

MEMO# 29850

April 22, 2016

May 9 Call on Re-Proposal Regarding Incentive-Based Compensation Arrangements

[29850]

April 22, 2016

TO: CHIEF COMPLIANCE OFFICER COMMITTEE No. 7-16
CHIEF RISK OFFICER COMMITTEE No. 10-16
CLOSED-END INVESTMENT COMPANY COMMITTEE No. 6-16
COMPLIANCE ADVISORY COMMITTEE No. 3-16
INVESTMENT ADVISERS COMMITTEE No. 7-16
RISK ADVISORY COMMITTEE No. 1-16
SEC RULES COMMITTEE No. 19-16 RE: MAY 9 CALL ON RE-PROPOSAL REGARDING
INCENTIVE-BASED COMPENSATION ARRANGEMENTS

The National Credit Union Administration (NCUA) board today approved issuing the preamble and NCUA's portion of proposed interagency rules relating to incentive-based compensation practices at certain covered financial institutions, including investment advisers. [\[1\]](#) The Dodd-Frank Wall Street Reform and Consumer Protection Act requires NCUA to issue this rule jointly with five other agencies—the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Securities and Exchange Commission. The other agencies have not issued a re-proposal as of yet, and the preamble and proposed rule will not be published in the Federal Register until they have done so. According to the Release, the final version may differ from what the NCUA has published.

The agencies originally issued a proposal regarding incentive-based compensation arrangements at certain financial institutions ("covered financial institutions") in 2011, on which ICI filed extensive comments. [\[2\]](#) Like the 2011 proposal, the re-proposal would prohibit any incentive compensation at covered financial institutions that could encourage inappropriate risks by providing excessive compensation or that could lead to material financial loss. The re-proposed rule, however, incorporates certain practices that financial institutions and foreign regulators have adopted in the last few years to address deficiencies in incentive-based compensation practices. In addition, it distinguishes covered financial institutions by asset size, applying less prescriptive incentive-based compensation

requirements to the smallest covered financial institutions and progressively more rigorous requirements to the largest covered financial institutions. [3]

On Monday, May 9, from 2:30-3:30 p.m. ET, ICI will hold a conference call to discuss the re-proposal. We will circulate a more detailed summary of the re-proposal next week, along with dial-in information for the call.

Please contact Dorothy Donohue at ddonohue@ici.org or (202) 218-3563 or Linda French at linda.french@ici.org or (202) 326-5845 if you have any questions.

Dorothy M. Donohue
Deputy General Counsel - Securities Regulation

Linda M. French
Counsel

endnotes

[1] The release can be found on the National Credit Union Administration's website at <https://www.ncua.gov/About/Documents/Agenda%20Items/AG20160421Item2b.pdf> ("Release").

[2] See Letter from Karrie McMillan, General Counsel, Investment Company Institute, to Elizabeth Murphy, Secretary, Securities and Exchange Commission, dated May 31, 2011, available at <https://www.ici.org/pdf/25232.pdf>.

[3] The re-proposed rule divides covered financial institutions into three tiers, with Level 1 institutions defined as those with assets equal to or greater than \$250 billion, "Level 2" institutions with assets between \$50 billion and \$250 billion, and "Level 3" institutions with assets between \$1 billion and \$50 billion.