United States Government Accountability Office

Report to the Ranking Member
Committee on Financial Services
House of Representatives

February 2025

BANK REGULATION

Agencies Should Finalize Rulemaking on Incentive Compensation

GAO-25-107032

GAO Highlights

Highlights of GAO-25-107032, a report to the Ranking Member, Committee on Financial Services, House of Representatives

February 2025

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Why GAO Did This Study

Incentive-based compensation can motivate good performance but also encourage risky behavior. Bank failures in early 2023 and executive bonuses one bank paid on the day it failed raised questions about compensation practices at large banks.

GAO was asked to review compensation at three failed banks. This report examines (1) executive compensation packages at the failed banks and a peer bank group, (2) executives' stock transactions at the failed banks, (3) regulators' review of executive compensation at selected large banks, and (4) efforts to finalize an incentive compensation rule.

GAO analyzed the most recent publicly available annual disclosures for 11 banks (three failed banks and eight peer banks selected for similarity in asset size and business lines); public disclosures on stock transactions by executives at the failed banks (January 2021–March 2023); and examination documentation (2017–2022) on compensation for 21 banks (10 banks with largest asset size, eight peer banks, and three failed banks). GAO also reviewed agencies' proposed rules and public statements on the incentive compensation rulemaking since 2011.

What GAO Recommends

GAO is making six recommendations—one to each agency required to issue incentive compensation regulations—to jointly prescribe regulations or guidelines as soon as practicable. Each agency agreed with the recommendation.

View GAO-25-107032. For more information, contact Michael E. Clements at (202) 512-8678 or clementsm@gao.gov.

What GAO Found

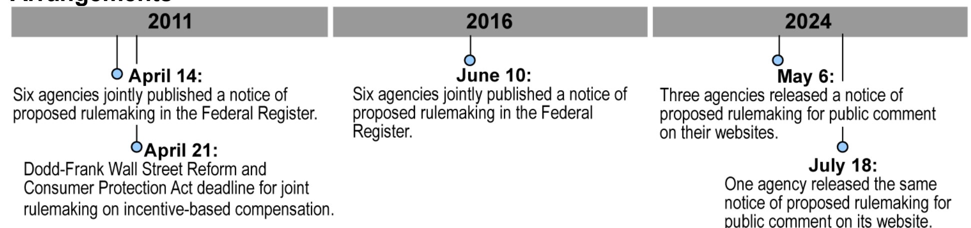
The structure and amount of executive compensation packages at three failed banks were similar to those of peer banks GAO reviewed. A median of 86 percent of executive compensation at the failed banks and 83 percent at the peer banks was incentive-based and tied to executive and bank performance. All the packages incorporated risk-mitigating elements that align with practices described in federal compensation guidelines. All the banks used financial measures of performance, such as return on equity and shareholder returns. Most banks also used nonfinancial measures, such as meeting goals for prudent risk management.

All the former top executive officers at the three failed banks received stock awards (totaling about $130 million) and made disposals (totaling about $214 million) from January 2021 through March 2023. Executives at two of the failed banks disposed of more than $17 million in the first quarter of 2023, which was similar to their disposals in the first quarter of the previous year.

Federal banking regulators use supervisory activities, such as ongoing monitoring and examinations, to review compensation issues and risks at large banks. From 2017 through 2022, regulators examined executive compensation at 15 of the 21 large banks GAO reviewed, including two of the three failed banks. Overall, regulators identified 10 supervisory concerns (matters requiring attention) related to compensation issues across eight institutions during this period. This included one supervisory concern in 2022 at the holding company of one of the failed banks, which was taking corrective action when the bank failed.

In 2010, Congress required six agencies to jointly prescribe regulations or guidelines on incentive compensation by April 21, 2011. The agencies formed a working group to draft and propose joint regulations but have yet to finalize them (see figure).

Timeline of Key Events Related to Rulemaking on Incentive-Based Compensation Arrangements



Source: GAO analysis of statute and proposed rules. | GAO-25-107032

Leaders within and across the agencies hold differing views on regulatory approaches for incentive-based compensation arrangements. For example, some agency leaders advocate a principles-based approach that outlines general principles and objectives for discouraging inappropriate risk-taking. Others support an approach with more specific and stringent requirements. Reconciling these differences and jointly prescribing regulations or guidelines would help prevent excessive compensation arrangements at financial institutions that encourage inappropriate risks.

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Abbreviations

CEO	chief executive officer
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Federal Reserve	Board of Governors of the Federal Reserve System
FDIC	Federal Deposit Insurance Corporation
FHFA	Federal Housing Finance Agency
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
SEC	Securities and Exchange Commission

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U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

February 20, 2025

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

Dear Ms. Waters:

Banks often link a portion of their executives' compensation to individual or institutional performance, increasing pay when certain objectives or metrics are met. While this approach can create incentives for strong performance, it can also encourage risky behavior. The 2007–2009 financial crisis highlighted this issue, revealing that large, short-term profits led to generous bonus payments to bank employees without adequate regard to the longer-term risks they imposed on firms.

To help manage these risks, the banking agencies are required to prescribe standards for banks that prohibit compensation levels that are considered excessive or cause material financial losses to the banks.[1] Additionally, Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) directs six federal agencies to jointly promulgate regulations or guidelines to prohibit certain incentive-based compensation arrangements at large financial institutions, including banks.[2] The act required the six agencies to issue these regulations or guidelines by April 21, 2011. However, they have yet to fulfill this requirement.

In March 2023, state banking supervisors closed Silicon Valley Bank and Signature Bank, followed by First Republic Bank in May of that year. As of June 30, 2024, the estimated total loss for the failures of Silicon Valley

[1]12 U.S.C. § 1831p-1(c); see Interagency Guidelines Establishing Standards for Safety and Soundness, 12 C.F.R. pt. 30, app. A (Office of the Comptroller of the Currency); 12 C.F.R. pt. 208, app. D-1 (Board of Governors of the Federal Reserve System); 12 C.F.R. pt. 364, app. A (Federal Deposit Insurance Corporation).

[2]The six agencies are the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Housing Finance Agency, National Credit Union Administration, Office of the Comptroller of the Currency, and Securities and Exchange Commission. 12 U.S.C. § 5641.

Bank and Signature Bank was $22.4 billion.[3] The estimated loss from the First Republic Bank failure was $16.3 billion. These failures, combined with bonus payouts at one bank on the same day as its failure, raised questions from the public and Members of Congress about bank executive compensation and its oversight by banking supervisors.[4]

In April 2023, we issued a preliminary report on the March 2023 bank failures. We issued two additional reports in March and November 2024 on communication and escalation of supervisory concerns at two federal banking regulators—the Federal Deposit Insurance Corporation (FDIC) and the Board of Governors of the Federal Reserve System (Federal Reserve).[5]

[3]On March 12, 2023, the Secretary of the Treasury, acting on the recommendation of the Federal Deposit Insurance Corporation (FDIC) and the Board of Governors of the Federal Reserve System and after consultation with the President, invoked the statutory systemic risk exception to allow FDIC to complete its resolution of both Silicon Valley Bank and Signature Bank in a manner that fully protects depositors. According to FDIC, $19.2 billion of the $22.4 billion is attributable to the protection of uninsured depositors pursuant to the systemic risk determination. By statute, FDIC must recover losses through special assessments on insured depository institutions, depository institution holding companies, or both, as determined by FDIC. Assessments against depository institution holding companies must be made with the concurrence of the Secretary of the Treasury. 12 U.S.C. § 1823(c)(4)(G)(ii)(I). Following a bank failure, FDIC may make use of the Deposit Insurance Fund, which is funded primarily by assessments levied on insured banks and savings associations. It is used to cover all deposit accounts at insured institutions, up to the insurance limit of $250,000 for each account category per depositor at each insured entity. As with all receiverships, the loss estimates for the failures of Silicon Valley Bank, Signature Bank, and First Republic Bank will be periodically adjusted as FDIC, as receiver of the failed banks, sells assets, satisfies liabilities, and incurs receivership expenses.

[4]Legislation to expand FDIC's authority to clawback (recover) compensation from certain current or former executives when a bank is placed into FDIC receivership was introduced in the 118th Congress. For example, see Recovering Executive Compensation Obtained from Unaccountable Practices Act (RECOUP Act) (S.2190), Failed Bank Executives Clawback Act (S.1045 and H.R. 2972), and Bank Management Accountability Act (S.1181).

[5]GAO, *Bank Regulation: Preliminary Review of Agency Actions Related to March 2023 Bank Failures*, GAO-23-106736 (Washington, D.C.: Apr. 28, 2023); *Bank Supervision: More Timely Escalation of Supervisory Action Is Needed*, GAO-24-106974 (Washington, D.C.: Mar. 6, 2024); and *Bank Supervision: Federal Reserve and FDIC Should Address Weaknesses in Their Process for Escalating Supervisory Concerns*, GAO-25-106771 (Washington, D.C.: Nov. 19, 2024).

You asked us to examine executive compensation at the failed banks. This report builds on our previous work related to the failed banks and examines the:

1. structure of executive compensation packages in 2022 and how they addressed risks at First Republic Bank, Signature Bank, and Silicon Valley Bank (failed banks) and a peer group of banks;

2. date, value, and nature of executive officers' stock transactions at the three failed banks from January 2021 through March 2023;

3. extent to which federal banking regulators reviewed executive compensation at a selection of large banks in 2017–2022; and

4. efforts federal agencies have taken since 2010 to finalize rules on incentive-based compensation arrangements and any challenges they have faced.

For the first objective, we reviewed public disclosures for the three failed banks and a peer group of eight banks.[6] We analyzed each bank's proxy statement (Schedule 14A), which includes compensation information for its named executive officers (that is, the chief executive officer, chief financial officer, and the next three highest-paid executives).[7] For Signature Bank, Silicon Valley Bank, and all selected peer banks, we reviewed 2023 proxy statements, which contain information on their 2022 compensation packages. For First Republic Bank, we reviewed its 2022 proxy statement, which contains information on 2021 compensation packages, because this was the most recent publicly available

[6]For this report, we use "banks" to refer to depository institutions chartered as commercial banks or savings associations (or thrifts), but not to institutions chartered as credit unions. We use "banking organization" to refer to both a bank and its affiliates, such as a bank or thrift holding company or Edge corporation. Our peer group of banks consisted of eight U.S.-based banks with business lines similar to those of the three failed banks and total assets of $100 billion–$250 billion as of December 31, 2022. We selected and reviewed eight peer banks, but report on seven banks in the first objective because one peer bank did not use the same compensation structure as the other banks in our review.

[7]Proxy statements must be filed when a shareholder vote is required. They include items up for vote and also discuss executive salary and compensation practices for the previous 3 years. We often refer to the named executive officers as "executives" or "executive officers" in this report.

information prior to its May 2023 failure.[8] We also conducted a literature search for studies in peer-reviewed journals that analyzed executive compensation at financial institutions and interviewed stakeholders familiar with the field.

For the second objective, we reviewed publicly available disclosures of stock transactions submitted by the former executive officers of First Republic Bank, Signature Bank, and Silicon Valley Bank to the Securities and Exchange Commission (SEC) and FDIC from January 1, 2021, through March 31, 2023.[9] We reviewed information on changes in bank securities holdings, including awards, acquisitions, and disposal dates and values, for executives named in the banks' 2022 or 2023 proxy statements.[10] We also reviewed relevant laws and regulations on insider trading.

For the third objective, we reviewed examination documentation from 2017 through 2022 provided by the federal banking regulators—Federal Reserve, FDIC, and the Office of the Comptroller of the Currency (OCC)—for a selection of 21 banks—three failed banks, eight peer banks, and the 10 largest banks by asset size. We also reviewed examination manuals and other agency documents on oversight of compensation processes.

For the fourth objective, we reviewed relevant rulemaking requirements in Section 956 of the Dodd-Frank Act, as well as agencies' rulemaking agendas, proposed rules, congressional hearings, press releases, and public comments related to these requirements. For all of the objectives, we interviewed agency officials and selected industry stakeholders. For additional details regarding our objectives, scope, and methodology, see appendix I.

We conducted this performance audit from August 2023 to February 2025 in accordance with generally accepted government auditing standards.

[8]First Republic Bank did not release its 2023 proxy statement or publicly disclose its executive compensation information for 2022 prior to its failure. We reviewed nonpublic 2023 information but are reporting on the publicly available information from First Republic Bank's 2022 proxy statement.

[9]The last disclosures for each executive we reviewed occurred in the first quarter of 2023; therefore, we report on transactions that occurred through March 31, 2023.

[10]For Signature Bank and Silicon Valley Bank, we identified executives in the banks' 2023 proxy statements. Since First Republic Bank's 2023 proxy statement was unavailable at the time of our analysis, we used the bank's 2022 proxy statement to identify executives.

Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Statutes, Regulations, and Guidance Related to Bank Executive Compensation

Banks and their executives are subject to a variety of statutory and regulatory requirements related to executive compensation.

The Federal Deposit Insurance Act addresses executive compensation in several ways:

- The act places restrictions on compensation for executive officers at insured depository institutions. It requires the federal banking regulators to implement standards that prohibit certain bank representatives and employees from receiving compensation that is "excessive" or "could lead to material financial loss to the institution."[11]

[11] 12 U.S.C. § 1831p-1(c). Federal Reserve, FDIC, and OCC adopted joint guidelines to implement Section 39 of the Federal Deposit Insurance Act. The guidelines define compensation broadly to mean all cash and noncash payments and benefits derived from, among other things, employment contracts and stock options.

- The act also provides that FDIC may limit or prohibit any payments under severance-related "golden parachute" agreements and indemnification agreements to institution-affiliated parties.[12]
- The act empowers bank regulators to remove institution-affiliated individuals from office and prohibit them from participating in the affairs of any bank in certain circumstances.[13] The removal authority is one of several tools available to federal banking regulators to hold individuals accountable for violations and unsafe or unsound practices.
- Finally, the act provides FDIC the authority to hold senior executives of failed insured depository institutions personally liable for civil monetary damages for "gross negligence" or under state statutes that provide less stringent standards.[14]

In addition, the Internal Revenue Code places limits on compensation that is tax deductible for certain executives at publicly traded corporations,

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[12] 12 U.S.C. § 1828(k); 12 C.F.R. pt. 359. A golden parachute generally consists of any payment (or agreement to make a payment) in the nature of compensation that is contingent on or by its terms is payable on or after the termination of such party's affiliation with the insured depository institution or affiliated holding company and is received on or after or is made in contemplation of the institution being in troubled condition and is made to an institution-affiliated party whose affiliation is terminated when the bank was, or was in contemplation of being, troubled. 12 U.S.C. § 1828(k)(4). An indemnification payment generally involves a payment or agreement to make a payment made by an insured depository institution or affiliated holding company to an institution-affiliated party that is meant to pay or reimburse that person for any liability or legal expenses related to certain enforcement actions by a bank regulator. 12 U.S.C. § 1828(k)(5)(A). An institution-affiliated party is any director, officer, employee or controlling stockholder of the insured depository institution or holding company; any other person who has filed or is required to file a change-in-control notice with the appropriate federal banking regulator under the Federal Deposit Insurance Act; any shareholder, consultant, joint venture partner, and any other person as determined by the appropriate federal banking agency who participates in the conduct of the affairs of an insured depository institution; and any independent contractor who knowingly or recklessly participates in any violation of law or regulation, any breach of fiduciary duty, or any unsafe or unsound practice which caused or is likely to cause more than minimal financial loss to, or significant adverse effect on, the insured depository institution. 12 C.F.R. § 359.1(h).

[13] 12 U.S.C. § 1818(e). To issue a removal or prohibition order, bank regulators must demonstrate the individual's misconduct, that the misconduct had certain effects, and their culpability for the misconduct.

[14] 12 U.S.C. § 1821(k). The provision also states that "nothing in this paragraph shall impair or affect any right of the Corporation under other applicable law." In 1997, the Supreme Court in *Atherton v. Federal Deposit Insurance Corporation*, 519 U.S. 213 (1997), determined that state law sets the standard of conduct for officers and directors of federally insured institutions as long as the state standard (such as simple negligence) is stricter than that of section 1821(k). The federal statute sets a "gross negligence" floor, which applies as a substitute for state standards that are more relaxed.

including some banks.[15] Compensation in excess of $1 million for each of certain executive officers is not deductible.

In 2022, SEC adopted a rule that implemented the provisions of Section 954 of the Dodd-Frank Act related to the “clawback” (recovery) of incentive-based compensation.[16] The final rule directs national securities exchanges to establish listing standards that require issuers to (1) implement clawback policies to recover incentive-based compensation received by current or former executive officers in the event that an issuer is required to prepare an accounting restatement and that incentive-based compensation is based on erroneously reported financial information, and (2) disclose their clawback policies and their actions under those policies.

Section 956 of the Dodd-Frank Act directs FDIC, the Federal Reserve, Federal Housing Finance Agency (FHFA), National Credit Union Administration (NCUA), OCC, and SEC to jointly issue regulations or guidelines that prohibit incentive-based payment arrangements, or any feature of such arrangements, at certain financial institutions that the agencies determine encourages inappropriate risks by financial institutions by providing an executive officer, employee, director, or principal shareholder of the institution with excessive compensation, fees, or benefits or that could lead to material financial loss to the institution. Financial institutions with $1 billion or more in assets are to be subject to

[15]Pub. L. No. 103-66, § 13211(a), 107 Stat. 312, 470 (1993) (codified as amended at 26 U.S.C. § 162(m)). Prior to 2018, Section 162(m) generally allowed an exception for performance-based compensation. Provisions in the December 2017 tax law, which became effective in 2018, amended Section 162(m) to remove this exception. Section 162(m) now strictly limits public companies’ tax deduction for compensation of covered executives to $1 million per individual. This definition of covered individual can differ from the named executive officers identified in SEC proxy disclosures. Pub. L. No. 115-97, § 13601, 131 Stat. 2054, 2155 (2017). The American Rescue Plan Act of 2021 expanded the 162(m) deduction limit to the chief executive officer, chief financial officer, and the top eight highest-paid employees beginning for tax years beginning after 2026. Pub. L. No. 117-2, § 9708, 135 Stat. 4, 206 (2021).

