FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-7-2011
February 9, 2011

Interagency Notice of Proposed Rulemaking
Incentive-Based Compensation Arrangements

Summary: The FDIC Board of Directors has approved the attached *Notice of Proposed Rulemaking* (NPR) implementing section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which applies only to financial institutions with total consolidated assets of $1 billion or more. This NPR seeks to strengthen the incentive compensation practices at covered institutions by better aligning employee rewards with longer-term institutional objectives. The NPR will be published in the Federal Register for a 45-day comment period following approval by all of the other agencies involved in this rulemaking: the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, Office of Thrift Supervision, National Credit Union Administration, U.S. Securities and Exchange Commission, and Federal Housing Finance Agency (the Agencies).

Distribution:
FDIC-Supervised Banks (Commercial and Savings)
Insured U.S. Branches of Foreign Banks

Suggested Routing:
Chief Executive Officer
Compliance Officer

Related Topics:
Interagency *Guidance on Sound Incentive Compensation Policies* issued on June 21, 2010

Attachments:
Notice of Proposed Rulemaking - PDF (PDF Help)

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Highlights:

Covered financial institutions are those regulated by the Agencies with total consolidated assets of at least $1 billion. For these institutions, the NPR:

- prohibits incentive-based compensation arrangements that encourage inappropriate risks by providing covered persons with “excessive” compensation;
- prohibits incentive-based compensation arrangements that encourage inappropriate risk taking by providing covered persons with compensation that “could lead to a material financial loss” to an institution;
- requires disclosures that will enable the appropriate federal regulator to determine compliance with the rule; and
- requires the institution to maintain policies and procedures to ensure compliance with these requirements and prohibitions commensurate with the size and complexity of the organization and the scope of its use of incentive compensation.

For covered institutions with at least $50 billion in total consolidated assets, the NPR also requires:

- For “executive officers” (as defined in the NPR), deferral of at least 50 percent of incentive-based compensation for a minimum of three years. Deferred payments must be adjusted to reflect actual losses or other measures of performance that become known during the deferral period.
- For other covered persons that individually have authority to expose an institution to substantial risk, the board of directors must identify such employees; evaluate and document the incentive-based compensation methods used to balance risk and financial rewards; and approve incentive compensation arrangements after appropriately considering other available methods for balancing risk and financial rewards.