Supporting Statement
Recordkeeping and Disclosure Provisions
Associated with Annual Stress Test Reporting Template and Documentation
for Covered Banks with Total Consolidated Assets of $10 Billion to $50 Billion
OMB Control No. 3064-0189

A. Justification

The Federal Deposit Insurance Corporation (FDIC) is revising information collection 3064-0189 to add new stress testing reporting templates for covered banks with total consolidated assets of between $10 billion and $50 billion.

1. Circumstances that make the collection necessary:

On October 15, 2012, the FDIC published in the Federal Register (77 FR 62417) a final rule on annual stress testing that is applicable to all state nonmember banks and state savings associations with over $10 billion in total consolidated assets (covered banks) pursuant to the requirements of section 165(i)(2) of the Dodd-Frank Act Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).[1]

The Office of the Comptroller of the Currency (OCC) and the Board of Governors of the Federal Reserve System (Board) issued annual stress test final rules for their regulated entities near in time to the FDIC's final rule. The regulations across the banking agencies are consistent and comparable as required by the Dodd-Frank Act.

The Dodd-Frank Act stress testing requirements apply to all covered banks (those with over $10 billion in total consolidated assets), but the FDIC recognized that many covered banks with consolidated total assets of $50 billion or more have been subject to stress testing requirements under the Board's Comprehensive Capital Analysis and Review (CCAR). The FDIC also recognized that these institutions' stress tests would be applied to more complex portfolios and therefore warranted a broader set of reports to adequately capture the results of the company-run stress tests. These reports necessarily required more detail than would be appropriate for smaller, less complex institutions. Therefore, in coordination with the other Federal banking agencies, the FDIC decided to specify separate reporting templates: (1) for covered banks with total consolidated assets of $50 billion or more and (2) for covered banks with total consolidated assets of between $10 billion and $50 billion.

While the general reporting categories are the same (income statement, balance sheet and capital), the level of granularity for individual reporting items is less for $10 billion to $50 billion covered banks. For example, accounting for provisions by category is not required, and less detail is required for commercial and industrial lending. Because smaller banks with assets of $10 billion to $50 billion generally have less complex balance sheets, the FDIC believes that highly detailed reporting is not warranted;

[1] Public Law 111-203, 124 Stat. 1376, July 2010.

therefore the FDIC is not requiring supplemental schedules on such areas as retail balances, securities and trading, operational risk, and pre-provision net revenue (PPNR). However, where a covered bank with assets less than $50 billion is affiliated with an organization with assets of $50 billion or more, the FDIC reserved the authority to require that covered bank to use the reporting template for larger banks with total consolidated assets of $50 billion or more.

The FDIC’s, the OCC’s, and Board’s final rules require their respective covered institutions with total consolidated assets of more than $10 billion and less than $50 billion to conduct annual stress tests and report on those tests to the relevant agency by March 31, 2014. These covered institutions would report using the specified reporting templates noted above and those templates are generally consistent across the agencies.

2. <u>Use of the information:</u>

As required by section 165(i)(2) of the Dodd-Frank Act, the FDIC provided in its final rule three clearly defined macroeconomic and market scenarios (baseline, adverse, and severely adverse) each year. With those scenarios, covered banks are to use their own financial data as of September 30 to estimate pre-provision net revenue (PPNR), losses, loan and lease loss provisions, net income, and the potential impact on regulatory capital levels and ratios over a nine-quarter horizon. The board of directors and senior management of each covered bank must use the results of the stress tests in the normal course of business, including but not limited to, the covered bank’s capital planning, assessment of capital adequacy, and risk management. The final rule also requires covered banks to establish and maintain a system of controls, oversight, and documentation, including policies and procedures, designed to ensure that the stress testing processes used by the bank are effective in meeting the requirements of the final rule.

The final rule requires covered banks to report data to their primary financial regulatory agency and to the Board at such time, in such form, and containing such information as the primary financial regulatory agency may require. These reporting templates are almost identical to those described in the OCC’s related information collection that was also published in the Federal Register. There are no substantive differences between the FDIC’s and the OCC’s templates; only the names of the agencies were changed.

The FDIC intends to use the data collected through these templates to assess the reasonableness of the stress test results of covered banks and to provide forward-looking information to the FDIC regarding a covered bank’s capital adequacy. The FDIC also may use the results of the stress tests to determine whether additional analytical techniques and exercises could be appropriate to identify, measure, and monitor risks at the covered bank. The stress test results are expected to support ongoing improvement in a covered bank’s stress testing practices with respect to its internal assessments of capital adequacy and overall capital planning.

