the 2008 financial crisis, companies often proposed bonuses in bankruptcy court, casting them as incentive plans with goals executives must meet. Judges mostly approved the plans, ruling that the performance benchmarks put the compensation beyond the purview of the restrictions on retention bonuses. The plans, however, sparked objections from Justice Department monitors who called them retention bonuses in disguise, often with easy milestones.

Eventually, companies found they could avoid scrutiny altogether by approving bonuses before bankruptcy filings. Dozens of companies have approved such payouts in the last five years, said Brian Cumberland, an executive compensation expert at consulting firm Alvarez & Marsal who advises companies undergoing financial restructurings.

Companies argue the bonuses are crucial to retaining executives whose departures could torpedo their businesses, ultimately leaving less money for creditors and employees. Now, some companies are bolstering those arguments by contending that their business would not have cratered without the economic turmoil of the pandemic.

The pre-bankruptcy payouts are needed, companies say, because potential stock awards are worthless and it would be impossible for executives to meet business targets that were crafted before the economic crisis. The bonuses ensure stability in leadership that is needed to hold faltering operations together, the firms contend.

Some specialists argue the bonuses are hard to justify for executives who may have few better job options in an economic crisis.

With double-digit unemployment, its a strange time to be paying out retention bonuses, said Adam Levitin, a professor specializing in bankruptcy at Georgetown University's law school.

J.C. Penney has not posted an annual profit since 2010 as it has struggled to grapple with the shift to online shopping and competition from discount retailers. The 118-year-old chain, at various points, employed more than 200,000 people and operated 1,600 stores, figures that have since been cut more than half.

On May 10, J.C. Penney's board approved compensation changes that paid top executives, including CEO Jill Soltau, nearly $10 million. On May 13, Soltau received a $1.7 million long-term incentive payment and a $4.5 million retention bonus, court filings show.

The annual pay of the company's median employee, a part-time hourly worker, was $11,482 in 2019, a company filing shows.

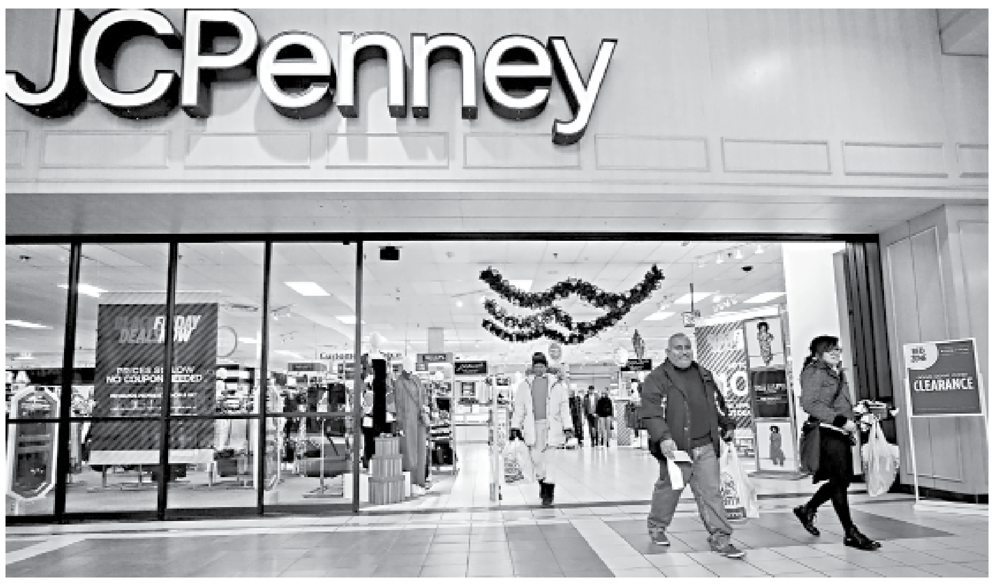
J.C. Penney filed for bankruptcy two days after paying Soltaus bonuses. At a hearing the next day, a creditors lawyer argued the payouts were designed to thwart court review. The payouts were timed so that they didn't have to put it in front of you, said the lawyer, Kristopher Hansen, addressing U.S. Bankruptcy Judge David Jones.

Jones - who is also overseeing the Whiting Petroleum, Chesapeake Energy and Neiman Marcus cases - told Reuters that such bonuses are always a concern in bankruptcy cases. That said, the adversarial process demands that parties put the issue before me before I can take action, he added, emphasizing he was speaking of general dynamics applicable to any case. A comment made in passing by a lawyer is not sufficient.

In its statement earlier this year, J.C. Penney said the bonuses were among a series of tough, prudent decisions taken to safeguard the firms future.

