



Federal Housing Finance Agency

OMB No. 2590-0000

Supporting Statement

A. Justification

1. Circumstances necessitating the collection of information

The Federal Housing Finance Agency (FHFA) is one of five regulatory agencies involved in a joint rulemaking under which the collection of information at issue here arises.

FHFA, the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Farm Credit Administration (collectively, the Agencies or prudential regulators) have issued a joint proposal to establish minimum margin and capital requirements for registered swap dealers, major swap participants, security-based swap dealers, and major security-based swap participants for which one of the Agencies is the prudential regulator (collectively, covered swap entities). Certain provisions of the proposed rule contain “collection of information” requirements within the meaning of the Paperwork Reduction Act of 1995 (PRA), 44 U.S.C. 3501-3521, but for purposes of this Supporting Statement, the discussion of such requirements will be limited to those imposed on FHFA’s affected public under the proposed rule.

The proposed rule generally provides for, among other things, the collection of margin by covered swap entities with respect to certain of their non-cleared swap and non-cleared security-based swap transactions. Under the proposed rule, initial margin amounts may be calculated using either a standardized “lookup” table or by using an initial margin model that has been approved by a prudential regulator. § __.8 of the proposed rule establishes standards for initial margin models, including but not limited to a number of quantitative and other technical requirements that such models must satisfy in order to warrant approval. Any government-sponsored enterprise regulated by FHFA (regulated entity) that is deemed to be a covered swap entity and that also chooses to utilize a model to calculate initial margin would therefore have to obtain FHFA’s approval of such initial margin model (just as any other covered swap entity would be required to do with respect to its own prudential regulator).

However, to the extent that a regulated entity is not deemed to be a covered swap entity, proposed § 1221.11 of FHFA’s rule would require such regulated entity to collect initial margin if it enters into a non-cleared swap or non-cleared security-based swap with a swap dealer, major swap participant, security-based swap dealer, or major security-based swap participant (collectively, swap entities). The amount of initial margin may be calculated using a model that satisfies the provisions of § __.8. The regulated entity may use its own initial margin model, or if it does not have such a model, then the model may

be one that is used by an independent third party to calculate initial margin on behalf of the regulated entity.

The affected public of FHFA for purposes of the PRA information collection under the proposed rule would include only those third parties which are not regulated by a prudential regulator and that request prior written approval of an initial margin model for use by a regulated entity under proposed § 1221.11. FHFA's affected public would not include any of its regulated entities because the proposed rule does not contain any collection of information pursuant to the PRA with respect to such entities.

2. Use of the data

Information collected will be used by FHFA to verify that the models submitted to FHFA for its review and approval meet the requirements set forth in the proposed regulation and to verify that, over time, models continue to meet such requirements and produce accurate results. This review is broadly intended to ensure the integrity of the initial margin models and that margin calculations derived from such models accurately reflect the risks posed by the non-cleared swaps at issue.

3. Use of information technology

Respondents seeking FHFA's written approval of an initial margin model will likely be able to communicate with FHFA and fulfill most of their information collection requirements electronically via email or other forms of electronic communication with FHFA.

4. Efforts to identify duplication

The information collected is expected to be provided by third parties that are not regulated by FHFA and is not available from any other source.

5. Impact on small entities

Parties with the modeling capabilities to fulfill the requirements under the rule would generally not be within the definition of small entities and therefore FHFA does not expect the information collection to have an impact on small entities.

6. Consequences of less frequent collection and obstacles to burden reduction

If the information were not collected at the times and under the circumstances specified in proposed § 1221.11 (and by implication, proposed § __.8), then in those circumstances where a regulated entity makes use of an initial margin model provided by a third party which is itself not prudentially regulated, FHFA would be unable to monitor the integrity of such model, ensure the accuracy of the margin amounts calculated for use by the regulated entity, and otherwise confirm that safety and soundness considerations in this context were being appropriately addressed. Alternatively, the regulated entities would not be able to make use of such third party models in setting the amount of initial margin that they are required to collect.

7. Circumstances requiring special information collection

Because the rule requires respondents to submit information about internal models for which they seek approval for use by FHFA’s regulated entities, this information could include proprietary commercial information or trade secrets. FHFA has in place rules which protect against disclosure of this information in response to a Freedom of Information Act (FOIA) request from a member of the public consistent with exemptions set forth in FOIA (5 U.S.C. 502). Agency rules on this matter are found at 12 CFR part 1202.

8. Solicitation of comments on information collection

In accordance with the requirements of 5 CFR § 1320.11, FHFA published a request for public comments regarding this information collection in the *Federal Register* on May 11, 2011. *See* 76 FR 27564 (May 11, 2011). The comment period will close on June 24, 2010.

9. Provision of payments to respondents

None/Not Applicable.

10. Assurance of confidentiality

While FHFA will not provide specific assurances of confidentiality to respondents, respondents can request, in accordance with FHFA regulations found at 12 CFR part 1202, confidential treatment for specific information that could qualify for exemption from release under the Freedom of Information Act (FOIA) (5 U.S.C. 502) as confidential commercial information.

11. Justification of sensitive questions

Not applicable.

12. Estimated burden of information collection

FHFA has analyzed the cost and hour burden for respondents to submit models and other information to FHFA for review and for respondents to meet the review and oversight requirements for any approved models. The aggregate total annual cost and hour burden for the information collection is as follows:

	<u>FHFA</u>	<u>Respondents</u>	TOTAL
Cost:	\$2,200	\$77,000	\$79,200
Hours:	22	440	462

The method FHFA used to determine the annual cost and hour burden is explained in detail below.

