

**SUPPORTING STATEMENT  
BASEL III  
OMB CONTROL NO. 1557-0234**

**A. Justification.**

**1. Circumstances that make the collection necessary:**

The Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies) are issuing a final rule that would revise and replace the agencies' current capital rules.

The agencies are revising their risk-based and leverage capital requirements consistent with agreements reached by the Basel Committee on Banking Supervision (BCBS) in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" (Basel III). The revisions include implementation of a new common equity tier 1 minimum capital requirement, a higher minimum tier 1 capital requirement, and, for banking organizations subject to the advanced approaches capital rules, a supplementary leverage ratio that incorporates a broader set of exposures in the denominator measure. Additionally, consistent with Basel III, the agencies are applying limits on a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified amount of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The rule also establishes more conservative standards for including an instrument in regulatory capital. The revisions in this final rule are consistent with section 171 of the Dodd-Frank Act, which requires the agencies to establish minimum risk-based and leverage capital requirements.

The agencies are revising and harmonizing their rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses identified over recent years, including by incorporating aspects of the BCBS's Basel II standardized framework in the "International Convergence of Capital Measurement and Capital Standards: A Revised Framework," including subsequent amendments to that standard, and recent BCBS consultative papers. The rule includes alternatives to credit ratings, consistent with section 939A of the Dodd-Frank Act. The revisions include methodologies for determining risk-weighted assets for residential mortgages, securitization exposures, and counterparty credit risk. The rule also introduces disclosure requirements that will apply to top-tier banking organizations domiciled in the United States with \$50 billion or more in total assets, including disclosures related to regulatory capital instruments.

The revisions set forth above will apply to all banking organizations that are currently subject to minimum capital requirements (including national banks, state member banks, state nonmember banks, state and federal savings associations, and top-tier bank holding companies domiciled in the United States not subject to the Board's Small Bank Holding Company Policy Statement (12 CFR part 225, Appendix C)), as well as top-tier savings and loan holding companies domiciled in the United States (together, banking organizations).

The agencies are also revising the advanced approaches risk-based capital rules consistent with Basel III and other changes to the BCBS's capital standards. The advanced approaches risk-based capital rules will be revised to be consistent with section 939A and section 171 of the Dodd-Frank Act. Additionally, the OCC and FDIC are making the market risk capital rules applicable to federal and state savings associations and the Board is applying the advanced approaches and market risk capital rules to top-tier savings and loan holding companies domiciled in the United States, in each case, if stated thresholds for trading activity are met.

The agencies are also codifying their regulatory capital rules, which currently reside in various appendices to their respective regulations.

## **2. Use of the information:**

The OCC uses the information collected to meet its statutory obligations to adopt and implement a risk-based capital requirement, determine the qualification of a bank for application of the rule, and assess the adequacy of a qualifying bank's risk-based capital. 12 U.S.C. §§ 93a, 161, 3907-3909.

Section .3(c) provides for termination and close-out netting across multiple types of transactions or agreements if the bank obtains a written legal opinion verifying the validity and enforceability of the agreement under certain circumstances and maintains sufficient written documentation of this legal review.

Section .22(h)(2)(iii)(A) allows the use of a conservative estimate of the amount of a bank's investment in the capital of unconsolidated financial institutions held through the index security with prior approval by the appropriate agency.

Section .35 sets forth requirements for cleared transactions. Section .35(b)(3)(i)(A) would require for a cleared transaction with a qualified central counterparty (QCCP) that a client bank apply a risk weight of 2 percent, provided that the collateral posted by the bank to the QCCP is subject to certain arrangements and the client bank has conducted a sufficient legal review (and maintains sufficient written documentation of the legal review) to conclude with a well-founded basis that the arrangements, in the event of a legal challenge, would be found to be legal, valid, binding and enforceable under the law of the relevant jurisdictions.

Section .37 addresses requirements for collateralized transactions. Section .37(c)(4)(i)(E) would require that a bank have policies and procedures describing how it determines the period of significant financial stress used to calculate its own internal estimates for haircuts and be able to provide empirical support for the period used.

