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

A. JUSTIFICATION

The Federal Deposit Insurance Corporation (FDIC) is revising information collection 3064-0189 to modify the existing stress testing reporting templates for covered banks with total consolidated assets of $50 billion or more.

1. Circumstances that make the collection necessary:

On October 15, 2012, the FDIC published in the Federal Register a final rule on annual stress testing (Annual Stress Test Rule)[1] 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).[2]

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 Annual Stress Test Rule. The regulations across the Federal 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 the stress tests conducted by covered banks with consolidated total assets of $50 billion or more 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 specified separate reporting templates: (1) for covered banks with total consolidated assets of greater than $10 billion and less than $50 billion and (2) for covered banks with total consolidated assets of $50 billion or more.

The FDIC's, the OCC's, and Board's Annual Stress Test Rules require their respective covered institutions with total consolidated assets of $50 billion or more to conduct annual stress tests and report on those tests to the relevant agency by January 5, 2015. The FDIC, OCC, and Board have coordinated the revisions to the reporting templates that the covered institutions in this category will use to report.

[1] 77 FR 62417 (Oct. 15, 2012).
[2] Public Law 111-203, 124 Stat. 1376, July 2010.

On April 14, 2014, the FDIC published a final rule in the Federal Register that will revise and replace the FDIC's risk-based and leverage capital requirements to be consistent with agreements reached by the Basel Committee on Banking Supervision in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" (Basel III).[3] The revisions include implementation of a new definition of regulatory capital, a new common equity tier 1 minimum capital requirement, a higher minimum tier 1 capital requirement, and, additional requirements for banking organizations subject to the Advanced Approaches capital rules. All banking organizations that are not subject to the Advanced Approaches Rule must begin to comply with the revised capital framework on January 1, 2015.

In light of the finalization of the Basel III capital rules, the FDIC is revising the FDIC DFAST-14A reporting templates by adding data items, deleting data items, and redefining existing data items. These changes will (1) provide additional information to greatly enhance the ability of the FDIC to analyze the validity and integrity of firms' projections, (2) improve comparability across firms, and (3) increase consistency between the FR Y-14A reporting templates and DFAST-14A reporting templates.

The specific changes entail:

- Revisions to the Income Statement Sub-Schedule to modify definitions applicable to realized gains (losses) on securities on available-for-sale ("AFS") and held-to-maturity ("HTM") securities, to reflect changes to the revised capital framework.

- Revisions to the RWA and Capital Sub-Schedules to better align the forms with Call Report Schedule RC-R.

- Revisions to the Retail Repurchase Sub-Schedule to better capture activity by respondents involving settlements related to their representation and warranty ("R&W") liabilities.

- Revisions to the Securities Sub-Schedule to better capture covered bond activity.

- Revisions to the Trading Sub-Schedule to separate reports of profit (loss) amount related to credit valuation adjustment ("CVA") hedges from other trading activity.

- Revisions to Counterparty Risk Sub-Schedule to allow respondents to use alternative methodologies for estimating losses related to the default of issuers and counterparties.

- Revisions to the Regulatory Capital Instruments Schedule and Regulatory Capital Transitions Schedule to better align the templates with Call Report Schedule RC-R.

[3] 79 FR 20754 (April 14, 2014).

- o Revisions to the Operational Risk Schedule to provide greater insight into the types and frequency of operational risk expenses incurred by respondents.

- o Revisions to the Counterparty Credit Risk Schedule in order to more adequately and accurately capture exposure information related to derivatives and securities financing transactions.

On September 30, 2014, the FDIC published an information collection notice with a 60-day comment period on the proposed revisions to the DFAST-14A stress testing reporting templates.[4] The comment period ended December 1, 2014 and no comments were received.

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

As required by section 165(i)(2) of the Dodd-Frank Act, the FDIC provided in its Annual Stress Test 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 Annual Stress Test 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 Annual Stress Test Rule.

The Annual Stress Test 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

[4] 79 FR 58780 (September 30, 2014).

a covered bank's stress testing practices with respect to its internal assessments of capital adequacy and overall capital planning.

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. The burden of information collections associated with these mandatory stress tests are accounted for in the respective rules of the banking agencies.

3. Consideration of the use of improved information technology:

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 a substantial number of small entities:

The information collection affects only large institutions that have more than $50 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:

On September 30, 2014, the FDIC published an information collection notice with a 60-day comment period on the proposed revisions to the DFAST-14A stress testing reporting templates.[5] The comment period ended December 1, 2014 and no comments were received.

[5] 79 FR 58780 (September 30, 2014).

9. Payment to respondents:

There is no payment to respondents.

10. Any assurance of confidentiality:

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

11. Justification for questions of a sensitive nature:

No questions of a sensitive nature are asked.

12. Burden estimate:

Number of Respondents: 4.

Annual Burden per Respondent: 1,040.

Total Annual Burden: 4,160.

13. Estimate of annualized costs to respondents:

On average, FDIC staff estimates that each of the 4 respondents with consolidated assets $50 billion or more 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 $93,600. 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:

None.

[6]To estimate hourly wages, we used data from May 2013 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, we 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. This is the process that the OCC used to estimate compensation costs associated with the rule, albeit with data from May 2011.

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

Not applicable.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.