

## BOARD ACTION MEMORANDUM

**TO:** NCUA Board

**DATE:** February 11, 2011

**FROM:** Office of Examination and Insurance;  
Office of General Counsel

**SUBJ:** Proposed rule  
Dodd-Frank §956-  
12 CFR Pts. 741 & 751

**ACTION REQUESTED:** Staff presentation on the interagency proposed rule and NCUA's proposed rule text, 12 CFR parts 741 and 751, applicable to credit unions with \$1 billion or more in assets, implementing Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection (Dodd-Frank) Act including enhanced disclosure and reporting of compensation arrangements and prohibiting incentive-based payment arrangements that encourage inappropriate risk taking.

**DATE ACTION REQUESTED:** February 17, 2011.

**OTHER OFFICES CONSULTED:** Office of Corporate Credit Unions, Office of Chief Economist.

**BUDGET IMPACT, IF ANY:** None.

**SUBMITTED TO INSPECTOR GENERAL FOR REVIEW:** Yes.

**RESPONSIBLE STAFF MEMBERS:** Melinda Love, Director, and Vickie Apperson, Program Officer, Office of Examination and Insurance; and Regina Metz, Staff Attorney, Office of General Counsel.

**SUMMARY:** This is a joint proposed rulemaking involving the NCUA, Board of Governors of the Federal Reserve System (FRB), Federal Deposit Insurance Corporation (FDIC), Federal Housing Finance Agency (FHFA), Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), and the U.S. Securities and Exchange Commission (SEC). (the Agencies). The Dodd-Frank Act section 956 requires the Agencies not later than April 21, 2011, to jointly prescribe regulations or guidelines to require financial institutions with assets of \$1 billion or more to disclose to their primary federal regulator (one of the Agencies) the structures of all incentive-based compensation arrangements offered to determine whether the structure provides excessive compensation or could lead to material financial loss to the institution. In addition, Section 956 requires the Agencies to jointly prescribe regulations or guidelines that prohibit any types of incentive-based payment arrangement that the Agencies determine encourages inappropriate risks by the institutions, either by providing excessive compensation, fees, or benefits, or that could lead to material financial loss to the institution.

The Agencies are proposing rules, rather than guidelines, supplementing existing rules, guidance, and ongoing supervisory efforts. All of the Agencies' proposed rules have similar components. The scope of the proposed rule is all financial institutions with total assets of \$1 billion or more.

Certain provisions on deferral of incentive-based compensation for executive officers and identification of covered persons (other than executive officers) who have the ability to expose the institution to possible losses that are substantial apply only to "larger covered financial institutions." The term "larger covered financial institution" for the NCUA means all credit unions with total consolidated assets of \$10 billion or more. For the federal banking agencies and the SEC, larger covered financial institutions are those with total consolidated assets of \$50 billion or more. For the FHFA, all Federal Home Loan Banks with total consolidated assets of \$1 billion or more are larger covered financial institutions.

As of February 9, 2011, the FDIC has already approved the proposed rule and approvals by the other Agencies are pending.

**ATTACHMENT:** Interagency proposed rulemaking specifying a forty-five day comment period with NCUA's proposed rule text included and the other Agencies' proposed rule texts omitted.