Section .41 addresses operational requirements for securitization exposures. Section .41(b)(3) would allow for synthetic securitizations a bank's recognition, for risk-based capital purposes, of a credit risk mitigant to hedge underlying exposures if certain conditions are met, including the bank's having obtained a well-reasoned opinion from legal counsel that confirms the enforceability of the credit risk mitigant in all relevant jurisdictions. Section .41(c)(2)(i)

would require that a bank support a demonstration of its comprehensive understanding of a securitization exposure by conducting and documenting an analysis of the risk characteristics of each securitization exposure prior to its acquisition, taking into account a number of specified considerations.

Section .42 addresses risk-weighted assets for securitization exposures. Section .42(e)(2) would require that a bank publicly disclose that it has provided implicit support to the securitization and the risk-based capital impact to the bank of providing such implicit support.

Section .62 sets forth disclosure requirements related to a bank's capital requirements. Section .62(a) specifies a quarterly frequency for the disclosure of information in the applicable tables set out in section 63 and, if a significant change occurs, such that the most recent reported amounts are no longer reflective of the bank's capital adequacy and risk profile, section .62(a) also would require the bank to disclose as soon as practicable thereafter, a brief discussion of the change and its likely impact. Section .62(a) would allow for annual disclosure of qualitative information that typically does not change each quarter, provided that any significant changes are disclosed in the interim. Section .62(b) would require that a bank have a formal disclosure policy approved by the board of directors that addresses its approach for determining the disclosures it makes. The policy would be required to address the associated internal controls and disclosure controls and procedures. Section .62(c) would require a bank with total consolidated assets of \$50 billion or more that is not an advanced approaches bank, if it concludes that specific commercial or financial information required to be disclosed under section .62 would be exempt from disclosure by the agency under the Freedom of Information Act (5 U.S.C. 552), to disclose more general information about the subject matter of the requirement and the reason the specific items of information have not been disclosed.

Section .63 sets forth disclosure requirements for banks with total consolidated assets of \$50 billion or more that are not advanced approaches banks. Section .63(a) would require a bank to make the disclosures in Tables 1 through 10 to §.63 and in section .63(b) for each of the last three years beginning on the effective date of the rule. Section .63(b) requires quarterly disclosure of a bank's common equity tier 1 capital, additional tier 1 capital, tier 2 capital, tier 1 and total capital ratios, including the regulatory capital elements and all the regulatory adjustments and deductions needed to calculate the numerator of such ratios; total risk-weighted assets, including the different regulatory adjustments and deductions needed to calculate total risk-weighted assets; regulatory capital ratios during any transition periods, including a description of all the regulatory capital elements and all regulatory adjustments and deductions needed to calculate the numerator and denominator of each capital ratio during any transition period; and a reconciliation of regulatory capital elements as they relate to its balance sheet in any audited consolidated financial statements.

Tables 1 through 10 to § .63. Table 1 sets forth scope of application qualitative and quantitative disclosure requirements; Table 2 sets forth capital structure qualitative and quantitative disclosure requirements; Table 3 sets forth capital adequacy qualitative and quantitative disclosure requirements; Table 4 sets forth capital conservation buffer qualitative and quantitative disclosure requirements; Table 5 sets forth general qualitative and quantitative disclosure requirements for credit risk; Table 6 sets forth general qualitative and quantitative

disclosure requirements for counterparty credit risk-related exposures; Table 7 sets forth qualitative and quantitative disclosure requirements for credit risk mitigation; Table 8 sets forth qualitative and quantitative disclosure requirements for securitizations; Table 9 sets forth qualitative and quantitative disclosure requirements for equities not subject to Subpart F of the rule; and Table 10 sets forth qualitative and quantitative disclosure requirements for interest rate risk for non-trading activities.

Sections .121 and .122 require that an institution adopt a written implementation plan that addresses how it will comply with the proposed advanced capital adequacy framework's qualification requirements, including incorporation of a comprehensive and sound planning and governance process to oversee the implementation efforts. The institution must also develop processes for assessing capital adequacy in relation to an organization's risk profile. It must establish and maintain 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 their 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 .123 sets forth ongoing qualification requirements that require an institution to notify its Federal supervisor of changes to advanced systems and requires submission of a plan for returning to compliance with qualification requirements.

