Proposed Rule Summary

Prepared by the NASCUS State Regulatory Affairs Department
November 25, 2013

Washington State Department of Financial Institutions

Bulletin B-13-17
RCW 31.12.365
Proposed Rule on Reasonable Compensation

The Washington State Department of Financial Institutions, Division of Credit Unions has issued a bulletin providing notice of a proposed rulemaking regarding reasonable compensation paid to directors and supervisory committee members. On July 28, 2013, RCW 31.12.365 was amended to allow a state chartered credit union in Washington to pay reasonable compensation to credit union leadership. The proposed rule will interpret and provide a framework for that new authority.

Federal credit unions are prohibited from compensating members of the board of directors, credit committee or supervisory committee for performing the duties of their position.[1] Under NCUA's regulation, business expenses, insurance, and indemnification payments are excluded from the definition of compensation. For state chartered credit unions, restrictions on director compensation vary between states. In states that allow credit unions to compensate their directors, however, it remains an optional tool and not a requirement of credit union governance. Approximately a dozen states currently allow some form of director compensation.

The bulletin was issued and entered on November 8, 2013. A public hearing is scheduled for January 7, 2014 and a final rule will be adopted on January 22, 2014.

Bulletin at-a-Glance:

- A credit union may pay "reasonable" compensation to its directors and supervisory committee members.

- The term "compensation" includes anything of value given in exchange for services performed and required to be reported to the IRS as income. The term expressly excludes gifts of minimal value, insurance coverage, indemnification payments, and reasonable business expenses for the director or supervisory committee member and one guest.

- Prior to an initial determination to pay compensation, a credit union's board of directors must review all policies related to compensation and issue a written determination that

---

[1] 12 CFR 701.33(b)

the compensation paid is reasonable. The board's deliberative process must be memorialized in meeting minutes.

- Compensation is "reasonable" if it is proportional to the services provided, reflective of the financial condition of the credit union, and comparable to compensation paid by organizations of similar size, location, and operational complexity.

- Requires annual, written and conspicuous disclosure to credit union members, prior to the annual membership meeting, of the names and compensation paid to each director and supervisory committee member in the prior and current calendar year.

- Instructs credit unions to provide written notice to the Director of Credit Unions of the intent to compensate directors or supervisory committee members at least 60 days before adopting the policy.

- The Director of Credit Unions may prohibit or otherwise limit or restrict the payment of compensation, if, in the opinion of the Director, the payment is likely to have a materially adverse effect on the credit union, or if the credit union fails to comply with this rule.

The proposed rule may be read here.

-End-

S/C