Federated Investors, Inc.
Federated Investors Tower
1001 Liberty Avenue
Pittsburgh, PA 15222-3779

412-288-1900 Phone
www.federatedinvestors.com

Federated

WORLD-CLASS INVESTMENT MANAGER®

May 31, 2011

VIA E-MAIL RULE-COMMENTS @SEC.GOV

Ms. Elizabeth M. Murphy, Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: Release No. 34-64160; File No. S7-12-11, Incentive-Based Compensation Arrangements

Dear Ms. Murphy:

Federated Investors, Inc. ("Federated") appreciates the opportunity to comment on the recent interagency proposal relating to Incentive-Based Compensation Arrangements (the "Proposed Rules"). The Proposed Rules would require the reporting of incentive-based compensation arrangements by a "Covered Financial Institution" and would prohibit certain incentive-based compensation arrangements that provide excessive compensation or that could expose an institution to inappropriate risks that could lead to material financial loss.

Federated is a publicly traded asset manager, managing approximately $355 billion in assets as of March 31, 2011. Federated is also a member of the Investment Company Institute ("ICI"), a national association representing the U.S. mutual fund industry. Federated agrees with the comments and concerns raised by the ICI in its comment letter dated May 31, 2011 regarding the Proposed Rules. In particular, Federated agrees with the ICI's assertions that the Proposed Rules contain several terms of art that are vague and highly subjective in nature. Terms such as "excessive," "inappropriate," "unreasonable," and "disproportionate" are inherently open to different interpretation especially in hindsight. Federated is concerned that the Proposed Rules, without substantial refinement, will increase the litigation risk for covered financial institutions while failing to deliver the desired results sought by the Proposed Rules. The Proposed Rules potentially turn any informed business decision that results in a material financial loss into a potential lawsuit for inappropriate risk-taking.

Our specific comments are set forth below:

I. DEFINITION OF "COVERED FINANCIAL INSTITUTION"

Each agency provides a definition of "Covered Financial Institution" for purposes of applying the Proposed Rules to the entities that it regulates. The Securities and Exchange

Commission's definition would cover a broker-dealer registered under Section 15 of the Securities Exchange Act of 1934, and an investment adviser as defined in Section 202(a)(11) of the Investment Advisers Act of 1940 provided that any such entity has total consolidated assets of $1 billion or more (the "asset threshold").

The Proposed Rules, however, are not entirely clear as to how large organizations such as banks or publicly traded asset managers, which engage in operations with numerous subsidiaries, including broker-dealer and investment advisory subsidiaries, would be treated under the Proposed Rules. Publicly traded asset managers, such as Federated, routinely have multiple investment advisory and broker-dealer subsidiaries. The existence of multiple regulated entities is often driven by tax considerations, as well as business-line considerations. Such asset managers are also likely to have multiple non-regulated subsidiaries which provide ancillary services to their sponsored products. As a result, asset managers may have consolidated assets exceeding $1 billion, but have no individual investment advisory subsidiary or broker-dealer subsidiary with assets in excess of $1 billion. In fact, there can easily be situations where an asset manager has consolidated assets exceeding $1 billion, but only as a result of assets attributable to non-regulated entities (i.e. the assets of all its regulated entities taken as a whole fall below the $1 billion asset threshold). As a result, Federated believes that the Proposed Rules should be clarified to state that they apply on an entity by entity basis, and do not flow upward to parent entities that are not themselves investment advisers or broker-dealers.

Federated would also urge the SEC to exclude goodwill from the calculation of the asset threshold. Asset managers, such as Federated, often recognize goodwill in connection with a business combination. Acquired goodwill represents the excess of the consideration paid by the acquirer over the fair value of the acquired business' identifiable assets. Goodwill is not a "tangible" asset such as cash, securities available for sale, plant or property or an identifiable intangible asset such as a tradename or customer list. Rather, at acquisition, goodwill represents the present value of expected future cash flows attributed to a business's strong reputation, work force, and future growth potential. Accordingly, goodwill most often cannot be actively put at risk or used as collateral for debt in the market unlike tangible property or other intangible assets. As such, Federated believes that goodwill assets should be excluded from the calculation of the asset threshold.

Federated also echoes the concerns of the ICI regarding the ongoing initiatives by the Financial Accounting Standards Board relating to the potential consolidation of investment companies by sponsoring asset managers. Current rules already require an asset manager to consolidate the assets of certain sponsored investment products when its interest in the sponsored fund absorbs the majority of the variability in the product's net assets (e.g. when the asset manager has a significant "seed" investment in a relatively small sponsored product). As a result, the application of these rules can significantly increase the size of an asset manager's balance sheet. Any assets consolidated in this fashion are restricted for use by the sponsored product only, and thus are not available for general corporate purposes. Such consolidated assets cannot be put at risk in the market in the same fashion as an asset manager's corporate assets. Further changes in the consolidation rules which have the effect of increasing the amount of consolidation of sponsored product assets onto an asset manager's balance sheet could

inadvertently cause numerous asset managers who would not otherwise have been covered by the Proposed Rules to meet the definition of a Covered Financial Institution. Accordingly, Federated urges the SEC to exclude assets from consolidated products from the calculation of the asset threshold.