Section .124 requires an institution to notify its primary Federal supervisor when it makes a material change to its advanced systems and to develop an implementation plan after any mergers.

Section .132(b)(2)(iii)(A). Counterparty credit risk of repo-style transactions, eligible margin loans, and OTC derivative contracts, Own internal estimates for haircuts. With the prior written approval of the agency, an institution may calculate haircuts ( $H_s$  and  $H_{fx}$ ) using its own internal estimates of the volatilities of market prices and foreign exchange rates. To receive OCC approval to use its own internal estimates, an institution must satisfy the minimum quantitative standards outlined in this section.

Section .132(b)(3). Counterparty credit risk of repo-style transactions, eligible margin loans, and OTC derivative contracts, Simple VaR methodology. With the prior written approval of the agency, an institution may estimate EAD for a netting set using a VaR model that meets certain requirements.

Section .132(d)(1) allows the use of the internal models methodology to determine EAD for counterparty credit risk for derivative contracts with prior written approval. Section .132(d)(1)(iii) allows the use of the internal models methodology for derivative contracts, eligible margin loans, and repo-style transactions subject to a qualifying cross-product netting agreement with prior written approval.

Section .132(d)(2)(iv). Counterparty credit risk of repo-style transactions, eligible margin loans, and OTC derivative contracts, Risk-weighted assets using IMM. Under the IMM, an institution uses an internal model to estimate the expected exposure (EE) for a netting set and then calculates EAD based on that EE. An institution must calculate two EEs and two EADs (one stressed and one unstressed) for each netting as outlined in this section.

Section .132(d)(3)(vi). Counterparty Credit Risk of Repo-style Transactions, Eligible Margin Loans, and OTC Derivative Contracts. To obtain agency approval to calculate the distributions of exposures upon which the EAD calculation is based, the institution must demonstrate to the satisfaction of the agency that it has been using for at least one year an internal model that broadly meets the minimum standards, with which the institution must maintain compliance. The institution must have procedures to identify, monitor, and control wrong-way risk throughout the life of an exposure. The procedures must include stress testing and scenario analysis.

Section .132(d)(3)(viii). Counterparty Credit Risk of Repo-style Transactions, Eligible Margin Loans, and OTC Derivative Contracts. When estimating model parameters based on a stress period, the institution must use at least three years of historical data that include a period of stress to the credit default spreads of the institution's counterparties. The institution must review the data set and update the data as necessary, particularly for any material changes in its counterparties. The institution must demonstrate at least quarterly that the stress period coincides with increased CDS or other credit spreads of the institution's counterparties. The institution must have procedures to evaluate the effectiveness of its stress calibration that include a process for using benchmark portfolios that are vulnerable to the same risk factors as the institution's portfolio. The agency may require the institution to modify its stress calibration to better reflect actual historic losses of the portfolio.

Section .132(d)(3)(ix). Counterparty Credit Risk of Repo-style Transactions, Eligible Margin Loans, and OTC Derivative Contracts. An institution must subject its internal model to an initial validation and annual model review process. The model review should consider whether the inputs and risk factors, as well as the model outputs, are appropriate. As part of the model review process, the institution must have a backtesting program for its model that includes a process by which unacceptable model performance will be determined and remedied.

Section .132(d)(3)(x). Counterparty Credit Risk of Repo-style Transactions, Eligible Margin Loans, and OTC Derivative Contracts. An institution must have policies for the measurement, management and control of collateral and margin amounts.

Section .132(d)(3)(xi). Counterparty Credit Risk of Repo-style Transactions, Eligible Margin Loans, and OTC Derivative Contracts. An institution must have a comprehensive stress testing program that captures all credit exposures to counterparties, and incorporates stress testing of principal market risk factors and creditworthiness of counterparties.

Section .141 – Operational Criteria for Recognizing the Transfer of Risk. Section .141(b) (3) requires a well-reasoned legal opinion confirming the enforceability of the credit risk mitigant in all relevant jurisdictions. An institution must demonstrate its comprehensive

understanding of a securitization exposure under section .141(c)(1), for each securitization exposure by conducting an analysis of the risk characteristics of a securitization exposure prior to acquiring the exposure and document such analysis within three business days after acquiring the exposure. Sections .141(c)(2)(i) and (ii) require that institutions, on an on-going basis (no less frequently than quarterly), evaluate, review, and update as appropriate the analysis required under this section for each securitization exposure.

