

[Securities Regulation Daily Wrap Up, TOP STORY—SEC issues incentive-based compensation proposal, adds economic analysis, \(May 6, 2016\)](#)

Securities Regulation Daily Wrap Up

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The SEC issued a 488-page version of the proposed incentive-based compensation joint rulemaking called for in Dodd-Frank Act Section 956, adding 130 pages of economic analysis to the growing document. The proposed rule replaces a 2011 [proposal](#) issued by the SEC and five other agencies that would restrict bonuses at large financial institutions. The SEC's rulemaking addresses investment advisers and registered broker-dealers. As covered in *Securities Regulation Daily* on [April 21](#), Dodd-Frank directed the agencies to work together on a rule on risky compensation arrangements, which the statute considers to be excessive compensation, fees, benefits, or arrangements that could lead to material financial loss to the institution.

Rule amendments. The SEC's notice of rulemaking proposes to add the joint rules to Part 303 of 17 CFR and sets forth proposed amendments to Investment Advisers Act Rule 204-2 by adding new paragraph (a)(19) and revising paragraph (e)(1) and Exchange Act Rule 17a-4 by adding paragraph (e)(10).

Economic analysis. The analysis discusses pay packages that are optimal from the perspective of different stakeholders, including taxpayers and shareholders, noting that they are not necessarily always aligned. The agency admitted that its regulation of individuals' compensation has historically been centered on disclosures by reporting companies, and it lacks information and data regarding the present incentive-based compensation practices of broker-dealers and investment advisers if those entities are not themselves reporting companies under the Exchange Act. The analysis said the proposed requirement may increase compliance costs for covered broker-dealers and investment advisers, and the SEC expects that the magnitude of the compliance costs would depend on whether covered broker-dealers and investment advisers are part of reporting companies or not.

Request for comments. Comments on the proposal must be received by July 22, 2016. Although the agencies will jointly review the comments submitted, interested parties are asked to send their comments to the agency that is the appropriate federal regulator in order to facilitate review.

The release is [No. 34-77776](#).

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