

Federal Agencies Propose Interagency Rule on Incentive-Based Compensation for Financial Institutions

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A proposed rule issued under Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act would subject financial institutions with \$1 billion of assets to substantive and procedural requirements relating to incentive-based compensation. Financial institutions with \$50 billion of assets would be subject to additional substantive requirements, including mandatory deferral of such compensation. These requirements would apply to a wide array of financial institutions, including banks, broker-dealers and investment advisers. Other institutions also may be affected. The prescriptive nature and broad scope of the proposed rule cannot be overemphasized, given the significant oversight, approval, monitoring and documentation requirements imposed on financial institutions, including many that previously have never had their compensation subject to governmental requirements. If the requirements are implemented in their current form, we expect that many financial institutions would be required to modify their compensation policies and practices. Therefore, after discussing the proposed rule, we suggest a number of action items to help financial institutions comment on the rule and anticipate the new requirements.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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