Section .142 outlines the capital treatment for securitization exposures. A bank must disclose publicly that it has provided implicit support to the securitization and the regulatory capital impact to the bank of providing such implicit support.

Section .153 outlines the Internal Models Approach (IMA). A bank must receive prior written approval from its primary Federal supervisor before it can use IMA.

Section .171 specifies that each consolidated bank must publicly disclose its total and tier 1 risk-based capital ratios and their components.

Section .173. Disclosures by Banks that are Advanced Approaches Banks. A institution that is an advanced approaches bank must make the disclosures described in Tables 1 through 12. The institution must make these disclosures publicly available for each of the last three years (that is, twelve quarters) or such shorter period beginning on the effective date of this subpart E.

Table 4 to § .173 – Capital Conservation and Countercyclical Buffers. The institution must comply with the qualitative and quantitative public disclosures outlined in this table. The agencies estimate that respondents would take on average 80 hours (two business weeks) to comply with the disclosure requirements outlined in this table.

Table 5 to § .173 – Credit Risk: General Disclosures. The institution must comply with the qualitative and quantitative public disclosures outlined in this table.

Table 9 to § .173 – Securitization. The institution must comply with the qualitative and quantitative public disclosures outlined in this table.

Table 12 to § .173 – Interest Rate Risk for Non-trading Activities. The institution must comply with the qualitative and quantitative public disclosures outlined in this table.

### **3. Consideration of the use of improved information technology:**

National banks and Federal savings associations may use any information technology that permits review by OCC examiners.

### **4. Efforts to identify duplication:**

The required information is unique and is not duplicative of any other information already collected.

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

Not applicable. The collection 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:**

The OCC will not be able to adequately monitor capital levels and ensure safety and soundness if the collection were conducted less frequently.

**7. Special circumstances that would cause an information collection to be conducted in a manner inconsistent with 5 CFR Part 1320:**

The information collection will be conducted in a manner consistent with 5 CFR Part 1320.

**8. Efforts to consult with persons outside the agency:**

On August 30, 2012, the Federal banking agencies jointly issued three NPRs for comment in the Federal Register (77 FR 52792, 52888, 52978). In conjunction with the NPRs, the OCC submitted the information collection requirements contained therein to OMB for review. In response, OMB filed comments with the OCC and FDIC in accordance with 5 CFR 1320.11(c) withholding PRA approval and instructing that the collection should be resubmitted to OMB at the final rule stage. The OCC has published a final rule and, as instructed, resubmitted the information collection to OMB.

**9. Payment or gift to respondents:**

None.

**10. Any assurance of confidentiality:**

The information will be kept confidential only as permitted by means of an exemption under the Freedom of Information Act. 5 U.S.C. § 552.

**11. Justification for questions of a sensitive nature:**

There are no questions of a sensitive nature in the information collection.

**12. Burden estimate:**

Section	One-time v. Ongoing	Burden Type	No. Respondents	Responses Per Respondent	Time per Response	Total
<b>Minimum Capital Ratios</b>						
_.3(c); _.22(h)(2)(iii)(A)	Ongoing	Recordkeeping	775	1	16 hours	12,400
<b>Standardized Approach</b>						
_.35(b)(3)(i)(A)	One-time	Recordkeeping	775	1	2 hours	1,550
_.35(b)(3)(i)(A)	Ongoing	Recordkeeping	775	1	2 hours	1,550
_.37(c)(4)(i)(E)	One-time	Recordkeeping	775	1	80 hours	62,000
_.37(c)(4)(i)(E)	Ongoing	Recordkeeping	775	1	16 hours	12,400
_.41(b)(3) _.41(c)(2)(i)	One-time	Recordkeeping	775	1	40 hours	31,000
_.41(c)(2)(i)	Ongoing	Recordkeeping	775	1	2 hours	1,550
_.42(e)(2) _.62(a)-(c) _.63(a)-(b)	One-time	Disclosure	3	1	226.25 hours	678.75
_.42(e)(2) _.62(a)-(c) _.63(a)-(b) _.63 Tables	Ongoing	Disclosure	3	1	131.25 hours	1,575
<b>Advanced Approach</b>						
_.121(b)	Ongoing	Recordkeeping	45	1	330 hours	14,850
_.122(d)-(h); _.132(b)(3) _.132(d)(1) _.132(d)(1)(iii)	Ongoing	Recordkeeping	45	1	16.82 hours	756.9
_.122(h)	Ongoing	Recordkeeping	45	1	19 hours	855
_.122(a), _.123(a), _.124(a)	Ongoing	Recordkeeping	45	1	27.9 hours	1,255.5
_.122-_.124	Ongoing	Recordkeeping	45	1	11.05 hours	497.25
_.132(b)(2)(iii)	One-time	Recordkeeping	45	1	80 hours	3,600



