Supporting Statement
Guidance on Sound Incentive Compensation Practices
(OMB No. 1557-0245)

A. Justification.

1. Circumstances that make the collection necessary:

The Office of the Comptroller of the Currency (OCC) obtained emergency approval from the Office of Management and Budget (OMB) to implement the Guidance on Sound Incentive Compensation Policies (Guidance).[1] It is now seeking regular approval. The Paperwork Reduction Act (PRA) classifies recordkeeping requirements of agency guidance as an information collection.[2]

Incentive compensation practices in the financial services industry contributed to the financial crisis that began in 2007. Bank employees too often were rewarded for increasing short-term revenue or profit without adequate regard to the risks taken to achieve those results. These practices exacerbated the risks and losses at a number of banking organizations and resulted in the misalignment of the interests of employees with the long-term safety and soundness of their organizations. It was urgent that incentive compensation practices be brought under control through supervisory action. This Guidance fulfills the commitment made by President Obama and the Department of the Treasury at the G-20 meeting in September 2009 to implement the Financial Stability Board's Compensation Principles.

The Guidance is based on three key principles that are designed to ensure that incentive compensation arrangements at a banking organization do not encourage employees to take excessive risks. These principles provide that incentive compensation arrangements should:

- Provide employees incentives that do not encourage excessive risk-taking beyond the organization's ability to effectively identify and manage risk;
- Be compatible with effective controls and risk management; and
- Be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The Guidance and its underlying principles are consistent with the Principles for Sound Compensation Practices adopted by the Financial Stability Board (FSB) in April 2009, as well as the Implementation Standards for those principles issued by the FSB in September 2009.

This Guidance promotes the prompt improvement of incentive compensation practices in the banking industry by providing a common prudential foundation for incentive compensation arrangements across banking organizations and promoting the overall movement of the industry towards better practices. Supervisory action plays a

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[1] 75 FR 36395 (June 25,2010).
[2] 44 U.S.C. § 3501 et seq.

critical role in addressing misaligned compensation incentives, especially where issues of competition may make it difficult for individual firms to act alone. Applying this Guidance, supervisors may help to better align the interests of managers and other employees with the long-term health of the organizations for which they work while also relieving any competitive concerns among the banking organizations.

2. Use of the information:

The Guidance helps to ensure that incentive compensation policies at national banks do not encourage excessive risk-taking and are consistent with the safety and soundness of the organization. Under the Guidance, national banks are required to: (i) have policies and procedures that identify and describe the role(s) of the personnel and units authorized to be involved in incentive compensation arrangements, identify the source of significant risk-related inputs, establish appropriate controls governing these inputs to help ensure their integrity, and identify the individual(s) and unit(s) whose approval is necessary for the establishment or modification of incentive compensation arrangements; (ii) create and maintain sufficient documentation to permit an audit of the organization's processes for incentive compensation arrangements; (iii) have any material exceptions or adjustments to the incentive compensation arrangements established for senior executives approved and documented by its board of directors; and (iv) have its board of directors receive and review, on an annual or more frequent basis, an assessment by management of the effectiveness of the design and operation of the organization's incentive compensation system in providing risk-taking incentives that are consistent with the organization's safety and soundness.

3. Consideration of the use of improved information technology:

National banks may use any information technology that permits review by OCC examiners.

4. Efforts to identify duplication:

The required information is unique and is not duplicative of any other information already collected.

5. Methods used to minimize burden if the collection has a significant impact on a substantial number of small entities:

The collection does not have a significant impact on a substantial number of small entities. Smaller institutions with less complex compensation structures and incentives may have little or no increased burden.

6. Consequences to the Federal program if the collection were conducted less frequently:

Conducting the collection less frequently would present safety and soundness risks.

7. Special circumstances that would cause an information collection to be conducted in a manner inconsistent with 5 CFR Part 1320:

The information collection will be conducted in a manner consistent with 5 CFR Part 1320.

8. Efforts to consult with persons outside the agency:

The OCC issued a Federal Register notice for 60 days of comment on the information collection. 75 FR 42823 (July 22, 2010). No comments were received.

9. Payment or gift to respondents:

None.

10. Any assurance of confidentiality:

To the extent that the OCC collects the information during an examination, confidential treatment may be afforded to the records under exemption 8 of the Freedom of Information Act, 5 U.S.C. 552(b)(8).

11. Justification for questions of a sensitive nature:

There are no questions of a sensitive nature.

12. Burden estimate:

<u>Estimated Number of Respondents</u>: 1,033 large bank; 617 small banks.

<u>Estimated Burden per Respondent</u>: 480 hours for large banks to modify policies and procedures to monitor incentive compensation. 80 hours for small banks to establish or modify policies and procedures to monitor incentive compensation. 40 hours annually for all banks to maintain policies and procedures to monitor incentive compensation arrangements.

<u>Frequency of Response</u>: Annually.

<u>Total Annual Burden</u>: 611,200 hours.

13. Estimate of total annual costs to respondents (excluding cost of hour burden in Item #12):

Not applicable.

14. Estimate of annualized costs to the Federal government:

Not applicable.

__15. Change in burden:__

<u>*Former Burden:*</u>
1,650 respondents; 66,000 burden hours.

<u>*New Burden:*</u>

<u>1,650 respondents; 611,200 hours.</u>

<u>*Difference:*</u>
+545,200 burden hours

The change in burden hours is in response to comments received by the FRB in response to their publication of the proposed guidance, which asserted that the hourly estimate of the cost of compliance should be considerably higher.[3]

__16. Information regarding collections whose results are to be published for statistical use:__

The OCC has no plans to publish the information for statistical purposes.

__17. Reasons for not displaying OMB approval expiration date:__

The OCC will display the OMB approval expiration date.

__18. Exceptions to the certification statement in Item 19 of OMB Form 83-I:__

There are no exceptions to the certification statement in item 19 of OMB Form 83-I.

B. Collections of Information Employing Statistical Methods.

This information collection does not employ statistical methods.

[3] 74 FR 55227 (October 27, 2009).