3. <u>Consideration of the use of improved information technology:</u>

Covered banks may use any information technology that permits review by FDIC examiners and meets the requirements of the collection.

4. Efforts to identify duplication:

The information required is unique. It is not duplicated elsewhere.

5. Methods used to minimize burden if the collection has a significant impact on substantial number of small entities:

The information collection affects only large institutions that have more than $10 billion in total consolidated assets and therefore does not have a significant impact on a substantial number of small entities.

6. Consequences to the Federal program if the collection were conducted less frequently:

Conducting the collection is required by the Dodd-Frank Act to be on an annual basis. The consequences of collecting the information less frequently would prevent the FDIC from implementing Section 165(i)(2) of the Dodd-Frank Act. Conducting the collection less frequently would potentially present safety and soundness risks to those entities otherwise subject to testing.

7. Special circumstances necessitating collection inconsistent with 5 CFR Part 1320:

This information collection is conducted in a manner consistent with the guidelines in 5 CFR 1320.

8. Efforts to consult with persons outside the agency:

In the Federal Register of March 14, 2013 (77 FR 16263), the FDIC published a 60-day notice requesting public comment on the templates and the collection of information. The FDIC received two comment letters on the proposed implementation of the information collection: one from an industry group and one from a financial services consulting firm.[2] The OCC and the Board together, in addition to receiving these two comments, also received five comments from individual banking organizations.[3] As noted in the initial Federal Register notice, the agencies each developed and requested public comment on very similar reporting forms to implement the reporting requirements. The agencies coordinated the changes made to each agency's templates in order to keep the templates as similar as possible and minimize the burden on affected institutions. As part of this coordination, in discussions with the other agencies, the FDIC considered these five comments, in addition to the two comments it directly received. The FDIC has

[2] These comment letters may be found at http://www.fdic.gov/regulations/laws/federal/2013/2013-annual_stress_test.html

[3] These comments may be found at http://www.regulations.gov

made several changes to the proposed DFAST 10-50 Results Template in light of all comments received.

Some general comments were received regarding the report format, instructions, and timing. However, the majority of the public comments focused on specific data items on the results schedules and in some cases compared the level of detail required in the proposed DFAST 10-50 Results Template to the requirements of the Capital Assessments and Stress Testing information collection (FR Y-14A/Q/M; OMB No. 7100-0341) applicable to bank holding companies with $50 billion or more in total assets.[4] Lastly, one commenter asked for clarification regarding how regulatory capital should be calculated over the planning horizon in consideration of the phase-in period for the new capital framework that implements Basel III standards.

Some commenters expressed concern about having to submit stress testing results in a Call report-type format, noting that their existing stress testing software was not developed with such a format in mind and asking for less detailed reporting forms. These commenters requested that the agencies consider further delaying implementation of the reporting requirements and/or limiting the report submissions to the DFAST 10-50 Results Template Summary Schedule. The FDIC has determined that using reporting templates modeled on the Call Report is the best solution because of familiarity with this format by the FDIC, covered banks, and the public, particularly when mandatory public disclosure of summary results under the severely adverse scenario becomes effective in 2015. The proposed DFAST 10-50 Results Template, aligned to the Call Report, provides a format that is well understood and utilized by the industry. Therefore, the FDIC believes that the reporting requirements will not place undue burden on institutions ability to report stress test results. Using the Call Report format would also ensure a high level of consistency and facilitate assessment of the results. Furthermore, the OCC and the Board are adapting the same format for their templates; utilization of the Call Report format by covered banks would maintain consistency across agencies and in reporting for all covered institutions. Finally, the FDIC has already delayed for one year the application of the stress testing rules for the $10-$50 billion covered institutions, in part so that they would have time to create the necessary infrastructure to submit the appropriate stress testing results.

Two commenters expressed concern about the differences among stress testing templates used to respond to different stress testing requirements and about the burden some banking organizations (companies with $50 billion or more in assets that control subsidiaries with $10 billion to 50 billion in assets) might face in preparing multiple sets of templates. The FDIC notes that the final FDIC stress testing rule allows such subsidiaries to elect to conduct its stress test and report to the FDIC on the same timeline as its parent bank holding company or savings and loan holding company. The FDIC has coordinated with the OCC and the Board in the development of the stress test templates and has attempted to minimize the duplication and reporting burden of holding

[4] The FR Y-16 reporting requirements are tailored to the $10-$50 billion institutions and require significantly less granular reporting segmentation relative to the FR Y-14A applicable to bank holding companies with $50 billion or more in total assets.

companies subject to the stress test rules which have subsidiaries subject to the stress test rules.

