



**AMERICAN
ASSOCIATION
OF BANK DIRECTORS**

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MEMORANDUM

TO: AABD MEMBERS AND FRIENDS
FROM: DAVID BARIS, EXECUTIVE DIRECTOR
SUBJECT: FED'S INCENTIVE COMPENSATION GUIDANCE
DATE: DECEMBER 8, 2009

AABD has submitted comments on the proposed incentive compensation guidance to the Federal Reserve Board, a copy of which is enclosed.

We are opposed to rules that unnecessarily restrict the authority of a bank's board of directors and its compensation committee to decide how to use compensation to attract, retain, and motivate officers and other employees. The Fed's proposed "guidance" is much more than that, and can lead to enforcement actions in which the Fed can direct its member banks and bank holding companies to adopt policies and procedures and structure incentive compensation plans that the Fed believes are necessary to prevent excessive risks to the institution. The Fed also contemplates the adoption of "best practices" which it can apply to their institutions in their discretion.

The Fed's proposed guidance does not adequately establish a need to apply the guidance to the numerous banks and savings institutions in the United States that engage solely in traditional banking activities. Therefore, AABD has requested the Fed to withdraw the proposed guidance.

We would be interested in hearing from our members and friends on the Fed's proposal.