Supporting Statement for the Advanced Capital Adequacy Framework Regulatory Reporting Requirements (FFIEC 101; OMB No. 7100-NEW)

Summary

The Board of Governors of the Federal Reserve System (Federal Reserve) requests approval from the Office of Management and Budget (OMB) to implement, the quarterly Federal Financial Institutions Examination Council (FFIEC) Advanced Capital Adequacy Framework Regulatory Reporting Requirements (FFIEC 101; OMB No. 7100-NEW). The FFIEC, of which the Federal Reserve, Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), and Office of Thrift Supervision (OTS) (the agencies) are members, has approved a proposal to implement new regulatory reporting requirements for banks[1] that qualify for and adopt the Advanced Capital Adequacy Framework (the framework) to calculate their risk-based capital requirement or are in the parallel run[2] stage of qualifying to adopt the framework. The FFIEC 101 would be required for certain large or internationally active state member banks and bank holding companies (BHCs) and also for those institutions that adopt the framework on a voluntary basis. The FDIC, the OCC, and the OTS have also submitted a similar request for OMB review in order to request this information from banks under their supervision.

The Federal Deposit Insurance Act (FDI Act) and the International Lending Supervision Act of 1983 (ILSA) require the agencies to have risk-based capital requirements and to ensure that banks maintain adequate capital. The Federal Reserve would use these data to assess and monitor the levels and components of each reporting entity's risk-based capital requirements and the adequacy of the entity's capital under the framework. These data also would allow the Federal Reserve to evaluate the quantitative impact and competitive implications of the framework on individual respondents and on the industry. The reporting schedules would also assist banks in understanding expectations surrounding the system development necessary for implementation and validation of the framework. The submitted data that is released publicly would also

[1] For simplicity, and unless otherwise indicated, this notice uses the term "bank" to include banks, savings associations, and bank holding companies (BHCs). The terms "bank holding company" and "BHC" refer only to BHCs regulated by the Federal Reserve and do not include savings and loan holding companies regulated by the OTS. For a detailed description of the institutions covered by this notice, refer to Part I, Section 1, of the final rule entitled Risk-Based Capital Standards: Advanced Capital Adequacy Framework - Basel II (72 FR 69288).

[2] Once a bank has adopted its implementation plan, it must complete a satisfactory parallel run before it may use the advanced approaches to calculate its risk-based capital requirements. A satisfactory parallel run is a period of at least four consecutive calendar quarters during which the bank complies with all of the qualification requirements to the satisfaction of its primary Federal supervisor. During this period, the bank would continue to be subject to the general risk-based capital rules but would simultaneously calculate its risk-based capital ratios under the advanced approaches. During the parallel run period, a bank would report its risk-based capital ratios under both the general risk-based capital rules and the advanced approaches to its primary Federal supervisor through the supervisory process on a quarterly basis. The agencies will share this information with each other for calibration and other analytical purposes.

provide other interested parties with information about banks' risk-based capital. Finally, the submitted data would supplement on-site examination processes.

Respondents would be required to submit detailed data on the components of their capital and risk-weighted assets in nineteen schedules. The Federal Reserve's total annual burden for this information collection is estimated to be 52,500 hours for the twenty-one Federal Reserve-regulated respondents that meet the reporting criteria. Draft copies of the reporting forms and instructions are available on the FFIEC web site: http://www.ffiec.gov/ffiec_report_forms.htm.

Background and Justification

Section 1831(o) of the FDI Act requires each Federal banking agency to adopt a risk-based capital requirement, which is based on the prompt corrective action framework in that section. The ILSA, 12 U.S.C. § 3907(a)(1), mandates that each Federal banking agency require banks to achieve and maintain adequate capital by establishing minimum levels of capital or by other methods that the appropriate federal banking agency may deem appropriate. Section 908 of the ILSA, 12 U.S.C. §3907(b)(3)(C), also directs the Chairman of the Federal Reserve Board and the Secretary of the Treasury to encourage governments, central banks, and regulatory authorities of other major banking countries to work toward maintaining and, where appropriate, strengthening the capital bases of banking institutions involved in international lending.

Current U.S. risk-based capital requirements are based on an internationally agreed upon framework for capital measurement that was developed by the Basel Committee on Banking Supervision (BCBS) and endorsed by the central-bank governors of the Group of 10 (G–10) Countries in 1988. Although the 1988 Accord has been a stabilizing force for the international banking system, the world financial system has become increasingly more complex over the past twenty years. The BCBS has been working for several years to develop a new regulatory capital framework that recognizes new developments in financial products, incorporates advances in risk measurement and management practices, and more precisely assesses capital charges in relation to risk. In April 2003, the BCBS released for public comment a document entitled, The New Basel Capital Accord (Proposed New Accord), that set forth proposed revisions to the 1988 Accord. Also, the agencies participated with other members of the BCBS during the development of the New Accord, which was issued in June 2004. The agencies also participated in the Fourth Quantitative Impact Study during the fall and winter of 2004-2005 (QIS 4; OMB No. 7100-0303), to better understand the potential impact of the proposed framework on the risk-based capital requirements for banks.