[16]Listing Standards for Recovery of Erroneously Awarded Compensation, 87 Fed. Reg. 73076 (Nov. 28, 2022). The exchanges adopted listing standards in accordance with the new rule at the beginning of 2023, and listed companies had until December 1, 2023, to adopt and disclose compliant clawback policies.

the rules and they must disclose information on the structure of incentive-based compensation arrangements to the appropriate regulator.[17]

As further discussed in this report, as of January 2025 the regulators had not issued a final rule to implement Section 956.

In June 2010, the federal banking regulators issued interagency guidance on incentive compensation.[18] The guidance is intended to help ensure that banking organizations' incentive compensation policies do not encourage imprudent risk-taking. The interagency guidance cites three principles for incentive-based compensation arrangements.[19] They should

1. provide employees incentives that appropriately balance risk and reward;

2. be compatible with effective controls and risk management; and

[17]Financial institutions subject to the requirements include depository institutions and their holding companies, registered broker-dealers, investment advisers, and Fannie Mae and Freddie Mac. Also included are any other financial institution that the regulators determine, jointly, by rule, should be covered by regulation.

[18]The interagency guidance applies to all the banking organizations supervised by the agencies, including national banks, state member banks, state nonmember banks, savings associations, U.S. bank holding companies, savings and loan holding companies, the U.S. operations of foreign banks with a branch, agency or commercial lending company in the United States, and Edge and agreement corporations. Guidance on Sound Incentive Compensation Policies, 75 Fed. Reg. 36395 (June 25, 2010). Unlike a law or regulation, supervisory guidance does not have the force and effect of law, and the regulators do not take enforcement actions based on supervisory guidance. Rather, supervisory guidance outlines the regulators' supervisory expectations or priorities and articulates general views regarding appropriate practices for a given subject area. The contents of such guidance are often incorporated into regulators' examination manuals, as was the case with the 2010 interagency guidance.

[19]According to the interagency guidance, it is consistent with the compensation guidelines and related implementation standards adopted by the Financial Stability Board (previously, the Financial Stability Forum), an international body that monitors and makes recommendations about the global financial system. The Board issued its Principles for Sound Compensation Practices in April 2009 and its Implementation Standards in September 2009. These principles note the importance of financial institutions properly disclosing and documenting compensation decisions and monitoring the compensation system's effectiveness. See Financial Stability Forum, *FSF Principles for Sound Compensation Practices* (Basel, Switzerland: Apr. 2, 2009); and Financial Stability Board, *FSB Principles for Sound Compensation Practices: Implementation Standards* (Basel, Switzerland: Sept. 25, 2009).

3. be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

Federal Oversight of Financial Institutions

Several federal regulators oversee financial institutions. This includes three federal banking regulators that oversee banking organizations, including banks, savings associations, and bank and savings and loan holding companies:

- Federal Reserve supervises state-chartered banks that are members of the Federal Reserve System; bank and savings and loan holding companies (including any nonbank subsidiaries); nationally chartered and state-chartered banks authorized to engage in international banking under the Edge Act and agreement corporations; and the U.S. operations of foreign banks.
- FDIC supervises insured state-chartered banks that are not members of the Federal Reserve System, state-chartered savings associations, and insured state-chartered branches of foreign banks.
- OCC supervises national banks and federal savings associations and federally chartered branches and agencies of foreign banks.

Other regulators oversee other types of financial institutions:

- NCUA charters and regulates federally chartered credit unions, insures deposits, and examines most federal and state-chartered credit unions.
- SEC regulates the securities markets, including participants such as securities exchanges, broker-dealers, investment companies, and certain investment advisers and municipal advisers.
- FHFA regulates Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System.[20] It oversees these entities to ensure they operate in a safe and sound manner to serve as a reliable source of liquidity and funding for housing finance and community investment.

[20]Fannie Mae and Freddie Mac are government-sponsored enterprises—congressionally chartered, for-profit, shareholder-owned companies that have been under conservatorship since 2008. FHFA was created by the Housing and Economic Recovery Act of 2008 to supervise and regulate the enterprises and the Federal Home Loan Bank System. Pub. L. No. 110-289, § 1101, 122 Stat. 2654, 2661 (codified at 12 U.S.C. § 4511).

Federal Banking Supervision

The federal banking regulators have broad authority to examine banks subject to their jurisdiction.[21] The Federal Reserve also has supervisory and regulatory authority for all bank holding companies.[22]

To carry out this authority, the federal banking regulators conduct ongoing monitoring as well as full-scope, on-site examinations of each insured depository institution they supervise generally once during each 12-month period.[23]

- **Ongoing monitoring** activities are designed to develop and maintain an understanding of the bank, its risk profile, and associated policies and practices. They serve to identify current and prospective issues that affect a bank's risk profile or condition and play a role in determining future supervisory strategies.
- **Examinations** evaluate bank activities and management processes to ensure banks operate in a safe and sound manner, do not take excessive risks, and comply with laws and regulations. Targeted examinations may focus on one particular bank product, function, or risk and typically involve transaction testing. Horizontal reviews are a series of examinations focused on a single supervisory issue at several banks. They allow examiners to compare risk-management practices among banks, identify gaps in practices at specific banks, and help promote sound practices across the banking sector.

In instances in which regulators determine that bank behaviors or practices are deficient, they may issue supervisory concerns or enforcement actions.[24] Supervisory concerns communicate issues regulators identify during supervision to bank representatives, generally senior management or boards of directors. Under certain circumstances,

[21]See, e.g., 12 U.S.C. §§ 1463(a)(1)(B), 1820(b) (FDIC); 12 U.S.C. §§ 325, 1844(c)(2) (Federal Reserve); 12 U.S.C. §§ 481, 1463(a)(1)(A) (OCC); and 12 U.S.C. § 3105(c)(1)(C).

[22]Banks are often owned or controlled by another company, called a bank holding company.

[23]The regulators may extend the examination interval to 18 months, generally for institutions that have less than $3 billion in total assets and that meet certain conditions, based on ratings, capitalization, and status of formal enforcement actions, among other factors. We use "ongoing monitoring" to refer to the variety of supervisory activities that identify bank issues and risks on a consistent or ongoing basis.

[24]We use "supervisory concerns" to describe written communication of deficiencies from federal banking regulators to banks in the form of supervisory recommendations, matters requiring attention, matters requiring board attention, or matters requiring immediate attention.

the regulators may take informal or formal enforcement actions, depending on the severity of the circumstances.[25]

Three Failed Banks' Executive Compensation Was Similar to Peer Banks, and Included Elements to Mitigate Risks

Structure and Amount of Executive Compensation Were Similar across Banks We Reviewed, and Mostly Performance-Based

The executive compensation at the three failed banks was similar to that of seven peer banks in terms of the structure of compensation packages and the amount of compensation the chief executive officer (CEO) and other executives received.

Structure of Compensation Packages

The 2022 executive compensation packages for the three failed banks (First Republic, Signature, and Silicon Valley) and seven peer banks were similar in that they generally consisted of a base salary (the smaller component) and an incentive plan (the larger component).[26] Base salary

[25]Informal enforcement actions include obtaining a bank's commitment to implement corrective measures under a memorandum of understanding. Formal enforcement actions include issuance of a formal written agreement, cease-and-desist order, or assessment of a monetary penalty.

[26]First Republic Bank did not release its 2023 proxy statement or publicly disclose its executive compensation information for 2022 prior to its failure. Throughout this section, we report 2021 compensation data for First Republic Bank, which we obtained from its 2022 proxy statement. For analysis of compensation structure and amount, we excluded one of the banks in our peer group because its compensation structure was different than the other seven peer banks we reviewed. This bank generally provided its executives a base salary and a long-term incentive award paid in cash, unlike the others, which used equity-based incentives.

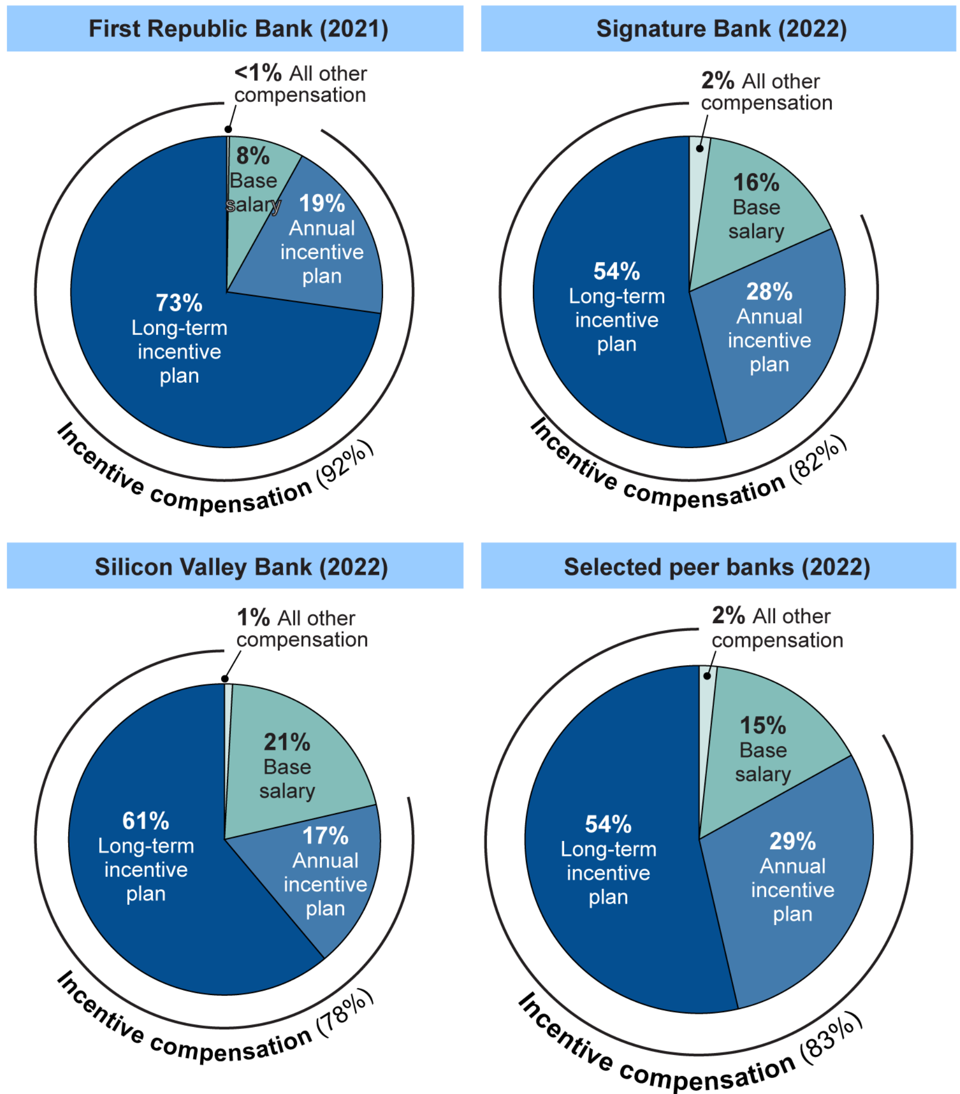
is fixed and guaranteed to executives. In contrast, incentive plans are performance-based, which means they are variable and not guaranteed.[27]

In 2022, base salary made up about 15 percent of total compensation for the executives at the 10 banks. The portion of executives' total base salary at the three failed banks ranged from 8 percent at First Republic Bank to about 21 percent at Silicon Valley Bank. The median amount of base salary for the seven peer banks was about 15 percent of total compensation.

The portion of compensation that was incentive-based also was similar across the 10 banks and made up the majority of the compensation packages we reviewed. For example, the median of total compensation that was incentive-based at the three failed banks was about 86 percent and ranged from about 78 percent at Silicon Valley to about 92 percent at First Republic. The median amount of incentive compensation among the seven peer banks was about 83 percent of total compensation (see fig. 1).

[27]Base salary included the guaranteed salary and bonuses. Annual incentives were generally listed as bonus or nonequity incentive plan compensation. Long-term incentives were generally listed as stock awards or stock option awards.

Figure 1: Components of Compensation Packages for Executive Officers at 10 Banks GAO Reviewed, by Median Share, 2021 or 2022



Source: GAO analysis of 2023 proxy statements (Silicon Valley, Signature, and other selected banks) and 2022 proxy statement (First Republic). | GAO-25-107032

Note: The figure presents the median share of each compensation category for the 10 banks we reviewed. The compensation packages represent the named executive officers, which are the chief executive officer, chief financial officer, and the next three highest-paid executives. Our analysis compared First Republic Bank, Signature Bank, and Silicon Valley Bank to a group of seven U.S.-based banks with similar business lines that each had total assets between $100 and $250 billion at year-end 2022. The 2022 information for First Republic Bank was not publicly available because the bank did not release its 2023 proxy statement or publicly disclose its 2022 executive compensation prior to its failure on May 1, 2023. The banks' long-term incentive plans generally assessed executive officers' performance over 3 years and were granted over a vesting period of 3 years.

The structure of incentive plans at the 10 banks also was similar, comprising annual and long-term components with defined performance periods and goals. Long-term incentive plans generally constituted a larger share of total incentive compensation than did annual incentives. In 2022, the median amount of compensation payable under long-term incentive plans for the peer banks was about 54 percent of total compensation for all executives. It was about 61 percent for Silicon Valley, about 54 percent for Signature, and about 73 percent for First Republic (see fig. 1).

These long-term incentive plans were based on performance over a 3-year period. Payment for long-term incentive awards generally was deferred for 3 or 4 years and was delivered in the form of equity (most commonly, stock units) in the bank.[28] All of the 10 banks used stock units that were vested over specified periods of time as a form of equity in their compensation packages.[29]

Annual incentives almost always constituted a smaller proportion of total compensation than did long-term incentive plans. These plans were generally based on 12-month performance periods and paid in cash.[30] In 2022, the median annual incentive compensation was 29 percent of total executive compensation for the peer banks, 17 percent for Silicon Valley, 28 percent for Signature, and 19 percent for First Republic. First Republic was the only bank to include equity in its annual incentive plans. Half of these equity awards were delivered in restricted stock units that vested annually over 3 years.

The use of incentive compensation and equity compensation for executives aligns with certain practices described in the 2010 interagency guidance on sound compensation practices. According to the guidance, compensation arrangements for senior executives at large banks are

[28]The most common equity instruments were performance stock units (a company promise to issue stock to employees if certain performance goals were met) or restricted stock units (a company promise to issue stock to employees if they remained employed at the company for a specific time). Performance stock units generally were granted as a percentage of a target measure of performance set by the compensation committee and became available to the executive all at once at the end of the performance period. Restricted stock units generally became available to the executive annually over 3 or 4 years.

[29]Vesting refers to the process of gaining ownership of allotted shares over time.

[30]Compensation committees generally made determinations of and paid these amounts to employees in the first quarter after the financial results from the prior year were available.

better balanced when (1) a significant portion of incentive compensation is in equity that vests over multiple years, and (2) that equity is tied to the organization's performance during the deferral period.[31] The guidance also recommends delaying incentive compensation beyond the performance period to discourage imprudent risk-taking.[32] This allows time for risk outcomes to materialize before payment. For example, if a bank fails, the executive's stock may become worthless before they can sell it.

Amount of Compensation Packages

In 2022, the total amount of CEO compensation generally was similar at 9 banks we reviewed (see table 1). CEO compensation at two of the failed banks in 2022 was about $8.7 million at Signature and about $9.9 million at Silicon Valley, while the median CEO compensation among the selected peer banks was about $9.2 million. The amount of CEO base salary at all the banks was near $1 million.[33] CEO compensation at First Republic Bank was $17.8 million in 2021. Most of the difference between CEO compensation at First Republic and the other banks can be attributed to higher incentive compensation, both annual and long-term.

[31]Guidance on Sound Incentive Compensation Policies, 75 Fed. Reg. 36395, 36400 (June 25, 2010).

[32]The interagency guidance states a "longer performance period" but does not specify the time period. Guidance on Sound Incentive Compensation Policies, 75 Fed. Reg. 36395, 36409 (June 25, 2010). The Financial Stability Board principles state that the performance period should be 3 years or more. Financial Stability Board, *FSB Principles for Sound Compensation Practices: Implementation Standards.*

[33]As noted earlier, the tax deduction that publicly held companies can take for certain executive compensation is limited to $1 million per individual.

Table 1: Compensation Package Amounts for Chief Executive Officers at 10 Banks GAO Reviewed

Dollars in millions

		Incentive plans		
	Base salary	Annual	Long-term[a]	Total[b]
Failed banks				
First Republic Bank, 2021[c]	$1.0	$4.6	$11.9	**$17.8**
Signature Bank, 2022	$1.2	$2.5	$4.9	**$8.7**
Silicon Valley Bank, 2022	$1.1	$1.5	$7.3	**$9.9**
Selected peer banks				
Median for seven banks, 2022	$1.1	$2.4	$5.5	**$9.2**

Source: GAO analysis of 2023 proxy statements (Silicon Valley, Signature, and other selected banks) and 2022 proxy statement (First Republic). | GAO-25-107032

Note: Our analysis compared First Republic Bank, Signature Bank, and Silicon Valley Bank to a group of seven U.S.-based banks with similar business lines that each had total assets of $100 billion–$250 billion at year-end 2022.

[a]Amounts shown reflect the fair value on the grant date, as recognized by the bank for financial statement reporting purposes in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. Award fair value is based on the closing price of the bank's common stock on the date of grant.

[b]Other types of compensation (such as retirement contributions, use of company aircraft, and relocation expenses) generally make up less than 2 percent of total compensation and are not shown in this table.

[c]First Republic Bank's 2022 information was not publicly available because the bank did not release its 2023 proxy statement or publicly disclose its 2022 executive compensation prior to its failure on May 1, 2023.

The median compensation of the other four executive officers also was similar at most of the banks we reviewed. The median compensation for the four non-CEOs at nine banks ranged from $3.2 million to $3.9 million. The median non-CEO compensation for First Republic in 2021 was $8.3 million. Most of the difference between First Republic and the other banks can be attributed to higher incentive compensation, both annual and long-term (see table 2). For more details, see appendix II.

