

TO: NCUA Board

DATE: April 15, 2016

FROM: Office of Examination and Insurance;
Office of General Counsel

SUBJ: Proposed rule, Incentive-
Based Compensation
Arrangements
12 CFR Parts 741 & 751

ACTION REQUESTED: Board approval to issue the attached interagency proposed rule regarding incentive-based compensation arrangements, 12 CFR Parts 741 and 751, implementing Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

DATE ACTION REQUESTED: April 21, 2016.

OTHER OFFICES CONSULTED: Office of National Examinations and Supervision,
Office of Chief Economist.

BUDGET IMPACT, IF ANY: None.

SUBMITTED TO INSPECTOR GENERAL FOR REVIEW: Yes.

RESPONSIBLE STAFF MEMBERS: Tim Segerson, Deputy Director, Office of Examination and Insurance; Jeff Marshall, Program Officer, Office of Examination and Insurance; Lara Rodriguez, Deputy General Counsel, Office of General Counsel; and Elizabeth Wirick, Senior Staff Attorney, Office of General Counsel.

SUMMARY: This joint proposed rule satisfies a requirement under Section 956 of the Dodd-Frank Act.¹ The agencies involved are the NCUA, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the Office of the Comptroller of the Currency and the U.S. Securities and Exchange Commission (collectively, the Agencies). This proposed rule replaces the proposed rule on incentive compensation that the Agencies issued in 2011.²

Section 956 requires the Agencies to jointly prescribe regulations or guidelines to prohibit incentive-based payment arrangements in financial institutions that the Agencies determine encourage inappropriate risks by providing excessive compensation or that could lead to material financial loss. Section 956 also requires that the regulations or guidelines require financial institutions to disclose information about the structure of their incentive-based compensation arrangements in sufficient detail to allow regulators to determine whether the arrangements provide excessive compensation or could lead to material financial loss.

¹ 12 U.S.C. §5641.

² 76 Fed. Reg. 21170 (April 14, 2011).

The proposed rule applies to all financial institutions, including credit unions, with total assets of \$1 billion or more. These covered institutions are divided into three categories based on assets: \$250 billion and above (Level 1); \$50 billion to \$250 billion (Level 2) and \$1 billion to \$50 billion (Level 3). Much of the proposed rule addresses requirements for the structure of incentive-based compensation arrangements for senior executive officers and significant risk takers at Level 1 and Level 2 institutions. In addition, all covered institutions must annually create and retain for 7 years records documenting the structure of incentive-based compensation arrangements and receive appropriate oversight of the institution's incentive-based compensation arrangements from its board of directors. All covered institutions are also subject to the proposed rule's general prohibition on incentive-based compensation arrangements that would encourage inappropriate risks by providing excessive compensation or that could lead to material financial loss.

All of the Agencies' proposed rules are identical where possible, although NCUA's rule reflects the differences in credit union structure and available methods for giving incentive pay.

RECOMMENDED ACTION: Recommend the Board approve and issue the proposed rule with a comment period ending July 22, 2016.

ATTACHMENT: Interagency proposed rule with NCUA's proposed rule text included and the other Agencies' proposed rule text omitted.