

July 27, 2016

Legislative and Regulatory Activities Division  
Office of the Comptroller of the Currency  
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OMB Number: 1557-0245
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**Subject: Guidance on Sound Incentive Compensation Policies**

This letter is in response to the Office of the Comptroller of the Currency's (OCC) request for comment on the proposed renewal of information collection set forth in a document titled "Guidance for Sound Incentive Compensation Policies". Written comments must be received by September 26, 2016. I appreciate the OCC's request for public comment. I fully support the agency's quest to reduce paperwork and respondent burden.

The OCC invites comments on the accuracy of the OCC's estimate of the information collection burden. I will comment on that request.

*BURDEN ESTIMATE IS INACCURATE*

The OCC does not reduce paperwork and respondent burden by publishing burden estimates in the Federal Register that are low, unrealistic and unsupported by empirical evidence. I encourage the OCC in its forthcoming 30-day notice to explain how it calculated its burden estimates and the empirical evidence it used in the calculation.

The OCC's burden estimate is wrong and too low. The OCC estimates that, on average, 41 large banks will spend 520 hours annually collecting this information. Conversely, 1,381 small banks will spend 52 hours annually (on average) collecting the information. Both estimates are wrong.

*EVALUATION*

The aforementioned guidance requires institutions to have policies, procedures, appropriate controls, and sufficient documentation to permit an "audit" of the incentive compensation arrangements. The guidance also requires the board of directors to review, at least annually, an assessment of the effectiveness of the design and operation of the bank's incentive compensation system to ensure safety and soundness.

In real life, boards of directors at large banks fulfill this last requirement by having the internal audit department examine incentive compensation systems and provide reports to the Board Audit Committee. In large institutions (\$20 billion or more in total assets) *at least* four internal auditors will spend three or four weeks auditing the effectiveness of the design and operation of incentive compensation systems. Thus, the annual assessment of the effectiveness of the design and operation of the bank's incentive compensation system at large banks will take *a minimum* of 640 hours to complete.

Please note that this 640 hour “assessment of effectiveness” does not include additional hours needed every year to: (i) update policies; (ii) revise procedures; (iii) adjust controls; and (iv) document annual incentive payments and document approvals.

In large, systemically important institutions (SIFIs), internal auditors can spend *one to two thousand hours* auditing the many incentive compensation plans for compliance with OCC requirements. If the eight largest national banks (\$250 billion or more in total assets) each spent 1,500 hours annually *auditing, updating, revising, and documenting* incentive compensation systems for compliance with OCC requirements, then the remaining 33 “large banks” can spend only 282 hours each on that same activity for the OCC’s estimate of 520 hours per respondent to be reasonable!

The OCC’s estimate for “small banks” is also grossly underestimated. In a small bank (say, \$50 million in total assets), it will take one person at least one week to assess the effectiveness of the design and operation of the compensation systems and type up the results into a PowerPoint deck or Word document to be submitted to the board of directors. Add these 40 hours to additional hours needed to update written policies, procedures, document annual incentive payments, document approvals, and you get far more than 52 hours. And this is for a \$50 million dollar bank – imagine the hours needed at an \$8 billion dollar “small bank”.

### CONCLUSION

The Paperwork Reduction Act (PRA) requires federal agencies to justify any collection of information from the public by establishing the need and intended use of the information, estimating the burden that the collection will impose on respondents, and showing that the collection is the least burdensome way to gather the information. Federal agencies must receive approval from the Office of Information and Regulatory Affairs (OIRA) for each information collection request (signified by an OMB control number) before it is implemented. Failure to obtain OIRA approval for collection, or the lapse of that approval, represents a violation of the PRA.

I encourage the OCC to revisit its burden estimates. I also ask that the agency explain, in its forthcoming 30-day notice, how it calculated its burden estimate and the empirical evidence it used in the calculation. The explanation of the burden estimate in the Federal Register does not need to be lengthy; the public needs only 50 to 100 words.

I appreciate the opportunity to comment on the OCC’s proposal. I wish the agency the best of luck.

Sincerely,

Sandra A. Holly  
Hyattsville, MD