

Supporting Statement
Guidance on Sound Incentive Compensation Policies
OMB Control No. 1557-0245

A. Justification.

1. Circumstances that make the collection necessary:

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 and the long-term safety and soundness of their organizations. The Guidance on Sound Incentive Compensation Policies (Guidance) implements the Financial Stability Board's Compensation Principles.¹

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.

The Guidance promotes the establishment and maintenance of safe and sound 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. With the application of the Guidance, supervisors 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.

¹ 75 FR 36395 (June 25, 2010).

2. Use of the information:

Under the guidance, each large national bank and Federal savings association should: (i) have policies and procedures that identify and describe the role(s) of the personnel and units authorized to be involved in the design, implementation, and monitoring of incentive compensation arrangements, 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 identify the individual(s) and unit(s) whose approval is necessary for the establishment of new incentive compensation arrangements or modification of incentive compensation arrangements; (ii) have any material exceptions or adjustments to the incentive compensation arrangements established for senior executives approved and documented by its board of directors; and (iii) 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.

Application of the guidance to banking organizations will vary with their size and complexity, and monitoring methods for small banks are not directly tied to these three policies and procedures. In addition, the guidance states that all banks should create and maintain sufficient documentation to permit an audit of the organization's processes for developing and administering incentive compensation arrangements.

3. Consideration of the use of improved information technology:

National banks and Federal savings associations 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. If the collection of information impacts small businesses or other small entities, describe any methods used to minimize burden.

There are no alternatives that would lower the burden on small institutions, while still accomplishing the purpose of the guidance.

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:

On December 12, 2019, the OCC issued a 60-day notice soliciting comment on the information collection, 84 FR 68012. No comments were received.

9. Payment or gift to respondents:

None.

10. Any assurance of confidentiality:

The information is kept confidential to the extent permitted by law.

11. Justification for questions of a sensitive nature:

There are no questions of a sensitive nature.

12. Burden estimate:

Estimated Number of Respondents for Yearly Maintenance: 1,146 (41 large banks; 1,105 small banks).

Estimated Number of Respondents for Setup: 1 large bank; 1 small bank.

Estimated Burden per Respondent: 520 hours (480 for setup; 40 for yearly maintenance) for large banks; 120 hours (60 for setup; 30 for yearly maintenance) for small banks.

Frequency of Response: Annually.

Total Annual Burden: 35,330 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:

Former Burden:

1,422 respondents; 187,040 hours.

New Burden:

1,146 respondents; 35,330 hours.

Difference:

-276 respondents; - 151,710 hours.

The reduction in burden is due to the decrease in the number of regulated entities, the removal of setup burden, and the adjustment of the burden for small entities, which was previously overstated.

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:

Not applicable.

B. Collections of Information Employing Statistical Methods.

This information collection does not employ statistical methods.