On December 7, 2007, the agencies published a final rule in the *Federal Register*, entitled Risk-Based Capital Standards: Advanced Capital Adequacy Framework – Basel II. This final rule was based on the New Basel II Capital Accord and recognizes developments in financial products, incorporates advances in risk measurement and management practices, and imposes capital requirements that are generally more sensitive to risk. In particular, the final rule requires banks to assign risk parameters to exposures and provides specific risk-based capital formulas that would be used to transform these risk parameters in to risk-based capital requirements. Included within the final rule are requirements for public disclosure of certain information at the consolidated banking organization level as well as a reference to certain additional regulatory reporting requirements for banks and BHCs. The additional regulatory reporting requirements referenced within the final rule, and described more fully herein, comprise the agencies' regulatory reporting requirements.

The Federal Reserve would use the data collected to:

- Assess the components of each bank's risk-based capital requirements;
- Assess each bank's capital relative to inherent risks and the Federal Reserve's minimum capital requirements;
- Monitor the levels and components of the risk-based capital requirements for banks through peer, outlier, and risk trend analyses;
- Evaluate the quantitative impact and competitive implications of the implementation of the framework on risk-based capital levels within reporting banks and on an overall industry basis;
- Provide market participants, depositors, the public, supervisors, and other interested parties with information about banks' risk-based capital; and
- Supplement on-site examination processes and decisions pertaining to the allocation of supervisory resources.

In addition, this proposal would assist supervised institutions in understanding expectations surrounding the system development necessary for implementation and validation of the framework.

The Federal Reserve needs to monitor and assess individual banks' conformance with capital adequacy standards and understand the capital resulting from the implementation of the framework. The current regulatory capital data submitted by banks would not provide relevant information regarding risk-based capital under the framework. Because the final rule includes transitional arrangements that involve capital floors linked to the general risk-based capital rules (as defined in the final rule), the Federal Reserve believes it is necessary to require data submissions under both the general risk-based capital rules and advanced risk-based capital frameworks for as long as a bank is subject to risk-based capital floors.

As noted in the final rule, the Federal Reserve intends to conduct analyses to gauge the impact of the framework, and the preparedness of banks to compute risk-based capital consistent with those requirements, during the parallel run and transitional floor periods. Data submitted through these reporting requirements, combined with dual reporting requirements for the general risk-based capital data, would provide quantitative support for these impact analyses. Such analyses would also help the Federal Reserve evaluate the competitive and cyclical implications of the framework relative to capital requirements for banks subject to the general risk-based capital rules and the adequacy of capital generated under the framework. General risk-based capital data under the existing risk-based capital standards are currently captured in the Consolidated Reports of

Condition and Income (Call Report) for banks (FFIEC 031 or FFIEC 041; Federal Reserve OMB No. 7100-0036) and the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128).

The FFIEC 101 is necessary to ensure that the new risk-based regulatory capital framework is implemented in the United States in a safe and sound manner. There is no other reporting form that collects from all banks and BHCs the information that would be gathered through the FFIEC 101.

Description of Information Collection

Who Must Report

The proposed regulatory reporting requirements associated with the final rule would apply, on a consolidated basis, to each BHC and each bank that qualifies for and applies the advanced approaches as well as to those banks in the parallel run stage of qualifying to use the advanced approaches. A bank is required to submit the FFIEC 101 data if it meets either of two independent threshold criteria: (i) consolidated total assets of $250 billion or more, as reported on the most recent year-end regulatory reports; or (ii) consolidated total on-balance sheet foreign exposure of $10 billion or more at the most recent year-end. To determine total on-balance sheet foreign exposure, a bank would sum its adjusted cross-border claims, local country claims, and cross-border revaluation gains (calculated in accordance with the FFIEC Country Exposure Report (FFIEC 009))[3]. Adjusted cross-border claims equal total cross-border claims less claims with the head office/guarantor located in another country, plus redistributed guaranteed amounts to the country of head office/guarantor. A bank is also required to comply if it is a subsidiary of another financial institution that uses the advanced approaches.

Also, some banks or BHCs may voluntarily decide to adopt the framework and would be required to submit the FFIEC 101 data. Both mandatory and voluntary respondents would be required to meet certain qualification requirements before they could use the advanced approaches for risk-based capital purposes.

Overview of the Data Collection

Respondents would be required to submit detailed data on the components of their capital and risk-weighted assets in nineteen schedules (A through S). A limited portion of this data would be publicly available (Schedules A and B and data items 1 and 2 of Schedule S). The majority of the data would not be publicly available.