Table 2: Median Compensation Package Amounts for Non-Chief Executive Officers at 10 Banks GAO Reviewed

Dollars in millions

		Incentive plans		
	Base salary	Annual	Long-term[a]	Total[b]
Failed banks				
First Republic Bank, 2021[c]	$0.6	$1.6	$6.0	**$8.3**
Signature Bank, 2022	$0.6	$0.9	$1.7	**$3.3**
Silicon Valley Bank, 2022	$0.7	$0.5	$2.0	**$3.2**
Selected peer banks				
Median for seven banks, 2022	$0.7	$1.2	$1.9	**$3.9**

Source: GAO analysis of 2023 proxy statements (Silicon Valley, Signature, and other selected banks) and 2022 proxy statement (First Republic). | GAO-25-107032

Note: Our analysis compared the compensation of four top executive officers, after the chief executive officer, of First Republic Bank, Signature Bank, and Silicon Valley Bank to a group of seven U.S.-based banks with similar business lines that each had total assets of $100 billion–$250 billion at year-end 2022.

[a]Amounts shown reflect the grant date fair value recognized by the bank for financial statement reporting purposes in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. Award fair value is based on the closing price of the bank's common stock on the date of grant.

[b]Other types of compensation (such as retirement contributions, use of company aircraft, and relocation expenses) generally make up less than 2 percent of total compensation and are not shown in this table.

[c]First Republic Bank's 2022 information was not publicly available because the bank did not release its 2023 proxy statement or publicly disclose its 2022 executive compensation prior to its failure on May 1, 2023.

Banks We Reviewed Used Similar Measures to Determine Incentive Awards, Including Financial and Nonfinancial Measures of Performance

The banks we reviewed used similar measures of performance or risk in designing annual and long-term incentive awards in 2022.[34] Financial measures used at these banks generally were tied to the bank's financial performance, while nonfinancial measures were focused on a bank's or an individual employee's performance or a risk outcome.

In 2022, all three failed banks and seven peer banks used financial measures of performance (such as return on equity or earning per share) in their annual and long-term incentive plans (see table 3). Two of the failed banks and five peer banks used nonfinancial measures in their

[34]Our analysis reviewed the metrics banks used in designing their compensation plans. We did not review adjustments the banks may have made to reflect actual performance against target performance. As noted earlier, for First Republic Bank, we are reporting 2021 compensation information because the bank did not publicly disclose its executive compensation information for 2022 prior to its failure on May 1, 2023.

annual incentives, and two peer banks used them in their long-term incentives.

Table 3: Use of Financial and Nonfinancial Measures at 10 Banks GAO Reviewed

	Financial measures for annual incentives	Nonfinancial measures for annual incentives	Financial measures for long-term incentives	Nonfinancial measures for long-term incentives	Financial and nonfinancial measures related to risk
Failed banks					
First Republic Bank, 2021[a]	Yes	Yes	Yes	No	Yes
Signature Bank, 2022	Yes	Yes	Yes	No	Yes
Silicon Valley Bank, 2022	Yes	No	Yes	No	No
Selected peer banks (seven)					
Number of peer banks with the specified measure, 2022	7	5	7	2	6

Source: GAO analysis of 2023 proxy statements (Silicon Valley, Signature, and other selected banks) and 2022 proxy statement (First Republic). | GAO-25-107032

Note: Our analysis compared the incentive plans for executive officers of First Republic Bank, Signature Bank, and Silicon Valley Bank to a group of seven U.S.-based banks with similar business lines that each had total assets of $100 billion–$250 billion at year-end 2022.

[a]First Republic Bank's 2022 information was not publicly available because the bank did not release its 2023 proxy statement or publicly disclose its 2022 executive compensation prior to its failure on May 1, 2023.

In 2022, the types of financial measures the banks used were similar. For example, all the banks used a measure of return on equity for long-term incentive awards and six banks used it for annual incentive awards. That is, if the bank met a stated goal for return on equity, the executive received the portion of the incentive award determined by this measure. Other common financial measures among the banks we reviewed were total shareholder return, return on assets, and earnings per share.[35] Industry group representatives told us that banks generally use similar financial performance measures and that none of these measures are particularly risky when used together with other performance measures.

[35]Return on equity is calculated by dividing net income by shareholders' equity. Total shareholder return is calculated by dividing the sum of overall appreciation in the stock's price per share and dividends paid by the company by the original price of the stock.

Eight of the banks also used nonfinancial measures in either long-term incentives or annual incentives, or both. These nonfinancial measures often included an assessment of risk management. For example, 34 percent of Signature Bank's annual incentive compensation was determined by a set of nonfinancial measures, including meeting goals for prudent risk management and reputation with regulators. Examples of nonfinancial measures at other banks include meeting goals related to continuous improvement, personnel management, and reputation of the bank. Two banks, including Silicon Valley, did not use any nonfinancial measures relating to risk.[36]

Most of the 10 banks used three or fewer performance measures for designing long-term incentive awards, and they focused largely on financial measures. Two banks, including First Republic, relied on a single financial measure. Industry group representatives told us that the structuring of incentive plans can introduce risk if not balanced—for example, if annual or long-term incentive awards are tied to a single measure. In contrast, most of the 10 banks generally used a combination of more than three financial and nonfinancial measures of performance for designing annual incentive awards.

We also observed similarities in the methods banks used to design incentive awards in 2022. Eight banks, including all three failed banks, used formulas based on financial measures to determine the amount of long-term incentive awards. For example, Silicon Valley's formula allocated 50 percent of the award for return on equity and 50 percent for total stockholder return. The two banks that did not use formulas considered performance related to nonfinancial measures as well as financial measures in the design of their long-term incentives. For example, one bank evaluated executives' performance in leadership, strategic planning, customer relations, and management of personnel.

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[36]A review by Vice Chair for Supervision Michael Barr identified that Silicon Valley's senior management compensation packages through 2022 were tied to short-term earnings and equity returns, without incorporating risk metrics. The report noted that this encouraged excessive risk-taking to maximize short-term financial metrics. *Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank, Michael Barr, Board Vice Chairman for Supervision* (Washington, D.C.: Apr. 28, 2023). The bank's 2023 proxy statement notes that the board of directors considered a variety of factors, including risk-management objectives, when determining awards for 2022 performance, which were paid in 2023. Additionally, downward adjustments were made to some executives' 2022 payouts due to the application of a risk-reduction metric, according to information the bank provided to the Federal Reserve.

Three banks relied on discretionary decision-making that used financial and nonfinancial measures to determine annual incentive awards. Specifically, banks evaluated bank, business unit, and individual performance against diverse factors to ensure that no single factor disproportionately affected compensation. For example, one bank detailed a comprehensive evaluation of bank and individual performance in categories such as financial, customer, strategic, human capital, and risk. Another bank included factors such as client satisfaction, risk, and leadership executives' performance. A third included individual efforts in advancing certain goals, such as diversity or recruitment. Industry groups told us that shareholder advisory firms prefer incentive awards based on discretionary decision-making and large banks are more likely to use them.

The literature we reviewed on the relationship between banks' compensation packages and risks found limited evidence of a relationship between specific performance measures and bank risks.[37] One study found that a higher proportion of pay linked to return on equity was associated with lower bank risk, based on data from 2006 to 2018.[38] The same study also found no robust relationship between specific performance measures and the bank's performance on that measure. Two studies found that relationships between executive compensation and bank risks have weakened since the 2007–2009 financial crisis.[39]

[37]We identified 11 studies that appeared in peer-reviewed journals (from January 1, 2018, through November 17, 2023), met our selection criteria, and were reliable for the purpose of providing information on the relationship between banks' compensation packages and risks.

[38]See Benjamin Bennett, et al., "How Are Bankers Paid?" *The Review of Corporate Finance Studies*, vol. 10 (2021): 788-812.

[39]See Shams Pathan, et al., "CEO Pay Gaps and Bank Risk-Taking," *European Accounting Review,* vol. 32, no. 4 (2023): 935-964. Also see Christopher Armstrong, Allison Nicoletti, and Frank S. Zhou, "Executive Stock Options and Systemic Risk," *Journal of Financial Economics,* vol. 146 (2022): 256-276.

Dodd-Frank Act Provisions and Other Mechanisms Seek to Mitigate Compensation Risk and Provide Information to Shareholders

The Dodd-Frank Act requires specific corporate governance practices related to the design and review of executive compensation for all publicly traded companies.[40] These practices include shareholder votes on compensation, specific executive compensation disclosures, clawback policies, and independent compensation committees. Additionally, federal banking regulator guidance on incentive compensation describes corporate governance practices that mitigate risks related to incentive compensation, including input from risk-management personnel and independent review from the board of directors or compensation consultants.[41]

"Say-on-pay" votes. The Dodd-Frank Act requires public companies to provide their shareholders with a nonbinding advisory vote ("say-on-pay") on the compensation of the CEO, chief financial officer, and three other highly compensated executive officers whose compensation is disclosed in the proxy statement.[42] Representatives of industry groups told us that nonbinding say-on-pay votes have allowed stockholders to directly affect compensation packages. For example, one group noted that use of certain equity instruments in executive compensation packages has declined since the Dodd-Frank Act because boards know that stockholders are less likely to approve the package.

In 2022, Silicon Valley Bank reported 89 percent approval for say-on-pay votes and Signature reported 94 percent, while six of the seven peer banks reported results of 92 percent or above. First Republic reported 92 percent in 2021.

Pay disclosures. Shareholders also have access to information on executive compensation through the disclosure of the CEO pay ratio, which is the ratio of total annual compensation for the CEO to that of the median of the annual total compensation of all employees.[43] The three

[40]Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, §§ 951–957, 124 Stat. 1376, 1899–1907 (2010).

[41]Guidance on Sound Incentive Compensation Policies, 75 Fed. Reg. 36395 (June 25, 2010).

[42]Pub. L. No. 111-203, § 951, 124 Stat. 1376, 1899 (2010) (codified as amended at 15 U.S.C. § 78n-1). At least once every 3 years, public company shareholders have the right to cast a nonbinding vote on whether they approve of executive compensation.

[43]The Dodd-Frank Act directed SEC to amend existing rules to require companies to disclose the median of the annual total compensation of all employees of the company, except the CEO, the annual total compensation of its CEO, and the ratio of those two amounts. Pub. L. No. 111-203, § 953(b), 124 Stat. 1376, 1903 (2010).

failed banks reported similar or lower CEO pay ratios than any of the selected banks. For example, the CEO pay ratios of the peer banks in 2022 ranged from 111 to 1 to 158 to 1. The ratios for Signature Bank and Silicon Valley Bank were 83 to 1 and 79 to 1, respectively. The ratio for First Republic Bank in 2021 was 110 to 1.

Clawback policies. All the banks in our review, including the three failed banks, had a clawback policy in their annual public disclosures. These policies typically included provisions for recouping compensation in the event of a material financial restatement.[44] More than half of the banks' policies also allowed clawback for risk-related activities, such as excessively risky behavior or violations of risk policies and procedures.[45] Federal banking regulator guidance states that boards of directors should have sufficient information to review compensation payments to determine if clawback provisions have been triggered and executed as planned, when such provisions are included in senior executive compensation arrangements.[46]

Independent compensation committees and consultants. As noted in their proxy statements, all 10 banks we reviewed, including the three failed banks, used independent compensation committees and compensation consultants to design and review executive compensation

[44]Section 954 of the Dodd-Frank Act required SEC to promulgate a rule directing national securities exchanges and national securities associations to establish listing standards that require each issuer to develop and implement clawback policies. Under the final rule which was adopted in 2022 and became effective in early 2023, the exchanges' listing standards require issuers to develop and implement written policies for recovery of incentive-based compensation and disclose those compensation recovery policies in accordance with SEC rules. Issuers that do not adopt and comply with compensation recovery policies are subject to delisting.

[45]These banks did not include the three failed banks. The three failed banks' clawback policies did include provisions for the recoupment of compensation resulting from "misconduct," but their public disclosures did not contain sufficient information for us to determine if misconduct relates to risk-related activities.

[46]Guidance on Sound Incentive Compensation Policies, 75 Fed. Reg. 36395, 39402 (June 25, 2010).

practices.[47] No executive at any of the banks was involved in designing or determining their own compensation. Members of compensation committees included independent board members. The committees met several times a year to design and review executive compensation packages. Compensation consultants were external experts engaged by the compensation committees to provide guidance and advice to the committee on compensation matters, including competitive practices, market trends, and peer group composition.

Representatives from industry groups told us that regulators and banks have placed a greater focus on the individuals involved in designing incentive compensation packages since the 2007–2009 financial crisis.

Risk reviews. In addition to required corporate governance practices, six of the selected banks, including Signature and Silicon Valley, had the chief risk officer participate in compensation design or annual reviews. Federal banking regulator guidance states that risk-management personnel should have input into the bank's processes for designing incentive-based compensation arrangements and assessing their effectiveness in restraining imprudent risk-taking. Involving risk management personnel in the design and monitoring of incentive compensation also helps ensure that a bank's risk-management functions are equipped to understand and address the full range of risks facing the bank.[48]

[47]As required by the Dodd-Frank Act, SEC promulgated rules directing that the securities exchanges adopt listing standards that include certain enhanced independence requirements for compensation committees and requiring that compensation committees consider certain independence factors before hiring compensation consultants. Listing Standards for Compensation Committees, 77 Fed. Reg. 38422 (June 27, 2012). For example, the listing standards must require that board compensation committees consist solely of independent directors. Federal banking regulator guidance also states that a bank's board of directors should have, or have access to, a level of expertise and experience in risk management and compensation practices in the financial services industry. The expertise may be from the members of the board, through formal training, or obtained through advice received from outside counsel, consultants, or other with expertise in incentive compensation and risk management. Guidance on Sound Incentive Compensation Policies, 75 Fed. Reg. 36395, 36402 (June 25, 2010).

[48]Guidance on Sound Incentive Compensation Policies, 74 Fed. Reg. 36395, 36411 (June 25, 2010).

Executives at the Three Failed Banks Were Awarded and Disposed of Stock from January 2021 through March 2023

Aggregate Stock Acquisitions and Disposals

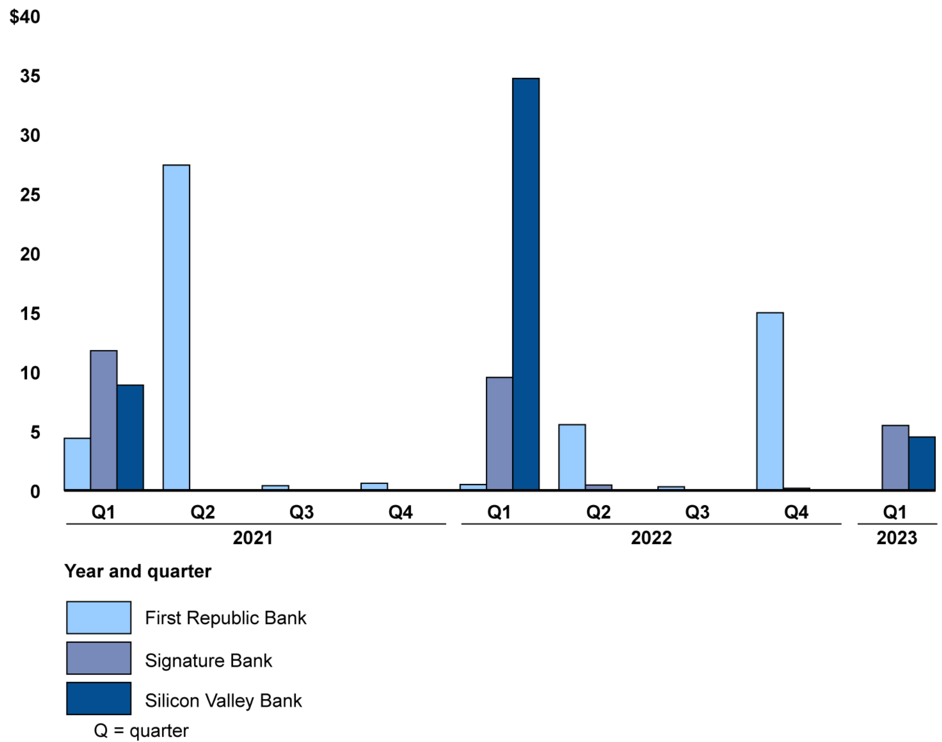
As described previously, stock awards are generally the form of payment for long-term incentive plans, which make up most of executives' compensation at banking organizations we reviewed.[49] We examined publicly available disclosures on stock acquisitions and disposals by former executive officers at the three failed banks from January 2021, through March 2023.[50]

All of the former executives whose trades we reviewed at each bank received stock awards (totaling approximately $129.5 million) and made disposals during our review period, but none made open market purchases of stock. Awards were generally received in the first and second quarters of each year (see fig. 2). In 2023, executives at Silicon Valley Bank and Signature Bank received awards of approximately $4.5 and $5.5 million, respectively. First Republic Bank historically awarded most of its incentive compensation to executives in the second or fourth quarter of the calendar year but was placed in receivership before this occurred in 2023.

[49]An executive who has been awarded shares as part of compensation may not be able to sell those shares until a specified time, also known as fully vested shares. The stock transactions described in this section are for shares that were fully vested.

[50]We reviewed publicly available disclosures of changes in securities ownership for former executives at First Republic Bank, Signature Bank, and Silicon Valley Bank filed with SEC or FDIC. The executive officers were the named executive officers, which include the chief executive officer, chief financial officer, and the next three highest-paid executives, identified in the 2023 annual proxy statements for Silicon Valley Bank and Signature Bank and the 2022 annual proxy statement for First Republic Bank. We searched for disclosures submitted through the date of each bank's failure. The last disclosures for each executive we reviewed occurred in the first quarter of 2023; therefore, we report on transactions that occurred through March 31, 2023.

