

July 22, 2016

Mr. Robert deV. Frierson, Secretary  
Board of Governors of the Federal Reserve  
System  
20th Street and Constitution Avenue NW  
Washington, DC 20551

Mr. Robert E. Feldman, Executive Secretary  
Federal Deposit Insurance Corporation  
550 17th Street NW  
Washington, DC 20429

Mr. Alfred M. Pollard, General Counsel,  
Federal Housing Finance Agency  
400 7th Street SW  
Washington, DC 20219

Mr. Gerard S. Poliquin, Secretary of the  
Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, Virginia 22314

Legislative and Regulatory Activities  
Division  
Office of the Comptroller of the Currency  
400 7th Street SW, Suite 3E-218  
Washington, DC 20219

Mr. Brent J. Fields, Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549

**Re: Proposed implementation of Wall Street incentive compensation rules as provided under Dodd-Frank Sec. 956**

Dear Secretary Frierson, Executive Secretary Robert Feldman, General Counsel Pollard, Secretary Poliquin, and Secretary Fields,

We appreciate the opportunity to comment on the proposed rule regarding incentive compensation in the financial industry. This proposal is a significant improvement over the 2011 version. We strongly support measures to extend compensation deferral requirements beyond top executives to all employees who could put large financial firms at risk, as well as the improved requirements for internal governance of bonus pay and the limitations on inappropriate pay practices such as volume-based compensation.

However, we remain deeply concerned that loopholes in the regulation will allow a reckless Wall Street bonus culture to continue, putting taxpayers and the broader economy at risk. The specific issues that most concern us are as follows:

**1. Requirements regarding the deferral of bonuses are too weak**

The proposal requires 60 percent of bonus pay to be deferred for only four years for the most senior executives at the largest banks, with even lower levels of deferral for other employees whose activities could put the financial institution at risk and executives at midsize banks. The proposal also allows pay to vest in equal (pro rata) shares each year. Thus, even the very highest-ranking executives could receive 70 percent of their pay within two years and 85% within three years. To curb short-term, reckless behavior, deferral periods must be significantly longer, ideally more than five years, to cover the typical length of a credit cycle, with cliff vesting.

**2. The proposal gives management too much discretion over clawbacks and other adjustments to pay for misconduct**

The Dodd-Frank law requires regulators to ban forms of incentive compensation that induce inappropriate risk-taking. Yet even in a circumstance where such risk-taking or misconduct is clearly found, this proposed rule requires only that companies “consider” reducing bonus pay. Firms are required to have “clawback” policies for pay already awarded, but again, implementation is left to management discretion. Such policies should be mandatory and firms should be required to publicly disclose the individuals subject to the clawback and the amounts involved. The triggers for clawbacks should also be stronger and cover systematic failures of supervision within the individual’s sphere of managerial responsibility, not simply actions of the single individual in question. We also ask that the proposal require that boards of directors identify a class of senior executives whose pay will be subject to being clawed back to satisfy regulatory penalties imposed on the firm.

**3. Restrictions on stock options should be strengthened.**

We appreciate the effort to discourage use of stock options, which can be especially problematic in encouraging short-term, reckless behavior. However, it would be more effective to either ban stock options entirely or limit them to no more than 15 percent of total compensation. The current proposal to limit options as a percentage of deferred incentive compensation could serve as an incentive to provide excessive amounts of other forms of compensation.

**4. Hedging of incentive compensation should be banned for individuals as well as the firm.**

Bonus deferral will not be effective in reducing inappropriate risk-taking if employees can use hedging strategies to reduce their risk to poor company performance. Because the current proposal does not limit hedging of bonus pay by individual employees, only by the bank itself, it will not be effective at preventing compensation hedging. The Bank of England already requires the banks it supervises to maintain policies that prohibit individual hedging, and several major U.S. banks have voluntarily instituted such anti-hedging policies. This rule should do so as well.

Unless these issues are addressed, the Wall Street bonus culture will continue to create incentives for inappropriate short-term risk-taking that could create disastrous long term consequences for society.

Sincerely,

American Family Voices  
Americans for Financial Reform  
As You Sow  
Caney Fork Headwaters Association  
Center for Popular Democracy Action  
Central Ohio Fair Housing Association in Columbus, Ohio.  
Consumer Action

Cornucopia Network/NJ/TN Chapter  
Cumberland Countians for Ecojustice  
Delaware Alliance for Community Advancement  
Florida Alliance for Consumer Protection  
Impact Investors  
Institute for Policy Studies, Global Economy Project  
Maryknoll Fathers and Brothers  
Maryland Consumer Rights Coalition  
Miami Valley Fair Housing Center in Dayton, Ohio.  
Natural Investments  
Network for Environmental & Economic Responsibility of United Church of Christ  
NETWORK Lobby for Catholic Social Justice  
Philadelphia Unemployment Project  
Public Citizen  
SharePower Responsible Investing, Inc.  
Sisters of Charity of Saint Elizabeth  
Sisters of St. Francis of Philadelphia  
The Franciscan Action Network  
U.S. PIRG  
United Action for Idaho  
United Vision for Idaho  
Working Families  
WV Citizen Action Group  
New York Communities for Change  
Woodstock Institute  
Connecticut Fair Housing Center