One commenter suggested the application of generalized, bank-developed loss assumptions for immaterial portfolios. The commenter also noted that an immaterial portfolio exception is allowed for firms with $50 billion or more assets in stress testing submissions. The FDIC has considered the burden of calculating losses for immaterial portfolios for companies with $10 billion to $50 billion in assets and determined that providing a safe harbor that defines immaterial portfolios, where no or little consideration of the risk of these portfolios is undertaken, would be contrary to the purpose of a company-run stress test and could unintentionally mask or cause institutions to erroneously conclude that the aggregation of immaterial portfolios would always pose little or no risk to an institution. Although stress testing should be applied to all exposures, the FDIC recognizes that the same level of rigor and analysis may not be necessary for lower-risk, immaterial portfolios. For such portfolios, it may be appropriate for a company to use a less sophisticated approach for its stress test projections, assuming the results of that approach are conservative and well-documented. The FDIC has therefore not established a reporting threshold for immaterial portfolios in the reporting requirements for the proposed DFAST 10-50 Results Template. Covered banks should refer to the proposed interagency supervisory guidance[5] on implementing Dodd-Frank Act company-run stress tests for banking organizations with total consolidated assets of more than $10 billion but less than $50 billion for more information on estimates for immaterial portfolios.

One commenter asked for clarification regarding the calculation and reporting of regulatory capital and risk-weighted assets (RWAs), noting the expectation that capital and RWA calculations and definitions would change over the planning horizon as new rules are implemented (specifically noting new definitions when the Basel III final rule is adopted). In addition, this commenter also requested clarification on the calculation of tier 1 non-common capital elements.

There are three line items in the proposed FDIC DFAST 10-50 Results Template that would be specifically affected by the capital framework that implements Basel III standards: tier 1 common equity capital, non-common capital elements, and RWAs. Common equity tier 1 capital was recently defined in the Basel III final rule for all institutions and generally will not become effective for institutions with $10-$50 billion in assets until 2015. The need to model alternative capital calculations more than halfway through the planning horizon for these banking organizations adds complexity and increases the potential or likelihood of erroneous calculations or assumptions. This complexity and increased risk of error could detract from the main purpose of conducting a company-run stress test; mainly to make a forward-looking assessment of capital planning processes and internal capital needs under various scenarios. Lastly, as the first required public disclosure will not commence until the 2014 stress test cycle with disclosure occurring in June of 2015, the additional burden of transitioning to a new capital calculation more than halfway through the 2013 stress test planning horizon will

[5] 78 FR 47217 (August 5, 2013). This guidance is expected to be finalized in 2013.

not provide the public with any insight into a firm's capital adequacy or planning process in this instance.

Accordingly, the FDIC removed tier 1 common and non-common capital line items, and the associated equity ratios, from the DFAST 10-50 results template for the 2013 stress test cycle. The final template allows covered institutions to report capital and RWAs for the entire planning horizon using the regulatory capital rules and definitions that are applicable on the "as of" date of each report for this initial reporting submission. For example, the initial respondent panel would report as of September 30, 2013; therefore, that submission should apply capital calculations consistently throughout the planning horizon using the capital rules and definitions effective as of September 30, 2013. The FDIC will provide information regarding the capital and RWA calculations in the final interagency guidance and will consider adding elements of the Basel III capital requirements in future DFAST 10-50 Results Template reporting forms and instructions.

Two commenters argued that the level of detail demanded by the templates was excessive. The commenters stated that separating 1-4 family construction loans from all other construction loans would require more detailed reporting for the DFAST 10-50 Results Template than what is required of large bank holding companies subject to the Board's CCAR, and firms with $50 billion or more in assets that report stress test results using the DFAST 14A form. While the templates for firms with $50 billion or more in assets do not segment 1-4 family construction loans, large bank holding companies must submit that specific data item on both the FR Y-14Q and FR Y-14M reporting forms. More importantly, the FDIC believes this data item is particularly relevant to covered banks that previously have reported material concentrations in this product type and because a significant amount of the industry's losses during the most recent economic downturn emanated from this product. These data would provide necessary information for covered banks to manage risk effectively and appropriately assess and plan for their capital needs.

