



Office of the State Bank Commissioner

Memorandum

Memo RM97-5

June 23, 1997

To: All State Chartered Banks

From: W. Newton Male, State Bank Commissioner

RE: Approval of Officer Compensation by an Institution's Board of Directors

K.S.A. 9-1114 specifically states ". . . The business of any bank or trust company shall be managed and controlled by its board of directors . . ." K.A.R. 17-11-14 is an administrative regulation intended to provide supplemental guidance regarding the administration of this fundamental duty of an institution's directors. This regulation contains the following:

- (b) *In addition to any other actions the board may take, the following specific actions shall be taken by the board of directors and noted in the minutes:*
 - (1) *election of all officers showing their titles, salaries, and bonuses, if any*

In response to questions received by this office, a review of the history of the statute and regulation was conducted, and the intent of these laws was considered. This memo is intended to provide specific guidance regarding board approval of officer compensation, and the items which must be contained in the board's minutes to comply with these provisions. For purposes of this memo, "officer compensation" shall include the determination of salaries and/or bonuses.

First, it has been determined that an institution's board of directors should remain directly responsible for review and final approval of the actual dollar amounts of all officer compensation. The board is authorized to delegate the review and determination of proposed officer compensation to a subcommittee or a qualified officer appointed by the board. However, final approval of the specific dollar amount of each officers' compensation must be granted by the board as a whole.

Second, as with any formal action of the board, final approval of officer compensation must be contained in the directors' minutes. Under normal circumstances, the specific dollar amount of each officer's compensation must be reflected in the minutes. However, if in the judgment of the board, protecting the confidentiality of specific compensation amounts is in the best interest of the institution, the board may maintain the figures on a separate schedule, in lieu of inclusion in the director's minutes. In the event the board elects to use a compensation schedule, the board should formally adopt this alternative method and include such adoption in the minutes. The schedule must detail the specific dollar amount of each officer's compensation. In addition, each time the board approves officer compensation that will not be shown numerically in the minutes, the minutes shall show that each board member has been provided and reviewed the compensation schedule prior to the board's action.

Any board consideration which occurs subsequent to the issuance of this memorandum should be executed in accordance with these requirements. Failure to adhere to the procedures outlined above, will result in the citation of an apparent violation of K.S.A. 9-1114 and K.A.R. 17-11-14.