



## Section 956 of the Dodd-Frank Act Inter-Agency Proposed Rule on Incentive Compensation: Applicability to Federally Insured Credit Unions

Section 956 of the Dodd-Frank Act requires specified federal financial regulatory agencies, including NCUA, to act jointly to prohibit incentive-based compensation payment arrangements in financial institutions with \$1 billion or more in assets that the agencies determine encourage inappropriate risks by providing excessive compensation or that could lead to material financial loss. Accordingly, the proposed rule requires federally insured credit unions with assets of \$1 billion or more to make available to NCUA sufficient detailed information about the structure of their incentive-based compensation arrangements. The 96 percent of federally insured credit unions with assets less than \$1 billion are thus exempt from the proposed rule.

The proposed rule would establish a three-tiered system for covered financial institutions: \$250 billion or greater in assets (Level 1), \$50 billion up to \$250 billion in assets (Level 2), and \$1 billion up to \$50 billion in assets (Level 3). As of the end of 2015, there were no federally insured credit unions in Level 1, one in Level 2 and 257 in Level 3. Level 1, 2 and 3 institutions would need to make available to NCUA sufficient detailed information about the structure of their incentive-based compensation arrangements.

### Key Aspects Guide to Rule

As with any rulemaking, covered entities should carefully read the entire proposed rule. This document is intended to be a brief summary of some key aspects of the proposal regarding its applicability to covered credit unions, and it shouldn't be solely relied upon as a comprehensive discussion for each section or item. Please consult the proposed rule's preamble and the entire rule text once published in the *Federal Register* for comprehensive details about the proposed rule and applicability to covered credit unions. The below table summarizes applicability of key aspects of the proposed rule to federally insured credit unions:

<b>Key Applicability Aspects by Federally Insured Credit Union Asset Segments</b>	<b>Less than \$1 Billion “Exempt”</b>	<b>\$1 Billion to \$50 Billion “Level 3”</b>	<b>\$50 Billion or Greater “Level 2”</b>
Federally insured credit unions by asset size covered by the proposed rule?	No - Exempt	Yes	Yes
Does the proposed rule have different compliance requirements levels for credit unions of different asset sizes?	Not Applicable	Yes - Classified as “Level 3”	Yes - Classified as “Level 2”
Are existing incentive compensation plans grandfathered under the proposed rule?	Not Applicable	Yes	Yes
Does the proposed rule require any disclosure of compensation that is <i>not</i> incentive-based, such as salary or benefits for credit union officials?	Not Applicable	No	No



*The effective proposed compliance period will begin on first day of first calendar quarter beginning at least 540 days (18 months) after publication of a final rule in the Federal Register. The following provisions would become effective for all new incentive compensation plans instituted after that date upon finalization of the rule as proposed.*

	<b>Less than \$1 Billion “Exempt”</b>	<b>\$1 Billion to \$50 Billion “Level 3”</b>	<b>\$50 Billion or Greater “Level 2”</b>
Do federally insured credit union boards of directors or a committee thereof have to review and approve all new (non-grandfathered) incentive compensation plans?	Not Applicable	Yes	Yes
Do federally insured credit unions have to create and retain records for all new incentive compensation plans for seven years?	Not Applicable	Yes	Yes
Must federally insured credit unions annually submit their records for all new incentive compensation plans directly to NCUA?	Not Applicable	No	No
Must federally insured credit unions allow NCUA examiners to review their records maintained on-site for all new incentive compensation plans?	Not Applicable	Yes	Yes
Will federally insured credit unions have to defer parts of incentive compensation over time for certain defined senior officials or significant risk takers, as specified in the rule?	Not Applicable	No	Yes*
Does the proposed rule require credit unions to include forfeiture or claw-back provisions in new incentive compensation plans?	Not Applicable	No	Yes*
Does the proposed rule include a provision regarding taxation treatment for employees of federally insured credit unions for new incentive compensation plans that, under the proposed rule, would now require plan payment deferrals, in order to fairly account for differing existing IRS treatment in recognizing compensation payments received from not-for-profit institutions compared to for-profit entities?	Not Applicable	Not Applicable	Yes*

*\* See proposed rule for more details.*