Dennis Marten - a shareholder who said he once worked at a J.C. Penney store - disagrees. He has appeared at court hearings pleading for an investigation of the company's leadership.

Shame on her for having the gall to get that money, he said of Soltau.



REUTERS

JC Penney was forced to temporarily close its 846 department stores and furlough about 78,000 of its 85,000 employees as the pandemic spread.

China regulator encourages brokerages, mutual funds to merge, media says

Reuters, *Shanghai*

China's top securities regulator is encouraging mergers and acquisitions among brokerages and mutual fund houses, the state-run China Securities Journal reported on Saturday.

The China Securities Regulatory Commission (CSRC) aims to solve the problem of competition among industry peers with the move, and the top securities watchdog supports launching employee stock ownership and equity incentive plans, the newspaper said.

"In order to achieve the effect of mergers and acquisitions and realise the coordinated development of parent companies and their subsidiaries, the CSRC supports the institutions setting up more flexible business scope on the premise of effectively managing unfair competition, preventing conflicts of interest and transferring interests," the newspaper said, citing a notice sent out by the regulator.

Job creation to be an uphill task

FROM PAGE B4

As the economy has opened up, there has been a slow upward movement, Mansur said.

"However, it seems a sub-optimal point will be reached in this way. This depends on the response from the government and the private sector."

Mansur expressed his concern about investments, saying the private sector is not going to invest unless the situation gets better.

"While there should be investments in the public sector, there is the issue of resources."

He underscored the importance of a focused recovery strategy. Attracting investments deflecting from China should be a part of Bangladesh's recovery and post-recovery strategy.

According to Mansur, stimulus packages for big business are being disbursed quickly but there has been a delay in disbursing the stimulus packages for SMEs.

This needs to be addressed as soon as possible, said the former senior official of the International Monetary Fund.

Tuomo Poutiainen, country director of the International Labour Organisation, stressed public employment programmes.

He said that stimulus should not only be for business and liquidity but also should have a focus on jobs and employment.

Poutiainen highlighted the need to invest in micro, small and medium enterprises, especially concerning the rural economy.

"It is important to emphasise SMEs and self-employment so that it can activate the labour market and boost the economy."

Prof Shamsul Alam, a member of the General Economics Division under the Planning Commission, said that many things are depending on the overall situation of the spread of the infection.

Labour productivity has increased both in rural and urban areas, he said.

While enrollment in technical and vocational education and training (TVET) programme was 1 per cent in 2009, it rose to more than 16 per cent in 2018-19. Structural changes have also taken place in the composition of employment.

Monitoring and evaluation of the stimulus package are also necessary, he said. He said the Seventh Five Year Plan did not generate employment as expected.

Sanem's Chairman Bazlul Haque Khondker said there has been very little fiscal response from the government to tackle the economic challenges of the pandemic.

"Other countries have initiated a much more aggressive fiscal response," he said, pointing out that social protection issues related to the labour market need to be in the discussion.

Imran Matin, executive director of the Brac Institute of Governance and Development, brought to attention the movement of labour in the ICT-based market and said collection of data on the labour market should also take this into account.

As the future outlook perceived by most of the people is uncertain, it is going to affect business confidence and labour dynamics, he said.

"The uncertainty is not just about income but also infection. The interdependence of this perception and real economic trends are critical."

Emergency debt relief needed to fight pandemic

FROM PAGE B4

Making the case for expanding the DSSI just three months after its creation, the three global organisations pointed to the worsening economic outlook for the global economy – and growing concern that debt burdens may compromise efforts to contain the pandemic and keep local economies afloat.

Any such plan should be bold enough to address the barriers that sovereign debt burdens present toward pandemic containment—while enabling a global recovery that prioritises health resiliency, decent work and growth of the real economy, they said.

John WH Denton AO, ICC secretary general; Sharan Burrow, ITUC general secretary, and Michael Sheldrick, chief policy and government affairs officer of Global Citizen, stressed the need for joining forces in their call for urgent and coordinated action on debt.

"Removing the spectre of sovereign debt from pandemic containment and the economic crisis is an absolute imperative to business, workers and citizens throughout the world.

The required investment from the world's leading economies is minute compared to the social and economic costs of inaction."

Virus resurgence poses biggest risk to US economy: IMF

AFP, *Washington*

The dominant risk to the US economic recovery is a resurgence of COVID-19 cases that would force renewed business shutdowns, the International Monetary Fund warned Friday.

The US government will need to do more in coming months to provide support to households and boost demand, as well as address worsening poverty and the shortcomings of the US health system, the IMF said in its annual review of the world's biggest economy.

