Summary

The Board of Governors of the Federal Reserve System (Board), under delegated authority from the Office of Management and Budget (OMB), proposes to extend, without revision, the Recordkeeping Provisions Associated with the Guidance on Sound Incentive Compensation Policies (FR 4027; OMB No. 7100-0327). The Guidance on Sound Incentive Compensation Policies1 (the Guidance) is an interagency publication that is intended to assist banking organizations in designing and implementing incentive compensation arrangements that do not encourage imprudent risk-taking and that are consistent with the safety and soundness of the organization. The Guidance contains voluntary recordkeeping collections of information. There are no required reporting forms associated with this information collection (the FR 4027 designation is for internal purposes only).

The current annual burden for the FR 4027 is estimated to be 228,960 hours.

Background and Justification

The Board, along with the Office of the Comptroller of the Currency (“OCC”), the Federal Deposit Insurance Corporation (“FDIC”), and the subsequently abolished Office of Thrift Supervision (collectively, “the agencies”), promulgated the Guidance in 2010. With respect to organizations regulated by the Board, the voluntary Guidance applies to U.S. bank holding companies, savings and loan holding companies, state member banks, Edge Act and agreement corporations, and the U.S. operations of foreign banks with a branch, agency, or commercial lending company subsidiary in the United States (collectively, “banking organizations”).

In the Federal Register notice announcing the Guidance, the agencies noted that the financial services industry’s incentive compensation practices contributed to the financial crisis that began in 2007. Banking organizations often rewarded employees for increasing the firm’s short-term revenue or profit without adequate recognition of the risks the employees’ activities posed for the firm. Such problematic compensation practices were not limited to the most senior executives at financial firms. The agencies noted that certain compensation practices can encourage employees at various levels of a banking organization to undertake imprudent risks that adversely affect the risk profile of the firm.

The Guidance aims to help protect the safety and soundness of banking organizations and promote the prompt improvement of incentive compensation practices throughout the banking industry. In addition, the Guidance is consistent with the Principles for Sound Compensation

1 75 FR 36395 (June 25, 2010).
Practices adopted by the Financial Stability Board (FSB) in April 2009,\(^2\) as well as the Implementation Standards for those principles issued by the FSB in September 2009.\(^3\)

### Description of Information Collection

*Compatibility with Effective Controls and Risk Management*

Pursuant to Principle 2 of the Guidance, a banking organization’s risk-management processes and internal controls should reinforce and support the development and maintenance of balanced incentive compensation arrangements. Principle 2 states that banking organizations should create and maintain sufficient documentation to permit an audit of the organization’s processes for establishing, modifying, and monitoring incentive compensation arrangements. Additionally, large banking organizations should maintain policies and procedures that (i) identify and describe the role(s) of the personnel, business units, and control units authorized to be involved in the design, implementation, and monitoring of incentive compensation arrangements; (ii) identify the source of significant risk-related inputs into these processes and establish appropriate controls governing the development and approval of these inputs to help ensure their integrity; and (iii) identify the individual(s) and control unit(s) whose approval is necessary for the establishment of new incentive compensation arrangements or modification of existing arrangements.

*Strong Corporate Governance*

Pursuant to Principle 3 of the Guidance, banking organizations should have strong and effective corporate governance to help ensure sound compensation practices. The Guidance states that a banking organization’s board of directors should approve and document any material exceptions or adjustments to the organization’s incentive compensation arrangements established for senior executives.

### Time Schedule for Information Collection

The recordkeeping provisions are ongoing. The documentation associated with the Guidance is maintained by each institution; therefore, it is not collected or published by the Federal Reserve System.

### Legal Status

The recordkeeping provisions of the Guidance are authorized pursuant to sections 9, 11(a), 25, and 25A of the Federal Reserve Act (12 U.S.C. 248(a), 325, 602, and 625); section 5 of the Bank Holding Company Act (12 U.S.C. 1844); section 10(b)(2) of the Home Owners’ Loan Act (12 U.S.C. 1467a(b)(2)), section 7(c) of the International Banking Act (12 U.S.C. 3105(c)), and section 39 of the Federal Deposit Insurance Act (12 U.S.C. 1831p-1(c)).

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Because the recordkeeping provisions are contained within guidance, which is nonbinding, they are voluntary.\textsuperscript{4} There are no reporting forms associated with this information collection.

Because the incentive compensation records would be maintained at each banking organization, the Freedom of Information Act ("FOIA") would only be implicated if the Board obtained such records as part of the examination or supervision of a banking organization. In the event the records are obtained by the Board as part of an examination or supervision of a financial institution, this information is considered confidential pursuant to exemption 8 of the FOIA, which protects information contained in "examination, operating, or condition reports" obtained in the bank supervisory process. 5 U.S.C. 552(b)(8). In addition, the information may also be kept confidential under exemption 4 for the FOIA, which protects commercial or financial information obtained from a person that is privileged or confidential. 5 U.S.C. 552(b)(4).

**Consultation Outside the Agency**

On November 30, 2018 the Board published a notice in the Federal Register (83 FR 61637) requesting public comment for 60 days on the extension, without revision, of the FR 4027. The comment period for this notice will expire on January 29, 2019.

**Estimate of Respondent Burden**

The Board estimates that respondents would take, on average, 40 hours each year to maintain policies and procedures to monitor incentive compensation arrangements, for an estimated annual burden of 220,120 hours. The Board also estimates that in the case of a new institution becoming subject to the guidance, it would take 480 hours each year for large institutions and 80 hours each year for small institutions. These provisions represent 2.15 percent of total Federal Reserve System paperwork burden.

<table>
<thead>
<tr>
<th>FR 4027</th>
<th>Number of respondents</th>
<th>Annual frequency</th>
<th>Estimated average hours per response</th>
<th>Estimated annual burden hours</th>
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\textsuperscript{4} See SR 18-5 / CA 18-7: Interagency Statement Clarifying the Role of Supervisory Guidance (Sept. 11, 2018).

\textsuperscript{5} Of these respondents, 3,953 are estimated to be small entities as defined by the Small Business Administration (i.e., entities with less than $550 million in total assets), www.sba.gov/content/table-small-business-size-standards.
The estimated total annual cost to the public for this information collection is $12,833,208.6

**Sensitive Questions**

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

**Estimate of Cost to the Federal Reserve System**

Since records are maintained at the banking organization, the cost to the Federal Reserve System is negligible.

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6 Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at $18, 45% Financial Managers at $69, 15% Lawyers at $68, and 10% Chief Executives at $94). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages May 2017, published March 30, 2018, [www.bls.gov/news.release/ocwage.t01.htm](http://www.bls.gov/news.release/ocwage.t01.htm). Occupations are defined using the BLS Occupational Classification System, [www.bls.gov/soc/](http://www.bls.gov/soc/)