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Subject: Sound Incentive Compensation Policies

Comments:

Date: Nov 25, 2009

Proposal: Proposed Guidance on Sound Incentive Compensation Policies

Document ID: OP-1374

Document Version: 1

Release Date: 10/22/2009

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Comments:

Our company owns a small community bank and an insurance agency. If our bank is required to adhere to the proposed guidance regarding incentive compensation, we will most likely simply do away with such compensation arrangements that might be considered "incentive" to avoid any criticism from regulators and/or the cost of compliance. As for the proposal, I find most of its requirements to be of such a nature as would make it most difficult for a small, community bank to comply with without incurring a huge expense. Most community banks do not have staff on hand or systems available that would permit any form of verification regarding many of the "risk" issues that are mentioned. Most likely any "expert" that attempts to measure incentive compensation against certain "risk" factors will at best be making assumptions that the "expert" will not have to pay for should the assumptions be wrong, which, of course, will help no one. So much of the guidance is cloated in terms like "effective and balanced incentive compensation practices" or "material amounts of risk" which may be defined in a multitude of ways depending on who is reviewing the matter. Other statements tend to suggest that certain matters are easily measured, such as "An incentive compensation arrangement is balanced when the amounts paid to an employee appropriately take into account the risks, as well as the financial benefits, from the employee's activities and the impact of those activities on the organization's safety and soundness." How does one measure that in an objective manner? The guidance requires banks to consider the full range of risks associate with an employee's activities, as well as the time horizons over which the risks may be realized, when determining whether incentive compensation arrangements are balanced. The risks that are mentioned include credit, market, liquidity, operational, legal, compliance, and reputational. How does one effectively measure all of these in an objective manner? Reputations are built over many years, and maybe even through the careers of many hard working employees. How is that to be measured in an objective manner. Surely a subjective measurement will not be acceptable given the possible implications of an incentive plan that regulators determine to be "unbalanced." The guidance indicates that "reliable quantitative

measures" may not be available to measure all types of risks, but even still they should not be ignored in determining whether or not an incentive compensation plan is balanced. In what ways should they be considered if we cannot measure them? Of course, we do "consider" this today with all compensation plans, incentive or not, but how would one document such to the satisfaction of all who might inquire should this guidance go into effect? I would ask that the Federal Reserve consider exempting community banks, especially small community banks, from the requirements that this guidance details. If not, I am convinced that most, if not all, community banks will simply gross up base salaries and eliminate all forms of incentive compensation arrangements. The Federal Reserve should consider the fact that community banks are not the institutions that have abused incentive compensation arrangements in the past and should they be forced to eliminate their bonus programs it will not accomplish anything of value in the government's effort to better manage risks. Without any guidance from the Federal Reserve community banks have very competently managed risks, including any risks remotely associated with incentive compensation plans. We have to manage well since we are not "too big to fail" and can be closed rather quickly if we step out of bounds for any reason. Most importantly, I am the President and CEO of our bank and when the Federal Reserve's guidance on any issue comes down it becomes my responsibility to make certain that we comply. Quite frankly, I have more than enough to do right now in my efforts to keep up with all of the other changes that have or soon will be imposed on us. I really don't need another issue to deal with, especially one that will not be helpful in any way to anyone. Thank you for the opportunity to comment.