

SUPPORTING STATEMENT  
Funding and Liquidity Risk Management  
(new collection)

The Federal Deposit Insurance Corporation (“FDIC”) is requesting approval from the Office of Management and Budget (“OMB”) to sponsor a new collection of information associated with *Proposed Interagency Guidance on Funding and Liquidity Risk Management*, jointly issued with the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve, the Office of Thrift Supervision, and the National Credit Union Administration (collectively, the “Agencies”), in conjunction with the Conference of State Bank Supervisors (CSBS). The information collection includes reporting and recordkeeping requirements related to sound risk management principles applicable to insured depository institutions.

A. JUSTIFICATION

1. Circumstances and Need

Recent turmoil in the financial markets has resulted in increased focus on the liquidity risk management practices of financial institutions. Various supervisory groups at both national and international levels, including the Basel Committee on Banking Supervision (“Basel Committee”), the Senior Supervisors Group, and the Financial Stability Board, have worked to assess the impact of current market conditions on an institution’s assessment of its funding liquidity risk and the supervisor’s approach to liquidity risk supervision. These assessments have highlighted deficiencies in a number of areas, including insufficient holdings of liquid assets, funding risk or illiquid asset portfolios with potentially volatile short-term liabilities, and a lack of meaningful cash flow projections and liquidity contingency plans, and resulted in the issuance of guidance by a number of entities on sound liquidity risk management practices. Such guidance includes the Basel Committee’s *Principles for Sound Liquidity Risk Management and Supervision*, issued in September 2008, and the Institute of International Finance’s *Final Report of the IIF Committee on Market Best Practices: Principles of Conduct and Best Practices Recommendations*, issued in July 2008. In a similar vein, the agencies are issuing *Proposed Interagency Guidance – Funding and Liquidity Risk Management* (“proposed Guidance”) for a 60-day public comment period. The proposed guidance summarizes the principles of sound liquidity risk management that the agencies have issued in the past and, where appropriate, brings them into conformance with the Basel Committee’s *Principles for Sound Liquidity Risk Management and Supervision*. While the Basel Committee’s liquidity document primarily focuses on large internationally active financial institutions, the agencies’ proposed guidance emphasizes supervisory expectations for all domestic financial institutions including banks, thrifts and credit unions. The Federal Financial Institution Examination Council’s (“FFIEC”) Task Force on Supervision (which has delegated authority from the FFIEC) approved the guidance on June 3, 2009.

2. Use of Information Collected

Documented policies and procedures that consider liquidity costs, benefits, and risks in strategic planning enable an institution and its supervisor to properly evaluate the liquidity risk exposure of an institution's individual business lines and for the institution as a whole. In addition, liquidity risk reports that provide detailed and aggregate information on items such as cash flow gaps, cash flow projections, assumptions used in cash flow projections, asset and funding concentrations, funding availability, and early warning or risk indicators enable management to assess an institution's sensitivity to changes in market conditions, the institution's financial performance, and other important risk factors.

3. Use of Technology to Reduce Burden

Financial institutions may use information technology to the extent they consider appropriate and feasible to document policies and procedures and generate required risk management reports.

4. Efforts to Identify Duplication

The new recordkeeping and reporting requirements contained in the proposed guidance are informed by the magnitude and scope of recent, unanticipated funding liquidity issues for financial institutions and are not duplicated elsewhere.

5. Minimizing the Burden on Small Entities

The burden imposed by the reporting and recordkeeping requirements in the proposed guidance will vary according to the complexity of an institution's operations and risk profile. The burden for small, less complex financial institutions will, in general, be significantly less than that for large, more complex financial institutions.

6. Consequences of Less Frequent Collection

As a sound practice, an institution's board of directors should update its documented liquidity risk procedures, at least annually, to incorporate procedural changes and to ensure the program's effectiveness. The timing of liquidity risk management reports will vary according to the complexity of an institution's operations and risk profile.

7. Special Circumstances

Although the timing of management risk reports will vary from institution to institution based on the institution's business model and market exposure, the agencies anticipate that on average such reports will be prepared on a monthly basis.

8. Consultation with Persons Outside the FDIC

Prior to issuance of the interim final rule, the FDIC consulted with the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision, the National Credit Union Administration, and the Conference of State Bank Supervisors . Together, the Agencies and the CSBS are requesting public comment for a 60-day period following publication of the proposed guidance.

9. Payment or Gift to Respondents

No gifts will be given to respondents.

10. Confidentiality

All documentation required under this supervisory guidance would be maintained by the bank and would not be shared publicly.

11. Information of a Sensitive Nature

No information of a sensitive nature is requested.

12. Estimate of Annual Burden

The burden estimates are as follows:

<u>Information Collection</u>	<u>Number of Respondents</u>	<u>Avg. Hours Per Response</u>	<u>Responses Per Year</u>	<u>Total Hours</u>
¶ 14 – Strategies, policies, procedures, and risk tolerances	5,076	91	1	461,916
(Burden estimate based on assumption that 10 large institutions will average 720 hours per response, 309 mid-size institutions will average 240 hours per response, and 4,757 small institutions will average 80 hours per response.)				
¶ 20 – Liquidity risk management measurement, monitoring, and reporting	5,076	4	12	243,648
<b>Total</b>				<b>705,564</b>

13. Capital, Start-up, and Operating Costs

Capital and operating costs will vary from bank to bank depending upon a bank's individual circumstances, including the complexity of its operations and risk profile. Thus, an estimate of this cost component cannot be determined at this time.

14. Estimates of Annualized Cost to the Federal Government

The incremental costs associated with the implementation of this information collection are encompassed within the FDIC's personnel and data processing budgets and are not separately identifiable.

15. Reason for Change in Burden

This is a new collection.

16. Publication

The documented strategies for considering liquidity costs, benefits, and risks in strategic planning and budgeting processes, and liquidity risk reports will be used internally by financial institutions in support of liquidity risk management activities and by supervisory agencies to monitor and assess the adequacy of such activities. The agencies have no plans to publish the information.

17. Exceptions to Expiration Date Display

None.

18. Exceptions to Certification

None.