

**Supporting Statement for the
Reporting and Recordkeeping Requirements Associated with the
Liquidity Risk Measurement Standards (Regulation WW)
(Reg WW; OMB No. to be obtained)**

***Liquidity Coverage Ratio: Liquidity Risk Measurement Standards
(Docket No. R-1466) (RIN 7100-AE03)***

Summary

The Board of Governors of the Federal Reserve System (Federal Reserve), under delegated authority from the Office of Management and Budget (OMB), proposes to implement the mandatory Reporting and Recordkeeping Requirements Associated with the Liquidity Risk Measurement Standards (Regulation WW) (Reg WW; OMB No. to be obtained). The Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) are separately submitting the requirements to OMB for approval. The Paperwork Reduction Act (PRA) classifies reporting, recordkeeping, or disclosure requirements of a regulation as an “information collection.”¹

The Federal Reserve, the OCC, and the FDIC (collectively, the agencies) would implement through Regulation WW a liquidity coverage ratio (LCR) requirement, consistent with the international liquidity standards published by the Basel Committee on Banking Supervision (BCBS)², for large and internationally active banking organizations. Each institution would be required to hold high quality, liquid assets (HQLA) such as central bank reserves and government and corporate debt that can be converted easily and quickly into cash in an amount equal to or greater than its projected cash outflows minus its projected cash inflows during a 30-day stress period. The ratio of the firm’s liquid assets to its projected net cash outflow is its LCR. The BCBS published the international liquidity standards in December 2010 as a part of the Basel III reform package³ and revised the standards in January 2013 (as revised, the Basel III Revised Liquidity Framework).⁴ The LCR will apply to all banking organizations with \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance sheet foreign exposure and to these banking organizations’ subsidiary depository institutions that have assets of \$10 billion or more. The final rule also would apply a less stringent, modified LCR to bank holding companies and savings and loan holding companies that do not meet these thresholds, but have \$50 billion or more in total assets. Bank holding companies and savings and

¹ See 44 U.S.C. 3501 *et seq.*

² The BCBS is a committee of banking supervisory authorities that was established by the central bank governors of the G10 countries in 1975. It currently consists of senior representatives of bank supervisory authorities and central banks from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. Documents issued by the BCBS are available through the Bank for International Settlements website at www.bis.org.

³ “Basel III: International framework for liquidity risk measurement, standards and monitoring” (December, 2010), available at www.bis.org/publ/bcbs188.pdf (Basel III Liquidity Framework).

⁴ “Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools” (January 2013), available at www.bis.org/publ/bcbs238.htm.

loan holding companies with substantial insurance or commercial operations are not covered by the final rule.

On November 29, 2013, the agencies published a joint notice of proposed rulemaking in the *Federal Register* for public comment (78 FR 71818). The comment period expired on January 31, 2014. The agencies received over 100 comments on the proposed rule, but there were no specific comments on the PRA estimates. On October 10, 2014, the agencies published a notice of final rulemaking in the *Federal Register* (79 FR 61440). The final rule is effective on January 1, 2015, and the comment period for PRA estimates expired on December 9, 2014. The agencies did not receive any comments on the PRA estimates.

The Federal Reserve's reporting and recordkeeping requirements in Regulation WW are found in 12 C.F.R. 249 §§ 22 and 40. This information collection would apply to insured state member banks, bank holding companies, savings and loan holding companies, and any subsidiary thereof. The Federal Reserve estimates the total annual burden for this information collection to be 1,153 hours for the 42 institutions it deems respondents for purposes of the PRA. There are no required reporting forms associated with these information collections.

Background and Justification

The recent financial crisis demonstrated significant weaknesses in the liquidity positions of banking organizations, many of which experienced difficulty meeting their obligations due to a breakdown of the funding markets. As a result, many governments and central banks across the world provided unprecedented levels of liquidity support to companies in the financial sector in an effort to sustain the global financial system. In the United States, the Federal Reserve and the FDIC established various temporary liquidity facilities to provide sources of funding for a range of asset classes.

These events came in the wake of a period characterized by ample liquidity in the financial system. The rapid reversal in market conditions and the declining availability of liquidity during the financial crisis illustrated both the speed with which liquidity can evaporate and the potential for protracted illiquidity during and following these types of market events. In addition, the recent financial crisis highlighted the pervasive detrimental effect of a liquidity crisis on the banking sector, the financial system, and the economy as a whole.

Banking organizations' failure to adequately address these challenges was in part due to lapses in basic liquidity risk management practices. Recognizing the need for banking organizations to improve their liquidity risk management and to control their liquidity risk exposures, the agencies worked with regulators from foreign jurisdictions to establish international liquidity standards. These standards include the principles based on supervisory expectations for liquidity risk management in the "Principles for Sound Liquidity Management and Supervision."⁵ In addition to these principles, the BCBS established quantitative standards for liquidity in the "Basel III: International framework for liquidity risk measurement, standards and monitoring" in December 2010, which introduced a liquidity coverage ratio (2010 LCR) and

⁵ Principles for Sound Liquidity Risk Management and Supervision (September 2008), available at <http://www.bis.org/publ/bcbs144.htm>.

a net stable funding ratio, as well as a set of liquidity monitoring tools. These reforms were intended to strengthen liquidity and promote a more resilient financial sector by improving the banking sector's ability to absorb shocks arising from financial and economic stress. Subsequently, in January 2013, the BCBS issued "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools" (Basel III LCR), which updated key components of the 2010 LCR as part of the Basel III liquidity framework.⁶

Current U.S. regulations do not require banking organizations to meet a quantitative liquidity standard. Rather, the agencies evaluate a banking organization's methods for measuring, monitoring, and managing liquidity risk on a case-by-case basis in conjunction with their supervisory processes.⁷ Since the financial crisis, the agencies have worked to establish a more rigorous supervisory and regulatory framework for U.S. banking organizations that would incorporate and build upon the BCBS standards.

