SUPPORTING STATEMENT

Advanced Capital Adequacy Framework Regulatory Reporting Requirements

FFIEC 101
(OMB No. 3064-NEW)

INTRODUCTION

The FDIC is requesting approval from the OMB to implement quarterly Federal Financial Institutions Examination Council (FFIEC) requirements for banks that qualify for and adopt the Advanced Capital Adequacy Framework or are in the parallel run state of qualifying for this framework. The U.S. implementation of the Advanced Capital Adequacy Framework is detailed in a final rule published on December 7, 2007 (72 FR 69288), and becomes effective April 1, 2008. The FFIEC, of which the FDIC, the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) (referred to collectively as the agencies) are members, has approved these new reporting requirements with initial reports due at the end of the quarter in which an institution enters its parallel run period. The FRB, the OCC, and the OTS are also submitting similar requests for OMB approval in order to request this information from banks, bank holding companies, and savings associations under their supervision.

On September 25, 2006, the agencies jointly issued an initial Paperwork Reduction Act Federal Register notice requesting comment on proposed regulatory capital reporting requirements (71 FR 55981) for U.S. banks[1] that qualify for and adopt, or that are seeking to qualifying for, the advanced internal ratings-based (AIRB) approach for calculating regulatory credit risk capital and the advanced measurement approaches (AMA) for calculating regulatory operational risk capital (together, the new risk-based capital framework). These proposed regulatory reporting requirements were issued concurrently with the joint notice of proposed rulemaking seeking public comment on a new risk-based capital framework for banks (71 FR 55830). On December 7, 2007, the agencies jointly published final rules implementing the new risk-based capital framework (72 FR 69288).

JUSTIFICATION

1. Circumstances and Need

U.S. banks that qualify for and adopt the Advanced Capital Adequacy Framework will be subject to new risk-based capital rules as described in the agencies' Risk Based Capital Standards: Advanced Capital Adequacy Framework – Basel II; Final Rule (referred to hereafter as the final rule). Prior to qualification, a bank that adopts the new risk-based capital rules must

[1] For simplicity, and unless otherwise indicated, the term "bank" includes banks, savings associations, and bank holding companies (BHCs).

also undergo a parallel run period during which time it will determine its capital requirements under both the new risk-based capital rules and existing risk-based capital rules.

In order to assess a bank's conformance with capital adequacy standards, the agencies determined that there was need for a new reporting framework that accommodates the significant changes inherent in these new risk-based capital rules relative to existing risk-based capital rules. In addition, a fundamental aspect of the new risk-based capital framework is the use of a bank's internal risk estimates for many of the parameters used to derive risk-weighted assets. The new reporting requirements provide the agencies and, to a limited extent, the public a basis for comparing the main risk estimates (on an aggregated basis) that underlie a bank's risk-based capital measures across institutions and over time.

2. Use of Information Collected

The reporting requirements entail the quarterly collection of detailed information, encompassing up to approximately 2,500 data elements on nineteen schedules, that pertains to the main components of a respondent's regulatory capital and risk-weighted asset calculations under the final rule. The FDIC will use the information collected through these reporting requirements in the following ways:

- 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 Advanced Capital Adequacy Framework;
- to evaluate the quantitative impact and competitive implications of the Advanced Capital Adequacy Framework on individual reporting entities and on an industry-wide basis;
- as an input to the completion of an interagency study at the end of the second transition year to evaluate the effectiveness of the final rule (refer to the final rule for more details); and
- and to supplement on-site examination processes.

The reporting schedules will also assist banks in understanding expectations around the system development necessary for implementation and validation of the Advanced Capital Adequacy Framework. Submitted data that is released publicly following a reporting entity's parallel run period will also provide other interested parties with information about banks' risk-based capital.

3. Use of Technology to Reduce Burden

All reporting banks will submit their reports electronically to the agencies using the Federal Reserve Board's STAR system as the platform for collecting, validating, and managing the data.

4. Efforts to Identify Duplication

There is no other report that collects information pertaining to a bank's risk-based capital calculations under the new framework at the insured institution level. The final rule requires certain related public disclosures (referred to as Pillar 3 disclosures) at the consolidated holding company level. However, these regulatory reporting requirements are generally more detailed than Pillar 3 disclosures, requiring reporting of greater detail about aggregated risk estimates underlying the calculation of a bank's risk-based capital ratios, and are also more standardized in terms of the breakdown of reported portfolio exposures and reported ranges of risk estimates. In addition, while the regulatory reporting requirements apply to large, internationally active organizations and their depository institution subsidiaries, the Pillar 3 disclosures would not be made by these subsidiary institutions. Thus, the Pillar 3 disclosures would not be an acceptable substitute for the Advanced Capital Adequacy Framework Regulatory Reporting Requirements.

