# SUPPORTING STATEMENT

## GUIDANCE ON SOUND INCENTIVE COMPENSATION POLICIES (OMB No. 3064-0175)

**INTRODUCTION**

The FDIC is requesting OMB approval of the three-year extension, without change, of the information collection entitled "Guidance on Sound Incentive Compensation Policies" (OMB Control No. 3064-0175). The information collection consists of recordkeeping requirements associated with the interagency Guidance on sound Incentive Compensation Policies, which was issued by the Federal banking agencies and became effective on June 25, 2010. There is no change in the method or substance of the information collection which currently expires on October 31, 2026.

A. **JUSTIFICATION**

1. **<u>Circumstances that make the collection necessary:</u>**

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. 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.[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 promotes the improvement of incentive compensation practices in the banking industry by providing a common prudential foundation for incentive

1 75 FR 36395 (June 25, 2010)

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. **<u>Use of the information:</u>**

The FDIC uses the information as part of its supervisory process. Examiners 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 party of the safety and soundness examination of the institution.

3. **<u>Consideration of the use of improved information technology:</u>**

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

4. **<u>Efforts to identify duplication:</u>**

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

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

All FDIC-supervised institutions, large and small may be 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. **<u>Consequences to the Federal program if the collection were conducted less frequently:</u>**

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. **<u>Special circumstances necessitating collection inconsistent with 5 CFR Part 1320.5(d)(2):</u>**

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 June 4, 2026 (91 FR 33724). 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:**

| Summary of Estimated Annual Burden (OMB No. 3064-0175) | | | | | |
|---|---|---|---|---|---|
| Information Collection (IC) (Obligation to Respond) | Type of Burden (Frequency of Response) | Number of Respondents | Number of Responses per Respondent | Average Time per Response (HH:MM) | Annual Burden (Hours) |
| 1. Initial implementation: Interagency Guidance on Sound Incentive Compensation Practices, 75 FR 36395 (June 25, 2010) (Voluntary) | Recordkeeping (Annual) | 1 | 1 | 40:00 | 40 |
| 2. Ongoing maintenance and revision: Interagency Guidance on Sound Incentive Compensation Practices, 75 FR 36395 (June 25, 2010) (Voluntary) | Recordkeeping (Annual) | 1,776 | 1 | 02:00 | 3,552 |
| | | | | ***Total Annual Burden (Hours):*** | ***3,592*** |

Source: FDIC.

Note: The estimated annual IC time burden is the product, rounded to the nearest hour, of the estimated annual number of responses and the estimated time per response for a given IC. The estimated annual number of responses is the product, rounded to the nearest whole number, of the estimated annual number of respondents and the estimated annual number of responses per respondent. This methodology ensures the estimated annual burdens in the table are consistent with the values recorded in OMB's consolidated information system.

| Summary of Hourly Burden Cost Estimate (OMB No. 3064-0175) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Information Collection (IC) (Obligation to Respond) | Hourly Weight (%) | Percentage Shares of Hours Spent by and Hourly Compensation Rates for each Occupation Group (by Collection) | | | | | | Estimated Hourly Compensation Rate |
| | | Exec. & Mgr. ($159.84) | Lawyer ($180.27) | Compl. Ofc. ($81.09) | IT ($116.97) | Fin. Anlst. ($101.69) | Clerical ($42.73) | |
| 1. Initial implementation: Interagency Guidance on Sound Incentive Compensation Practices, 75 FR 36395 (June 25, 2010) (Voluntary) | 1.11 | 0 | 0 | 0 | 0 | 0 | 100 | $42.73 |
| 2. Ongoing maintenance and revision: Interagency Guidance on Sound Incentive Compensation Practices, 75 FR 36395 (June 25, 2010) (Voluntary) | 98.89 | 0 | 0 | 0 | 0 | 0 | 100 | $42.73 |
| ***Weighted Average Hourly Compensation Rate:*** | | | | | | | | ***$42.73*** |
| Source: Bureau of Labor Statistics | | | | | | | | |
| Note: The estimated hourly compensation rate for a given IC is the average of the hourly compensation rates for the occupations used to comply with that IC, weighted by the estimated share of hours spent by each occupation. The weighted average hourly compensation rate for the entire ICR is the average of the estimated hourly compensation rates for all ICs, weighted by the share of hourly burden for IC. These hourly weights, as shown in the "Hourly Weight" column of this table, are the quotients of the estimated number of annual burden hours for each IC and the total estimated number of annual burden hours across all ICs. | | | | | | | | |

| Total Estimated Cost Burden (OMB No. 3064-0175) | | | |
|---|---|---|---|
| Information Collection Request | Annual Burden (Hours) | Weighted Average Hourly Compensation Rate | Annual Respondent Cost |
| Interagency Guidance on Sound Incentive Compensation Practices | 3,592 | $42.73 | $153,486 |
| | | ***Total Annual Respondent Cost:*** | ***$153,486*** |

| Source: FDIC. |
|---|

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 total estimated annual burden decreased by 418 hours, from 4,010 hours in 2023 to 3,592 hours. The decrease is due to a decline in the number of FDIC-supervised institutions.

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[2]

18. **Exceptions to certification:**

    None.

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

Not applicable.

2 https://www.reginfo.gov/public/Forward?SearchTarget=PRA&textfield=3064-0175