From: MJBeggs [mailto:mjbeggs@comcast.net]
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To: Comments
Subject: RIN 3064-AD56

My comments regarding 12 CFR Part 327 - RIN 3064-AD56:
In general, I see these proposals as common-sense and much needed. We must not wait for the institutions to police themselves or for congress to act. The bigger the hue and cry over tis, the more it means it is needed. If an instition wants bail-out money then they must play by some common-sense rules of decency.

1. Yes, an adjustment must be made to the risk-based assessment rate an institution would otherwise be charged if the institution could/could not attest (subject to verification) that it had a compensation system that included the elements proposed.
2. The FDIC's risk-based assessment system must only reward firms whose compensation programs present lower risk and they must penalize institutions with programs that present higher risk.
3. The FDIC can measure and assess whether an institution's board of directors is effectively overseeing the design and implementation of the institution's compensation program by requiring the institution to submit the details of the program along with the metrics and time tables for when those metrics will be captured. Financial institutions are full of bright number-crunching analysts so they should have no problem providing the metrics and their relationship to performance. They make decisions assessing risk all the time, so they are no strangers to discounting value based on increased risk.
4. The FDIC should consider the use of quantifiable measures of compensation—such as ratios of compensation to some specified variable—that relate to the institution's health or performance such as stock price, futures/options perceived value in the market place by other buyers, etc. The perceived value of a company is no secret to the many observers who are betting that a company grows or doesn't grow depending on their out look. There should be a balance between an institution's "surprise" upside as there is to their downside. Reward should be given to those institutions that more accurately meet expectations. If they achieve higher, then all benefit. If they achieve lower, then they pay a price. The pay-off for hitting or exceeding goal should drive that as the desired outcome.
5. The effort to price the risk posed to the DIF by certain compensation plans be directed toward all insured depository institutions.
6. The size of the effective basis points of an adjustment to the initial risk-based assessment rate of an institution should be calculated by the institutions and presented for public scrutiny with a justification of why it is an effective influence on their compensation practices. The financial analysts at any institution can easily calculate the "pain" factor. They need to make their analyses public and let outsiders evaluate the veracity of their formula and arguments.
7. The criteria used to adjust the FDIC's risk-based assessment rates should apply to the compensation systems of insured depository institutions and under all circumstances of fall-through and reliance on holding companies and affiliates should also apply to the compensation programs of holding companies and affiliates. If a holding company and affiliate is relied upon to derive some component of the institution's value, then they must share in a proportional way the risk and reward.
8. The FDIC's risk-based assessment system should be adjusted in a proportional way when an employee is paid by both the insured depository institution and its related holding company or affiliate.
9. Employees who should be subject to the compensation criteria that would be used to adjust the FDIC's risk-based assessment rates are those executives and employees who are in a position to place the institution at risk.These employees should be easily identified by the source of their compensation. If they are highly

compensated and receive bonuses etc. associated with the institution's value, then they are the ones.
10. Compensation should be defined as any money, stock, options, gifts, living expenses, benefits etc. that are given to the employee as a result of their affiliation with the company. Compensation represents any thing of value that an employee receives that would not be received if they didn't work for or with the company.
11. Current compensation must be mixed with deferred compensation that represents the long-term risk of the firm in a manner related to the individual's contribution and link to the ultimate outcome. As much as possible, the feedback loop should be closed so that consequences of decisions are linked directly to the individual's contributions and decision making. Contracts need to be drawn up and projected for certain out comes what the compensation will be given different scenarios.
12. Adjustments must be made to risk-based assessment rates to discourage bonus compensation practices such as: awarding guaranteed bonuses, granting bonuses that are greatly disproportionate to regular salary, or paying bonuses all-at once.
13. Aligning an employee’s interests with those of the institution can be achieved by a reasonable period for deferral of the payment of variable or bonus compensation of 5-10 years or more as a function of the amount of the award and of the employee’s position within the institution. Large bonus awards or awards for more senior employees should be subject to greater deferral. They should be managed like retirement or pensions that vest over a certain amount of time to encourage longevity of the institution. If an individual knows they won't get money from a decision today until 5 years form now, I think they will work harder to ensure their decisions don't negatively hurt the institution.
14. A reasonable vesting period for deferred compensation is starting from year 5 over 5 years to year 10 when 100% is achieved.
15. Other types of employee compensation arrangements that would have a great potential to align the incentives of employees with those of the firm’s other stakeholders, including the FDIC could include things such as a public score-card system where individual executives and other decision makers track records are recorded and publicized much like professional athletes records are kept. It is easy to see know who score the most points, or is the record holder etc. that commands a large salary. Executives should be evaluated on all dimensions of their performance with an oversight/watch-dog organization keeping and publicizing the stats.

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