

**SUPPORTING STATEMENT  
GUIDANCE ON SOUND INCENTIVE COMPENSATION POLICIES  
(OMB No. 3064-0175)**

**INTRODUCTION**

The FDIC is requesting OMB approval of the three-year extension, with revision, of its collection of information entitled “Guidance on Sound Incentive Compensation Policies” (OMB Control No. 3064-0175) which consists of recordkeeping requirements contained in guidance issued by the Federal banking agencies on June 25, 2010. The FDIC is revising its burden estimate to recognize different implementation (one time) and ongoing burdens for this information collection. There is no change in the method or substance of the collection, which currently expires on June 30, 2020.

**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 with the long-term safety and soundness of their organizations. Incentive compensation practices must be controlled through supervisory action. On June 25, 2010, the Federal Deposit Insurance Corporation (FDIC) adopted guidance (Guidance), pursuant to authority under Section 39 of the Federal Deposit Insurance Act (12 USC 1831p-1), designed to help ensure that incentive compensation policies at FDIC-supervised banking institutions do not encourage imprudent risk-taking and are consistent with the safety and soundness of those institutions.<sup>1</sup>

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 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

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<sup>1</sup> 75 FR 36395 (June 25, 2010).

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:**

The FDIC will use the information as part of its supervisory process. Examiners will review incentive compensation arrangements at FDIC-supervised institutions for compliance with the institution's policies and procedures. Examiners will also assess the institution's incentive compensation policies and procedures as part of the safety and soundness examination of the institution.

3. **Consideration of the use of improved information technology:**

FDIC-supervised institutions may use any technology they wish in order to lessen the burden of meeting this recordkeeping requirement.

4. **Efforts to identify duplication:**

There is no duplication. Each FDIC-supervised institution must adopt lending standards and policies tailored to their particular lending operations.

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

All FDIC-supervised institutions, large and small, are affected. Small insured state nonmember banks and state savings associations generally have a narrower range of products and less complex operations. Therefore, these smaller institutions may not have incentive compensation programs and if they do, will have much simpler incentive compensation policies and procedures. The incentive compensation policies suggested are intended to be commensurate with the size and complexity of each institution.

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

Less frequent collection would hinder the FDIC's ability to assess the safety and soundness of FDIC-supervised institutions and take corrective action as needed.

7. **Special circumstances necessitating collection inconsistent with 5 CFR Part 1320.5(d)(2):**

None. The information is collected in a manner consistent with 5 CFR 1320.5(d)(2).

8. **Efforts to consult with persons outside the agency:**

The FDIC published a notice in the *Federal Register* seeking comment for a 60-day period on renewal of this information collection on March 17, 2020 (85 FR 15172). No comments were received.

9. **Payment or gifts to respondents:**

None.

10. **Any assurance of confidentiality:**

Information is kept private to the extent allowed by law. To the extent the Agencies collect information during an examination of a banking organization, confidential treatment may be afforded to the records under exemption 8 of the Freedom of Information Act (FOIA), 5 U.S.C. 552(b)(8).

11. **Justification for questions of a sensitive nature:**

Not applicable. No sensitive information is collected.

12. **Estimate of hour burden including annualized hourly costs:**

***Estimated Annual Burden:***

The FDIC revised its estimates of the number of respondents to this information collection as well as the hourly burden per response, recognizing a difference between the amount of time required to implement policies and procedures and the amount of time required to maintain records on an ongoing basis once those policies and procedures have been established.

*Total Estimated Number of Respondents*

FDIC revised its estimate of the number of respondents to this information collection. Potential respondents to this information collection include all FDIC-supervised institutions that adopt or revise incentive based compensation schemes. Given that the Guidance was issued in 2010 and based on supervisory experience, FDIC assumes that all FDIC-supervised institutions that have incentive compensation arrangements have now adopted incentive compensation policies and procedures. FDIC estimates that the time required to implement these policies and procedures is 40 hours and is reporting one (1) respondent for implementation burden as a placeholder for an institution implementing such policies in the future.<sup>2</sup> Based on supervisory experience with large institutions,