"Even with the unprecedented policy support being provided to the economy," the US suffered a 37 percent collapse in GDP in the second quarter, and the economy is expected to contract by 6.6 percent in 2020, the fund said, stressing the "tremendous uncertainties" surrounding the outlook.

"The principal risk, and one that is the most difficult to quantify, is that a resurgence in the number of COVID-19 cases in the US could lead to renewed, partial shutdowns," the report said.

With case counts spiking in states like Florida, Georgia, Texas and California, local authorities already have reimposed some restrictions.

The Washington-based crisis lender said the recovery "will require a further round of fiscal measures in the coming months that boost demand, increase health preparedness, and support the most vulnerable."

"The US has fiscal space and it should be deployed quickly to hasten the recovery from the second quarter contraction, permanently improve the social safety net, and facilitate a broader remaking of the US economy," it said.

President Donald Trump's administration is negotiating with Congress on the form of the next aid package, with internal debate reportedly raging over whether to reduce payroll taxes, which would only help people who are receiving salaries, or to extend unemployment benefits.

The clock is ticking since the expanded benefits that include a $600 weekly payment from the federal government on top of any state benefits, as well as help for contractors or self-employed workers, expire on July 31.

Treasury Secretary Steven Mnuchin said in testimony before Congress on Friday that the next round of support should go to industries that have been hardest hit by the crisis. "There should be a second check available to the businesses that are the hardest hit," Mnuchin said at a House hearing, adding that he would work with Congress to determine the size of company eligible for a second round of financing.

But Mnuchin also highlighted signs that the economy is recovering. And indeed data this week showed a surge in retail sales, manufacturing and home building in June. But more recent data, as new restrictions have been implemented, show new applications for unemployment benefits are holding steady.

Consumer confidence for the first half of July fell, eroding much of the gains in June, according to the closely-watched University of Michigan survey released Friday.

Economists warn that the situation could erode if the epidemic worsens. About 15 million US workers are jobless, and major airlines have announced tens of thousands of layoffs starting in October.

Newly-installed World Bank chief economist Carmen Reinhart on Friday warned policymakers not to "confuse rebound with recovery.

"While output has bounced back from the steep decline, that "is not the same as true recovery," which remains "in the distant future," Reinhart said.

The IMF agreed with many other economists in warning that the brunt of the economic impact of the coronavirus crisis is being borne by lower income families, predominantly black and Hispanic, who are least able to weather the downturn and will need more support.

"There are already urgent warning signs that the depth of the economic contraction and the sectoral distribution of economic losses will lead to a systemic increase in poverty," the IMF said.

Household chores can teach important life skills

FROM PAGE B4

Cleaning the bathroom is in a way a form of exercise resulting from scrubbing, wiping and washing and the additional health benefit is the achievement of a healthier immune system because you're cleaning away bacteria, mold and disease.

Gardening lovers are noticed to have a reduction in depression when they spend periods of time taking care of their garden.

Studies have shown that those who make their beds before starting their day have a higher productivity level compared to those who do not. Cooking, known to many as therapy for being able to help with lifting up spirits and de-stressing, is actually beneficial to our health.

Thirdly, involving children in household chores gives them an opportunity to become active participants in the house. Kids begin to see themselves as important contributors to the family.

Holding children accountable for their chores can increase a sense of responsibility and actually makes them more responsible.

When a kid observes that their parents are doing their works and helping each other, it will create a deep interest in their mind and involving children in household works will help them build their sense of responsibility.

Fourthly, over a long period of time easily we can save a lot while doing our activities by ourselves instead of depending on external support from others. In these tight economic times, everyone is looking for ways to cut back. Cutting back may mean eliminating a few services that we are paying instead of doing by ourselves.

We could free up at least Tk 2,000 to Tk 3,000 or more monthly by taking a more active role and support our family members.

Eliminating expenses that we pay on a monthly basis will usually result in a larger savings over the long term, rather than focusing on the little luxuries in life that we spend money on sporadically.

Fifthly, when fathers play an active and equal role in the household and are a positive presence, it relieves the burden of care on mothers and is associated with a household where violence is less likely to take place.

Research from Norway has found that the incidence of violence against women or children in equitable homes is three times lower than households where fathers dominate.

In a larger perspective, it definitely will have a positive impact in the reduction of violence towards women in our society.

We, who work outside should train our children to be responsible adults, who would feel proud for doing chores at home, instead of feeling shy or uncomfortable.

Thus, new the generation can smash narrow gender stereotypes by bringing equality in the division of housework. Such changes are no doubt necessary. The Covid-19 and lockdown terms were like a curse to us but it really is showing us the new lights and bringing changes in our society which we must adhere to in order to live a better life in a much more socially developed society in the post-pandemic era.

The author is the head of supply chain and procurement at bKash Limited