July 22, 2016

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Mail Stop 9W-11
Washington, D.C. 20219

Robert E. Feldman, Executive Secretary
Attention Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Re: Incentive-Based Compensation Arrangements: Office of the Comptroller of the Currency 12 CFR Part 42, Docket No. OCC-2011-0001, RIN 1557-AD39; Federal Reserve System 12 CFR Part 236, Docket No. R-1536, RIN 7100 AE-50; Federal Deposit Insurance Corporation 12 CFR Part 372, RIN 3064-AD86

Dear Sirs:

The Community Bankers Association of Illinois ("CBAI"), which proudly represents nearly 350 Illinois community banks, appreciates the opportunity to provide our observations and recommendations regarding the joint Incentive-Based Compensation Arrangements notice of proposed rulemaking ("Proposed Rule", "Rule", or "Proposal") by the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit

Insurance Corporation, National Credit Union Administration, Federal Housing Finance Agency and the Securities and Exchange Commission ("Agencies").

CBAI recognizes the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Act") requires the Agencies to jointly prescribe regulations or guidance with respect to incentive-based compensation practices at certain financial institutions. The Act also prohibits any types of incentive-based compensation arrangements, or any feature of such arrangements, that the Agencies determine encourage inappropriate risks by covered financial institutions which are defined as financial institutions having over $1 billion or more in assets.

In the background section of the Proposed Rule, CBAI was encouraged that the Agencies acknowledge that large institutions in particular are significant users of incentive-based compensation and:

- their stakeholders may have difficulty effectively monitoring and controlling the impact of these arrangements that may affect the institution's risk profile, the full range of stakeholders, and the larger economy.
- the risks undertaken by them can spill over into the broader economy, affecting other institutions and stakeholders.
- that flawed arrangements at these institutions are more likely to have adverse effects on the broader financial system.

This acknowledgement by the Agencies of the potential harmful impact of the large institutions on stakeholders, the economy and the financial system clearly indicates that the laser focus of the Proposal should unquestionably be on the large banks and not directed towards community banks.

CBAI was further encouraged by the Agencies' clear statement in favor of tiered regulation when they stated in the Proposal, "The proposed rule would promote better incentive compensation practices, while still ***allowing for some flexibility*** in the design and operation of incentive-based arrangements ***among the varied institutions*** the Agencies supervise, ***including through the tiered application of the proposed rule's requirements.***" Later the Agencies

appropriately stated, "The proposed rule ***distinguishes covered institutions by asset size***, applying ***less prescriptive incentive-based compensation program requirements to the smallest covered institutions*** within the statutory scope ***and progressively more rigorous requirements to the large covered institutions.*** (emphasis added) CBAI was, however, discouraged by the limited use of that admitted flexibility to tier regulation in the Proposed Rule and urges the Agencies to expand and modify the exemptions and requirements for all community banks.

The Act defines a covered financial institution to include depository institutions or holding companies that have $1 billion or more in assets. Therefore, depository institutions or holding companies under $1 billion in assets are exempt from the Proposed Rule. Unfortunately, since the financial crisis, many community banks have experienced regulations designed to reign in the misdeeds of the largest banks being applied to them under the guise of 'industry best practices' despite the clear existence of an exemption. **CBAI urges the Agencies to state in the final Rule, and as explicitly as possible, that there is a $1 billion threshold exemption and this exemption shall be honored by bank examiners so that the regulations intended for the largest banks do not 'trickle down' to all community banks.**

Given the rightful focus of the Proposed Rule on the largest banks, and while CBAI appreciates and acknowledges the tiering of asset categories in the Proposed Rule, we believe more can be done to provide meaningful regulatory relief for all community banks. **CBAI urges a modification of the categories of covered institutions based on average total consolidated assets to exempt banks with less than $50 billion in assets from the Rule.** CBAI believes any reasonable restrictions in the Rule that apply to Level 3 banks could be accomplished through guidance and not regulatory rulemaking.

The Proposed Rule contains a reservation of authority which allows the regulators to apply more rigorous provisions of the Rule applicable to Level 1 and 2 institutions to those in Level 3, but believes it would only use this authority on an infrequent basis. CBAI is concerned with the broad discretionary language in the reservation of authority despite the intention of the Agencies to use the authority infrequently. **CBAI recommends removing the Agencies' reservation of authority which allows the regulators of institutions greater than $10 billion but less than $50 billion to require compliance with some or all of the requirements of the Proposed Rule at the option of the regulators.**

While CBAI appreciate the Agencies' efforts to tier regulation in this Proposal the Agencies did not go far enough to properly exempt community banks from the regulatory burden imposed by this Proposed Rule and should concentrate greater efforts in addressing the significant risks posed by the largest banks to their stakeholders, the financial system and the economy while providing maximum regulatory relief for all community banks.

CBAI thanks you for the opportunity to provide our observations and recommendations regarding the joint Incentive-Based Compensation Arrangements notice of proposed rulemaking by the Agencies. If you have any questions or need additional information please do not hesitate to contact me at (847) 909-8341 or davids@cbai.com .

Sincerely,

/s/

David G. Schroeder
Vice President Federal Governmental Relations