SUPPORTING STATEMENT
INTERAGENCY GUIDANCE ON SOUND INCENTIVE COMPENSATION PRACTICES
(OMB No. 3064-0175)

INTRODUCTION

The Federal Deposit Insurance Corporation (FDIC) is requesting a three-year renewal of the Interagency Guidance on Sound Incentive Compensation Policies (Guidance) (OMB No. 3064-0175). The current clearance for the collection expires on April 30, 2017. There is no change in the method or substance of the collection.

A. JUSTIFICATION

1. Circumstances and Need

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.

2. Use of the Information Collected

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. Use of Technology to Reduce Burden

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 the 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

A notice seeking public comment for a 60-day period was published in the *Federal Register* on November 28, 2016 (81 FR 85562). No comments were received.

9. Payment or Gift to Respondents

None.

10. 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. Information of a Sensitive Nature

This collection contains no sensitive information.

12. Estimates of Hour Burden and Annualized Cost

Frequency of Response:	Annual (maintenance)
Estimated Number of Responses:	3,878
Estimated Time per Response:	40 hours
Total Annual Burden:	155,120 hours

Cost: 155,120 hours X $30.64 per hour[1] = $4,752,876.80

2017 Summary of Annual Burden and Internal Cost (3064-0175)						
	Type of Burden	Estimated Number of Respondents	Estimated Number of Responses	Estimated Time per Response	Frequency of Response	Total Annual Estimated Burden
Annual maintenance of policies and procedures	Recordkeeping	3,878	1	40	Annual	155,120
TOTAL HOURLY BURDEN						155,120
TOTAL INTERNAL COST	$30.64	/HR				$4,752,876.80

[1] Wage data is from the Adjusted Wage Data – Dec 2016 for occupation: "Office and Administrative Support Occupations (430000)."

13. Capital, Start-Up and Maintenance Costs

None.

14. Estimated Annual Cost to the Federal Government

None.

15. Reason for Change in Burden

There is no change in the method or substance of the collection. The 18,720 reduction in burden hours is a result of economic fluctuation. The number of FDIC-supervised institutions has decreased while the hours per response remain the same.

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. Publication

The information is not published.

17. Display of Expiration Date

Not applicable.

18. Exceptions to Certification

None.

B. STATISTICAL METHODS

Not applicable.