Figure 2: Value of Stock Awards to Executive Officers at Three Failed Banks, January 2021–March 2023



Source: GAO analysis of Securities and Exchange Commission and Federal Deposit Insurance Corporation filings. | GAO-25-107032

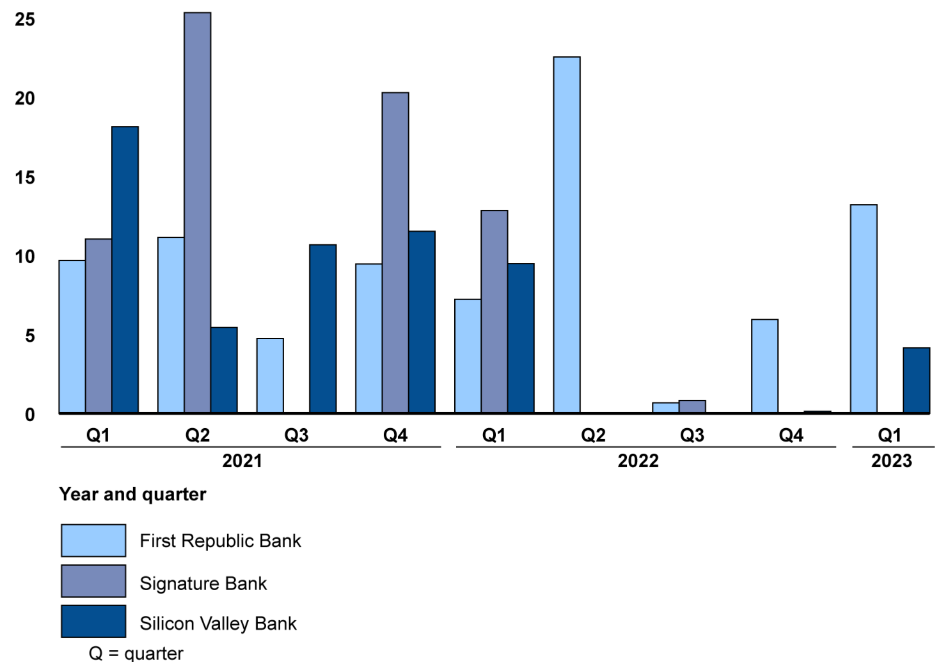
Note: The executive officers are the named executive officers in proxy statements, generally the chief executive officer, chief financial officer, and the next three highest-paid executives at each bank.

Executives at the failed banks disposed of a total of approximately $214.3 million in company stock from January 2021 through March 2023 (see fig. 3).[51] Three of the 15 former executives accounted for more than half of this amount—the CEOs of Silicon Valley Bank and Signature Bank and the founder and former CEO of First Republic. Similar to the prior year, executives at Silicon Valley and First Republic disposed of stock in the first quarter of 2023. Executives at these two banks disposed of stocks totaling more than $17 million from January 2023 through March 2023.[52] Three of the 10 executives who disposed of stock accounted for almost three-quarters of this amount—one CEO, one former CEO, and one non-CEO executive. No executives at Signature Bank disclosed any disposals in 2023. For more details, see appendix III.

[51]Executives at banks are subject to certain regulations related to insider trading of company stock. For example, corporate insiders are prohibited from trading their company's stock on the basis of material nonpublic information. 15 U.S.C. § 78j(b); 17 C.F.R. § 240.10b5-1. A trading plan, also known as a Rule10b-5 plan, provides an affirmative defense to liability for insider trading if the person can demonstrate that the trade was made pursuant to a written plan adopted at the time the person was not aware of material nonpublic information. 17 C.F.R. § 240.10b5-1(c)(1)(i)(A)(3). In 2022, SEC amended Rule 10b-5 to require the use of a cooling-off period for officers and directors between the later of (1) 90 days after adoption or modification of a trading plan by officers and directors or (2) 2 business days after the company's disclosure of its financial results in a periodic report and the date that trades may take place under the plan, among other requirements. Insider Trading and Related Disclosures, 87 Fed. Reg. 80362 (Dec. 29, 2022) (codified at 17 C.F.R. pts. 229, 232, 240, and 249). However, the new amendment was not effective at the time the Silicon Valley Bank's CEO placed his trade before the bank failed.

[52]In September 2024, a Massachusetts state regulator fined a broker-dealer for allegedly failing to reasonably address certain insider sales at First Republic Bank. The regulator stated that the broker-dealer allowed a high-level executive at the bank to sell thousands of shares out of their account in the 6 months prior to First Republic Bank's failure, violating the broker-dealer's compliance policies prohibiting the trading of securities based on material nonpublic information. The fine was the result of a settlement between the parties. The broker-dealer entered into the settlement with the regulator without admitting or denying wrongdoing.

Figure 3: Value of Stock Disposals by Executive Officers at Three Failed Banks, January 2021–March 2023



Source: GAO analysis of Securities and Exchange Commission and Federal Deposit Insurance Corporation filings. | GAO-25-107032

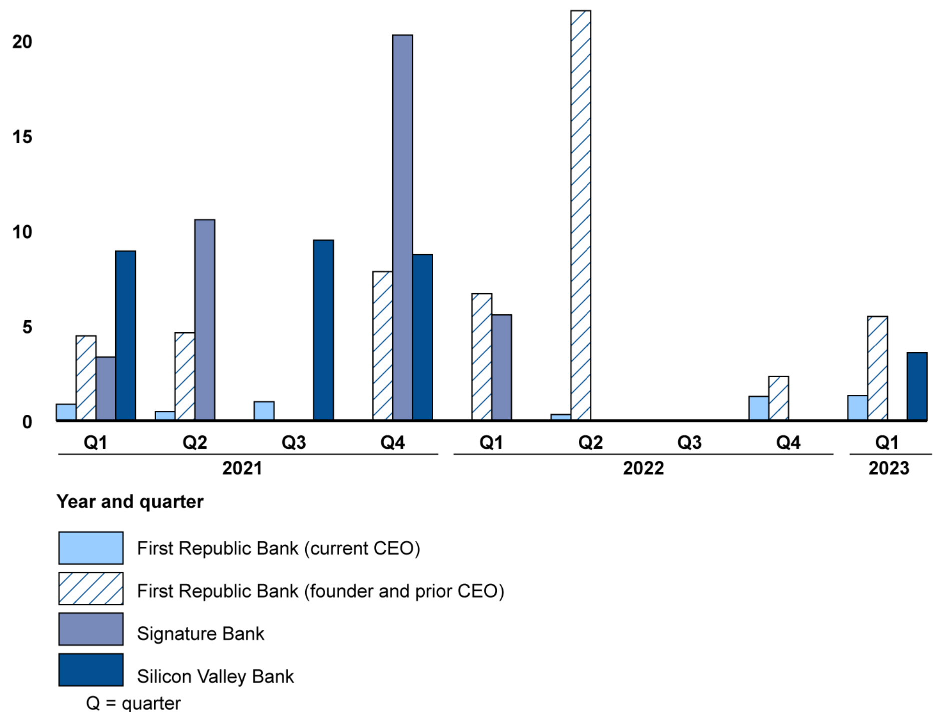
Note: The executive officers are the named executive officers in proxy statements, generally the chief executive officer, chief financial officer, and the next three highest-paid executives at each bank.

Bank Chief Executive Officer Disposals

Chief executive officers at the failed banks sold a total of approximately $128.7 million in company stock from January 2021 through March 2023 (see fig. 4).[53] For more details, see appendix III.

[53]As shown in figure 4, this includes the sales of the former CEO of First Republic Bank during this period.

Figure 4: Value of Stock Disposals for the Chief Executive Officers (CEO) at Three Failed Banks, January 2021–March 2023



Source: GAO analysis of Securities and Exchange Commission and Federal Deposit Insurance Corporation filings. | GAO-25-107032

Silicon Valley Bank. The CEO of Silicon Valley disposed of approximately $30.7 million in company stock from January 1, 2021, through February 27, 2023. The CEO disposed of approximately $3.6 million in the first quarter of 2023.[54] He owned 98,867 shares when the bank failed, which were worth approximately $22.8 million at year-end 2022.[55]

[54]Silicon Valley Banks's CEO exercised his stock options on February 27, 2023. A stock option is the right, but not the obligation, to buy a specified number of shares in a company at a predetermined price within a set period. These stock options were awarded as part of the bank's 2016 long-term incentive plan and were set to expire on May 2, 2023, after which they would have no value.

[55]The amount of shares owned by the CEOs at the time of failure does not include shares not yet vested. For all failed banks, we used the bank's stock price at close on December 30, 2022, to approximate the value of the shares before the bank failures.

Signature Bank. The CEO of Signature Bank disposed of approximately $39.8 million in company stock from January 1, 2021, through March 22, 2022. The CEO did not dispose of any stock in the first quarter of 2023. He owned 206,448 shares when the bank failed, which were worth approximately $23.8 million at year-end 2022.

First Republic Bank. The CEO of First Republic—who was appointed in March 2022—disposed of approximately $5.3 million in company stock from January 1, 2021, through February 12, 2023. Of the $5.3 million, approximately $1.3 million was disposed of in the first quarter of 2023. The founder and prior CEO disposed of approximately $53 million from January 1, 2021, through February 28, 2023. Of the $53 million, about $5.5 million was disposed of in the first quarter of 2023. The current CEO owned 58,141 shares when the bank failed, which were worth approximately $7.1 million at year-end 2022. The founder and prior CEO owned 698,836 shares when the bank failed, which were worth approximately $85.2 million at year-end 2022.

Regulators Regularly Review Executive Compensation during Ongoing Monitoring and Occasionally Review It in Examinations

Banking Regulators Take Various Actions to Oversee Executive Compensation

Federal banking regulators review executive compensation practices during bank examinations, and this review contributes to the bank's "management" rating.[56] The rating is based on an examiner's assessment of the capability of the bank's board of directors and management to identify, measure, monitor, and control the risks of a bank's activities. A bank's board of directors is responsible for overseeing the bank's compensation programs. As part of their supervision of banks, FDIC, the Federal Reserve, and OCC review the activities of a bank's board to determine if compensation practices for the bank's executive officers and

[56]Bank examiners review and evaluate an institution's condition using the Uniform Financial Institutions Rating System, also known as CAMELS (capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk).

employees are safe and sound. Specifically, regulators check for consistency with prudent compensation practices and compliance with laws and regulations governing these practices.[57]

Federal banking regulators use regulations and guidance documents in their reviews of incentive or executive compensation at banking organizations. In 2014, OCC established guidelines for large banks it oversees, outlining minimum standards for designing and implementing a risk-governance framework. The guidelines also contain minimum standards for a bank's board of directors to oversee design and implementation of the framework.[58]

With respect to compensation, the guidelines require large banks to establish and adhere to compensation programs that prohibit incentive-based payment arrangements that (1) encourage inappropriate risks by providing excessive compensation or (2) could lead to material financial loss. To determine compliance with these requirements, OCC assesses banks' compensation practices as part of its examinations.

The Federal Reserve finalized supervisory guidance in 2021 for bank holding companies on attributes of an effective board of directors.[59] The guidance emphasizes that boards should review and approve significant policies, including those on performance management and compensation of senior management. Additionally, the 2010 interagency guidance serves as key guidance for the banking regulators when examining

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[57]For example, refer to section 39(c) of the Federal Deposit Insurance Act, 12 U.S.C. § 1831p–1 (c); section 18(k) of the Federal Deposit Insurance Act, 12 U.S.C. § 1828(k); the Prohibition on Compensation that Constitutes an Unsafe and Unsound Practice set forth in the "Interagency Guidelines Establishing Standards for Safety and Soundness," 12 C.F.R. pt. 30, app. A (OCC), 12 C.F.R. pt. 208, app. D-1 (Federal Reserve), and 12 C.F.R. pt. 364 app. A (FDIC); and regulations regarding golden parachute and indemnification payments set forth at 12 C.F.R. pt. 359.

[58]Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches; Integration of Regulations. 79 Fed. Reg. 54518 (Sept. 11, 2014) (codified at including 12 C.F.R. pt. 30, app. D). The standards generally apply to large insured national banks, insured federal savings associations, and insured federal branches of foreign banks with average total consolidated assets of $50 billion or more.

[59]Board of Governors of the Federal Reserve System, *Supervisory Guidance on Board of Directors' Effectiveness,* SR 21-3/CA 21-1 (Feb. 26, 2021). The guidance also applies to savings and loan holding companies with total consolidated assets of $100 billion or more (excluding U.S. intermediate holding companies of foreign banks established pursuant to the Federal Reserve's Regulation YY) and systematically important nonbank financial companies designated by the Financial Stability Oversight Council.

executive compensation. That guidance outlines three principles of incentive compensation, as described earlier.[60]

The federal banking regulators review executive compensation at large banking organizations through various supervisory activities, including ongoing monitoring, targeted examinations, and horizontal reviews.[61] Officials from the three banking regulators stated that examiners annually assess executive compensation-related materials, including board involvement, policies, and risks for large banking organizations.[62] For example, FDIC and the Federal Reserve use a management and internal control document to assess a board of directors' involvement with compensation issues, policies governing compensation programs, and the material risks that compensation practices may pose to the bank.[63] OCC officials stated that during supervisory activities, examiners would seek to identify changes in a bank's compensation structure or program or changes in management.

Officials from the federal banking regulators stated they may conduct other ongoing monitoring activities, depending on the risk profile or size of the banking organization. Such activities can include a review of a banking organization's internal audits, SEC proxy statements, meeting materials from a bank's compensation committee, news and media

[60]Guidance on Sound Incentive Compensation Policies, 75 Fed. Reg. 36395 (June 25, 2010).

[61]The types of supervisory activities vary by regulator and may be referred to by different names. FDIC refers to targeted examinations as target reviews, but we refer to them as targeted examinations throughout this report. OCC conducts a supervisory activity called focused reviews, which are limited in scope and are generally designed to gather information about a specific product, service, line of business, risk, or activity. Focused reviews may be used for discovery purposes to inform future supervisory activities. For our review, we categorized OCC's focused reviews as targeted examinations and refer to them as such throughout the report.

[62]The annual assessment results in a report of examination, which is the annual aggregation of targeted examinations and ongoing monitoring activities.

[63]Banking regulators' supervision manuals contain procedures that examiners use to evaluate risks for large financial institutions on an annual basis. See Board of Governors of the Federal Reserve System, *Commercial Bank Examination Manual* (updated Nov. 28, 2023); Federal Deposit Insurance Corporation, Division of Risk Management Supervision, *Risk Management Manual of Examination Policies* (Nov. 9, 2023); Office of the Comptroller of the Currency, *Comptroller's Handbook: Large Bank Supervision* (updated March 2022); Board of Governors of the Federal Reserve System, *Management and Internal Control Evaluation - Core Analysis, Examination Documentation Module*; and Federal Deposit Insurance Corporation, *Management and Internal Control Evaluation - Core Analysis, Examination Documentation Module*.

articles, related past supervisory concerns, and documentation of management salary and stock awards. The information gained from these activities informs regulators' supervisory plans in multiple ways, the regulators stated. For instance, it may lead to adjustments in planned examinations of compensation-related issues, based on risks identified.

Federal banking regulators also may review executive compensation using targeted examinations, which focus on a particular banking organization product, function, topic, or risk. Regulators may conduct a targeted examination on executive compensation alone or may include it as a component in a broader targeted examination, such as corporate governance or enterprise risk management.

Officials from the three federal banking regulators stated they did not have any rules or guidance on the frequency of reviewing executive compensation through targeted examinations.[64] Instead, as part of regulators' risk-based supervisory activities, examiners consider factors such as banking organization risk and complexity, management issues, financial condition, and internal controls (many of which are assessed as part of ongoing monitoring) to determine the frequency of such examinations.

Finally, these regulators may review executive compensation issues through horizontal reviews, which focus on a single issue at several banking organizations. As described later, the Federal Reserve has used this approach to understand the range and evolution of incentive compensation practices across banking organizations and provide guidance to them on improving these practices.[65]

[64]Federal Reserve officials noted that this is consistent for most other areas that are subject to targeted examinations.

[65]For example, in 2009, the Federal Reserve, in coordination with FDIC and OCC, conducted a horizontal review focused on incentive compensation at 25 large, complex banking organizations. The Federal Reserve launched this review in part to guide banks in implementing the 2010 interagency guidance. Board of Governors of the Federal Reserve System, *Incentive Compensation Practices: A Report on the Horizontal Review of Practices at Large Banking Organizations* (Washington, D.C.: October 2011). At the end of the horizontal review, the Federal Reserve concluded that firms had made progress toward developing effective incentive compensation practices, such as deferring a greater percentage of executive compensation and more closely monitoring risk-taking incentives. The Federal Reserve also noted that incentive compensation practices should continue to evolve and develop.

Regulators Examined Incentive or Executive Compensation at Nearly All Selected Banks in 2017–2022

Compensation-Related Examinations and Reviews

Regulators examined nearly all the 21 the banks in our selection for compensation issues at least once from 2017 through 2022.[66] As shown in figure 5, 20 of the 21 selected banks were examined at least once for executive or incentive compensation during this period.[67]

[66]For all the targeted examinations we reviewed, any review of executive compensation also included review of incentive compensation. We grouped FDIC's target reviews and OCC's focused reviews with targeted examinations. The time frame of our review was calendar years 2017–2022, determined from the targeted examination's scoping memorandum.

[67]In its role as a bank holding company regulator, the Federal Reserve may initiate, with reasonable notice to the primary regulator, targeted examinations of banks through their bank holding companies. For the banks we selected, we did not review examinations of their bank holding companies, except for bank holding company examinations related to the three failed banks, if they had one, and the Federal Reserve's horizontal reviews, which are described below.

Figure 5: Targeted Examinations and Horizontal Reviews Related to Incentive and Executive Compensation for 21 Selected Banks, 2017–2022

Bank	2017	2018	2019	2020	2021	2022
First Republic	◆	◆	◆	▣		
Signature Bank	◆					
Silicon Valley Bank		◆ ◆				▣ ▣
Bank A				▣ ▣		
Bank B				▣		
Bank C		●	▣	▣	◆	●
Bank D		◆ ◆ ●				●
Bank E					◆	◆
Bank F						
Bank G			◆			
Bank H					▣	
Bank I					▣	
Bank J		●		◆		●
Bank K					▣	
Bank L		◆			◆	◆ ◆
Bank M		◆ ●			◆ ▣	● ◆
Bank N					▣	
Bank O						▣
Bank P		▣			▣	
Bank Q	◆	◆			◆ ◆	◆
Bank R		●	▣			● ▣

◆ Targeted examination that reviewed incentive compensation

▣ Targeted examination that reviewed executive compensation

● Horizontal review that reviewed executive compensation

Source: GAO analysis of Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, and Office of the Comptroller of the Currency examination information. | GAO-25-107032

Note: All reviews of executive compensation also included a review of incentive compensation. Because supervisory activities for the three banks that failed in 2023 have been publicly released, these banks are named in the table above. The Federal Deposit Insurance Corporation's target reviews and Office of the Comptroller of the Currency's focused reviews (a type of supervisory activity), are categorized as targeted examinations in this figure. With the exception of one examination of Silicon Valley Bank's bank holding company that was made public, and horizontal reviews related to compensation, this figure does not include bank holding company examinations that were conducted by the Board of Governors of the Federal Reserve System. Examinations included in the figure were conducted during calendar years 2017–2022, as determined by each targeted examination's scoping memorandum.

