

**Supporting Statement for the  
Risk Based Capital Standards: Advanced Capital Adequacy Framework  
(FR 4200; OMB No. 7100-0313)**

**Summary**

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, without revision, the Risk-Based Capital Standards: Advanced Capital Adequacy Framework Information Collection (FR 4200; OMB No. 7100-0313). The Paperwork Reduction Act (PRA) classifies reporting, recordkeeping, or disclosure requirements of a regulation as an “information collection.”<sup>1</sup>

On December 7, 2007, the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS) (the agencies) issued the joint final rule titled Risk-Based Capital Standards: Advanced Capital Adequacy Framework (rule) implementing a new risk-based regulatory capital framework for institutions in the United States (72 FR 69288). The rule is based on the June 2004 Basel Committee on Banking Supervision’s document, “International Convergence of Capital Measurement and Capital Standards: A Revised Framework” (New Accord). Along with the rule, the agencies adopted the information collection referred to above.

The rule requires certain large or internationally active banks and bank holding companies (BHCs) to (1) adopt a written implementation plan, (2) update that plan for any mergers, (3) obtain prior written approvals for the use of certain approaches for determining risk-weighted assets, and (4) make certain public disclosures regarding their capital ratios, their components, and information on implicit support provided to a securitization. The Federal Reserve’s total annual burden for this information collection is estimated to be 113,793 hours for the 19 financial institutions it supervises that are subject to the final rule.

**Background and Justification**

Section 1831(o) of the Federal Deposit Insurance 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 International Lending Supervision Act of 1983 (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 applicable 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 and the Secretary of the Treasury to encourage governments, central banks, and regulatory authorities of other major banking countries

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<sup>1</sup> 44 U.S.C. § 3501 *et seq.*

to work toward maintaining and, where appropriate, strengthening the capital bases of banking institutions involved in international lending.

The rule implements the New Accord in the United States and builds on improvements to risk assessment approaches that a number of large banks have adopted over the last two decades. In particular, the rule requires banks to assign risk parameters to exposures and provides specific risk-based capital formulas that are used to transform these risk parameters into risk-based capital requirements. The collection of information contained in the rule is necessary to ensure that the new risk-based regulatory capital framework is implemented in the United States in a safe and sound manner.

### **Description of Information Collection**

A bank is required to comply with the rule 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 Federal Financial Institutions Examination Council (FFIEC) Country Exposure Report (FFIEC 009<sup>2</sup>)). Adjusted cross-border claims would 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.

A BHC is required to comply with the rule if the BHC has: (i) consolidated total assets (excluding assets held by an insurance underwriting subsidiary) of \$250 billion or more, as reported on the most recent year-end regulatory reports; (ii) consolidated total on-balance sheet foreign exposure of \$10 billion or more at the most recent year-end; or (iii) a subsidiary depository institution that applies the advanced approaches. In addition, banks and BHCs may voluntarily decide to adopt the framework. Currently fourteen top-tier banking organizations meet these criteria and an additional five BHCs have indicated that they are voluntarily adopting the framework.

The rule requires respondents to adopt a written implementation plan, update that plan for any mergers, obtain prior written approvals for the use of certain approaches, and make certain public disclosures regarding its capital ratios, their components, and information on implicit support provided to a securitization. These requirements are described in Sections 21 through 23, 42, 44, 53, and 71 of the final rule. Details of the requirements for each section are provided below.

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<sup>2</sup> The Agencies' OMB Control Numbers for the FFIEC 009 are: Federal Reserve (7100-0035), FDIC (3064-0017), and OCC (1557-0100).

**Written Implementation Plan (Sections 21, 22 and 23).** Sections 21 and 22 require that a respondent adopt a written implementation plan that addresses how it will comply with the rule's qualification requirements, including incorporation of a comprehensive and sound planning and governance process to oversee the implementation efforts. The respondent 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 respondent to update its implementation plan after any mergers.

**Prior Written Approvals (Sections 44 and 53).** Sections 44 and 53 require prior written approval by supervisors. Section 44 describes the internal assessment approach (IAA). Prior written approval is required for use of the IAA. A respondent 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. Section 53 outlines the internal models approach (IMA). Prior written approval is required for use of the IMA.

**Disclosures (Sections 42 and 71).** Section 42 requires a respondent to publicly disclose that it has provided implicit support to a securitization and the regulatory capital impact to the bank of providing such implicit support. Section 71 specifies that each consolidated bank must publicly disclose its total and tier 1 risk-based capital ratios and their components quarterly.

### **Time Schedule for Information Collection**

This information collection contains both reporting and disclosure requirements, as described above. The creation of a written implementation program is a mandatory one-time requirement. Implementation plans relating to mergers and acquisitions are required "on-occasion." Prior written approvals are all "on-occasion" and the disclosures are required quarterly.

### **Sensitive Questions**

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

## Consultation Outside the Agency and Discussion of Public Comments

On July 17, 2009, the agencies published a notice in the *Federal Register* (74 FR 34865) requesting public comment for 60 days on the extension, without revision, of the FR 4200. The comment period for this notice expired on September 15, 2009. The Federal Reserve did not receive any comments. On September 25, 2009, the Federal Reserve published a final notice in the *Federal Register* (74 FR 48967).

### 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. If a respondent considers the information to be trade secrets and/or privileged such information could be withheld from the public under the authority of the Freedom of Information Act, 5 U.S.C. 552(b)(4). Additionally, to the extent that such information may be contained in an examination report such information may also be withheld from the public, 5 U.S.C. 552 (b)(8).

### Estimate of Respondent Burden

The total estimated annual burden for the FR 4200 is 113,793 hours, as shown in the table below. The Federal Reserve estimates that it will take each respondent 13,268 hours to create and subsequently update their written implementation plan, 1,009 hours to submit prior written approvals, and 36.25 hours per quarter to provide the required disclosures. Most of the burden associated with this information collection is related to the written implementation plan and will only occur during the first year of implementation or once a bank or BHC meets the qualification criteria. Seven of the nineteen respondents supervised by the Federal Reserve must still complete a written implementation plan and eighteen respondents may still need to complete the prior written approvals. This burden represents 2 percent of the total Federal Reserve System paperwork burden.

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	<i>Number of respondents</i>	<i>Estimated annual frequency</i>	<i>Estimated hours per response</i>	<i>Estimated annual burden hours</i>
Written Implementation Plan	7	1	13,268	92,876
Prior Written Approvals	18	1	1,009	18,162
Disclosures	19	4	36.25	<u>2,755</u>
<i>Total</i>				113,793

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The current annual cost to the public of this information collection is estimated to be \$8,966,888.<sup>3</sup>

### **Estimate of Cost to the Federal Reserve System**

Federal Reserve System supervision staff would review the written implementation plans and prior approvals as part of their normal work assignments and there would be no additional staffing costs.

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<sup>3</sup> Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rate (10% Administrative or Junior Analyst @ \$25, 50% Managerial or Technical @ \$55, 20% Senior Management @ \$100, and 20% Legal Counsel @ \$144). Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2007, <http://www.bls.gov/news.release/ocwage.nr0.htm>. Occupations are defined using the BLS Occupational Classification System, <http://www.bls.gov/soc/>.