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SEC Proposes Rules on Disclosure of Incentive-Based Compensation Arrangements

As required by Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Securities and Exchange Commission has announced that it is proposing a rule applicable to broker-dealers and investment advisers with $1 billion or more in assets that would (1) require them to file annual reports with the SEC related to incentive-based compensation; (2) prohibit incentive-based compensation arrangements that encourage inappropriate risk-taking by providing excessive compensation or that could lead to material financial loss to the firm; (3) provide additional requirements for firms with $50 billion or more in assets, including deferral of incentive-based compensation of executive officers and approval of compensation for people whose job functions give them the ability to expose the firm to a substantial amount of risk; and (4) require them to develop policies and procedures that ensure and monitor compliance with requirements related to incentive-based compensation.

When announcing the proposed rule, SEC Chairman Mary Schapiro stated that she is particularly interested in commenters' views on (1) how assets would be calculated for purposes of determining whether institutions fall within either component of the proposed rule; (2) how the proposed rule might affect the broad array of financial firms covered by Section 956, including broker-dealers and advisers—most particularly private fund advisers, given how they often structure their compensation; and (3) the proposal's potential impact on broker-dealer and investment adviser business models and the variety of services they provide to investors.

Public comments on the rule proposal should be received within 45 days after it is published in the Federal Register. The full text of the proposed rule is not yet available.

For a copy of the SEC's press release, see here.
For a copy of SEC Chairman Mary Schapiro's remarks, see here.

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