During this period, 15 of the 21 selected banks received at least one examination (a targeted examination or a horizontal review) that included a review of executive compensation (results of these examinations are discussed later).[68] Thirteen of these 15 banks received at least one targeted examination (a total of 18 examinations) and the other two banks were examined as part of horizontal review activities.

Executive compensation more commonly was a component—rather than the main focus—of targeted examinations. For example, regulators considered executive compensation as part of targeted examinations focused on human resources or corporate governance. Of the 18 targeted examinations that reviewed executive compensation, four primarily reviewed executive compensation.

From 2017 through 2022, the regulators more frequently initiated targeted examinations that covered general incentive compensation practices at the 21 banks.[69] Twenty of the 21 banks had at least one targeted examination that included a review of incentive compensation.[70] In addition to examinations by their primary regulator, some banks may have undergone targeted examinations by the Federal Reserve in its capacity as a bank holding company regulator.

For the three failed banks, the frequency of examinations involving review of compensation varied:

First Republic Bank. FDIC conducted four targeted examinations of compensation issues at First Republic from 2017 through 2020. The 2020 examination included a review of executive compensation issues.

Signature Bank. FDIC did not conduct any targeted examinations that reviewed executive compensation issues from 2017 through 2022 at

[68]We considered a targeted examination to include a review of executive compensation if it focused on senior employees more than nonsenior employees, or on senior employees alone.

[69]We considered a targeted examination to include review of incentive compensation if it examined any aspect of incentive compensation for any employee. For example, this included targeted examinations that reviewed compensation controls on incentive compensation for loan officers, as well as those examining the approval process for incentive compensation for senior executives.

[70]This number also includes the executive compensation-related targeted examinations discussed above, as they reviewed elements of incentive compensation in addition to executive compensation.

Signature. But FDIC conducted a targeted examination on incentive compensation issues in 2017.

Silicon Valley Bank. The Federal Reserve conducted a targeted examination of Silicon Valley in 2022 that focused on executive compensation and two targeted examinations that reviewed incentive compensation issues in 2018. Additionally, the agency conducted a targeted examination of its bank holding company that included executive compensation in 2022.

Practices, Issues, and Functions Reviewed

Targeted Examinations

Examiners at the three banking regulators reviewed multiple aspects of banks' incentive and executive compensation practices during targeted examinations.[71] Most targeted examinations we reviewed assessed issues relating to the following areas:

- **Board of Directors duties.** For example, examiners reviewed whether and how banks' boards of directors approve the compensation of bank executives. They also reviewed the activities of banks' compensation committees, such as overseeing the design and implementation of any incentive-based compensation arrangements and working with other committees to appropriately balance risk and reward.
- **Duties of nonboard functions.** For example, examiners reviewed how banks' human resources and internal audit functions designed or reviewed performance-based compensation systems.
- **Effects of performance reviews on incentive compensation.** For example, examiners reviewed the effectiveness of banks' executive performance-management standards and metrics. Specifically, they examined whether the documentation or decision-making authority related to performance reviews were problematic, potentially leading to inappropriate compensation.
- **Risks related to employee compensation.** For example, examiners reviewed how banks' reviewed employees' incentive compensation

[71]To gather information on the content of targeted examinations involving executive compensation, we reviewed key documents (including scoping memorandums, supervisory letters, and conclusion memorandums) for all targeted examinations related to executive compensation conducted at our selected banks during the specified time period. Most of these examinations included a review of incentive compensation practices for all employees, with at least one review activity focusing on senior executives.

plans for alignment with their risk appetite and risk-management objectives.

Areas covered by the targeted examinations of the three failed banks included the following:

- **First Republic Bank.** Of the four targeted examinations related to compensation for First Republic in our review period, the 2020 examination included a high-level review of the bank's incentive compensation program, including its governance framework and financial impact. A second targeted examination reviewed incentive compensation issues related to accounts, products, and services. The last two examined the incentive compensation program as a component of corporate governance effectiveness.
- **Signature Bank.** The targeted examination Signature received on incentive compensation in 2017 reviewed the appropriateness of incentive compensation tied to the opening of customer accounts.
- **Silicon Valley Bank.** As previously discussed, Silicon Valley and its holding company were subject to targeted examinations that included executive compensation issues in 2022. These examinations reviewed aspects of the board of directors' involvement in compensation decisions. Silicon Valley Bank also had two other targeted examinations that reviewed incentive compensation issues in 2018. These examinations reviewed the internal audit department's reporting on incentive-based compensation arrangements, including organizational structure and risk-mitigation strategies related to loan production or volume.

Examination documentation for many of the targeted examinations we reviewed indicated that examiners referenced compensation-related guidance, such as the 2010 interagency guidance.[72] Examiners frequently referred to guidance when evaluating whether a bank's practices were consistent with safe and sound conduct and risk-management practices. For example, one examination found the bank's policies and programs aligned with practices described in the 2010 guidance by prohibiting incentive-compensation arrangements that encourage inappropriate risk-taking, establishing strong corporate governance on incentive compensation issues, and ensuring that compensation plans and

[72]Guidance on Sound Incentive Compensation Policies*, 75* Fed. Reg. 36395 (June 25, 2010).

decisions appropriately consider the level and severity of issues identified by internal audit.

Horizontal Review

In 2018, the Federal Reserve began a horizontal review at eight large banking organizations that included an examination of executive compensation practices. The review aimed to evaluate the organizations' risk management and controls for evaluating senior management performance and awarding incentive compensation. The review also evaluated whether boards of directors (or their compensation committees) adequately used performance management and incentive compensation programs to hold senior management accountable.

In 2020, the Federal Reserve began another horizontal review of the same banking organizations, which concluded in 2023. The review found that all organizations had established performance-assessment programs for covered employees that linked some risk and control aspect to incentive compensation decisions. However, the scope and quality of these assessment programs varied significantly across the organizations, as did the type of information provided to compensation committees.

Regulators Identified Some Deficiencies in Banks' Documentation, Monitoring, and Controls Related to Compensation

Supervisory Concerns

Banking regulators identified 10 supervisory concerns related to compensation issues at eight banking organizations, according to documentation we reviewed for targeted examinations and horizontal reviews. OCC issued five matters requiring attention to five banks in

2019, 2021, and 2022.[73] The Federal Reserve issued a matter requiring immediate attention to Silicon Valley Bank's holding company in 2022. The Federal Reserve also issued three matters requiring immediate attention to one bank holding company and one matter requiring attention to another during its 2020 horizontal review on incentive compensation.[74]

These supervisory concerns were frequently related to aspects of employee compensation issues broadly, and not always specific to executive employees. For example, supervisory concerns were related to topics that included managing compensation-related risks, clawback policies in compensation plans, and the performance-management practices:

- One bank had clawback and forfeiture policies that were insufficient and not adequately updated.[75] OCC issued a matter requiring attention that required bank management to review related policies to discourage excessive risk-taking and reinforce the desired bank culture, as well as continue to review and approve these policies annually.
- Another bank lacked sufficient documentation to support final discretionary payout decisions for incentive plans. Existing documentation did not make it clear whether payout decision-makers had a process to consider issues and concerns identified by bank stakeholders. OCC's related matter requiring attention required the bank to develop and implement revised monitoring and validation processes that ensured appropriate consideration of these issues.

[73]Supervisory concerns communicate issues regulators identify during examinations to bank representatives, generally the board of directors. Matters requiring attention constitute important matters the regulator expects a bank to address over a reasonable period of time. The Federal Reserve also issues matters requiring immediate attention that require a bank to take immediate action on a priority basis, to address important or lingering weaknesses that could lead to further deterioration in the bank's safety and soundness. In March 2024, we recommended that the Federal Reserve revise its escalation procedures to be clearer and more specific and to include measurable criteria. The Federal Reserve agreed with our recommendation but had not implemented it as of January 2025. See GAO-24-106974.

[74]According to officials, the Federal Reserve identified additional supervisory concerns at bank holding companies during their horizontal review. We do not discuss these in our report because they were against holding companies for banks that were not part of our selection of banks.

[75]Forfeiture refers to a reduction of incentive-based compensation that was awarded and deferred but not yet vested.

- A matter requiring immediate attention that the Federal Reserve issued against Silicon Valley Bank's holding company in 2022 stated that the board did not hold senior management accountable through appropriate performance management practices. Specifically, senior management's performance objectives and incentive compensation practices did not clearly link to risk-management objectives. Further, the holding company did not adequately consider the impact of risk-management deficiencies on its incentive compensation program. The matter required the holding company to develop a plan to effectively oversee senior management. At the time of Silicon Valley Bank's failure, it was in the process of redesigning its incentive compensation program in response to this supervisory concern.[76]

Although they did not rise to the level of a supervisory concern, the regulators also noted additional concerns related to executive compensation issues. Of the 18 targeted examinations that included review of executive compensation, 11 noted the need for improvement related to the banks' incentive or executive compensation practices.[77] For example, one examination noted that clawback procedures were used inconsistently in the bank's executive agreements. Other examinations noted that banks did not sufficiently document incentive compensation procedures and that incentive compensation payment processes needed more internal oversight and stronger controls.

Enforcement Actions

For the 21 banks we selected, only OCC took enforcement actions related to compensation practices from 2017 through 2022. In 2020, OCC initiated several formal enforcement actions against senior bank

[76]In a proposed plan submitted to the Federal Reserve in August 2022, Silicon Valley Bank's board outlined proposed enhancements to its incentive compensation program, including incorporating goals related to risk management and risk metrics into the performance evaluation process and incentive compensation decisions. See *Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank, Michael Barr, Board Vice Chairman for Supervision* (Washington, D.C.: Apr. 28, 2023).

[77]The 18 targeted examinations that included executive compensation occurred at 13 of the 21 banks identified in figure 5.

employees involved with overseeing incentive compensation at Wells Fargo.[78]

These actions were related to, among other things, the officer's role in overseeing Wells Fargo's incentive compensation plans for branch personnel, which were based on unreasonable sales goals. These goals led employees to open accounts for customers without their knowledge or consent. The enforcement actions sought or required the senior bank official to pay a civil monetary penalty (in one case, resolved in 2023, as high as $17 million). The actions also prohibited these officials from participating in the banking industry or imposed limitations on their activities.

Agencies Have Not Finalized Rulemaking on Incentive Compensation and Differ on Approaches

Agencies Jointly Proposed a Rule on Incentive Compensation Multiple Times but Have Not Finalized One

The six agencies charged with issuing regulations or guidelines on incentive compensation have taken steps to address Section 956 of the Dodd-Frank Act but as of January 2025 had not issued a final rule or guidelines.[79] The statutory deadline for implementing Section 956 was April 21, 2011.[80] To date, these agencies—FDIC, Federal Reserve, FHFA, NCUA, OCC, and SEC—included their plans for the rule in their semiannual rulemaking agendas, established an interagency working group, and considered or published multiple rule proposals (see fig. 6). In addition, since 2011, FHFA, NCUA, and SEC individually adopted their

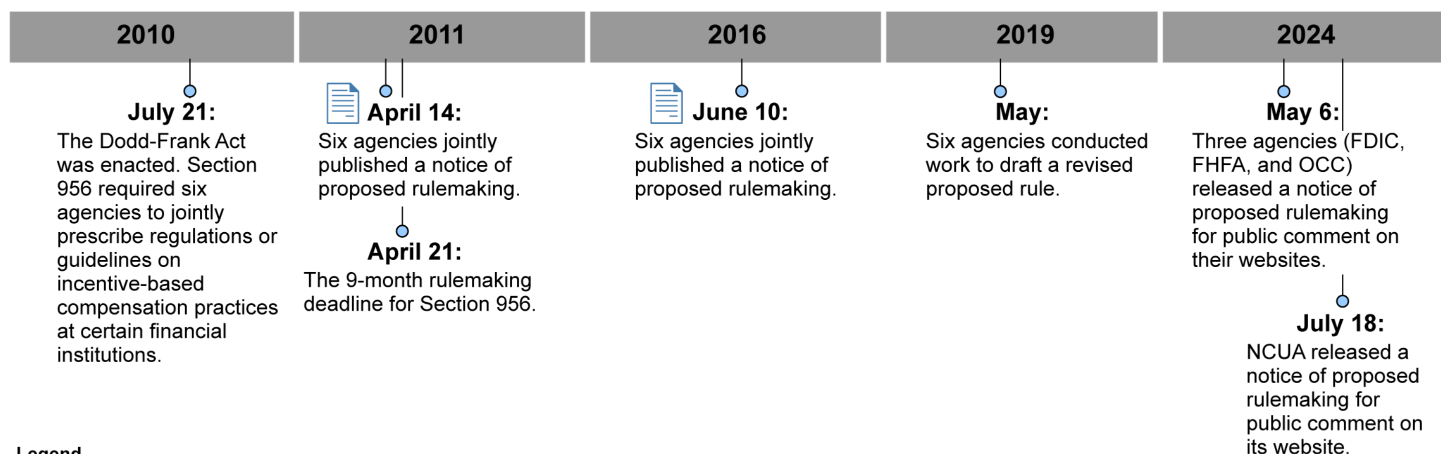
[78]The docket numbers for the enforcement actions, available on the OCC website (at https://apps.occ.gov/EASearch) are AA-EC-2019-86 (Consent Order), AA-EC-2019-69 (Consent Order), AA-EC-2019-70 (Consent Order), AA-EC-2019-71 (Final Decision), AA-EC-2019-81 (Final Decision), AA-EC-2020-52 (Consent Order), AA-EC-2019-82 (Consent Order), and AA-EC-2020-53 (Consent Order). Several officers settled with OCC, with the case against others proceeding to administrative litigation. We did not include enforcement actions taken against bank holding companies for banks we selected.

[79]12 U.S.C. § 5641(b). In June 2010, prior to the passage of the Dodd-Frank Act, FDIC, the Federal Reserve, and OCC issued interagency guidance on incentive compensation practices to their regulated institutions.

[80]12 U.S.C. § 5641 (establishing the deadline for regulations).

own rules related to enhanced executive compensation disclosures or the regulation of compensation at financial institutions.[81]

Figure 6: Timeline of Key Events Related to Rulemaking on Incentive-Based Compensation Arrangements



Source: GAO analysis of statute and proposed rules. | GAO-25-107032

Note: The six agencies required by Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) to jointly prescribe regulations or guidelines are the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation (FDIC), Federal Housing Finance Agency (FHFA), National Credit Union Administration (NCUA), Office of the Comptroller of the Currency (OCC), and Securities and Exchange Commission.

[81]For example, in January 2011, NCUA implemented a rule to establish disclosure requirements for compensation of the most highly compensated employees at corporate credit unions. Corporate Credit Unions Rule, 75 Fed. Reg. 64786 (Oct. 20, 2010) (codified at 12 C.F.R. § 704.19). In June 2011, NCUA also implemented a golden parachute regulation. 12 C.F.R. pt. 750. In 2011, SEC adopted rules related to shareholder votes on executive pay and specific disclosures of compensation arrangements for public companies. Rule on Shareholder Approval of Executive Compensation and Golden Parachute Compensation, 76 Fed. Reg. 6010 (Feb. 2, 2011) (codified at 17 C.F.R. pts. 229, 240, and 249). In 2022, SEC also adopted a rule on recovery of erroneously awarded compensation. Rule on Listing Standards for Recovery of Erroneously Awarded Compensation, 87 Fed. Reg. 73076 (Nov. 28, 2022) (codified at 17 C.F.R. pts. 229, 232, 240, 249, 270, and 274). In 2014 and 2015, FHFA issued three regulations related to executive compensation practices at FHFA's regulated entities. Executive Compensation, 79 Fed. Reg. 4389 (Jan. 28, 2014) (codified at 12 C.F.R. pt. 1230); Golden Parachute Payments, 79 Fed. Reg. 4394 (Jan. 28, 2014) (codified at 12 C.F.R. pt. 1231); Responsibilities of Boards of Directors, Corporate Practices and Corporate Governance Matters, 80 Fed. Reg. 72327 (Nov. 19, 2015) (codified at 12 C.F.R. pts. 1236 and 1239).

Unified Agenda. Since 2011, all six agencies have consistently cited Section 956 rulemaking in their submissions to the Unified Agenda of Federal Regulatory and Deregulatory Actions, which provides information on regulations under development or review twice a year.[82] From fall 2011 through spring 2024, the six agencies periodically shifted the rulemaking between the active actions and long-term actions on their agendas.[83] As of the spring 2024 agenda, published in July 2024, FDIC, NCUA, OCC, and SEC listed the rulemaking as one on which they expect to take action within the next 12 months and the Federal Reserve and FHFA listed it as a long-term action.[84]

Working group. In 2010, the agencies formed an interagency working group (consisting of staff from each agency) to support the joint rulemaking effort, according to agency officials. Officials said the group generally meets monthly, but frequency may increase to weekly when working on a new proposal. Officials said the working group facilitates information sharing among agencies, including supervisory experiences related to incentive compensation, economic analyses results, and summaries of public comments on proposed rules.

According to officials, one agency generally has taken the lead in drafting versions of the proposed rules, sharing drafts with other agencies, and proposing timelines for review and input. Staff from other agencies provide written comments or discuss them orally during meetings. Each agency participates equally in rulemaking efforts, according to officials from all six agencies.

[82]The Unified Agenda of Federal Regulatory and Deregulatory Actions is a public, semi-annual compilation of information about regulations under development or review by federal agencies. It is published in the spring and fall of each year. Agencies are required to report on regulations under development or review in the Unified Agenda twice a year. See Exec. Order No. 12866, 58 Fed. Reg. 51735, 51738 (Oct. 4, 1993). Except for one agency excluding it from its agenda in 2014, all agencies consistently cited the rulemaking in their agendas from fall 2011 through spring 2024.

[83]Long-term actions are items under development but for which the agency does not expect to have a regulatory action within the 12 months after publication of the edition of the Unified Agenda in which they are listed.

[84]According to FHFA officials, the agency listed the rulemaking as a long-term action because FHFA was aware that not all the relevant agencies planned to act on the rule proposal in May 2024.