II. DEFINITION OF "COVERED PERSON"

The definition of "covered person" includes any "executive officer, employee, director or principal shareholder" of a covered financial institution. Under the Proposed Rules, a "principal shareholder" means any individual that "directly or indirectly . . . has the power to vote 10 percent or more of any class of voting securities of a covered financial institution." Federated is unsure why the definition of "covered person" includes a principal shareholder. The focus of the Proposed Rules is to prohibit the payment of incentive-based compensation to covered persons in certain situations. Principal shareholders that are individuals will generally not be eligible to receive incentive-based compensation without the existence of an employment relationship. Where such an employment relationship exists, the principal shareholder would be an executive officer or an employee of the covered financial institution. Accordingly, the inclusion of "principal shareholder" within the definition of "covered person" seems unnecessary, and potentially confusing.

Similarly, Federated is not aware of situations where non-management directors receive incentive compensation payments. Non-management directors are typically paid a cash retainer in some form, as well as some equity component, and such compensation is generally not tied to incentives. As a result, Federated encourages the SEC to consider carefully whether a non-management director should be considered a "covered person" for purposes of these rules.

III. LACK OF GUIDANCE REGARDING INAPPROPRIATE RISKS

The Proposed Rules would prohibit a covered financial institution from having incentive-based compensation arrangements that encourage "inappropriate risks" without adequately distinguishing between properly taken risks and "inappropriate risks." As mentioned in the ICI letter, all financial institutions take risks. Indeed, calculated risk taking is one of the defining characteristics of the free market system. Calculated risk taking encourages innovation, and drives growth in many sectors including the financial services sector.

In corporate law, courts generally give deference to the decision-making of corporate boards (and corporations) as evidenced by the business judgment rule. Federated fears that without further refinement, the Proposed Rules would place the SEC in the position of making substantive judgments about which risks are appropriate and which are inappropriate without the benefit of clearly articulated guidance. As a result, any risk taken by a covered financial institution, even if made on a measured, calculated basis could potentially give rise to a claim of inappropriate risk taking if it results in a material financial loss. The Proposed Rules at a minimum should acknowledge that not all material financial losses are the result of inappropriate risks. In fact, it is likely most material financial losses are not the result of inappropriate risks but rather the result of a calculated business decision that involved some element of appropriate

risk-taking that did not turn out as hoped due to circumstances outside of a company's control. In such situations, incentive based compensation may still be an appropriate form of compensation for a covered person who contributed to the loss. This is especially true in cases where a long-term project generates significant initial losses but ultimately becomes profitable as it is refined over time.

IV. APPROPRIATE ROLE OF RISK MANAGEMENT AND RELATED PERSONNEL

The Proposed Rules would require that any incentive-based compensation arrangement be compatible with "effective controls and risk management." The Proposed Rule expands upon this by setting forth the Agencies' expectation regarding the role of risk-management, risk-oversight, and internal-control personnel ("Risk and Control Personnel"), stating that such personnel "should be involved in all phases of the process for designing incentive-based compensation arrangements." The Proposed Rules further state that "[r]isk-management and risk-oversight personnel also should have responsibility for ongoing assessment of incentive-based compensation policies to help to ensure that the covered financial institution's processes remain up-to-date and effective relative to its incentive compensation practices."

Federated agrees with the ICI's assertion that the Proposed Rules are overreaching by dictating the roles and responsibilities of specific personnel. The rule ignores the critical role played by management and Human Resources departments at covered financial institutions in designing and maintaining incentive-based compensation arrangements. Federated believes that such individuals, especially those in a Human Resources capacity, have professional training and experience in the area of compensation design and administration that exceeds that of most Risk and Control Personnel. While Risk and Control Personnel can play a valuable part in designing effective incentive-based compensation arrangements, Federated believes that the "one size fits all" approach taken by the Proposed Rules does not adequately address the realities of corporate staffing or the experience levels of corporate personnel. Federated believes that a more appropriate approach would be to provide guidance on how policies and procedures should be developed and maintained with respect to incentive-based compensation without dictating the specific roles of various classes of employees at covered financial institutions.

Further, the Proposed Rules as written would potentially undermine the authority of the Compensation Committees at publicly traded covered financial institutions. Compensation Committees are generally responsible for administering incentive-based compensation arrangements for executive officers. They establish appropriate performance objectives under performance plans which have been approved by shareholders. They then monitor the achievement of the established performance objectives, and make appropriate awards in light of the objectives. Traditionally this process has involved the input of the Chief Executive Officer, the Human Resources department, and the Legal department, as well as compensation consultants who can provide valuable comparative compensation data. The Compensation Committee not only seeks to ensure that awards meet the business needs of the company but meet the legal requirements of Section 162(m) of the Internal Revenue Code as well as any applicable listing standards (such as Section 303.A.05 of the New York Stock Exchange

Corporate Governance Guidelines). The Proposed Rules, by dictating the involvement of Risk and Control Personnel "in all phases of" the incentive-based compensation process, place the Compensation Committee in an unenviable position of either deferring to such personnel's recommendations on each and every incentive-based compensation matter, or being second guessed for exercising its traditional independent discretion and authority when it comes to such matters. The Proposed Rules should at a minimum clearly state that Compensation Committees (or other committees performing the same substantive function) retain the ultimate authority for determining and administering incentive-based compensation arrangements for executive officers at publicly traded covered financial institutions.

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Thank you for your consideration of Federated's comments on the Proposed Rules. Please feel free to contact us if you have any questions.

Very Truly Yours,

/s/ John W. McGonigle

Vice Chairman and Chief Legal Officer