Supporting Statement
Interagency Guidance on Sound Incentive Compensation Practices
(OMB No. 3064-0175)

A. Justification.

1. Circumstances that make the collection necessary:

The FDIC requests approval from the OMB to renew this information collection, the Interagency Guidance on Sound Incentive Compensation Policies (Guidance) (OMB No. 3064-0175). The Paperwork Reduction Act (PRA) classifies recordkeeping requirements of agency guidance as an information collection.[1]

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. Incentive compensation practices must be controlled through supervisory action.

This 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.

This Guidance promotes the 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 critical role in addressing misaligned compensation incentives, especially where issues of competition may make it difficult for individual firms to act alone. Through their actions, supervisors could help to better align the interests of managers and other employees with organizations' long-term health and reduce concerns that making prudent modifications to incentive compensation arrangements might have adverse competitive consequences.

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[1] 44 U.S.C. § 3501 et seq.

2. Use of the information:

This Guidance helps ensure that incentive compensation policies at insured state non-member banks do not encourage excessive risk-taking and are consistent with the safety and soundness of the organization. Under this Guidance, 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:

Insured state non-member banks and state savings associations may use any information technology that permits review by FDIC examiners.

4. Efforts to identify duplication:

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

5. Minimizing Burden on Small Entities:

The collection does not have a significant impact on a substantial number of small entities. Smaller institutions have less complex compensation incentives that, if anything, result in less burden.

6. Consequences of Less Frequent Collections:

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

7. Special Circumstances:

None.

8. Consultation with Persons Outside the FDIC:

On October 22, 2013 (78 FR 62632), the FDIC published a notice seeking public comment for a 60-day period on renewal of this information collection. No comments were received.

9. Payment or gift to respondents:

None.

10. Any assurance of confidentiality:

To the extent that the FDIC 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>Previous Burden</u>

Frequency of Response: Implementation: Once.
Maintenance: Annual.

Affected Public: Insured state nonmember banks.

Estimated Number of Responses:	Implementation:	Large Banks: 20.
		Small Banks: 4870.
	Maintenance:	All Banks: 4890.
Estimated Time per Response:	Implementation:	Large Banks: 480 hours.
		Small Banks: 80 hours.
	Maintenance:	Large Banks: 40 hours.
		Small Banks: 40 hours.

Total Annual Burden: Large Banks: 20 X 480 + 20 X 40 = 10,400 hours.
Small Banks: 4870 X 80 + 4870 X 40 = 584,400 hours.
Total: 594,800 hours *(399,200 hours for implementing policies and procedures is a one-time burden).*

<u>New Burden</u>

Frequency of Response:	Annual (maintenance)
Estimated Number of Responses:	4346
Estimated Time per Response:	40 hours
Total Annual Burden:	173,840 hours

13. Estimate of total annual costs to respondents:

Not applicable.

14. Estimate of annualized costs to the Federal government:

Not applicable.

15. Change in burden:

The burden reduction of 420,960 hours represents an adjustment of -21,760 hours to reflect a decrease in the number of respondents (from 4,890 to 4,346) and an adjustment of -399,200 hours to reflect removal of a one-time implementation burden. This collection has been in place since 2010; therefore, financial institutions should have completed the initial steps of developing the policies and procedures and establishing the internal controls required to comply with the guidance.

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

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

17. Display of Expiration Date:

Not applicable.

B. Statistical Methods.

Not applicable.