

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

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To State Member Banks, Bank
Holding Companies, Financial Holding
Companies, Foreign Bank Offices and
Savings and Loan Holding Companies
in the Twelfth Federal Reserve District

Incentive Compensation Practices: A Report on The Horizontal Review of Practices at Large Banking Organizations

The Federal Reserve Board on October 5, 2011 issued the following report: Incentive Compensation Practices: A Report on The Horizontal Review of Practices at Large Banking Organizations.

Background Information

Risk-taking incentives provided by incentive compensation arrangements in the financial services industry were a contributing factor to the financial crisis that began in 2007. To address such practices, the Federal Reserve first proposed guidance on incentive compensation in 2009 that was adopted by all of the federal banking agencies in June 2010.

To foster implementation of improved practices, in late 2009 the Federal Reserve initiated a multi-disciplinary, horizontal review of incentive compensation practices at 25 large, complex banking organizations. One goal of this horizontal review was to help fill out our understanding of the range of incentive compensation practices across firms and categories of employees within firms. The second, more important goal was to guide each firm in implementing the inter-agency guidance.

As explained in more detail in this report, every firm in the review has made progress, during the review, in developing practices and procedures that will internalize the principles in the inter-agency guidance into the management systems in each firm. Moreover, firms are now attentive to risk-taking incentives for large numbers of employees below the executive level which was not the case before the beginning of the horizontal review, when most firms paid little attention to risk-taking incentives, or were attentive only for the top employees. However, most firms still have significant work to do to achieve full conformance with the inter-agency guidance.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking/letters>.

For additional information, please contact:

Federal Reserve Bank of San Francisco
Banking Supervision and Regulation
(415) 974-2923

Attachment: [Report: Incentive Compensation Practices](#)