

**SUPPORTING STATEMENT**  
**Risk-Based Capital Standards: Advanced Capital Adequacy Framework (Basel II)**  
**OMB Control No. 1550-NEW**

**A. Justification.**

*1. Circumstances that make the collection necessary:*

This statement supports a request for OMB approval of collections of information contained in a Notice of Proposed Rulemaking (NPRM) that would implement a new risk-based regulatory capital framework referenced to as Basel II.

On August 4, 2003, the Office of Thrift Supervision (OTS), jointly with the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (FRB), and the Office of the Comptroller of the Currency (OCC) (collectively the agencies) issued an advance notice of proposed rulemaking (ANPR) (68 FR 45900). The ANPR sought public comment on a new risk-based regulatory capital framework based on the Basel Committee on Banking Supervision (BCBS)<sup>1</sup> April 2003 consultative paper “The New Basel Capital Accord” (Basel II). Basel II sets forth a “three-pillar” framework encompassing risk-based capital requirements for credit risk, market risk, and operational risk (Pillar 1); supervisory review of capital adequacy (Pillar 2); and market discipline through enhanced public disclosures (Pillar 3). Basel II incorporates several methodologies for determining a savings association’s risk-based capital requirements for credit, market, and operational risk.<sup>2</sup>

The agencies are now issuing a joint NPRM to implement Basel II for institutions in the United States. The proposed rule sets forth a new risk-based capital adequacy framework that would require some savings associations and allow other qualifying savings associations to use an internal ratings-based approach to calculate regulatory credit risk capital requirements and advanced measurement approaches to calculate regulatory operational risk capital requirements. Information collection requirements in the proposed rule are found in Appendix F, Sections 21-23, 42, 44, 53, and 71. The collections of information are necessary in order to implement Basel II.

The Basel II NPRM and this supporting statement are issued in conjunction with the Advanced Capital Adequacy Framework Regulatory Reporting Requirements NPRM. The Basel II NPRM covers the rule and associated reporting burden, while the Regulatory Reporting Requirements NRPM addresses the actual data collection.

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<sup>1</sup> The BCBS is a committee of banking supervisory authorities, which was established by the central bank governors of the G-10 countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

<sup>2</sup> The BCBS developed the Proposed New Accord to modernize its first capital Accord, which was endorsed by the G-10 governors in 1988 and implemented by the agencies in the United States in 1989. The BCBS’s 1988 Accord is described in a document entitled “International Convergence of Capital Measurement and Capital Standards.” This document and other documents issued by the BCBS are available through the Bank for International Settlements website at [www.bis.org](http://www.bis.org).

***2. Use of the information:***

OTS will use the information generated to implement and monitor savings associations' compliance with Basel II. The information will be used to assess compliance on a quarterly, annual, and ongoing basis.

***3. Consideration of the use of improved information technology:***

The OTS will use information technology to reduce burden on institutions and decrease costs to savings associations and the agencies. Qualifying savings associations will be required to store data in an electronic format allowing timely retrieval for analysis, reporting, and disclosure purposes. Qualifying savings associations will be encouraged to provide information for public disclosure on their websites.

***4. Efforts to identify duplication:***

The required information is unique and is not duplicative of any other information already collected. There will, however, be a transition period during the parallel run where duplicative information will be produced for a limited period. This is necessary to implement the rule.

***5. Methods used to minimize burden if the collection has a significant impact on a substantial number of small entities:***

Not applicable. The collection does not have a significant impact on a substantial number of small entities.

***6. Consequences to the Federal program if the collection were conducted less frequently:***

OTS will not be able to adequately monitor capital levels and ensure safety and soundness if the collection is conducted less frequently.

***7. Special circumstances that would cause an information collection to be conducted in a manner inconsistent with 5 CFR Part 1320:***

The proposed rule requires savings associations to maintain data used to estimate risk parameters. For wholesale exposures, default data must be maintained for at least five years, loss severity data must be maintained for at least seven years, and exposure amount data must be maintained for at least seven years. Retail segment exposure default, loss severity and exposure amount data must be maintained for at least five years.

In addition to the requirements for a minimum number of years that data must be maintained, the default, loss severity, and exposure amount data must include periods of economic downturn conditions, or the savings association must adjust its estimates of risk parameters to compensate for the lack of data from such periods.

Maintenance of data for these periods is necessary for savings associations to conduct adequate statistical analysis to support the associated risk parameters used to calculate the risk-based capital requirement.

