FDIC

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

Financial Institution Letter
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Incentive-Based Compensation Arrangements

Interagency Notice of Proposed Rulemaking

Summary: On April 26, 2016, the FDIC Board of Directors approved a second joint *Notice of Proposed Rulemaking* (NPR) to implement Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The NPR seeks to strengthen the incentive-based compensation practices at covered institutions by better aligning the financial rewards for covered persons with an institution's long-term safety and soundness. Since all participating agencies have approved the NPR, it will soon be published in the *Federal Register* with a public comment period to close on July 22, 2016.

Agencies: The participating agencies consist of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the National Credit Union Administration, the Federal Housing Finance Agency, and the Securities and Exchange Commission.

Statement of Applicability to Institutions with Total Assets under $1 Billion: This proposed rulemaking does not apply to banks with total assets under $1 billion.

Distribution:
FDIC-Supervised Depository Institutions

Suggested Routing:
Chief Executive Officer
Compliance Officer

Related Topics:
Interagency Guidance on Sound Incentive Compensation Policies (June 21, 2010).

Attachment:
Joint NPR Incentive-Based Compensation Arrangements

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Highlights:

- The NPR uses a tiered approach that applies provisions to covered financial institutions according to three categories of average total consolidated assets: Level 1 ($250 billion or more), Level 2 ($50 billion to $250 billion), and Level 3 ($1 billion to $50 billion).

For all covered institutions, the proposed rule would:

- Prohibit types and features of incentive-based compensation arrangements that encourage inappropriate risks because they are "excessive" or "could lead to material financial loss" at a covered institution.
- Require incentive-based compensation arrangements to adhere to three basic principles: (1) a balance between risk and reward; (2) effective risk management and controls; and (3) effective governance.
- Require appropriate board of directors (or committee) oversight and recordkeeping and disclosures to the appropriate agency.

For Level 1 and Level 2 institutions, the proposed rule would:

- Require the following: the deferral of awards for senior executive officers and significant risk takers; the subjecting of unpaid and unvested incentive compensation to the risk of downward adjustments or forfeiture; the subjecting of paid incentive compensation to the risk of "clawback;" establishing a board compensation committee; expanded risk-management and control standards; additional recordkeeping requirements for senior executive officers and significant risk takers; and detailed policies and procedures to ensure rule compliance.
- Prohibit certain inappropriate practices, including: the purchase of hedging instruments that offset decreases in the value of incentive compensation; allowing a range of payouts that might encourage risk taking; and basing compensation solely on comparison to peer and volume-driven incentives without regard to transaction quality or compliance with sound risk management.