Comments of Sunil K. Dixit before the Board of Governors of the Federal Reserve System, 20th and C Streets, N.W. Washington, DC 20551

Proposed Guidance on Sound Incentive Compensation Policies
Docket No. OP-1374

November 7, 2009

My name is Sunil K. Dixit. I am submitting these written comments to the Board of Governors of the Federal Reserve System.

Comments on "Introduction" (Page 15)

The Board should have issued rules in this regard. Considering Federal Reserve's past performance and its limited resources, it would be hard to enforce these guidelines.

After the line 3 (from the top) on Page 16, a fourth clause should be inserted as follows:-

- Refrain from linking compensation with performance of business lines that cause risks to the entire financial system such as lending to hedge funds and derivative business, unless a full disclosure of these practices is included in the Annual Report.

Comments on "Principle 1: Balanced Risk-Taking Incentives" (Page 21)

The term "excessive risk" is vague and needs clarification. The following steps may be necessary to effectively manage risk:

- Risk parameters should be set for the banking industry as a whole. Each organization should measure its risks against these benchmarks. A risk scorecard can be created for the industry and each organization should be held responsible for its score calculated as per parameters set by experts who have no business relationships with banks.

- Cash compensation should only be between 30%-35% of the incentive. 30%-35% should be deferred compensation tied to stock options etc. Remaining compensation should be based on bank's performance in each of next 5 to 10 years.

Comments on "Banking organizations should carefully.........at the organizations" (Page 29)

Deferred compensations and golden parachutes agreements should be "with recourse" An organization should be able to recover from a former employee or an executive if it is found that the said executive or employee was engaged in "excessive risk" taking activities or failed to check those activities.

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Comments on "Appropriate personnel, including..........excessive risk taking". (Page 33)

Banks should use the services of outside unrelated experts to draw their compensations plans. The incentive committee of the board should consult these experts to ensure that the risk assessment process is reliable and sound. These unrelated experts should not be offering any other services to the bank both individually or as a part of another organization.

It would be better if the CEO is not a part of this process and only is able to give his/her input.

Internal auditors should be asked to play a bigger role in this process. The whistleblower protections should be available to the audit staff.

Comments on "Principle 3: Strong Corporate Governance" (Page 35)

There is a need to revisit the role being played by audit committees of banking companies. Perhaps, effective audit committees could have prevented recent bank failures by checking risky lending.

It is suggested that a formal position of a corporate governance officer be created for banks. This individual should be an independent professional duly licensed by a bank regulator.

Banks should have separate CEO and Chairman. CEO's performance should be evaluated by the Board. A brief summary of such an evaluation should be made available to the public by including it in the Annual Report.

To sum up, I believe that it is a myth that banks would lose talented employees if there are restrictions on their compensation packages. Such a claim needs to be validated because no healthy organization would reward excessive risk taking. If all banks in the U.S. are guided by compensation standards, these so-called talented people would not flee to other countries because their excessive risk taking skills may not be welcome overseas. In fact, counties like Australia and Canada had no bank failures or bailouts as a result of recent financial crisis.

Sincerely

Sunil Dixit