5. Minimizing the Burden on Small Banks

Organizations that are subject to the new risk-based capital rules on a mandatory basis are large (over $250 billion in consolidated assets) and internationally active organizations (over $10 billion in consolidated on-balance sheet foreign exposures) and their depository institution subsidiaries. The FDIC believes these reporting requirements will have a limited burden on small institutions. The FDIC estimates that one small state nonmember bank (out of a total of 3,242 state nonmember banks with assets of $165 million or less) would be subject to the final rule, and correspondingly these reporting requirements, on a mandatory basis.

6. Consequences of Less Frequent Collection

Less frequent reporting would reduce the ability of the FDIC to identify and respond in a timely manner to noncompliance with minimum risk-based capital rules, adverse risk trends that become apparent in the forward-looking risk estimates reported by respondents, and evidence of risk estimates that call into question the accuracy of a bank's capital calculation or place other institutions with similar types of exposures at a competitive disadvantage. To be most useful as an off-site analytical tool, these reports were intended to correspond to the frequency and timing of other regulatory financial submissions including Reports of Condition and Income (Call Reports), Thrift Financial Reports (TFRs), and Bank Holding Company FR Y-9C reports.

7. Special Circumstances

There are no special circumstances.

8. Summary of Public Comments

The agencies received sixteen comment letters that directly addressed the reporting proposal. In addition to providing responses to the specific questions posed by the agencies in the initial Federal Register notice, a number of commenters identified both general and technical issues relating to the proposed reporting requirements, report schedules, and reporting instructions. Some additional comments focused primarily on the Pillar 3 disclosure requirements of the joint notice of proposed rulemaking, but also included less specific comments on regulatory reporting.

In general, commenters reflected concerns over the perceived burdens of the proposed reporting requirements without sufficient offsetting benefits in terms of the analytical needs of supervisors and the information needs of investors and other public users of financial information. Specific areas of concern identified in the comments covered a range of issues including concerns about (1) the length of time allowed following a quarter-end to file reports with the agencies, (2) public disclosures of certain risk estimates used to calculate risk-weighted assets for credit risk portfolios, (3) public disclosures of certain data items contained in the operational risk schedule, (4) the reporting of credit risk portfolios not defined in the proposed rulemaking, (5) the reporting of data elements not required for calculation of regulatory capital, and (6) potential duplication or inconsistencies of the reporting requirements with Pillar 3 disclosures.

The agencies have made a number of modifications to the reporting requirements in light of these comments. Among the changes that address concerns about reporting burden, the agencies have eliminated three schedules and approximately 600 reportable data items, expanded the submission deadlines during a bank's parallel run period, and allowed more data items to be reported on an optional basis (depending on information availability e.g., information pertaining to pre-credit risk mitigation risk estimates for wholesale exposures when the substitution approach is used, and various data items pertaining to operational risk modeling). Additionally, in recognition of concerns about report certification requirements, the agencies have adopted alternative certification language that focuses on meeting the requirements imposed by the final rule and reporting instructions as opposed to a statement attesting to the accuracy of data items that include parameter estimates. Certain other modifications, such as the elimination of data items relating to expected loss given default, were made to conform the reporting requirements, instructions, and data item captions to the final rule.

The reporting proposal raised three specific questions for the industry's consideration. First, the agencies asked about the feasibility of collecting additional information to help isolate the causes of changes in regulatory credit risk-based capital requirements (the lookback portfolio approach). The agencies have decided not to pursue the collection of this additional information at this time but intend to explore with the industry in the future ways to facilitate such analyses. Second, the agencies asked about the desirability of using an alternative approach to fixed bands for reporting wholesale and retail schedules. Although the majority of commenters favored the alternative approach, the agencies have decided to retain the fixed band approach to achieve greater comparability among reporting banks. Third, the agencies asked about the appropriateness of making certain data items available to the public for reporting periods subsequent to a bank's parallel run period. With the exception of certain information contained in the operational risk schedule (data items 3 through 7 of this schedule) that the agencies had proposed to make publicly available, the agencies have decided to proceed with public disclosure on an individual bank basis of all other items contained in Schedules A and B, and data items 1 and 2 only of the operational risk schedule, for reporting periods after the bank has qualified to use the advanced approaches for regulatory capital purposes. The agencies believe that such disclosures are consistent with Pillar 3 of the Advanced Capital Adequacy Framework and will provide useful information to investors and other market participants about a bank's capital structure, risk exposures, and main components of a bank's regulatory capital calculations. As in the reporting proposal, all other information submitted per these reporting requirements will remain confidential.