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_.132(b)(2)(iii) (A)	Ongoing	Recordkeeping	45	1	16 hours	720
_.132(d)(2)(iv)	One-time	Recordkeeping	45	1	80	3,600
_.132(d)(2)(iv)	Ongoing	Recordkeeping	45	1	40	1,800
_.132(d)(3)(vi)	One-time	Recordkeeping	45	1	80	3,600
_.132(d)(3)(viii)	One-time	Recordkeeping	45	1	80	3,600
_.132(d)(3)(ix)	One-time	Recordkeeping	45	1	40	1,800
_.132(d)(3)(ix)	Ongoing	Recordkeeping	45	1	40	1,800
_.132(d)(3)(x)	One-time	Recordkeeping	45		20	900
_.132(d)(3)(xi)	One-time	Recordkeeping	45	1	40	1,800
_.132(d)(3)(xi)	Ongoing	Recordkeeping	45	1	40	1,800
_.141(b)(3) _.141(c)(1) _.141(c)(2)(i)-(ii) _.153	One-time	Recordkeeping	45	1	40	1,800
_.141(c)(2)(i)-(ii)	Ongoing	Recordkeeping	45	1	10	450
_.142 _.171	Ongoing	Disclosures	45	1	5.78	260.1
_.173; Tables 4, 5; 9; 12	One-Time	Disclosure	45	1	280	12,600
_.173; Tables 4; 5; 9; 12	Ongoing	Disclosure	45	1	35	6,300
<b>Total</b>						<b>189,348.50</b>

### Cost to Respondents:

To estimate compensation costs associated with the final rule, we used \$85 per hour, which is based on the average of the 90<sup>th</sup> 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 adjustments and private sector benefits.<sup>1</sup>

$$189,348.50 \text{ hours} \times \$85 = \mathbf{\$16,094,622}$$

<sup>1</sup> According to BLS' employer costs of employee benefits data, thirty percent represents the average private sector costs of employee benefits.

**13. Estimate of total annual costs to respondents (excluding cost of hour burden in Item #12):**

The estimated start-up costs (new systems) and first year costs are as follows:

Regulatory Capital, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions:

\$6,581 x 775 entities = \$ 5,100,275

Standardized Approach:

\$120,258 x 775 entities = \$ 93,199,950

Advanced Approaches:

\$1,040,00 x 45 entities = \$ 46,800,000

**Total = \$145,100,225**

**14. Estimate of annualized costs to the Federal government:**

Not applicable.

**15. Change in burden:**

Current burden: 821,640 hours

New burden: 189,348.50 hours

Change: - 632,291.50 hours

The significantly lower estimates for Basel III are due to the fact that, at the time Basel II was adopted, banks had to create from scratch a system of rating every exposure. In addition, the OCC had no experience with assisting them and providing clear expectations. With Basel III, five years later, few banks are coming in. Banks coming now in have an easier time coming up to speed, as the OCC is able to assist them better and provide a clear set of expectations.

Please see the Basel II/Basel III Burden Comparison Chart uploaded into ROCIS as a Supplementary Document, which sets out the change in burden in detail.

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

The OCC has no plans to publish the information for statistical purposes.

**17. Reasons for not displaying OMB approval expiration date:**

The OCC is not requesting permission to not display the OMB approval expiration date.

**18. Exceptions to the certification statement in Item 19 of OMB Form 83-I:**

None.

**B. Collections of Information Employing Statistical Methods.**

Not applicable.