Supporting Statement for the
Recordkeeping Provisions Associated with the
Guidance on Sound Incentive Compensation Policies
(FR 4027; OMB No. 7100-0327)

Summary

The Board of Governors of the Federal Reserve System (Board), under authority delegated by the Office of Management and Budget (OMB), proposes to extend for three years, 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 Policies[1] (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 estimated total annual burden for the FR 4027 is 228,960 hours.

Background and Justification

The Board, along with the Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), and 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

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[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 (1) 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, (2) 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 (3) 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 of 1956 (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 of 1978 (12 U.S.C. 3105(c)); and section 39 of the Federal Deposit Insurance Act (12 U.S.C.

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[2] See FSF Principles for Sound Compensation Practices (April 2, 2009), available at http://www.fsb.org/wp-content/uploads/r_0904b.pdf.

[3] See FSB Principles for Sound Compensation Practices: Implementation Standards (September 25, 2009), available at http://www.fsb.org/wp-content/uploads/r_090925c.pdf.

1831p-1(c)). Because the recordkeeping provisions are contained within guidance, which is nonbinding, they are voluntary.[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

There has been no consultation outside the agency.

Public Comments

On November 30, 2018, the Board published an initial 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 expired on January 29, 2019. The Board did not receive any comments. On February 28, 2019, the Board published a final notice in the *Federal Register* (84 FR 6787).

Estimate of Respondent Burden

As shown in the table below, the estimated total annual burden for the FR 4027 is 228,960 hours. The Board estimates that respondents would take, on average, 40 hours each year to maintain policies and procedures to monitor incentive compensation arrangements. 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 recordkeeping provisions represent 2.07 percent of the Board's total paperwork burden.

[4] See SR 18-5 / CA 18-7: Interagency Statement Clarifying the Role of Supervisory Guidance (September 11, 2018).

FR 4027	*Estimated number of respondents*[5]	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
One-time Implementation:				
Large institutions	1	1	480	480
Small institutions	1	1	80	80
Ongoing maintenance	5,710	1	40	228,400
Total				228,960

The estimated total annual cost to the public for this information collection is $13,188,096.[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 estimated cost to the Federal Reserve System is negligible.

[5] Of these respondents, 3,953 are considered small entities as defined by the Small Business Administration (i.e., entities with less than $550 million in total assets), www.sba.gov/document/support--table-size-standards.

[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 $19, 45% Financial Managers at $71, 15% Lawyers at $69, and 10% Chief Executives at $96). 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 2018*, published March 29, 2019, www.bls.gov/news.release/ocwage.t01.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.