

National Credit Union Administration
SUPPORTING STATEMENT

Succession Planning, 12 CFR 701.4(e)
OMB No. 3133-NEW

Summary of Proposed Rule Action:

The NCUA proposes that Federal Credit Union (FCU) boards of directors establish and adhere to processes for succession planning. The succession plans will help to ensure that the credit union has plans to fill key positions, such as officers of the board, management officials, executive committee members, supervisory committee members, and (where provided for in the bylaws) the members of the credit committee to provide continuity of operations. In addition, the proposed rule would require directors to be knowledgeable about the FCU's succession plan. Although the proposed rule would apply only to FCUs, the Board's purpose is to encourage and strengthen succession planning for all credit unions. The proposed rule would provide FCUs with broad discretion in implementing the proposed regulatory requirements to minimize any burden.

A. JUSTIFICATION

1. Circumstances that make the collection of information necessary.

Board members play a key role in a credit union's success. The Federal Credit Union Act (FCU Act) vests the general direction and control of an FCU to its board.¹ Credit union boards are faced with a multitude of complicated challenges, such as meeting evolving member needs, fostering employee loyalty and trust, retaining and developing necessary skills, and keeping pace with technological and industry changes. Among this list of issues, succession planning is one of the most critical.

Succession planning is the process through which an organization helps identify, develop, and retain key personnel to ensure its viability and continued effective performance. It also allows an organization to prepare for the unexpected, including the sudden departure of key staff. Succession planning is recognized as vital to the success of any institution, including credit unions. One of the variables over which a credit union board has control is the hiring of the organization's senior management. A board's failure to plan for the transition of its management could potentially come with high costs, including the potential for the unplanned merger of the credit union upon the departure of key personnel.

Succession planning is a critical component of a credit union's overall strategic plan. It ensures that the appropriate personnel are available to execute the credit union's strategic plan and mission. As noted, the goal of succession planning is to build and/or identify a pool of qualified individuals who can be recruited or selected to fill a vacancy in a key

¹ 12 U.S.C. 1761b; 12 CFR 701.4, and Article VI, section 6 of the Federal Credit Union Bylaws codified in Appendix A of 12 CFR part 701.

position. To be successful, succession planning should be an ongoing and iterative process, not a one-time event.

Section 113 of the FCU Act provides that the board of directors shall have the general direction and control of the affairs of the FCU.² The board of directors must oversee the credit union's operations to ensure the credit union operates in a safe and sound manner. For example, the board must be kept informed about the credit union's operating environment, hire and retain competent management, and ensure that the credit union has a risk management structure and process suitable for the credit union's size and activities.

2. Purpose and use of the information collected.

The proposed rule applies to all FCUs, irrespective of asset size. The proposed rule would amend § 701.4, which sets forth the general duties and responsibilities of FCU directors. The proposal would add a new paragraph (e) requiring that FCU directors must establish and adhere to processes for succession planning for key positions.

In specifying the officials covered by the succession plan, the Board has relied on the language of the FCU Act, which provides that “[t]he management of a Federal credit union shall be by a board of directors, a supervisory committee, and where the bylaws so provide, a credit committee.”³ The FCU bylaws codified in Appendix A of 12 CFR part 701 expand the list of senior FCU executives to include the members of an executive committee and management officials.

The board of directors or an appropriate committee of the board would be required to review and approve a written succession plan regarding the specified FCU executives and officials. The succession plan must, at a minimum, identify the credit union's key positions, necessary competencies and skill sets for those positions, and strategies to identify alternatives to fill vacancies. The board of directors must review the succession plan in accordance with a schedule established by the board, but no less than annually.

3. Use of information technology.

This is a recordkeeping requirement. Federal credit Unions may use any available information technology to satisfy the information collection requirements. NCUA encourages the use of electronic information as it simplifies the data collection process and improves the accuracy and timeliness of the data.

4. Duplication of information.

This collection of information is unique to each FICU and is not duplicated.

² 12 U.S.C. 1716b.

³ 12 U.S.C. 1761.

5. Efforts to reduce burden on small entities.

The recordkeeping requirements applies to all FCUs, irrespective of asset size.

6. Consequences of not conducting the collection.

Succession planning is recognized as vital to the success of any institution, including credit unions. One of the variables over which a credit union board has control is the hiring of the organization's senior management. A board's failure to plan for the transition of its management could potentially come with high costs, including the potential for the unplanned merger of the credit union upon the departure of key personnel.

7. Inconsistencies with guidelines in 5 CFR 1320.5(d)(2).

There are no special circumstances. This collection is consistent with the guidelines in 5 CFR 1320.5(d)(2).

8. Efforts to consult with persons outside the agency.

The NCUA published the proposed rule at 87 FR 6078, on February 3, 2022 (FR Doc. 2022-02038). A Paperwork Reduction Act (PRA) notice was published separately on February 9, 2022, at 87 FR 7502, providing an opportunity for the public to comment on the information collection requirements prescribed by this rule. Comments will be summarized and addressed in the PRA submission associated with the final rulemaking.

9. Payment or gifts to respondents.

There is no intent by NCUA to provide payment or gifts for information collected.

10. Assurance of confidentiality.

There is no assurance of confidentiality other than that provided by law.

11. Questions of a sensitive nature.

No questions of a sensitive nature are asked. Personally Identifiable Information (PII) is not collected.

12. Estimate of burden of the information collection.

1. There is an estimated one-time burden* required for all FCU (3,122) to establish a succession plan. To establish one-time burden, NCUA calculates the total number of respondents divided by the length of OMB approval (3 years) for the initial recordkeeping requirement to establish this plan. This line item will be removed upon renewal of the information collection. NCUA estimates that it will take 30 minutes of recordkeeping burden per respondent to retain this initial record.
2. NCUA estimates three new FCUs annually that will be required to establish a succession plan/policy.
3. Section 701.4(e)(2)(ii) requires all FCUs to review and update their plan annually at an estimated 15 minutes per respondent.

	CFR citation	Information Collection	No. of Respondents	No. Responses per Respondent	Total Annual Responses	Burden per Response	Total Annual Burden
1	701.4(e)(1)	<i>*One-time burden:</i> Establish a succession plan	1,041	1	1,041	.50	520.50
2		New FCU to establish a plan	3	1	3	.50	1.50
3	701.4(e)(2)(ii)	Update annually	3,122	1	3,122	.25	780.50
TOTALS			3,125	1.33312	4,166	0.31265	1,302.50

Based on the labor rate of \$35 per hour, the total cost to respondents is \$45,587.50.

13. Capital start-up or on-going operation and maintenance costs.

There are no capital start-up or maintenance costs.

14. Annualized costs to the Federal government.

This is a recordkeeping requirement; therefore, there is no cost to the Federal government.

15. Changes in burden.

This is a new collection.

16. Information collection planned for statistical purposes.

The information is not planned for publication.

17. Request non-display the expiration date of the OMB control number.

This is a recordkeeping requirement. The OMB control number and expiration date associated with this PRA submission will be displayed on the Federal Government's electronic PRA docket website at www.reginfo.gov.

18. Exceptions to the Certification for Paperwork Reduction Act Submission.

There are no exceptions to the certification statement.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

This collection does not involve statistical methods.