**8. *Efforts to consult with persons outside the agency:***

In response to the August 2003 ANPR, the agencies received about 100 comments from savings associations, banks, trade associations, supervisory authorities, and other interested parties. While some of the commenters found the approach discussed in the ANPR burdensome, many commenters found the approach worthwhile and encouraged the agencies to continue their development of this framework. The agencies participated with other members of the Basel Committee during the development of the Basel Committee's Basel II final paper, which was issued in June 2004. The agencies also participated in the BCBS's Fourth Quantitative Impact Study (QIS 4) during the fall and winter of 2004-2005 to better understand the potential impact of the proposed framework on the risk-based capital requirements for savings associations.

The agencies are now publishing a joint NPR. Extensive interagency collaboration was involved in creating this proposed information collection. The agencies surveyed five institutions regarding the burden estimates. To ensure full public participation in the development of Basel II information collections, the NPR has an extended public comment period (120 days). The agencies will carefully consider all public comments received in response to the NPR in developing the Final Rule.

**9. *Payment or gift to respondents:***

None.

**10. *Any assurance of confidentiality:***

The information will be kept confidential, pursuant to applicable exemptions under the Freedom of Information Act. 5 U.S.C. § 552.

**11. *Justification for questions of a sensitive nature:***

There are no questions of a sensitive nature.

**12. *Burden estimate:***

The burden is calculated as follows:

Number of Respondents: 5<sup>3</sup>  
Estimated Burden Per Respondent: 16,110 hours  
Total Estimated Annual Burden: 80,550 hours

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<sup>3</sup> Subsequent to the above analysis, it appears more appropriate for OTS to list 4 institutions at 15,000 burden hours each for a total of 60,000 hours. Therefore this subsequent estimation is listed in the NPRM.

Section by Section Analysis of Burden:

Sections 21 and 22 require that a savings association adopt a written implementation plan that addresses how it will comply with the Basel II’s qualification requirements, including incorporation of a comprehensive and sound planning and governance process to oversee the implementation efforts. The savings association must also develop processes for assessing capital adequacy in relation to an organization’s risk profile. It must have in place internal risk rating and segmentation systems for wholesale and retail risk exposures, including comprehensive risk parameter quantification processes and processes for annual reviews and analyses of reference data to determine its relevance. It must document its process for identifying, measuring, monitoring, controlling, and internally reporting operational risk; verify the accurate and timely reporting of risk-based capital requirements; and monitor, validate, and refine its advanced systems.

Section 23 requires a savings association to update its implementation plan after any mergers.

Section 42 outlines the capital treatment for securitization exposures. A savings association must disclose publicly that it has provided implicit support to the securitization and the regulatory capital impact to the savings association of providing such implicit support.

Section 44 describes the internal assessment approach (IAA). Prior written approval is required for use of IAA. A savings association must review and update each internal credit assessment whenever new material is available, but at least annually. It must validate its internal credit assessment process on an ongoing basis and at least annually.

Section 53 outlines the internal models approach (IMA). Prior written approval is required for use of IMA.

Section 71 specifies that each savings association must publicly disclose its total and tier 1 risk-based capital ratios and their components, and additional information on scope of application, capital structure, capital adequacy, credit risk (general disclosures and disclosures for portfolios subject to IRB risk based capital formulas), counterparty credit risk-related exposures, credit risk mitigation, securitization, and operational risk.

| Section Number   | Section Title                                  | Estimated Burden Hours |
|------------------|--|------------------------|
| Section 21       | Implementation                                 | 4,240                  |
| Section 22       | Documentation                                  | 840                    |
| Section 22, 23   | Systems maintenance                            | 4,480                  |
| Various sections | Supervisory approvals                          | 1090                   |
| Section 22       | Control, oversight and verification of systems | 4,520                  |
| Section 71, 42   | Disclosures                                    | 940                    |

Cost of Hour Burden to Respondents:

The OTS estimates the cost of the hour burden to respondents as follows:

60,000 x \$100/hour (combination of various levels of staff) = \$6,000,000  
Total Hour Burden Cost: \$6,000,000

Basel II is designed to leverage off the risk management practices at the most sophisticated financial institutions, which are under continual refinement. The estimated costs identified above represent those additional expenditures that institutions are likely to incur as a result of implementing Basel II alone, and are not intended to be all inclusive of the adopting institutions' total risk management expenditures.

***13. Estimate of total annual costs to respondents (excluding cost of hour burden in Item #12):***

Not applicable.

***14. Estimate of annualized costs to the Federal government:***

Not applicable.

***15. Change in burden:***

The program change (increase) is due to the fact that this is a new collection.

***16. Information regarding collections whose results are to be published for statistical use:***

OTS has no plans to publish the information for statistical purposes.

***17. Reasons for not displaying OMB approval expiration date:***

Not applicable.

***18. Exceptions to the certification:***

None.

**B. Collections of Information Employing Statistical Methods.**

Not applicable.

**Attachments:**

Notice of Proposed Rulemaking