Open Board Meeting April 21, 2016

NCUA Board Chairman Debbie Matz
Statement on the Proposed Interagency Rule on
Incentive-Based Executive Compensation

Thank you for working with the staffs of the other federal financial regulatory agencies to develop this second proposed rule, as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

It has been a long time in coming, because on this controversial issue, it is challenging to develop a rule, which both meets the mandate of the law and at the same time is focused and fair.

The staff presenting the rule before the Board have done an excellent job of explaining this complex rule. I would like to underscore several important facts.

First, the law requires us to adopt a rule or guidelines jointly with the federal banking, securities and housing regulators. However, the interagency rule will not affect the vast majority of credit unions because the rule is tiered. That's because the minimum statutory asset threshold of $1 billion dollars covers 258 credit unions, or 4 percent of all credit unions. Because of this, 96 percent of credit unions would be exempt, and appropriately so.

Even among the 4 percent of covered credit unions with more than $1 billion in assets, the proposed rule does not affect any base salaries or base benefits. Covered credit unions will be required to adopt a policy on incentive-based compensation that will be reviewed when the credit union is examined.

As of today, the rule's more rigorous requirements would only apply to one credit union, because it is the only credit union with over $50 billion in assets.

Importantly, covered credit union executives who currently have incentive-based compensation packages would not have to change their existing plans for the remaining life of those plans. This is because proposed rule is not retroactive. It grandfathers any incentive-based compensation plans already in place in credit unions today.

Looking ahead, this rule would not affect any newly created incentive compensation plans at a credit union until 18 months after a final rule is passed.

Also, NCUAs rule differs in one important respect from the rule being proposed by the other regulators. Because credit unions are not-for-profit institutions, they are covered by provisions of the Internal Revenue code requiring the different treatment of credit union incentive plans. NCUA included a provision to provide some equity for the tax treatment of covered credit union incentive plans. Credit unions subject to the deferral requirements will be allowed to adjust plan distributions for the unique tax consequences that apply to credit unions.

Finally, this proposed rule eliminates the requirement that new plans covered under this rule would have to be submitted annually to the regulator. Instead, covered institutions have to maintain their plan documents on-site for regulatory review, for a period of seven years.

As you can see from changes made compared to the initial 2011 proposal, the agencies responded to stakeholder comments and made significant modifications. This second proposal will be out for comment until July 22.

As always, I encourage credit unions to comment on how this new proposed rule, if finalized, could affect their operations, and also the recruiting and retention of employees going forward.