

Date: [Insert Date]

To: Board of Directors / Compensation Committee

[Institution Name]

[Institution Address]

Subject: Supervisory Letter: Review of Executive Compensation Risk Alignment

Dear Members of the Board:

This letter communicates the results of our supervisory review regarding the alignment of [Institution Name]'s executive compensation programs with safety and soundness standards and risk management objectives.

Purpose of Review

The review assessed whether the institution's compensation arrangements encourage excessive risk-taking or provide incentives that could lead to material financial loss. Our evaluation focused on three key principles: (1) Risk Adjustment, (2) Deferral and Clawback Provisions, and (3) Internal Governance.

Summary of Findings

Based on our assessment, the following areas require your attention:

- **Risk Sensitivity:** [Detail whether performance metrics adequately include qualitative risk markers.]
- **Deferral Structures:** [Detail if the period for deferred payouts matches the time horizon of the risks taken.]
- **Clawback Provisions:** [Detail the enforceability of recoupment policies in the event of misconduct or financial restatement.]

Required Actions

The Board is required to submit a written response by [Insert Date] addressing the following:

1. A remediation plan to address the deficiencies noted above.
2. An updated charter for the Compensation Committee outlining enhanced risk oversight responsibilities.
3. Documentation of the methodology used to risk-adjust performance bonuses for the upcoming fiscal year.

Conclusion

The adequacy of executive compensation oversight is a critical component of the institution's overall risk management framework. Failure to align incentives with long-term institutional health may result in further supervisory action.

Should you have any questions regarding these findings, please contact [Lead Examiner Name] at [Phone/Email].

Sincerely,

[Signature]

[Name of Principal Examiner/Supervisory Lead]

[Regulatory Agency Name]