One commenter also argued that requiring separate line items for retail and wholesale funding would add unnecessary complexity and burden. The FDIC, however, believes it is necessary to maintain these separate items. The breakdown of deposits between retail and wholesale is easily facilitated through Call Report data and the proposed DFAST 10-50 Results Template instructions indicate that covered banks should use the Call Report segmentation definitions to project these line items. In addition, retail and wholesale funding historically have reacted differently under stressed economic conditions. Projecting the retail and wholesale deposit structure throughout the planning horizon as proposed would provide useful information to a covered bank and the FDIC with respect to how a covered bank assesses capital adequacy, plans for its capital needs, and manages risk.

Two commenters stated that gathering available-for-sale (AFS) and held-to-maturity (HTM) balances for U.S. government obligations and obligations of government sponsored entities (GSEs) would require more detailed reporting for the DFAST 10-50 Results Template than what is required for the DFAST 14A. Another commenter suggested separating GSE obligations from other government obligations on the DFAST 10-50 Results Template Balance Sheet consistent with the treatment on the Call Report Income Statement. While the DFAST 14A collects only total AFS and HTM balances on the balance sheet schedule, this reporting series requires more granular data than proposed for the DFAST 10-50 Results Template on government securities through other schedules within the DFAST 14A. Similarly, the reporting requirements for the Call Report Balance Sheet mandate more detailed information on AFS and HTM GSE obligations relative to the reporting requirements for the DFAST 10-50 Results Template. Gathering AFS and HTM balances for U.S. government obligations and obligations of GSEs would provide relevant and required data to project net income and regulatory capital over the planning horizon.

Commenters also favored the elimination of several line items. One commenter stated that the level of detail required by the DFAST 10-50 Results Template Balance Sheet memoranda items was not informative or necessary to the loss estimation process, or entailed more detail than what is required by the DFAST 14A. Specific memoranda items cited by the commenter included troubled debt restructurings and loans secured by 1-4 family in foreclosure. Based on this comment, the FDIC also evaluated the utility of another Balance Sheet memoranda item: loans and leases guaranteed by either U.S. government or GSE guarantees (i.e., non-FDIC loss sharing agreements). The FDIC agrees that these memoranda data items are already captured within the proposed DFAST 10-50 Results Template reporting requirements for loans and leases and that eliminating these items from the reporting template would not affect an institution’s ability to project pre-provision net revenue, net income, or regulatory capital in order to assess their capital needs under stressed conditions. Therefore, the FDIC eliminated these three supplemental Balance Sheet memoranda reporting items.

Commenters also requested that common stock, retained earnings, surplus, and other equity components be reported as a single line item. The FDIC agrees with this comment and has combined the aforementioned capital components into one line item to be reported as “equity capital.”

One commenter noted that separately modeling average rates for each type of deposit would also involve a significant amount of work and potentially affect other company-run models. The FDIC agrees that the average rate information is not a data input that a covered bank needs to project losses, pre-provision net revenue, or capital. Further, the additional burden placed on covered banks to calculate the projected average rates could distract unnecessarily from the primary goal of the annual company-run stress test – to estimate effectively the possible impact of an economic downturn on a covered bank’s capital position in order to plan for capital needs and to identify and managed risk. Therefore, the FDIC has removed all average rate memoranda items on the balance sheet. Two commenters favored the elimination of the income statement item for Gains and Losses on Other Real Estate Owned (OREO). One commenter noted that this element could be combined effectively with forecasting of other OREO expenses. The other commenter stated that the level of detail for this element is more granular that what is required for the DFAST 14A templates. The FDIC notes that gains or losses on OREO are captured in the pre-provision net revenue metrics worksheet of the DFAST 14A templates. Therefore, this requirement would not be more burdensome for the $10 billion - $50 billion covered banks. Nevertheless, the FDIC has eliminated this item because gains and losses on OREO would already be captured within the noninterest income statement memoranda item “itemize and describe amounts greater than 15% of noninterest income” or in the “itemize and describe amounts greater than 15% of noninterest expense” when the amount meets the 15% threshold.

In response to a few technical comments received, the FDIC has adjusted the reporting templates and instructions. These changes include correction of formulaic errors; correction of MDRM reference errors; clarified reporting instructions for income statement memoranda items; and more detailed technical reporting instructions, including the elimination of the contact information schedule as this information would be collected through the DFAST 10-50 Results Template cover sheet and related data collection application.