Agency officials said they also engage in internal rulemaking review efforts. They elevate draft rule proposals and certain working group discussions to agency leadership and escalate unresolved issues to agency principals for final decisions.

2011 proposed rulemaking. In April 2011, the six agencies published a proposed rule for public comment.[85] The proposed rule was principles-based—that is, focused on general principles and objectives rather than detailed, prescriptive requirements. It would have required covered financial institutions to adhere to three key principles outlined in the 2010 interagency guidance on sound incentive compensation policies.[86] Additionally, the institutions would have been required to establish policies and procedures to ensure compliance. The proposal included additional requirements for larger financial institutions, including deferring at least 50 percent of executive officers' incentive compensation over a minimum of 3 years.[87]

The six agencies received over 10,000 public comments in response to the 2011 proposed rule. According to the agencies, most were identical comment letters of two types. The first type urged the agencies to implement requirements that would minimize incentives for short-term risk-taking by executives. The second type suggested various methods to improve incentive compensation practices, such as linking incentive compensation to measures of a financial institution's safety and stability. Other commenters urged the agencies to strengthen the proposal or expressed disagreement with specific aspects. For instance, some disagreed with the proposed requirement to defer incentive compensation, arguing it could undermine a firm's ability to attract and retain key employees.

[85]Incentive-Based Compensation Arrangements, 76 Fed. Reg. 21170 (Apr. 14, 2011).

[86]The standards for determining whether incentive compensation is ''excessive'' would be the same as those used under Section 39 of the Federal Deposit Insurance Act. Incentive-Based Compensation Arrangements, 76 Fed. Reg. 21170, 21173 (Apr. 14, 2011); 12 U.S.C. § 1831p-1(c). Those proposed standards also would have been consistent with principles of sound compensation practices in the Banking Agency Guidance. 76 Fed. Reg. 21170, 21178.

[87]The 2011 proposed rule defined "larger covered financial institution" for the federal banking regulators and SEC to include financial institutions with total consolidated assets of $50 billion or more. For NCUA, credit unions with total consolidated assets of $10 billion or more were defined as larger covered financial institutions. For FHFA, Fannie Mae, Freddie Mac, and all the Federal Home Loan Banks with total consolidated assets of $1 billion or more were defined as larger covered financial institutions.

2016 proposed rulemaking. In June 2016, the six agencies published another proposed rulemaking for public comment.[88] The 2016 proposed rule was similar to the 2011 proposal in prohibiting incentive-based compensation arrangements that did not meet the three key principles in the 2010 interagency guidance. However, rather than being mainly a principles-based rule, it specified various requirements for covered financial institutions. These included specific factors for determining whether such arrangements appropriately balanced risk and reward, a key principle in the 2010 guidance. The arrangements would have been required to (1) include financial and nonfinancial measures of performance; (2) allow nonfinancial measures to override financial measures, when appropriate; and (3) be subject to adjustment to reflect actual losses, inappropriate risks taken, compliance deficiencies, or other measures of performance.

The 2016 proposed rule grouped covered institutions into three size categories, compared to two in the 2011 proposed rule.[89] It also applied more rigorous requirements to larger institutions. For example, the largest institutions would have had to defer at least 60 percent of a senior executive's incentive compensation for at least 4 years. Institutions in the next largest category would be required to defer at least 50 percent of a senior executive's incentive compensation for at least 3 years.[90] Certain employees in the largest two categories also would have been subject to clawback provisions.[91]

[88]Incentive-Based Compensation Arrangements, 81 Fed. Reg. 37670 (June 10, 2016).

[89]The proposal used a tiered approach with three size categories of covered institutions: Level 1, with $250 billion or more in average total consolidated assets; Level 2, with $50 billion to less than $250 billion; and Level 3, with $1 billion to less than $50 billion. For covered institutions that are subsidiaries of other covered institutions, levels generally would be determined by reference to the average total consolidated assets of the top-tier parent covered institution.

[90]The 2016 proposal noted that this deferral requirement would apply to "qualifying incentive-based compensation." Incentive compensation that was not awarded under a long-term incentive plan would be defined as qualifying incentive-based compensation. The proposal defines "long-term incentive plan" as a plan to provide incentive-based compensation that is based on a performance period of at least 3 years.

[91]The institutions would have been allowed to recoup their incentive compensation for up to 7 years if the employees, among other things, engaged in misconduct that resulted in significant financial or reputational harm to the institution, fraud, or intentional misrepresentation of information used to determine the senior executive officer's incentive-based compensation.

The agencies received over 100 public comments in response to the 2016 proposed rule. The preamble to the 2024 proposal indicated that many commenters expressed concerns about the overall proposal and many recommended strengthening it. For example, some commenters suggested adopting the 2010 interagency guidance or a similar principles-based approach. Commenters also opposed specific aspects of the proposed rule—for example, believing the incentive compensation deferral requirement was too complicated. Some urged that the rule establish stricter deferral requirements and longer deferral periods.

2019 drafting of proposed rule. According to agency officials and statements made by OCC's Comptroller, the six agencies drafted and circulated among the agencies another version of a proposed rule in 2019, but it was never issued for public comment.[92] Officials from one agency and OCC's Comptroller generally described this proposal as principles-based. The officials stated that the proposal was aimed at achieving broad consensus among the agencies.

2024 proposal for public comment. Four of the six agencies (FDIC, FHFA, NCUA, and OCC) released an informal notice of proposed rulemaking between May and July 2024 and have been accepting public comments on their websites.[93] As of January 2025, this proposal had not been published in the Federal Register because not all six agencies had taken action to approve the May 2024 version.[94] The Federal Reserve has not taken action on this proposal, with officials stating that it should be updated to reflect current banking conditions and developments related to incentive compensation practices since 2016. They stated they

[92]House Committee on Financial Services, *Oversight of Prudential Regulators: Ensuring the Safety, Soundness, and Accountability of Megabanks and Other Depository Institutions*, 116th Cong. (Washington, D.C.: May 16, 2019); testimony of Joseph M. Otting, Comptroller of the Currency.

[93]On May 6, 2024, NCUA posted the joint press release on its website regarding the proposed rule's adoption by FDIC, FHFA, and OCC. The press release included a link to the 2024 notice of proposed rulemaking and noted that NCUA expected to take action on the rule proposal in the near future. The NCUA Board voted to approve the rule's adoption and posted the rule proposal on its website on July 18, 2024. National Credit Union Administration, *NCUA Board Approves Proposed Rules on Incentive-based Compensation, Succession Planning*, Board Action Bulletin (Alexandria, Va.: July 18, 2024); accessed on July 19, 2024, at https://ncua.gov/newsroom/press-release/2024/ncua-board-approves-proposed-rules-incentive-based-compensation-succession-planning.

[94]According to a statement by the FDIC Chairman in May 2024, once the Federal Reserve and SEC adopt the proposal, it will be published in the Federal Register as an official notice of proposed with a comment period of 60 days.

plan to conduct additional analysis to better understand these issues. Additionally, SEC has not taken action to approve a proposal. In a September 2024 hearing, the Chair of SEC stated that SEC has collaborated with the other five agencies on the rulemaking, but that it can only propose a rule if it is a joint rulemaking.[95]

The 2024 proposal used the same regulatory text as the 2016 proposed rule, but it added numerous questions seeking public comment on alternative provisions. For example, the agencies requested feedback on alternative asset thresholds for covered institutions, simplifying the structure from three levels to two by treating banks with assets over $50 billion and those over $250 billion similarly.[96] In addition, the proposal seeks comments on revising requirements and prohibitions for certain large institutions, such as how long a clawback provision should be in place.

Differing Views on Regulatory Approaches Impede Joint Rulemaking on Incentive-Based Compensation Arrangements

Agency leaders hold differing views on regulating incentive-based compensation arrangements, posing a challenge to finalizing a rule. The 2011 proposal adopted a principles-based approach, whereas the 2016 proposal had more specific and stringent requirements. The 2024 proposal largely mirrored the 2016 proposal but solicited public comments on key provisions, such as clawbacks.

Agency leaders have publicly stated preferences for one or the other of these approaches, most recently when four of the agencies released a proposal in May 2024:

FDIC. Public statements made by the FDIC Chair and Vice Chair in May 2024 indicate differing opinions on regulatory approaches to the rule. The Chair supports the regulatory requirements in the 2016 proposal, while the Vice Chair does not.[97] Instead, the Vice Chair supports the principles-

[95]House Committee on Financial Services, *Oversight of the Securities and Exchange Commission*, 118th Cong. (Washington, D.C.: Sept. 24, 2024).

[96]The 2024 proposal seeks comment on a two-level structure—one for institutions with $50 billion or more in average total consolidated assets and the second for those with from $1 billion to less than $50 billion—rather than the three-level structure in the 2016 proposed rule that would be adopted in the 2024 rule as it stands currently.

[97]Federal Deposit Insurance Corporation, *Statement by Martin J. Gruenberg Chairman, Federal Deposit Insurance Corporation Notice of Proposed Rulemaking on Incentive-Based Compensation Arrangements* (Washington, D.C: May 6, 2024); accessed on May 21, 2024, at https://www.fdic.gov/news/speeches/2024/statement-martin-j-gruenberg-chairman-federal-deposit-insurance-corporation-4.

based approach in the 2010 interagency guidance on incentive compensation, which was the basis of the 2011 proposed rule.[98] He added that implementation of the 2010 guidance, along with other supervisory efforts at the time, contributed to meaningful changes in incentive compensation practices at financial institutions.

Federal Reserve. As noted earlier, the Federal Reserve did not join the 2024 proposal issued by FDIC, FHFA, NCUA, and OCC. In May 2024, the Vice Chair for Supervision publicly stated that the Federal Reserve would be conducting further analysis before doing so.[99] Additionally, in congressional testimony in both 2015 and 2018, the then Federal Reserve Chairs stated that although the rulemaking had not been finalized, the approach in the 2010 interagency guidance and ongoing supervision had served to limit incentive-based compensation arrangements that encouraged inappropriate risk-taking.[100]

SEC. SEC did not join in issuing the 2024 proposal, as noted earlier. In June 2024, an SEC Commissioner stated that Section 956 was an important provision, and that "while supervising financial institutions and conducting exams are essential, it helps to have clear bright-line rules, and not just principles-based concepts."[101]

NCUA. The NCUA board voted to adopt the 2024 proposal in July 2024, as previously discussed. However, the NCUA Vice Chairman, one of the three voting members of the NCUA Board, voted against the proposal and publicly stated that he did not support the proposal. He commented that the proposal went beyond the congressional intent of the mandate.

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[98]Federal Deposit Insurance Corporation, *Statement by Vice Chairman Travis Hill on Notice of Proposed Rulemaking on Incentive-based Compensation Arrangements* (Washington, D.C: May 6, 2024); accessed on May 8, 2024, at https://www.fdic.gov/news/speeches/2024/statement-vice-chairman-travis-hill-notice-proposed-rulemaking-incentive-based.

[99]House Committee on Financial Services, *Oversight of Prudential Regulators*, 118th Cong. (May 15, 2024).

[100]House Committee on Financial Services, *Semi-Annual Testimony on the Federal Reserve's Supervision and Regulation of the Financial System*, 114th Cong. (Nov. 4, 2015); and Senate Committee on Banking, Housing, and Urban Affairs, *Federal Reserve's Second Monetary Policy Report for 2018*, 115th Cong. (July 17, 2018).

[101]*Accountability in Executive Pay: Let's Not Wait Until the Next Financial Crisis*, remarks of Commissioner Jaime Lizárraga, Securities and Exchange Commission (Washington, D.C.: June 17, 2024); accessed on June 20, 2024, at https://www.sec.gov/newsroom/speeches-statements/lizarraga-remarks-section-956-webinar-061724.

He also cited the FDIC Vice Chairman's statement supporting the principles-based approach in the 2010 interagency guidance.[102]

Officials from all six agencies said that differences in statutory authorities and the types of entities they regulate posed challenges to progressing on the rulemaking. FDIC officials noted the diverse range of covered financial institutions under Section 956, including depository institutions, bank holding companies, broker-dealers, credit unions, investment advisers, and government-sponsored enterprises. SEC officials stated that some of the agencies historically have regulated these entities differently, making it challenging to develop a joint rule. Federal Reserve officials noted that the complexity of compensation structures across bank holding companies also has posed a challenge for this rulemaking. Some companies set compensation at the holding company level, while others do so at the subsidiary level, which can involve different regulators. However, officials from most of the agencies noted that such challenges are common in interagency rulemakings and they regularly work through them.

As discussed earlier, supervisory concerns and enforcement actions indicate ongoing issues with the incentive compensation practices at some large financial institutions. By jointly prescribing regulations or guidelines to implement Section 956, the agencies would help prevent excessive compensation arrangements at these institutions that encourage inappropriate risks and could threaten their safety and soundness.

Conclusions

Incentive-based compensation arrangements can serve as critical tools for financial institutions to attract and retain skilled executives and promote better performance. However, these arrangements can also incentivize inappropriate risk-taking. To address this risk, Section 956 of the Dodd-Frank Act directed the Federal Reserve, FDIC, FHFA, NCUA, OCC, and SEC to jointly develop regulations or guidelines prohibiting incentive-based compensation arrangements that could lead to material financial loss.

[102]National Credit Union Administration, *NCUA Vice Chairman Kyle S. Hauptman Statement on the Proposed Rule, Incentive-Based Compensation Arrangements, 12 CFR Parts 741 and 751* (Alexandria, Va.: July 18, 2024); accessed on Aug. 12, 2024, at https://ncua.gov/newsroom/speech/2024/ncua-vice-chairman-kyle-s-hauptman-statement-proposed-rule-incentive-based-compensation-arrangements.

While the act required the regulations or guidelines to be issued by April 21, 2011, more than 13 years have passed without finalized regulations. Instead, the agencies have employed other strategies, such as interagency guidance and supervision. However, the numerous supervisory concerns identified related to incentive compensation underscore the need for the agencies to reconcile differences in their regulatory preferences. By finalizing regulations or guidelines, the agencies would ensure compliance with Section 956, and better prevent compensation practices that can undermine the safety and soundness of large financial institutions.

Recommendations for Executive Action

We are making a total of six recommendations, one each to the Federal Reserve, FDIC, FHFA, NCUA, OCC, and SEC:

The Board of Governors of the Federal Reserve System should jointly prescribe regulations or guidelines with the five other agencies that are directed to implement Section 956 of the Dodd-Frank Act, as soon as practicable. (Recommendation 1)

The Board of Directors of the Federal Deposit Insurance Corporation should jointly prescribe regulations or guidelines with the five other agencies that are directed to implement Section 956 of the Dodd-Frank Act, as soon as practicable. (Recommendation 2)

The Director of the Federal Housing Finance Agency should jointly prescribe regulations or guidelines with the five other agencies that are directed to implement Section 956 of the Dodd-Frank Act, as soon as practicable. (Recommendation 3)

The Board of Directors of the National Credit Union Administration should jointly prescribe regulations or guidelines with the five other agencies that are directed to implement Section 956 of the Dodd-Frank Act, as soon as practicable. (Recommendation 4)

The Comptroller of the Currency should jointly prescribe regulations or guidelines with the five other agencies that are directed to implement Section 956 of the Dodd-Frank Act, as soon as practicable. (Recommendation 5)

The Securities and Exchange Commission should jointly prescribe regulations or guidelines with the five other agencies that are directed to implement Section 956 of the Dodd-Frank Act, as soon as practicable. (Recommendation 6)

Agency Comments

We provided a draft of this report to the Federal Reserve, FDIC, FHFA, NCUA, OCC, and SEC for review and comment. All the agencies provided written comments that are reprinted in appendixes IV–IX. In their comments, each agency agreed with the recommendation addressed to it and stated its commitment to continue working with the other agencies to implement Section 956 of the Dodd-Frank Act. The Federal Reserve added that further work on this issue should be based on updated analysis to reflect current banking conditions and practices, which it has been focused on conducting. The Federal Reserve, FDIC, FHFA, and SEC also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committee, the Chair of the Board of Governors of the Federal Reserve System, Acting Chairman of the Federal Deposit Insurance Corporation, Acting Director of the Federal Housing Finance Agency, Chairman of the National Credit Union Administration, Acting Comptroller of the Currency, Acting Chairman of the Securities and Exchange Commission, and other interested parties. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or clementsm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix X.

Sincerely,

Michael E. Clements
Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

This report examines the (1) structure of executive compensation packages in 2022 and how they addressed risks at First Republic Bank, Signature Bank, and Silicon Valley Bank (failed banks) and a peer group of banks; (2) date, value, and nature of executive officers' stock transactions at the three failed banks from January 2021 through March 2023; (3) extent to which federal banking regulators reviewed executive compensation at a selection of large banks in 2017–2022; and (4) efforts federal agencies have taken since 2010 to finalize rules on incentive-based compensation arrangements and any challenges they have faced.

Executive Compensation Packages

For the first objective, we reviewed public disclosures for the three failed banks and a peer group of eight banks. We selected a nongeneralizable sample of eight U.S.-based banks with total assets between $100 billion and $250 billion as of December 31, 2022, that had business lines similar to those of the three failed banks.

Using FactSet, a financial data provider on the banking sector, we identified all banks with total assets greater than $100 billion and less than $250 billion.[1] We excluded banks with assets less than $100 billion to narrow the selection to banks similar in size and complexity to the three failed banks. We also excluded banks with assets greater than $250 billion because banks above this size are increasingly complex and less comparable to the three failed banks.[2] We also excluded banks that did not have a U.S.-based financial holding company. Finally, using information from the banks' public disclosures on their business lines, we selected banks that had business lines similar to those of the failed banks. For example, we included banks that had commercial banking, deposit services, or loan services and excluded those focused on online and digital banking.

The final selection consisted of eight peer banks. The selected banks in the peer group offer a comparison group and provide context for the

[1]FactSet is a financial data and software company that collects data from various industries, including banking, insurance, and wealth management. We assessed the reliability of FactSet data by confirming selected data against Consolidated Reports of Condition and Income (Call Reports) data submitted to federal banking regulators for a sample of banks. We determined these data to be sufficiently reliable for identifying key characteristics of banks.

