SUPPORTING STATEMENT

Advanced Capital Adequacy Framework Regulatory Reporting Requirements

FFIEC 101
(OMB No. 3064-0159)

## INTRODUCTION

The FDIC is requesting approval from the U.S. Office of Management and Budget (OMB) to extend with revisions the quarterly regulatory reporting requirements established by the Federal Financial Institutions Examination Council (FFIEC) 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 revisions to certain portions of the FFIEC 101 report would:

- Align the reporting of the amount of qualifying restricted core capital elements (other than cumulative perpetual preferred stock) held by bank holding companies and qualifying mandatory convertible preferred securities held by internationally active bank holding companies to that of Schedule HC-R of the FR Y-9C[1] by separately including both capital elements in Schedule A of the FFIEC 101 report;
- Require all banks, bank holding companies, and savings associations to report capital numerator information on a common Schedule A of the FFIEC 101 report (Schedule A, Part 2 for savings associations would be eliminated); and
- Revise the way equity exposures are reported in a reformatted Schedule R of the FFIEC 101 report.

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 revised reporting requirements. The agencies plan to implement the proposed changes beginning with the March 31, 2011, report date. The FRB, the OCC, and the OTS are also submitting these changes to the FFIEC 101 report for OMB review for the banks, bank holding companies, and savings associations under their supervision.

## JUSTIFICATION

1. Circumstances and Need

The U.S. implementation of the Advanced Capital Adequacy Framework is detailed in the agencies' Risk Based Capital Standards: Advanced Capital Adequacy Framework – Basel II. This final rule that was published on December 7, 2007 (72 FR 69288), and became effective

[1] Consolidated Financial Statements for Bank Holding Companies, OMB Number: 7100-0128.

April 1, 2008. U.S. banks[2] that qualify for and adopt the Advanced Capital Adequacy Framework are subject to the capital standards in the final rule. Prior to qualification, a bank that adopts these risk-based capital standards must also undergo a parallel run period during which time it will determine its capital requirements under both the Advanced Capital Adequacy Framework and the existing Basel I risk-based capital rules. The Basel II final rule includes an advanced internal ratings-based approach for calculating regulatory credit risk capital and advanced measurement approaches for calculating regulatory operational risk capital.

In order to assess a bank's conformance with the Advanced Capital Adequacy Framework, the agencies determined that there was need for a new reporting framework that accommodates the significant changes inherent in this framework relative to the existing Basel I risk-based capital rules. In addition, a fundamental aspect of the Advanced Capital Adequacy Framework is the use of a bank's internal risk estimates for many of the parameters used to derive risk-weighted assets. The FFIEC 101 report provides 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.

Based on the agencies' experience with the FFIEC 101 report since the Advanced Capital Adequacy Framework took effect in 2008, the proposed revisions to the report are intended to simplify the reporting of and enhance the comparability of certain information collected in the report.

2. <u>Use of Information Collected</u>

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 bank's regulatory capital and risk-weighted asset calculations under the Basel II 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 bank's risk-based capital requirements and the adequacy of the bank'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 banks and on an industry-wide basis; and
- To supplement on-site examination processes at individual reporting banks.

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 are released publicly following a reporting bank's parallel run period will also provide other interested parties with information about banks' risk-based capital.

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

3. Use of Technology to Reduce Burden

All reporting banks submit their reports electronically to the agencies using the FRB'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 Advanced Capital Adequacy Framework at the insured institution level. The Basel II final rule requires certain related public disclosures (referred to as Pillar 3 disclosures) at the consolidated holding company level. However, the regulatory reporting requirements in the FFIEC 101 report 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 Basel II 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 FDIC-supervised bank (out of a total of 2,765 FDIC-supervised banks with assets of $175 million or less) that is a depository institution subsidiary of a large organization would be subject to the final rule, and correspondingly the FFIEC 101 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 are intended to correspond to the frequency and timing of other regulatory submissions including the Consolidated Reports of Condition and Income (Call Report), the Thrift Financial Report, and the Bank Holding Company FR Y-9C report.

7. Special Circumstances

There are no special circumstances.