I. Initial Submission of Information about Model

FHFA based the calculations upon an assumption that two (2) institutions at most would be likely to submit a model to it for review and approval. This assumption is based on FHFA's understanding that many of its regulated entities will be able to alter their own internal models for calculating initial margin requirements, and that most other entities that would have models that meet the requirements of the rule and on which remaining FHFA regulated entities could rely would submit those models to other prudential regulators for approval (and therefore would not need also to submit them to FHFA for review). As part of the initial submission each respondent would have to submit information about its model and modeling result to demonstrate that the model meets the requirements under the rule. Model approval is a one-time event, and once FHFA approves a model, the respondent would only have to make further submissions about the model as discussed under item III below. The aggregate total annual cost and hour burden is as follows:

	<u>FHFA</u>	<u>Respondents</u>	TOTAL
Cost:	\$1,600	\$56,000	\$57,600
Hours:	16	320	336

A. FHFA Annualized Burden

FHFA would be required to review the submissions in order to assess whether the model meets the requirements of the rule. Based on the time it takes for FHFA staff to review models currently used by the regulated entities for other purposes, the FHFA initial margin model review would require approximately 16 hours at a cost of approximately \$100 per hour.

B. Respondents' Annualized Burden

The estimated annualized cost for submission of models for FHFA review is \$56,000. The estimated annualized hour burden is 320 hours. These estimates are based on the following calculations:

Respondents submit relevant technical information about their model to FHFA and respond to any follow up questions that FHFA staff may have, which could include additional submission of information. FHFA assumes all work could be done by current employees of the respondent who are familiar with the existing model.

- Review/processing time: 160 hours
- Total notices: 2
- Total hours: 320
- Hourly rate: \$175 (includes salary, benefits, and overhead)
- Total cost: \$56,000

II. Respondent's Periodic Review and Validation of the Model

In order to maintain approval of the model, the respondent would have to engage in certain on-going actions to review data used in the model, benchmark the model results and engage in validation of its model and document these actions. Generally, the institutions would engage in many of these actions as a matter of sound risk management even in the absence of the rule, since the models in question are likely to be used by the institution for other purposes, including for setting margin requirements for the institution's own activities. FHFA based the calculations assuming two (2) institutions would seek and receive approval for a model and therefore be required to meet these requirements. The aggregate total annual cost and hour burden is as follows:

	<u>FHFA</u>	<u>Respondents</u>	TOTAL
Cost:	\$0	\$16,800	\$16,800
Hours:	0	96	96

A. FHFA's Annualized Burden

This part of the rule requires no formal action on the part of the FHFA and therefore FHFA would incur no costs in connection with these provisions.

B. Respondents Annualized Burden

The estimated annualized cost for respondents' on-going review, benchmarking and validation of the approved model and related documentation of these activities is \$16,800. These estimates are based on the following calculations:

- Review/processing time: 48 hours
- Total notices: 2
- Total hours: 96
- Hourly rate: \$175 (includes salary, benefits, and overhead)
- Total cost: \$16,800

III. Submission of Additional Notices to FHFA

Under the proposed rule, respondents that have had models approved by the FHFA would need to submit notices to the FHFA before the model is extended for use on behalf of FHFA's regulated entities to a new product or if the respondent has identified any significant problems in its use of the model on behalf of the regulated entities. The estimated annualized cost for these requirements is \$4,800. These estimates are based on the following calculations:

	<u>FHFA</u>	<u>Respondents</u>	TOTAL
Cost:	\$600	\$4,200	\$4,800
Hours:	6	24	30

A. FHFA's Annualized Burden

FHFA would be required to review any submitted notification and determine if any additional information or follow up action is needed. Again, based on the time it takes FHFA staff to review model changes currently used by the regulated entities for other purposes, FHFA would require approximately six (6) hours at a cost of approximately \$100 per hour.

B. Respondents Annualized Burden

The estimated annualized cost for respondents' submission of these notifications is \$4,200. FHFA assumes that no more than two (2) institutions will seek approval of their models for use by FHFA regulated entities and therefore be subject to these requirements. FHFA further believes that these institutions would need to submit notices only infrequently to FHFA and does not believe that such submission would exceed three (3) notices for each respondent annually.

- Review/processing time: 4 hours
- Total notices: 6
- Total hours: 24
- Hourly rate: \$175 (includes salary, benefits, and overhead)
- Total cost: \$4,200

13. Estimated total annual cost burden to respondents

FHFA estimates that there will be no annualized capital/start-up costs for the respondents to collect and submit this information.

14. Estimated cost to the federal government

There will be no annualized capital/start-up costs for the government to receive this information.

15. Reasons for change in burden

There are no changes in burden because this is a new collection.

16. Plans for tabulation, statistical analysis and publication

The data is being collected to allow FHFA to review and approve certain models for use in setting initial margin requirements for non-cleared swap and security-based swap transactions. FHFA will not publish the data or otherwise provide any statistical analysis of the data.

17. If seeking approval to not display the expiration date for OMB approval of the information collection, explain the reasons why display would be inappropriate.

FHFA is not seeking such approval.

18. Explain each exception to the topics of the certification statement identified in “Certification for Paperwork Reduction Act Submission.”

There are no exceptions to the certification statement identified in “Certification for Paperwork Reduction Act Submissions.”