Thrift Institutions Advisory Council
Proposed Guidance on Sound Incentive Compensation Policies
(Docket No. OP-1374)
December 18, 2009

At the meeting of the Thrift Institutions Advisory Council with the Board of Governors on December 18, 2009, F. Edward Broadwell Jr., chairman and chief executive officer of HomeTrust Bank, Asheville, North Carolina, and Kay M. Hoveland, president and chief executive officer of Kaiser Federal Bank and K-Fed Bancorp, Covina, California, presented the views of the Council on proposed guidance and supervisory initiatives on incentive compensation policies at banking organizations.

The Council noted that the guidance is designed to help ensure that incentive compensation policies at banking organizations do not encourage excessive risk-taking and are consistent with the safety and soundness of the organization. The guidance appropriately places the determination of how best to structure incentive compensation arrangements for each banking organization squarely on the shoulders of bank management and its board of directors. Banking organizations are also expected to review their risk management, control, and corporate governance processes related to these arrangements and address any deficiencies in these arrangements or processes that are inconsistent with safety and soundness.

The Council is pleased that the Board has recognized that the implementation of the guidance should be appropriate in light of the scope and complexity of the banking organization's activities as well as the prevalence and scope of its incentive compensation arrangements. In this connection, the Council believes strongly that the ownership structure of the organization should also be considered.

The Council also believes that the regulators will find that the vast majority of bank incentive compensation plans do not encourage excessive risk-taking and are consistent with the safety and soundness of the organization. Having said that, the Council believes that corporate governance processes at most banking organizations will be sharpened considerably. For example, the Council foresees that increased board attention will be paid to the risk-reward analyses prepared by bank risk officers and that compensation committees will increasingly employ independent and credible resources, such as compensation consultants, director education programs, and peer group analyses, in connection with structuring balanced incentive compensation arrangements. The Council suggested that the banking regulators might also want to consider availing themselves of these same independent and credible resources in identifying industry "best practices."

In discussing the proposal, Council members also expressed concern about a broad-brush approach, noting that determination of reasonable and appropriate incentive compensation should reflect differences in institutions' sizes, charters, geographic locations, and short- and long-term goals.