[2]At the end of 2022, First Republic reported about $213 billion in assets; Signature reported $110 billion in assets; and Silicon Valley Bank reported $209 billion in assets.

compensation packages at the three failed banks but are not generalizable to all banks. While we selected and reviewed eight peer banks, we report on seven banks in the first objective because one peer bank did not use the same compensation structure as the other banks in our review. For example, this bank generally provided its executives a base salary and a long-term incentive award paid in cash, rather than in equity as the other banks we reviewed did.

For each failed bank and peer bank, we analyzed available compensation package information in each bank's proxy statement (Schedule 14A).[3] For Signature Bank, Silicon Valley Bank, and all selected peer banks, we reviewed 2023 proxy statements, which contain information on their 2022 compensation packages. For First Republic Bank, we are reporting information on 2021 compensation packages, contained in its 2022 proxy statement, because this was the most recent publicly available information prior to the bank's May 2023 failure.[4] We gathered information on the components of the packages, the way compensation was paid, and performance measures associated with incentive plans. We compared this information across the banks to identify similarities and differences in executive compensation packages.

We also collected compensation information for executives from each bank's proxy statements and identified each bank's named executive officers—the chief executive officer, chief financial officer, and the next three highest-paid executives.[5] The proxy statement contained the amount executives were compensated and the type of compensation.

[3]Securities and Exchange Commission (SEC) Form DEF 14A, which is also known as a "definitive proxy statement," is required under Section 14(a) of the Securities Exchange Act of 1934. This form is filed with SEC when a definitive proxy statement is given to shareholders (which provides them with adequate information to be able to vote on matters presented to them for consideration). These proxy statements contain compensation data for executives for the previous 3 years. We identified the named executive officers through Signature Bank and Silicon Valley Bank's 2023 proxy statements and First Republic Bank's 2022 proxy statement, because the bank failed prior to issuing its 2023 proxy statement.

[4]First Republic Bank did not release its 2023 proxy statement or publicly disclose its executive compensation information for 2022 prior to its failure.

[5]17 C.F.R. § 229.402(a)(3) - (Item 402) Executive compensation.

Based on this information, we categorized the compensation as base salary, annual incentive, long-term incentive, or other compensation.[6]

We also identified statutory and regulatory requirements that affect executive compensation or the disclosure of information related to executive compensation. We reviewed the selected banks' proxy statements to provide information related to these requirements.

To determine the relationship between banks' compensation packages and risks, we reviewed interagency guidance that the banking regulators issued in 2010 and the Financial Stability Board's guidelines on sound compensation practices.[7] We assessed whether the compensation structure, performance measures, and compensation payouts of the selected banks aligned with the guidance on compensation.

In addition, we conducted a literature search for studies that analyzed the relationship between banks' compensation packages and risks. To identify existing studies from peer-reviewed journals, we searched databases, such as EBSCO and ProQuest. From these sources, we identified 24 studies published between January 1, 2018, and November 17, 2023, and were relevant to our research objective. To assess the methodological quality of the selected studies, a GAO economist reviewed information about each study and the features of the evaluation methodology. We based our assessments on generally accepted social science standards and eliminated some research if we determined the methods were not appropriate or rigorous. We identified 11 studies that appeared in peer-reviewed journals, met our selection criteria, and were reliable for the purpose of providing information on the relationship between banks' compensation packages and risks. Then we summarized the research findings. Another GAO economist performed a secondary review and confirmed our reported analysis of the finding.

[6]Base salary included the guaranteed salary and bonuses. Annual incentives were generally listed as bonus or nonequity incentive plan compensation and long-term incentives were generally listed as stock awards or stock option awards.

[7]Financial Stability Board, *FSB Principles for Sound Compensation Practices: Implementation Standards* (Basel, Switzerland: Sept. 25, 2009); and Department of the Treasury, Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of Thrift Supervision, Guidance on Sound Incentive Compensation Policies, 75 Fed. Reg., 36395 (June 25, 2010).

Stock Transactions

For the second objective, we analyzed transactions of bank stock by the named executive officers of Silicon Valley, Signature, and First Republic banks from January 1, 2021, through March, 31, 2023.[8] To identify the named executive officers at the three failed banks, we used the 2023 annual proxy statements for Silicon Valley and Signature and the 2022 annual proxy statement for First Republic.[9] To identify the stock awards, acquisitions, and disposal activities of the executives, we relied on public disclosure statements filed by those individuals pursuant to the federal securities law.[10]

We retrieved these forms from the Securities and Exchange Commission (SEC) and Federal Deposit Insurance Corporation (FDIC) websites and created a database of transactions reported by the selected executives. The database captured the date of the transaction, whether the transaction was an acquisition or disposal (transaction code), the number and price of securities, and the number of securities owned after the transaction. After the first analyst entered data from the forms into the database, a second analyst verified that the data were captured accurately. To analyze the transactions, we grouped transaction codes into four categories: acquisition, award, disposal, and tax payment. To calculate the value of stock in each transaction, we multiplied the number

[8]The last disclosures for each executive we reviewed occurred in the first quarter of 2023; therefore, we report on transactions that occurred through March 31, 2023.

[9]Proxy statements identify the named executive officers for the previous year. We used the 2022 proxy statement for First Republic because the bank failed before it filed the final version of the proxy statement for 2023. During 2022, First Republic experienced a change in CEO, with the founder and CEO taking a leave of medical absence from January 1, 2022, to April 3, 2022, when he returned as executive chairman. The CEO at the time of First Republic's failure was appointed acting co-CEO effective January 1, 2022, and CEO effective March 13, 2022. Because this was the new CEO's first year as CEO, we decided to also report the founder and prior CEO's stock value at the time of failure.

[10]Federal securities laws and applicable rules and regulations require certain individuals (such as officers, directors, and those that hold more than 10 percent of any class of a company's securities—also known as insiders) to report purchases, sales, and holdings of their company's securities by filing SEC Forms 3, 4, and 5. 15 U.S.C. § 78p, 17 C.F.R. § 240.16a-1 to 16a-13, 17 C.F.R. § 240.16b-1 to 16b-8, 17 C.F.R. § 240.16c-1 to 16c-4, and 17 C.F.R. § 240.16e-1. While Silicon Valley Bank employees were required to file these forms with SEC, First Republic and Signature Bank were state-chartered nonmember commercial banks. Thus, their employees were required to file these forms with FDIC. 15 U.S.C. § 78l(i).

of securities with the price per security listed in the form.[11] We report the value of stock acquisitions and disposals aggregated by year and by bank in the report and by individual bank executive in appendix III.

To identify the value of bank shares owned by chief executive officers (CEO) when the banks failed, we used the most recently filed Form 4 (Statement of Changes in Beneficial Ownership of Securities) for each to identify the number of bank shares each CEO owned after their last reported stock transaction. We multiplied the number of remaining shares with the share price of the relevant bank's stock on December 30, 2022, as listed on Yahoo Finance, to determine the total value of each CEO's bank stock after their last reported stock transaction.[12]

We also reviewed relevant laws and regulations on insider trading and their applicability to stock transactions made by executives at the three failed banks.[13]

Banking Regulators' Review of Executive Compensation

For the third objective, we reviewed agency documentation related to targeted examinations, horizontal reviews, and ongoing monitoring (for banks and bank holding companies).[14] This documentation included examination manuals, examiner training materials, and supervisory guidance. We also interviewed staff of federal banking regulators to

[11]For transactions that did not have a price listed in the form, we substituted the price of the stock at close on the day of the acquisition or disposal, or the closest preceding day, from Yahoo Finance.

[12]We chose to use the stock price on December 30, 2022, because it was the ending date for the last quarterly period before the three banks began to fail.

[13]Insider Trading and Related Disclosures, 87 Fed. Reg. 80362 (Dec. 29, 2022) (codified at 17 C.F.R. pts. 229, 232, 240, and 249). See also 17 C.F.R. §§ 240.10b-5, 240.10b5-1.

[14]Targeted examinations may focus on a particular bank product, function, or risk and periodically involve transaction testing. The types of supervisory activities vary by regulator and may be referred to by different names. FDIC refers to targeted examinations as target reviews, but we refer to them as targeted examinations throughout this report. OCC conducts a supervisory activity called focused reviews, which are limited in scope and are generally designed to gather information about a specific product, service, line of business, risk, or activity. Focused reviews may be used for discovery purposes to inform future supervisory activities. For our review, we categorized OCC's focused reviews as targeted examinations and refer to them as such throughout the report. Horizontal reviews are a series of examinations focused on a single supervisory issue at several banks.

discuss ongoing monitoring, targeted examinations, and supervision requirements related to executive compensation.

To determine the extent to which federal banking regulators reviewed executive compensation, we reviewed targeted examination documentation from 2017 through 2022 provided by FDIC, the Board of Governors of the Federal Reserve System (Federal Reserve), and the Office of the Comptroller of the Currency (OCC) for a selection of 21 banks. Our bank selection included the three failed banks, eight peer banks selected using the methodology described for the first objective, and the 10 largest banks by asset size. We used FactSet to identify the 10 largest banks by asset size as of year-end 2022. We included these large banks in our selection because improper compensation practices could create greater risk to the financial system. We also included the eight peer banks (previously described) to understand the extent of supervision that federal banking regulators might apply to banks with similar profiles. Our bank selection is not generalizable to the supervision of all banks.

For the 21 selected banks, we requested examination documentation from FDIC, Federal Reserve, and OCC for targeted examinations conducted in 2017–2022 related to incentive or executive compensation.[15] Based on our review of documentation we received, we determined that three key documents (scoping memorandums, conclusion memorandums, and supervisory letters) would allow us to determine whether a targeted examination included review of incentive or executive compensation, or both. In cases in which we could not locate the examination documentation needed, we requested that federal banking regulators send us these key documents for the relevant targeted examination related to incentive or executive compensation.

We also requested documentation related to horizontal reviews initiated by the Federal Reserve in 2017–2022 for the bank holding companies of our selected banks that were included in the review. We reviewed the same key examination documents for the horizontal reviews as for targeted examinations.

[15]Our request only included the documents related to examinations of the depository institutions we selected, and not their bank holding companies. However, we included information on examinations of the bank holding company for Silicon Valley Bank that were made public.

The way each regulator determined what documents to send us and volume of documents they shared with us varied. FDIC and OCC provided documentation on examinations their staff identified as relevant to incentive or executive compensation. The Federal Reserve shared documentation their staff identified as relevant to the supervision of bank management, including documentation on ongoing monitoring activities, and management-related targeted examinations, and horizontal reviews of selected banks. We relied on the examination documentation provided to us by regulators to represent the full universe of targeted examinations relevant to incentive and executive compensation conducted for each of our selected banks from 2017 through 2022. We did not independently verify that the examinations they identified represented the full universe of examinations they conducted over this period.

We reviewed key documents for all examinations to determine if the targeted examination included review of incentive compensation, executive compensation, or neither. We used a data collection instrument to consistently capture the information we found in the examination documentation. For each examination, one analyst reviewed all the documents and recorded in the data collection instrument whether the examination related to incentive or executive compensation. A second analyst reviewed their work, discussing any questions as needed until both analysts agreed.

To determine whether an examination related to incentive or executive compensation, we read introductory and summary text for each key document and searched for key terms related to the topics (such as “compensation,” “defer,” and “senior”). If any key document suggested that the regulator conducted activities or gathered information related to incentive or executive compensation, we considered that targeted examination to include review of that type of compensation.[16] In several cases, we did not initially receive all key documents related to targeted examinations. If existing documentation suggested the targeted examination did not include a review of compensation (for example,

[16]We considered a targeted examination to include a review of executive compensation if it focused on senior employees more than nonsenior employees, or on senior employees alone. For all the targeted examinations we reviewed, any review of executive compensation also included review of incentive compensation. We considered a targeted examination to include review of incentive compensation if it examined any aspect of incentive compensation for any employee. For example, this included targeted examinations that reviewed compensation controls on incentive compensation for loan officers, as well as those examining the approval process for incentive compensation for senior executives.

examinations related to cybersecurity), the team excluded that targeted examination from further review. If a determination could not be reached or if the targeted examination already included review of incentive or executive compensation in other documents, we requested that regulators send us the missing key documents.

Once we reviewed all the key documentation for each examination, we reported on the scope of each relevant examination by year and by bank. In the report, selected banks and their relationship with targeted examinations are anonymized to preserve confidentiality. The exception is the three failed banks, for which we can provide more detailed information because of their closure.

For the 18 targeted examinations that we determined related to executive compensation, we used a data collection instrument to review the same key documents to understand the scope of the examination and the procedures examiners used to review executive compensation. For example, we identified the procedures related to compensation that appeared repeatedly across targeted examinations, such as a review of board of director responsibilities and risks or risk levels related to incentive compensation. For each examination, one analyst captured the initial determinations in the data collection instrument and a second analyst reviewed their work and discussed any questions with the first analyst until both analysts agreed.

We also reviewed the supervisory concerns related to incentive compensation. To determine the number of supervisory concerns related to compensation and the reasons regulators issued the concern, we reviewed supervisory letters for each examination we identified as related to compensation.

To determine the number of enforcement actions related to incentive or executive compensation, we requested federal banking regulators send us documentation related to such actions for our selected banks. We also reviewed publicly available information on these enforcement actions.[17]

[17]Formal enforcement actions are publicly available at https://orders.fdic.gov/s/searchform (FDIC), https://www.federalreserve.gov/supervisionreg/enforcementactions.htm (Federal Reserve), and https://apps.occ.gov/EASearch (OCC).

Rulemaking for Section 956 of Dodd-Frank Act

For the fourth objective, we reviewed relevant provisions of Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act to understand rulemaking requirements for incentive-based compensation for six federal financial agencies—FDIC, Federal Reserve, Federal Housing Finance Agency, National Credit Union Administration, OCC, and SEC. To determine the actions the agencies had taken to address these requirements, we reviewed the preambles to the relevant proposed rules from 2011, 2016, and 2024.[18] To determine when the six agencies announced they were working on this joint rulemaking, we reviewed publicly available Unified Agendas of Federal Regulatory and Deregulatory Actions at Reginfo.gov from fall 2010 through spring 2024 (the most recently available at the time of our review).[19]

To understand the challenges agencies faced during the joint rulemaking process, we interviewed officials from each agency on their efforts to collaborate with other agencies, the research and analysis they conducted for the rulemaking, and the public comments they received on the 2011 and 2016 proposed rules. We also reviewed congressional hearings and press releases from 2011 through September 2024, to identify what statements agency leadership had made on the status, progress, and leadership perspective of the rulemaking.

To obtain the views of stakeholders that would be affected by a rulemaking on incentive-based compensation arrangements, we selected a nongeneralizable sample of relevant organizations to interview. To select these organizations, we identified organizations that submitted comment letters on the 2016 proposed rule on incentive-based compensation arrangements.[20] We categorized the organizations by the financial industry participants they represent and then selected at least one organization in most of the categories. The five organizations we

[18]The 2024 proposed rule was released for public comment on four of the six agencies' websites, not in the Federal Register.

[19]The Unified Agenda is a public, semi-annual compilation of information about regulations under development or review by federal agencies and is generally published in the spring and fall of each year. Agencies are required to report on regulations under development or review in the Unified Agenda twice a year. See Exec. Order No. 12866, 58 Fed. Reg. 51735, 51738 (Oct. 4, 1993).

[20]The review focused on comments from organizations that represented stakeholders, not comments from individuals or banks.

selected represent the banking and securities industries, compensation consultants, and advocates for executive compensation policy issues.[21]

We interviewed representatives of these organizations to obtain their perspectives on the rulemaking and on any risks associated with executive compensation packages for objective one. In addition, we reviewed comment letters they submitted in response to the 2016 proposed rule. Because the sample was nongeneralizable, testimonial evidence collected during these interviews and documentary evidence from these comments reflect the views of our interviewees and are not generalizable to all financial institutions and compensation experts.

We conducted this performance audit from August 2023 to February 2025 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[21]The organizations were the American Bankers Association, Center on Executive Compensation, Compensation Advisory Partners, Meridian Compensation Partners, and Securities Industry and Financial Markets Association.

Appendix II: Executive Compensation Packages for Three Failed Banks

We reviewed executive compensation packages for three failed banks. For First Republic Bank we reviewed 2021 compensation, and for Signature Bank, and Silicon Valley Bank we reviewed 2022 compensation.[1] These packages generally consisted of a base salary (the smaller component) and an incentive plan (the larger component). Base salary is fixed and guaranteed to executives. In contrast, incentive plans are performance-based, which means they are variable and not guaranteed compensation.

Table 4: Compensation Amounts for Former Executive Officers at Three Failed Banks

		Incentive plans		
	Base salary	**Annual**	**Long-term**[a]	**Total**[b]
First Republic Bank, 2021				
James H. Herbert II, founder and Chief Executive Officer	$900,000	$4,606,000	$11,949,964	**$17,816,782**
Hafize Gaye Erkan, Co-Chief Executive Officer and President	$800,000	$4,250,000	$8,299,408	**$23,458,948**[c]
Michael J. Roffler, Chief Financial Officer	$550,000	$1,087,500	$5,682,935	**$7,335,897**
David B. Lichtman, Chief Credit Officer	$650,000	$1,600,000	$6,045,435	**$8,311,616**
Robert L. Thornton, Executive Vice President	$600,000	$1,612,500	$6,005,088	**$8,234,832**
Silicon Valley Bank, 2022				
Gregory W. Becker, Chief Executive Officer	$1,090,385	$1,500,000	$7,304,407	**$9,914,641**
Daniel J. Beck, Chief Financial Officer	$740,385	$625,000	$2,191,416	**$3,576,327**
Philip C. Cox, Chief Operations Officer	$685,577	$325,000	$1,825,513	**$2,881,834**
Michael S. Descheneaux, President	$795,193	$900,000	$2,921,364	**$4,648,510**
Laura Izurieta, Chief Risk Officer[d]	$512,500	$0	$0	**$2,974,782**
Signature Bank, 2022				
Joseph DePaolo, Chief Executive Officer	$1,200,000	$2,485,586	$4,859,079	**$8,663,736**
Eric Howell, Chief Operating Officer	$600,000	$1,009,769	$1,973,971	**$3,664,241**
Scott Shay, Executive Chairman	$900,000	$1,747,678	$3,325,254	**$6,071,453**
John Tamberlane, Vice Chairman	$500,000	$841,475	$1,518,245	**$2,941,810**
Stephen Wyremski, Chief Financial Officer	$400,000	$517,831	$404,846	**$1,341,848**

Source: GAO analysis of 2023 proxy statements for Silicon Valley Bank and Signature Bank, and 2022 proxy statement for First Republic. | GAO-25-107032

Note: The executive officers are the named executive officers in Signature Bank and Silicon Valley Bank's 2023 proxy statements and in First Republic Bank's 2022 proxy statement. The named executive officers are the chief executive officer, chief financial officer, and the next three highest-paid executives. First Republic Bank's 2022 information was not publicly available because the bank did not release its 2023 proxy statement or publicly disclose its 2022 executive compensation prior to its failure on May 1, 2023.