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<sup>2</sup> This information collection has been active since 2010. Therefore, all institutions with incentive-based compensation schemes have gone through the initial implementation burden. Only institutions which newly adopt an incentive-based compensation program would face the initial implementation burden. It is difficult to accurately estimate the number of institutions who will adopt an incentive compensation program each year. However, the FDIC assumes that the smaller institutions that make a large portion of FDIC-supervised institutions are unlikely to

FDIC has found that approximately 64.7 percent of such institutions revise their incentive compensation policies and procedures annually.<sup>3</sup> Applying this percentage to the number of FDIC-supervised institutions at year-end 2019 (3,344 institutions) yields 2,164 as the estimated number of institutions that revise incentive compensation policies and procedures annually.<sup>4</sup>

*Estimated Hourly Burden*

FDIC has revised its estimate of the number of hours necessary to comply with this information collection, breaking down burden of into two components. FDIC estimates the recordkeeping burden associated with implementing and documenting incentive-based compensation policies and procedures to be 40 hours per respondent, per year. FDIC estimates the recordkeeping burden associated with revising and documenting incentive-based compensation policies and procedures previously adopted and documented to be 2 hours per respondent, per year. Previously, FDIC estimated the annual burden for this information collection to be 40 hours for all respondents, without recognizing the difference between one-time implementation burden and ongoing recordkeeping burden.

<b>Information Collection (IC) Description</b>	Type of Burden	Obligation to Respond	Estimated Number of Respondents	Estimated Time per Response (Hours)	Frequency of Response	Total Estimated Annual Burden (Hours)
Implementation of Incentive Compensation Policies and Procedures	Recordkeeping	Voluntary	1	40	One Time	40
Maintenance of Existing Incentive Compensation Policies and Procedures	Recordkeeping	Voluntary	2,164	2	Annually	4,328
Total Estimated Annual Burden						4,368

*Annualized Cost of Internal Hourly Burden:*

FDIC assumes that 100 percent of the recordkeeping work related to this information collection will be performed by Clerical personnel. The distribution of work is unchanged from the previous estimate. Based on recent Bureau of Labor Standards (BLS) estimates of wages for this profession, the estimated average hourly cost for respondents to this information collection is \$32.59.<sup>5</sup>

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do so.

<sup>3</sup> The precise fraction is 11 out of 17.

<sup>4</sup> There are 3,344 FDIC-supervised institutions at year-end 2019, based on December 31, 2019, Call Report data.

<sup>5</sup> The estimate includes the May 2018 75th percentile hourly wage rate for Office and Administrative Support Occupations (\$20.92) reported by the Bureau of Labor Statistics, National Industry-Specific Occupational Employment, and Wage Estimates. This wage rate has been adjusted for changes in the Consumer Price Index for all Urban Consumers between May 2018 and December 2019 (3.11 percent) and grossed up to account for non-monetary compensation as reported by the December 2019 Employer Costs for Employee Compensation Data.

*Total Estimated Cost Burden*

FDIC estimates the total annual cost burden for this information collection by multiplying the total estimated annual burden of 4,368 hours, by the hourly compensation estimate of \$32.59 to arrive at an estimated labor cost of \$142,353.12 per year.

13. **Estimate of start-up costs to respondents:**

None.

14. **Estimate of annualized costs to the government:**

None.

15. **Analysis of change in burden:**

There is no change in the substance or methodology of this information collection. The change in burden is due, in part, to a decrease in the number of FDIC-supervised institutions from 3, 878 to 3,334, and in part, due to changes in the estimation methodology used by FDIC which has resulted in a decrease in the estimated number of respondents from 3,334 to 2, 165. In addition, FDIC is recognizing a difference in the estimated hourly burden associated with one-time implementation of incentive compensation policies and procedures (which remains at 40 hours per response) and the lesser ongoing burden associated with revising existing incentive compensation policies and procedures, which the FDIC estimates to be 2 hours per response. As a result of the foregoing, total estimated annual burden for this information collection has decreased by 150,752 hours.

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

The information collected is for internal FDIC use only and is not published.

17. **Display of expiration date:**

This information collection involves recordkeeping requirements only. The expiration date of the information collection is readily available at [www.reginfo.gov](http://www.reginfo.gov)<sup>6</sup>

18. **Exceptions to certification:**

None.

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<sup>6</sup> <https://www.reginfo.gov/public/Forward?SearchTarget=PRA&textfield=3064-0175>

**B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS**

Not applicable.