8. Summary of Public Comments

On October 22, 2010, the agencies, under the auspices of the FFIEC, requested public comment for 60 days on the proposed extension with revisions of the FFIEC 101 report's Advanced Capital Adequacy Framework Regulatory Reporting Requirements (75 FR 65402). No comments were received on the proposal.

9. Payment or Gift to Respondents

No payment or gift will be provided to respondents.

10. Confidentiality

All data submitted in the FFIEC 101 report will be shared among the agencies but, pursuant to 5 U.S.C. § 552(b)(4) and (8), these data will not be released to the public with the exceptions of Schedule A (risk-based capital numerator and ratios), 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 report contains no questions of a sensitive nature.

12. Estimate of Annualized Burden

The proposed revisions to the FFIEC 101 report are not expected to change the estimated reporting burden for this report. It is estimated that, on average, it takes an FDIC-supervised bank approximately 625 hours per quarter to prepare the FFIEC 101 report. There are 9 FDIC-supervised banks that are required to submit quarterly reports under these reporting requirements. The combined estimated annual reporting burden for these banks is 22,500 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 $2,812,500. This cost is based on the application of an hourly rate of $125 to the estimated 22,500 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 are responsible for completing the regulatory reporting requirements and reviewing and approving the completed FFIEC 101 report prior to submission.

13. Estimate of Total Annual Cost Burden

Under the Basel II final rule's risk-based capital requirements, banks are 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 are certain additional costs (excluding costs included in Item 12 above) associated with implementing the Basel II 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 Basel II final rule.[3] The agencies did not receive any comments on start-up or operation and maintenance costs with respect to the FFIEC 101 reporting requirements when they were first published for comment[4] or when they requested comment in connection with the revisions to the FFIEC 101 report that are the subject of this submission.

14. Estimate of Total Annual Cost to the Federal Government

Data submissions are received and processed by the FRB using their STAR system as the data processing platform. The FDIC does not incur material incremental costs in connection with the collection of these data.

15. Reason for Change in Burden

The change in burden associated with this submission is caused by two factors: (1) a decrease in the number of FDIC-supervised banks subject to the FFIEC 101 reporting requirements and (2) a correction of an apparent double-counting of the reporting burden for the FFIEC 101 report in the currently approved burden in OMB's information collection inventory. The proposed revisions to the FFIEC 101 report that are the subject of this submission are intended to simplify the reporting of and enhance the comparability of certain information collected in the report and are not expected to affect the estimated burden per response.

Currently, there are 9 FDIC-supervised banks subject to the FFIEC 101 reporting requirements compared to the 19 banks in the currently approved information collection inventory. However, OMB's Information Collection List for this report, which originated in April 2008, shows the following apparent double-counting of the estimated annual burden of 47,500 hours for the 19 banks (19 banks x 4 reports per year per bank x 625 hours per report = 47,500 hours):

| IC Title | Status | Responses | Hours |
|---|---|---|---|
| Advanced Capital Adequacy Framework Regulatory Reporting Requirements | New | 76 | 47500 |
| Advanced Capital Adequacy Framework Regulatory Reporting Requirements | New | 76 | 47500 |
| Total burden requested under this ICR:[5] | | 152 | 95000 |

[3] See 72 FR 69392, December 7, 2007, for a discussion of cost estimates of implementing the final rule.

[4] See 71 FR 55981, September 25, 2006.

[5] "Total burden requested under this ICR" refers to the FDIC's request acted on by OMB in April 2008, not the request being made by the FDIC in this submission.

The analysis of the change in burden requested in this submission is as follows:

| | | |
|---|---|---|
| Currently approved burden | 95,000 hours | |
| Correction of apparent double-counting of burden | | -47,500 hours |
| Adjustment (change in use) | -25,000 hours | |
| Requested (revised) burden: | 22,500 hours | |

Net change in burden: -72,500 hours

16. Publication

The information collected in the FFIEC 101 report is intended primarily to meet the supervisory and policy needs of the FDIC and the other agencies. As such, the majority of the reported items are 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.

18. Exceptions to Certification

None.

B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.