IBC
International Bancshares Corporation

May 16, 2011

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Docket No. R-1410 and RIN No. 7100-AD69
Incentive-Based Compensation Arrangements

Dear Ms. Johnson:

The following comments are submitted on behalf of International Bancshares Corporation ("IBC"), a multi-bank financial holding company headquartered in Laredo, Texas. IBC maintains over 278 facilities and more than 440 ATMs, which serve 107 communities in Texas and Oklahoma. IBC is the largest Hispanic-owned financial holding company in the continental United States with over $12.2 billion in assets. IBC is a publicly-traded financial holding company.

The purpose of this comment letter is to address the Board of Governors of the Federal Reserve System's (the "Federal Reserve") and other financial agencies' proposed rules on Incentive-based Compensation Arrangements (the "Proposed Rules"). The Proposed Rules are similar to the Interagency Guidance on Sound Incentive Compensation (the "Guidance") adopted by the federal banking agencies on June 21, 2010.

The principles contained in the Proposed Rules and in the Guidance are redundant and too broad. Banks are already subject to a strong and robust system of financial regulation. The Proposed Rule is a principles-based approach to regulating incentive compensation of financial institutions and duplicates the existing authority of the banking regulators to restrict unsafe and unsound practices, including compensation practices. The Federal Reserve already has clear authority to act in this area. Section 8 of the Federal Deposit Insurance Act authorizes the Federal Reserve to take action against a banking organization if the organization is engaged, or is about to engage in, any unsafe or unsound practice. The Proposed Rules and the Guidance are too vague to be helpful and the ambiguities associated with the Proposed Rules and the Guidance will make compliance with both very difficult. This ambiguity will create undue burdens and unintended consequences on regional and community banking organizations because it will lead to increased costs and regulatory uncertainty.

Concerns about excessive compensation can already be addressed under the existing bank regulatory framework as well as other laws. The provisions of Sarbanes-Oxley Act of 2002 impose significant corporate governance duties related to compensation on publicly-traded banking organizations, like IBC.

Moreover, the "TARP Standards for Compensation and Corporate Governance," provide compensation standards for senior executive officers and certain other employees of TARP recipients.

Although the Proposed Rules provide standards for incentive-based compensation arrangements, the Proposed Rules fail to address any specific compensation practices as problematic. Better defined principles would reduce compliance costs by providing clarity as to expectations. We suggest that the Proposed Rules, rather than being broad and vague, should clearly and directly address certain incentive compensation practices that appear to have actually had an adverse effect on banks' safety and soundness. For example, incentive compensation that is tied to the interest rate obtained on a particular loan or group of loans would appear to give lenders a personal economic motive for obtaining the highest rate possible regardless of the credit characteristics of the borrower. A better constructed incentive program would tie bonuses to achieving the bank's strategic goals for loan volume in accordance with the bank's lending policies and pricing matrices. Another area where problems have been seen is where income is dependent on the sale of credit insurance products. This is currently appropriately regulated for national banks by 12 C.F.R. Part 2. In Texas, the same rules are applied to state chartered banks, but there is no national standard for such a practice. Specific rules addressing items such as the above would provide clarity as to the practices to avoid and those to consider appropriate.

In addition, the Proposed Rules make the implicit assumption that the regulators are better equipped to manage a bank than a bank's management itself. Successful financial institutions, especially those that are publically traded, already manage the risks surrounding incentive compensation based on the standards contained in the Proposed Rules. Bank management is better able to know and judge the peculiarities and complexities associated with its bank, the nature of the bank's operations and assets, and its geographic location. Conversely, bank regulators must be familiar with banks across a broad geographic area with very different customer and product bases. The Proposed Rules provide no criteria or structure for assessing incentive compensation risk; thus, they assume that a regulator is better able to determine what incentive compensation practices are "right" versus what practices are "wrong." Over time, regulators may try to apply certain compensation best practices, which could have the unintended effect of dictating a one-size-fits-all incentive compensation arrangement for banking organizations. To avoid this scrutiny, many banks will simply move towards offering higher levels of fixed compensation.

We concur with the following statements in the Preamble to the Proposed Rules that limit the scope of the incentive- based compensation that is covered. "There are types of compensation that would not fall within the scope of this definition. Generally, compensation that is awarded solely for, and the payment of which is solely tied to, continued employment (*e.g.*, salary) would not be considered incentive-based compensation. Similarly, a compensation arrangement that provides rewards solely for activities or behaviors that do not involve risk-taking (for example, payments solely for achieving or maintaining a professional certification or higher level of education achievement) would not be considered incentive-based compensation under the proposal.

In addition, the Agencies do not envision that this definition would include compensation arrangements that are determined based solely on the covered person's level of fixed compensation and do not vary based on one more performance metrics (e.g., employer contributions to a 401(k) retirement savings plan computed based on a fixed percentage of an employee's salary)." While we believe the Proposed Rules are unnecessary, to the extent they are adopted, we believe the scope of the Proposed Rules should be narrowed to only address compensation arrangements that encourage inappropriate risks by the covered financial institution by providing a covered person with excessive compensation that could lead to material financial loss of the covered financial institution.

The requirement in the Proposed Rules that covered financial institutions report annually to their regulators describing the structure of the incentive-based compensation arrangements for covered persons that is sufficient to allow an assessment of whether the structure or features of those arrangements provide or are likely to provide covered persons with excessive compensation, fees, or benefits that could lead to material financial loss to the covered financial institution is unnecessary. The financial institution examiners typically review these matters in their examinations. This unnecessary requirement serves only to cost the banks additional expense and time and undermines confidence in bank management. As regulatory compliance expenses continue to increase for community banks, they will be forced to reduce lending and increase fees to customers. Moreover, as compensation practices are more greatly regulated in the financial industry, the ability of banks to attract and retain talent from other industries will be reduced.

The parts of the Proposed Rule that apply to 'Larger Covered Financial Institutions" with $50 billion or more in total consolidated assets may be warranted; however, the widely publicized instances where the incentive compensation programs of certain large complex banking organizations have exposed the financial institution to undue risk should not be used to taint the established incentive compensation programs of thousands of regional and community banks that do not present such undue risk. Rather than presenting undue risk, the compensation programs of community banks are generally straightforward and serve as an important tool to attract and retain banking talent. In any event, the bank regulators are already authorized to prohibit any undue risk presented by the incentive compensation arrangements at regional and community banking organizations. The Proposed Rules for the regional and community banks are unnecessary as well as burdensome and ambiguous.

It should also be noted that the shareholders hold the ultimate responsibility to sign off on executive compensation with their vote to elect directors. If shareholders cannot effect change, then they can respond by selling their stock and allowing the market place to discipline the institution. Removing the checks and balances contained in a free market should be avoided because Government intervention always creates unintended consequences.

Thank you for this opportunity to comment.

Respectfully,

Dennis E. Nixon
President