The reporting proposal estimated reporting burden at 280 hours per quarter or 1,120 hours per year per respondent. These initial estimates were based in large part on estimated time spent by banks in completing the agencies' fourth Quantitative Impact Study (QIS 4), which required submission of similar, albeit not identical, types of information about the risk estimates underlying the risk-based capital calculation under the new framework. One commenter also indicated its belief that this burden estimate was significantly understated. Although the number of reported data items in the final proposed reporting requirements was reduced significantly from the reporting proposal, the burden estimate was revised upward to 625 hours per quarter per respondent to reflect considerations pertaining to the time required to complete other types of regulatory reports, the greater level of detail required in these reports relative to other regulatory submissions, and the more formal nature of these reports relative to the QIS 4 study, which will require additional resources to validate the large number of data items contained in submitted reports.

9. Payment or Gift to Respondents

No payment or gift will be provided to respondents.

10. Confidentiality

All data submitted in the FFIEC 101 will be shared among the agencies but, pursuant to 5 U.S.C. § 552(b)(4) and (8), will not be released to the public with the exceptions of Schedule A, (risk-based capital numerator and ratios for banks and bank holding companies – Part 1 – and savings associations – Part 2), Schedule B (summary of risk-weighted assets), and data items 1 and 2 of Schedule S (operational risk).

11. Information of a Sensitive Nature

The FFIEC 101 contains no questions of a sensitive nature.

12. Estimate of Annualized Burden

It is estimated that, on average, it will take an FDIC-supervised bank approximately 625 hours per quarter to prepare the FFIEC 101 report. There are an estimated 19 state nonmember banks that will be required to submit reports under these reporting requirements. The combined estimated annual reporting burden for these banks is 47,500 hours. These estimates reflect considerations pertaining to the time required to complete other types of regulatory reports as well as the greater level of detail required in these reports relative to other regulatory submissions.

The annual recurring salary and employee benefit cost to the state nonmember banks that will be subject to these reporting requirements for the burden hours shown above is estimated to be $4.75 million. This cost is based on the application of an hourly rate of $100 to the estimated 47,500 total hours of annual reporting burden, which considers the specialized technical skills in the fields of credit risk and operational risk of those bank staff members involved in implementing the Advanced Capital Adequacy Framework who will be responsible for completing the regulatory reporting requirements and reviewing and approving the completed FFIEC 101 prior to submission.

13. Estimate of Total Annual Cost Burden

Under the final rule's new risk-based capital requirements, banks will be required to maintain a significant volume of information to support the risk estimates used in the calculation of regulatory capital in accordance with these rules. There will be certain additional costs (excluding costs included in Item 12 above) associated with implementing the final rule and these reporting requirements relating to developing and maintaining software, data systems, and data processing capabilities. It is difficult to develop estimates of capital and start-up costs as well as operation and maintenance/purchase of services costs that distinguish between those pertaining to these reporting requirements and those related to satisfying the requirements of the final rule.[2] The agencies did not receive any comments on start-up or operation and maintenance costs with respect to the reporting proposal.

14. Estimate of Total Annual Cost to the Federal Government

Data submissions will be received and processed by the Federal Reserve Board using their STAR system as the data processing platform. The FDIC does not expect to incur material incremental costs in connection with the collection of these data.

15. Reason for Change in Burden

The Advanced Capital Adequacy Framework Regulatory Reporting Requirements are a new information collection for which there is no currently approved reporting burden. Thus, the estimated annual reporting burden of this information collection of 47,500 hours in its entirety represents a program change.

16. Publication

The information collected in these FFIEC 101 reports are intended primarily to meet the supervisory and policy needs of the FDIC and the other agencies. As such, the majority of the reported items will be afforded confidential treatment. Certain data items – the components of a bank's risk-based capital, summary information about the risk estimates used to determine risk-weighted assets, and two data items pertaining to operational risk capital items – will be made available to the public through the Internet on an individual bank basis for report periods after the bank completes its parallel run and is approved to implement the new risk-based capital framework.

17. Display of Expiration Date

Not applicable.

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[2] See 72 FR 69392 for a discussion of cost estimates of implementing the final rule.

18. Exceptions to Certification

None.

B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.