The agencies emphasize that the rule implements the stress testing requirements imposed by the Dodd-Frank Act, and does not otherwise impose additional mandatory stress testing requirements. .

9. <u>Payment to respondents</u>:

There is no payment to respondents.

10. <u>Any assurance of confidentiality:</u>

The stress test reports information collection request will be kept confidential to extent allowed by law.

11. <u>Justification for questions of a sensitive nature:</u>

No questions of a sensitive nature are asked.

12. <u>Burden estimate:</u>

Existing Burden:

For covered institutions with total consolidated assets of $50 billion or more

Number of respondents: 4

First year:

Burden per respondent for initial set-up: 7,200 hours

Total for initial set-up: 28,800 hours (7,200 x 4)

Burden per respondent for first-year reporting: 1,040 hours

Total for first-year reporting: 4,160 hours (1,040 x 4)

Total burden for first-year: 32,960 hours (28,800 + 4,160)

Annual burden after first year:

Burden per respondent for ongoing annual revisions: 480 hours

Total for ongoing revisions: 1,920 hours (480 x 4)

Burden per respondent for annual reporting: 1,040 hours

Total burden for annual reporting: 4,160 hours (1,040 x 4)

Total ongoing annual burden after first year: 6,080 hours (1,920 + 4,160)

New Burden:

For covered institutions with total consolidated assets between $10 billion and $50 billion

Number of respondents: 22

First year:

Burden per respondent for initial set-up: 3,600 hours

Total for initial set-up: 79,200 hours (3,600 x 22)

Burden per respondent for first-year reporting: 464 hours

Total for first-year reporting: 10,208 hours (464 x 22)

Total burden for first-year: 89,408 hours (79,200 + 10,208)

Annual burden after first year:

Burden per respondent for ongoing annual revisions: 160 hours

Total for ongoing revisions: 3,520 hours (160 x 22)

Burden per respondent for annual reporting: 464 hours

Total burden for annual reporting: 10,208 hours (464 x 22)

Total ongoing annual burden after first year: 13,728 hours (3,520+ 10,208)

Total covered institutions with total consolidated assets of more than $10 billion

Number of respondents: 26 (4 + 22)

First year:

Burden per respondent for initial set-up: 7,200 hours (over $50B) and

3,600 hours ($10B to $50B)

Total for initial set-up: 108,000 hours (7,200 x 4) + (3,600 x 22)

Burden per respondent for first-year reporting: 1,040 hours (over $50B) and

464 hours ($10B to $50B)

Total for first-year reporting: 14,368 hours (1,040 x 4) + (464 x 22)

Total burden for first-year: 122,368 hours (14,368 + 108,000)

Annual burden after first year:

Burden per respondent for ongoing annual revisions: 480 hours (over $50B) and

160 hours ($10B to $50B)

Total for ongoing revisions: 5,440 hours (480 x 4) + (160 x 22)

Burden per respondent for annual reporting: 1,040 hours (over $50B) and

464 hours ($10B to $50B)

Total burden for annual reporting: 14,368 hours (1,040 x 4) + (464 x 22)

Total ongoing annual burden after first year: 19,808 hours (14,368 + 5,440)

13. **Estimate of annualized costs to respondents:**

On average, FDIC staff estimates that each of the 22 respondents with consolidated assets between $10 billion and $50 billion will spend 464 hours and each of the 4 respondents with consolidated assets over $50 billion will spend 1,040 hours at a cost of $90[6] per hour to collect and prepare information for each ongoing annual submission, resulting in a cost of $1,293,120. FDIC staff expects that key drivers of costs of compliance will be the magnitude of the changes in activities and operations of each covered bank.

14. Estimate of annualized costs to the government:

None.

15. Changes in burden:

+ 22 respondents; + 89,408 burden hours

The increase is due to the addition of new reporting templates for respondents with total consolidated assets between $10 billion and $50 billion.

16. Information regarding collections whose results are planned to be published for statistical use:

Not applicable.

17. Collections of Information Employing Statistical Methods

Not applicable.

[6]To estimate hourly wages, we used the Office of the Comptroller of the Currency's estimate who used data from May 2011 for wages (by industry and occupation) from the U.S. Bureau of Labor Statistics (BLS) for depository credit intermediation. To estimate compensation costs associated with the rule, they used $90 per hour, which is based on the average of the 90th percentile for seven occupations (i.e., accountants and auditors, compliance officers, financial analysts, lawyers, management occupations, software developers, and statisticians), plus an additional 33 percent to cover inflation and private sector benefits.