Fed To Review Compensation at Banks—Confidentially

By Editor Test *Tue, Oct 27, 2009*

The Fed intends to cut executive pay at bailout recipients Citigroup, Bank of America, the American International Group, General Motors and Chrysler.

The Federal Reserve announced a plan last week to have federal examiners review pay packages at the nation's largest banks. But the periodic reviews and any discussions between regulators and the companies over pay issues would be confidential.

Rather than impose caps on pay or prohibit multi-million dollar pay packages, the Fed's plan would try to eliminate compensation packages that encourage risky business practices and a focus on short-term term performance.

"Compensation practices at some banking organizations have led to misaligned incentives and excessive risk-taking, contributing to bank losses and financial instability, Federal Reserve chairman Ben S. Bernanke said.

"The Federal Reserve is working to ensure that compensation packages appropriately tie rewards to longer-term performance and do not create undue risk for the firm or the financial system."

The Fed also revealed details of its decision to cut in half the pay of the highest earning executives at Citigroup, Bank of America, the American International Group, General Motors, Chrysler and the financing arms of the two automakers, all of which received federal bailouts.

The Fed's plan, which will be subject to a 30-day comment period, will create a two-tier system of supervising pay, using one approach for the 28 biggest bank holding companies and another for smaller banks.

Bank holding companies like JPMorgan Chase and Goldman Sachs would have to present their compensation plans to bank regulators, who could demand changes in the pay packages. The plan would apply to senior executives as well as to traders and loan officers.

In other legislative news, the House Financial Services Committee voted on Thursday to create an agency to protect consumers from predatory lending, deceptive credit card terms and other abuses.

But it will be weeks before both houses of Congress can act on a final bill to regulate the financial services industry, according to Rep. Barney Frank, D-MA, who heads the Financial Services Committee.

A measure to regulate derivatives was passed by the House Agriculture Committee last Thursday, and the Financial Services Committee approved a similar measure the prior week.