[3] The Federal Reserve's OMB Control Number for the FFIEC 009 is 7100-0035.

Publicly Available Data

Proposed Schedules A and B (and data items 1 and 2 of proposed Schedule S, Operational Risk) include data items that would be publicly available for each reporting entity for reporting periods subsequent to its parallel run period. Schedule A contains information about the components of Tier 1 capital, Tier 2 capital, and adjustments to regulatory capital as defined within the NPR.[4] Schedule B contains summary information about risk-weighted assets by risk type, and, in the case of credit risk exposures, outstanding balances and aggregated information about the drivers and estimates that underlie the calculation of risk-weighted assets.

The general exposure breakdowns in Schedule B are as follows:

- Wholesale Exposures, including separate reporting for the following types of exposures: Corporate; Bank; Sovereign; Income Producing Real Estate; High Volatility Commercial Real Estate; Eligible Margin Loans, Repo-Style Transactions, and OTC Derivatives with Cross Product Netting; Eligible Margin Loans, Repo-Style Transactions, and OTC Derivatives without Cross Product Netting;
- Retail Exposures, including separate reporting for the following types of exposures: Residential Mortgage Closed-end First Liens, Residential Mortgage Closed-end Junior Liens, Residential Mortgage Revolving Exposures, Qualifying Revolving Exposures, and Other Retail Exposures;
- Securitization Exposures;
- Equity Exposures;
- Other Assets;
- Excess Eligible Credit Reserves Not Included in Tier 2 Capital;
- Market Risk Equivalent Assets; and
- Operational Risk.

Some of the aggregate data items submitted in Schedule B are derived from information contained in the more detailed confidential supporting schedules described below. The data contained in Schedule B describe the main summary-level components of banks' risk-weighted assets, but would not allow users to exactly replicate banks' risk-weighted asset calculations since the data are averaged, weighted, and rounded.

Schedule S shows the data items within the operational risk exposure class that banks would submit under this proposal. Data items 1 and 2 would be publicly available and include high-level information on operational risk capital, expected operational loss, eligible operational risk offsets, and total risk-based capital requirements for operational risk.

The intent of these disclosures is to provide market participants, depositors, supervisors, the public, and other interested parties with a sufficient level of detail

[4] One version of Schedule A would apply to banks and BHCs and another version of Schedule A would apply to savings associations. The version for banks and BHCs is modeled after the portion of the Call Report and BHC FR Y-9C report used to capture information on the components of and adjustments to Tier 1 and Tier 2 capital under the existing risk-based capital standards.

(comparable, in principle, to risk-based capital information collected currently) about banks' major capital and risk-weighted asset components as well as summary information about the composition of regulatory capital and the risk parameters that underlie risk-weighted asset calculations.

Non-publicly Available Data

The data items contained in Schedules C through S describe the main components of banks' risk-weighted assets and are essentially expanded detail of the more summary information contained in the public data items shown in Schedule B. The data submitted in these schedules would not be made available to the public (except for data items 1 and 2 of Schedule S, Operational Risk). Supervisors are requesting these data to support comparisons of certain critical capital drivers across banks and across time. For the reasons cited previously, however, the information contained in the columns of the tables would not allow users to exactly replicate banks' risk-weighted asset calculations. A brief description of the content of Schedules C through S follows.

Wholesale Exposures. Schedules C through J show data items within the wholesale exposure category that would be submitted under this proposal. Each schedule represents a sub-portfolio of the wholesale exposure category as listed on the public Schedule B. For each reported sub-portfolio, the schedule groups exposures into sub-portfolio segments using supervisor-defined probability of default (PD) ranges. The reported cells within these schedules then describe the main risk parameters and characteristics of each sub-portfolio segment.

Retail Exposures. Schedules K through O show data items within the retail exposure category that would be submitted under this proposal. Again, each schedule represents a sub-portfolio of the retail exposure category as listed on the public Schedule B. PD ranges are used to sub-divide each sub-portfolio into segments.[5] The reported cells within these schedules then describe the main risk parameters and characteristics of each sub-portfolio segment. The retail schedules also incorporate risk characteristics that are believed to be commonly used drivers within banks' risk management and measurement processes, including the distribution of each sub-portfolio segment by loan-to-value ranges (applies only to real estate exposures), weighted average credit bureau score, and weighted average account age.[6]

Securitization Exposures. Schedules P and Q show data items within the securitization exposure class that would be submitted under this proposal. Schedule P provides information by rating categories about exposures subject to either the Ratings-Based Approach (RBA) or the Internal Assessment Approach (IAA). Schedule Q provides certain memoranda information about unrated securitization exposures, exposures treated under the Supervisory Formula Approach, synthetic securitizations, and

[5] Unlike the wholesale credit exposure reporting schedules, the PD ranges for retail exposures differ from sub-portfolio to sub-portfolio.