[1]First Republic Bank did not release its 2023 proxy statement or publicly disclose its executive compensation information for 2022 prior to its failure on May 1, 2023.

[a]Amounts shown reflect the fair value of the award on the grant date, as recognized by the bank for financial statement reporting purposes in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. Award fair value is based on the closing price of the bank's common stock on the date of grant.

[b]Other types of compensation (such as retirement contributions, use of company aircraft, and relocation expenses) generally make up less than 2 percent of total compensation and are not shown in this table.

[c]Includes $10,100,000 related to Ms. Erkan's severance pay following her resignation on December 31, 2021, pursuant to her employment agreement.

[d]Ms. Izurieta ceased serving in her role as Chief Risk Officer as of April 29, 2022, and moved into a non-executive role until October 1, 2022. The amount shown includes certain payments made to her pursuant to her separation agreement.

Appendix III: Stock Disposals by Former Executive Officers at Three Failed Banks from January 2021 through March 2023

This appendix presents quarter-by-quarter totals for the value of stock disposals made by executive officers at Silicon Valley, Signature, and First Republic from January 1, 2021, through March 31, 2023.[1] The data presented in the tables are derived from public disclosures made on the Securities and Exchange Commission's Form 4 (Statement of Changes in Beneficial Ownership of Securities), filed with the Securities and Exchange Commission or the Federal Deposit Insurance Corporation.

Table 5: Value of Stock Disposals by Former Executive Officers of Silicon Valley Bank, January 2021–March 2023

	Daniel J. Beck, Chief Financial Officer	**Gregory W. Becker,** Chief Executive Officer	**Philip C. Cox,** Chief Operations Officer	**Michael Descheneaux,** President	**Michael S. Zuckert,** General Counsel	**Total**
2021 Q1	$662,100	$8,918,660	$2,472,860	$2,623,020	$3,450,290	**$18,126,930**
2021 Q2	$3,120,0100	-	$76,600	$2,235,210	-	**$5,431,910**
2021 Q3	-	$9,491,650	-	$1,168,820	-	**$10,660,470**
2021 Q4	$386,370	$8,733,610	$97,290	$2,294,190	-	**$11,511,460**
2022 Q1	$1,725,730	-	$6,540,070	$1,207,810	-	**$9,473,610**
2022 Q2	-	-	-	-	-	**-**
2022 Q3	-	-	-	-	-	**-**
2022 Q4	$134,380	-	-	-	-	**$134,380**
2023 Q1	$575,180	$3,578,650	-	-	-	**$4,153,830**
Total	**$6,603,860**	**$30,722,570**	**$9,186,820**	**$9,529,050**	**$3,450,290**	**$59,492,590**

- = no sales; Q= quarter

Source: GAO analysis of Securities and Exchange Commission and Federal Deposit Insurance Corporation filings. | GAO-25-107032

Note: The executive officers are the named executive officers in Silicon Valley Bank's 2023 proxy statement, specifically, the chief executive officer, chief financial officer, and the next three highest-paid executives who were employed at the bank through 2022. This table only includes the first quarter of 2023 because no disposals occurred after March 31, 2023. All dollar values are rounded to the nearest 10 dollars.

[1]The executive officers are the named executive officers in the 2023 proxy statements for Signature Bank and Silicon Valley Bank and in First Republic Bank's 2022 proxy statement—generally the chief executive officer, chief financial officer, and the next three highest-paid executives—who were employed at the bank through 2022. The last disclosures for each executive we reviewed occurred in the first quarter of 2023; therefore, we report on transactions that occurred through March 31, 2023.

Table 6: Value of Stock Disposals by Former Executive Officers of Signature Bank, January 2021–March 2023

	Joseph DePaolo, Chief Executive Officer	**Eric Howell,** Chief Operating Officer	**Scott Shay,** Executive Chairman	**John Tamberlane,** Vice Chairman	**Stephen Wyremski,** Chief Financial Officer	**Total**
2021 Q1	$3,351,670	$2,251,750	$2,977,770	$2,449,470	-	**$11,030,660**
2021 Q2	$10,572,490	$12,697,390	-	$2,066,460	-	**$25,336,340**
2021 Q3	-	-	-	-	-	**-**
2021 Q4	$20,276,900	-	-	-	-	**$20,276,900**
2022 Q1	$5,568,150	$3,596,380	$680	$3,580,550	$84,350	**$12,830,110**
2022 Q2	-	-	-	-	-	**-**
2022 Q3	-	$808,400	$180	-	-	**$808,580**
2022 Q4	-	-	-	-	-	**-**
2023 Q1	-	-	-	-	-	**-**
Total	**$39,769,210**	**$19,353,920**	**$2,978,630**	**$8,096,480**	**$84,350**	**$70,282,590**

- = no sales; Q = quarter

Source: GAO analysis of Securities and Exchange Commission and Federal Deposit Insurance Corporation filings. | GAO-25-107032

Note: The executive officers are the named executive officers in Signature Bank's 2023 proxy statement–the chief executive officer, chief financial officer, and the next three highest-paid executives that were employed at the bank through 2022. This table only includes the first quarter of 2023 because no disposals occurred after March 31, 2023. All dollar values are rounded to the nearest 10 dollars.

Table 7: Value of Stock Disposals by Former Executive Officers of First Republic Bank, January 2021–March 2023

	James H. Herbert, II, Founder and Executive Chairman	**David B. Lichtman,** Senior Executive Vice President and Chief Credit Officer	**Michael J. Roffler,** Chief Financial Officer and President	**Michael D. Selfridge,** Senior Executive Vice President and Chief Banking Officer	**Robert L. Thornton,** Executive Vice President and President of Private Wealth Management	**Total**
2021 Q1	$4,461,440	-	$858,750	$1,613,150	$2,741,620	**$9,674,960**
2021 Q2	$4,620,000	$2,608,530	$471,330	$3,431,400	-	**$11,131,260**
2021 Q3	-	$589,120	$1,000,000	$1,270,180	$1,878,720	**$4,738,020**
2021 Q4	$7,837,750	$313,080	-	$1,298,280	-	**$9,449,110**
2022 Q1	$6,674,250	$270,000	-	$267,000	-	**$7,211,250**
2022 Q2	$21,562,080	-	$326,420	$641,160	-	**$22,529,660**
2022 Q3	-	$248,970	-	$417,580	-	**$666,550**
2022 Q4	$2,332,600	$2,172,780	$1,278,700	$153,060	-	**$5,937,140**
2023 Q1	$5,484,830	$2,690,890	$1,321,400	$217,500	$3,476,990	**$13,191,610**
Total	**$52,972,950**	**$8,893,370**	**$5,256,600**	**$9,309,310**	**$8,097,330**	**$84,529,540**

- = no sales; Q = quarter

Source: GAO analysis of Securities and Exchange Commission and Federal Deposit Insurance Corporation filings. | GAO-25-107032

Note: The executive officers are the named executive officers in First Republic Bank's 2022 annual proxy statement, specifically, the chief executive officer, chief financial officer, and the next three highest-paid executives who were employed at the bank through 2022. This table only includes the first quarter of 2023 because no disposals occurred after March 31, 2023. All dollar values are rounded to the nearest 10 dollars.

Appendix IV: Comments from the Board of Governors of the Federal Reserve System

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

DIVISION OF
SUPERVISION AND REGULATION

December 4, 2024

Michael E. Clements, Director, Financial Markets and Community Investment Team
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Clements:

Thank you for providing the Board of Governors of the Federal Reserve System ("Federal Reserve") with an opportunity to review the final draft of the Government Accountability Office ("GAO") report titled: *Bank Regulation: Agencies Should Finalize Rulemaking on Incentive Compensation* (GAO-25-107032). The GAO's report examines, among other things, the structure of executive compensation packages at three failed banking organizations (First Republic Bank, Signature Bank, and Silicon Valley Bank), federal banking regulators' reviews of executive compensation at a selection of large banks from 2017–2022, as well as efforts federal agencies have taken since 2010 to finalize rules on incentive compensation and any challenges they have faced. We appreciate the report's recognition of the Federal Reserve's substantial efforts over the past five years to review executive compensation through ongoing monitoring, targeted exams, and horizontal reviews.

The GAO's report makes one recommendation to the Federal Reserve:

The Board of Governors of the Federal Reserve System should jointly prescribe regulations or guidelines with the five other

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agencies that are directed to implement Section 956 of the Dodd-Frank Act, as soon as practicable. (Recommendation 1)

The Board is committed to continuing to work with the five other agencies—the FDIC, FHFA, NCUA, OCC, and SEC—to implement Section 956. However, further work on this issue should be based on updated analysis to reflect current banking conditions and practices. We are focused on conducting this analysis and will continue to work with the FDIC, FHFA, NCUA, OCC, and SEC to determine the best path forward.

We appreciate the GAO's review of executive compensation and for the opportunity to comment.

Sincerely,

Michael Gibson

Appendix V: Comments from the Federal Deposit Insurance Corporation

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Division of Risk Management Supervision

December 4, 2024

Michael Clements
Director
Financial Markets and Community Investment
U.S. Government Accountability Office
661 G Street, NW
Washington, D.C. 20548

Dear Mr. Clements:

The Federal Deposit Insurance Corporation ("FDIC") appreciates the opportunity to review the Government Accountability Office's (GAO) draft report entitled, *BANK REGULATION Agencies Should Finalize Rulemaking on Incentive Compensation* (GAO-25-107032) ("Report"). The Report reviews the Federal banking agencies'[1] oversight practices for assessing executive compensation at supervised institutions and discusses the relevant statutory and regulatory framework.

We appreciate that the Report recognizes the FDIC's efforts to discourage inappropriate risk taking through incentive compensation plans at FDIC-supervised institutions. The Report discusses FDIC's review of executive compensation in examination activities related to evaluating the "Management" component of the Uniform Financial Institutions Rating System. The Report also acknowledges the FDIC's collaboration with the other Federal banking agencies in issuing 2010 industry guidance[2] and the proposed rulemaking initiatives from 2011 through 2024 to implement Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), including the challenges that the Agencies[3] face in promulgating rules for diverse financial entities.

The Report contains six identical recommendations, one to each agency required to issue incentive compensation regulations or guidelines under Section 956 of the Dodd-Frank Act:

> The Board of Directors of the Federal Deposit Insurance Corporation should jointly prescribe regulations or guidelines with the five other agencies that are directed to implement Section 956 of the Dodd-Frank Act, as soon as practicable (Recommendation 2).

[1] The Federal banking agencies are the FDIC, the Board of Governors of the Federal Reserve System (FRB), and the Office of the Comptroller of the Currency (OCC).
[2] See *Guidance on Sound Incentive Compensation Policies*, 75 Fed. Reg. 36395 (June 25, 2010).
[3] Under Section 956 of the Dodd-Frank Act, the Agencies are the FDIC, FRB, OCC, National Credit Union Administration, Federal Housing Finance Agency and Securities Exchange Commission.

1

The FDIC agrees with the recommendation noting the challenges to joint rulemaking among federal agencies with different authorities and approaches to regulation. The FDIC recognizes the importance of issuing regulations or guidelines to implement Section 956 of the Dodd-Frank Act and is committed to working together with our fellow agencies to achieve that goal.

Sincerely,

DOREEN EBERLEY
Digitally signed by DOREEN EBERLEY
Date: 2024.12.04 11:20:15 -05'00'

Doreen R. Eberley
Director

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Appendix VI: Comments from the Federal Housing Finance Agency

FEDERAL HOUSING FINANCE AGENCY
Office of the Director

December 4, 2024

Mr. Michael E. Clements
Director, Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, Northwest
Washington, D.C. 20548

Dear Mr. Clements,

Thank you for the opportunity to review and respond to the U.S. Government Accountability Office's (GAO) draft report (GAO-25-107032), *Bank Regulation: Agencies Should Finalize Rulemaking on Incentive-Based Compensation Arrangements* (Report).

Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires the Federal Housing Finance Agency (FHFA), along with the Securities and Exchange Commission, the National Credit Union Administration, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (together, the agencies), to jointly prescribe regulations or guidelines for certain incentive-based compensation arrangements. The Report describes the need and benefits for a final rule governing incentive-based compensation at our nation's financial services companies. FHFA agrees with GAO's recommendation to FHFA outlined in the Report and will continue to take steps to comply with GAO's recommendation, as described below.

Recommendation 3: *The Director of the Federal Housing Finance Agency should jointly prescribe regulations or guidelines with the five other agencies that are directed to implement Section 956 of the Dodd-Frank Act, as soon as practicable.*

Management Response: FHFA agrees with the recommendation and is committed to continuing to work with the other agencies to establish a timeline and take all other necessary actions to implement Section 956 of the Dodd-Frank Act. FHFA strongly believes that sound risk management with respect to compensation protects the safety and soundness of FHFA's regulated entities. As noted in the Report, FHFA already exercises broad statutory authorities over compensation practices at its regulated entities. We look forward to continuing our work

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with the other agencies to issue a final rule implementing Section 956, which would supplement FHFA's other authorities.

I would like to acknowledge the dedicated GAO staff who worked with the Agency during this assignment. If you have any questions related to our response, please contact Rick Oettinger, Policy Manager, Executive Compensation & Benefits, at rick.oettinger@fhfa.gov.

Sincerely,

Sandra L. Thompson

Appendix VII: Comments from the National Credit Union Administration

National Credit Union Administration
Office of the Chairman

December 4, 2024

SENT BY E-MAIL

Mr. Michael E. Clements
Director Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548
ClementsM@gao.gov

Dear Director Clements:

We have reviewed the Government Accountability Office's (GAO) draft report titled *Bank Regulation: Agencies Should Finalize Rulemaking on Incentive Compensation.* The draft report provides one recommendation for the NCUA. The recommendation for the NCUA is:

> *The Board of Directors of the National Credit Union Administration should jointly prescribe regulations or guidelines with the five other agencies that are directed to implement Section 956 of the Dodd-Frank Act, as soon as practicable.*

The NCUA will continue to work with the five other agencies to implement Section 956 of the Dodd-Frank Act by prescribing guidance or regulation. Thank you for the opportunity to comment.

Sincerely,

Todd M. Harper
Chairman

cc James Hagen, NCUA Inspector General

1775 Duke Street – Alexandria, VA 22314-3428 – 703-518-6300

Appendix VIII: Comments from the Office of the Comptroller of the Currency

Office of the Comptroller of the Currency

Washington, DC 20219

December 5, 2024

Mr. Michael Clements
Director, Financial Markets and Community Investment
U. S. Government Accountability Office
Washington, DC 20548

Dear Mr. Clements:

Thank you for providing the Office of the Comptroller of the Currency (OCC) an opportunity to review the Government Accountability Office's (GAO) draft report titled *Bank Regulation: Agencies Should Finalize Rulemaking on Incentive Compensation (GAO-25-107032)*.

As part of this review, the GAO has provided the following recommendation to the OCC.

The Acting Comptroller of the Currency should jointly prescribe regulations or guidelines with the five other agencies that are directed to implement Section 956 of the Dodd-Frank Act, as soon as practicable. (Recommendation 5)

To address GAO's recommendation, the OCC will continue to work with our interagency peers at the Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, National Credit Union Administration, Securities and Exchange Commission, and Federal Housing Finance Agency to jointly issue a rule implementing section 956 of the Dodd-Frank Act.

If you need additional information, please contact Krista LaBelle, Associate Deputy Comptroller for Bank Supervision Policy, at (202) 649-6221.

Sincerely,

Grovetta N. Gardineer Digitally signed by Grovetta N. Gardineer Date: 2024.12.05 11:26:13 -05'00'

Grovetta N. Gardineer
Senior Deputy Comptroller for Bank Supervision Policy

Appendix IX: Comments from the Securities and Exchange Commission

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

December 5, 2024

Michael E. Clements, Director
Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Tranchau T. Nguyen, Director
Education, Workforce, and Income Security Issues
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Clements and Ms. Nguyen:

Thank you for your draft report, Bank Regulation: Agencies Should Finalize Rulemaking on Incentive Compensation (GAO-24-107032). We appreciate GAO's insights and recommendations related to the SEC's and five other federal financial regulatory agencies' implementation of Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Section 956 of the Dodd-Frank Act directs the SEC and the Federal Deposit Insurance Corporation, Federal Reserve, Federal Housing Finance Agency, National Credit Union Administration, and Office of the Comptroller of the Currency to jointly issue regulations or guidelines that prohibit incentive-based payment arrangements at certain financial institutions that the agencies determine could encourage inappropriate risks by providing an executive officer, employee, director, or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the institution.

In your draft report, you recommend that the SEC jointly prescribe regulations or guidelines with the five other agencies that are directed to implement Section 956 of the Dodd-Frank Act, as soon as practicable. The staff of the Commission concurs with your recommendation and will continue to cooperate with the staff of the five other agencies referenced in Section 956 of the Dodd-Frank Act, with the goal of jointly acting with such agencies as soon as practicable.

Thank you for the consideration you and your staff have shown our agency during this engagement. If you have any questions, please do not hesitate to contact me at (202) 551-7962.

Sincerely,

Erik Gerding
Director, Division of Corporation Finance

Appendix X: GAO Contact and Staff Acknowledgments

GAO Contact

Michael E. Clements at (202) 512-8678 or ClementsM@gao.gov

Staff Acknowledgments

In addition to the contact named above, Christine McGinty (Assistant Director), Anar Jessani (Analyst in Charge), Clayton Clark, Dylan Desjardins, Elizabeth Fan, Daniel Horowitz, Michelle Kimmet, Jill Lacey, Abigail Loxton-Daun, Daniel Mahoney, Danielle Novak, Kathleen McQueeny, Mai Nguyen, Barbara Roesmann, Jessica Sandler, MaryLynn Sergent, Jena Sinkfield, Marc Tucker, Chaojie Wang, and Peng Zhang made key contributions to this report.

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