November 25, 2009

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

RE: Docket No. OP—1374

Dear Ms. Johnson:

The Conference of State Bank Supervisors (CSBS) appreciates the opportunity to comment on the Proposed Guidance on Sound Incentive Compensation Policies. CSBS supports the Federal Reserve Board's proposed guidance as a necessary initiative for addressing the ill-advised compensation arrangements of certain financial institutions. CSBS believes that irresponsible compensation practices are one of the driving issues of the financial crisis.

The three core principles outlined in the guidance put the responsibility for crafting, implementing, and monitoring sound incentive compensation arrangements squarely on the shoulders of an institution's board and management. With this expectation clear, bank supervisors will be able to utilize existing regulatory authority to evaluate compensation practices and seek any necessary changes to protect the safety and soundness of the institution.

While CSBS supports the FRB's effort to avoid overly prescriptive tendencies in the proposed guidance, we believe it should include specific provisions related to stock options. Stock market corrections provide management the opportunity to acquire options at very low strike prices. This allows them to realize very large rewards as the stock value increases, even though the stockholders are still under water.

CSBS believes the implementation of the guidance must focus on the true abusers. It is absolutely necessary to avoid imposing undue burdens on institutions that have not demonstrated reckless compensation practices.

The FRB's proposal will only apply to bank holding companies and state member banks. It is our opinion that guidance regarding incentive compensation arrangements needs to be developed for the entire industry and consistently applied across the system. We strongly recommend the final guidance be developed and issued through the Federal Financial Institutions Examination Council (FFIEC). The FFIEC was created to promote consistency in federal examinations and progressive and vigilant supervision. Issuing this guidance through the FFIEC will send a unified and consistent message to the industry, while promoting coordination among financial institution supervisors and avoiding a fragmented approach to such an important issue.

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In an effort to provide beneficial feedback to the FRB, CSBS has responded to two of the specific questions posed in the Proposed Guidance Notice.

<u>Are the three core principles described in the guidance appropriate and sufficient to help ensure that incentive compensation arrangements do not threaten the safety and soundness of financial institutions?</u>
The three core principles are appropriate and sufficient. CSBS supports the FRB's effort to avoid being overly prescriptive in the proposed guidance. Incentive compensation arrangements, as suggested in the proposed guidance, are the responsibility of the board and management.

<u>Would the proposed guidance impose undue burdens on, or have unintended consequences for, banking organizations and, particularly, regional and small organizations?</u>
As crafted, the proposed guidance should not impose undue burdens on such organizations. However, CSBS believes that undue burdens may arise from the implementation process if supervisors do not separate the truly abusive institutions from the rest of the industry.

Again, thank you for the opportunity to comment. CSBS looks forward to working with the Federal Reserve Board on this important issue.

Best Regards,

Neil Milner
President and CEO