[6] For qualifying revolving exposures and other (non-mortgage) retail exposures, the exposure at default (EAD) of accounts under two years old is reported instead of weighted average age for each sub-portfolio exposure segment.

risk-weighted assets relating to early amortization features of securitizations as prescribed in the NPR.

Equities. Schedule R provides information about a bank's equity exposures by type of exposure and by approach to measuring required capital. Schedule R also provides information on equity exposures subject to specific risk weights and equity exposures to investment funds. A bank would also complete the appropriate section of the schedule based on whether it uses a simple risk-weight approach, a full internal models approach, or a partially modeled approach to measuring required capital for equity exposures.

Operational Risk. Schedule S shows the data items within the operational risk exposure class that banks would submit under this proposal. Data items submitted in this schedule, which would be confidential, include various details about historical operational losses, on a stand-alone and group-wide basis, for the current reporting period and those historical operational losses used to model operational risk capital. The schedule also contains confidential data items related to scenarios, distribution assumptions, and loss caps used to model operational risk capital.

Time Schedule for Information Collection

The FFIEC 101 would be collected quarterly as of the end of the last calendar day of March, June, September, and December. Reporting BHCs and DIs would submit data quarterly because efforts to monitor banks' progress toward, and actions under, the framework require regular and consistent data submissions from all of the institutions adopting this framework. The first reporting period for Schedules A through S for each reporting entity seeking to qualify for the advanced approaches would correspond to the first quarter of its parallel run period.

The report due dates will be 60 days following the end of a quarter while a state member bank or BHC is in its parallel run period. After completing its parallel run period, the report due dates will be the same as the report due dates currently required of banks and BHCs when filing their respective Call Report or FR Y-9C. State member banks must submit the FFIEC 101 to the appropriate Federal Reserve Bank within thirty calendar days following the as-of date; a five-day extension may be given to banks with more than one foreign office. BHCs must submit the FFIEC 101 to the appropriate Federal Reserve Bank within forty calendar days after the March 31, June 30, and September 30 as of dates unless that day falls on a weekend or holiday and within forty-five calendars days after the December 31 as of date.

Individual respondent data, excluding confidential information, would be available on the National Information Center public website.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Consultation Outside the Agency

The Federal Reserve participated in the QIS 4 during the fall and winter of 2004-2005, with the other banking agencies to better understand the potential impact of the proposed framework on the risk-based capital requirements for banks. Finally, the agencies published the notice for comment in the *Federal Register* on September 25, 2006 (71 FR 55981) and collectively received sixteen public comment letters. The comment period for this notice expired on March 26, 2007. The agencies modified the proposal in response to several of these comment letters. On January 24, 2008, the Federal Reserve published a final notice in the *Federal Register* (73 FR 4220) on the FFIEC 101.

Legal Status

The Board's Legal Division has determined that 12 U.S.C. 324 and 12 U.S.C. 1844 (c) authorize the Board to require the information collection. All data collected from each reporting entity on Schedules A through S, including those data items identified as public data items above, would remain confidential during the entity's parallel run period under the Freedom of Information Act (FOIA) exemption 4 (5 U.S.C. 552(b)(4). The release of this data could cause substantial competitive harm to respondents. Subsequent to the entity's parallel run period, Schedules A and B and data items 1 and 2 of Schedule S, would be available to the public and Schedules C through R and data items 3 through 24 on Schedule S would be shared among the four agencies but would not be released to the public. The release of the data on the latter schedules could cause substantial competitive harm to respondents and thus would be covered by exemption 4 of FOIA.

If an institution can justify any other information to be trade secrets and/or privileged, such information could be withheld from the public under the authority of the exemption 4 of FOIA. Additionally, to the extent that such information may be contained in an examination report such information maybe also be withheld from the public, 5 U.S.C. 552 (b)(8).

Estimate of Respondent Burden

The total annual burden for the FFIEC 101 is estimated to be 52,500 hours, as shown in the table below. The Federal Reserve estimates that, on average, it would take each respondent 625 hours to provide the data each quarter. This burden represents less than 1 percent of the total Federal Reserve System paperwork burden.

	Number of respondents	*Estimated annual frequency*	*Estimated response time*	*Estimated annual burden hours*

State Member Banks	6	4	625 hours	15,000
BHCs	15	4	625 hours	37,500
Total	21			52,500

Based on a rate of $100 per hour, the estimated cost to the public for this information collection is $5,250,000.

Estimate of Cost to the Federal Reserve System

The one-time cost to the Federal Reserve System for implementing the FFIEC 101 is estimated to be $141,870. The ongoing costs for collecting and processing the data are estimated to be $157,694 per year.