In 2012, pursuant to section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act,⁸ the Federal Reserve proposed enhanced liquidity standards for large U.S. banking firms, certain foreign banking organizations, and nonbank financial companies designated by the Financial Stability Oversight Council for Federal Reserve supervision.⁹ These enhanced liquidity standards include corporate governance provisions, senior management responsibilities, independent review, a requirement to hold highly liquid assets to cover stressed liquidity needs based on internally developed stress models, a contingency funding plan, and specific limits on potential sources of liquidity risk.¹⁰

Regulation WW would further enhance supervisory processes by implementing a minimum quantitative liquidity requirement in the form of an LCR. This quantitative requirement would focus on short-term liquidity risks and would benefit the financial system as a whole by improving the ability of companies subject to the proposal to absorb potential market and liquidity shocks in a severe stress scenario over a short term. The agencies would establish a minimum LCR that would be consistent with the Basel III LCR, with some modifications to reflect characteristics and risks of specific aspects of the U.S. market and U.S. regulatory framework. The reporting and recordkeeping requirements in Regulation WW require that covered institutions promptly notify the Federal Reserve if they are not meeting the minimum LCR as required by the rule, and that the institutions take prompt action to address any noncompliance. Covered institutions would also be required to implement certain policies regarding control of its eligible HQLA and to document its methodology for ensuring that eligible HQLA meet the requirements of the rule.

⁶ Key provisions of the 2010 LCR that were updated by the BCBS in 2013 include expanding the definition of HQLAs, technical changes to the calculation of various inflow and outflow rates, introducing a phase-in period for implementation, and a variety of rules text clarifications. See www.bis.org/press/p130106b.pdf for a complete list of revisions to the 2010 LCR.

⁷ For instance, the Uniform Financial Rating System adopted by the Federal Financial Institutions Examination Council requires examiners to assign a supervisory rating that assesses a banking organization's liquidity position and liquidity risk management.

⁸ See 12 U.S.C. § 5365.

⁹ See 77 FR 594 (Jan. 5, 2012); 77 FR 76628 (Dec. 28, 2012).

¹⁰ See 12 U.S.C. § 5365.

Description of Information Collection

The Federal Reserve's reporting and recordkeeping requirements in Regulation WW are found in sections 249.22 and 249.40.

Section 249.22 would require that, with respect to each asset eligible for inclusion in a covered company's HQLA amount, the covered company must implement policies that require eligible HQLA to be under the control of the management function in the covered company responsible for managing liquidity risk. The management function must evidence its control over the HQLA by segregating the HQLA from other assets, with the sole intent to use the HQLA as a source of liquidity, or demonstrating the ability to monetize the assets and making the proceeds available to the liquidity management function without conflicting with a business or risk management strategy of the covered company. In addition, section 249.22 would require that a covered company must have a documented methodology that results in a consistent treatment for determining that the covered company's eligible HQLA meet the requirements of section 249.22.

Section 249.40 would require that a covered institution must notify the Federal Reserve on any day when its LCR is calculated to be less than the minimum requirement in section 249.10. If an institution's LCR is below the minimum requirement in section 249.10 for three consecutive business days, or if the Federal Reserve has determined that the institution is otherwise materially noncompliant, the institution must promptly provide a liquidity plan for achieving compliance. The liquidity plan must include, as applicable, (1) an assessment of the institution's liquidity position; (2) the actions the institution has taken and will take to achieve full compliance including a plan for adjusting the institution's risk profile, risk management, and funding sources in order to achieve full compliance and a plan for remediating any operational or management issues that contributed to noncompliance; (3) an estimated timeframe for achieving full compliance; and (4) a commitment to provide a progress report to the Federal Reserve at least weekly until full compliance is achieved.

There are no required reporting forms associated with these information collections. Compliance with the information collections is mandatory. No other federal law mandates these reporting and recordkeeping requirements.

Time Schedule for Information Collection

The information collection pursuant to the reporting and recordkeeping requirements is event-generated.

Legal Status

The Board's Legal Division has determined that the Reporting and Recordkeeping Requirements Associated with the Liquidity Risk Measurement Standards is authorized by section 5 of the Bank Holding Company Act (12 U.S.C. § 1844); sections 9 and 11 of the Federal Reserve Act (12 U.S.C. §§ 324 and 334); section 10 of the Home Owners Loan Act (12 U.S.C. § 1467a); and section 165 of the Dodd-Frank Act (12 U.S.C. § 5365). Section 5(c) of the Bank

Holding Company Act authorizes the Board to require bank holding companies to submit reports to the Board regarding their financial condition. Section 9 of the Federal Reserve Act (FRA) requires member banks to file reports regarding nonbank affiliates that “contain such information as in the judgment of the Board...shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Board to inform itself as to the effect of such relations upon the affairs of such bank.” Section 11 of the FRA authorizes the Board to require of member banks “such statements and reports as it may deem necessary.” Section 10 of the Home Owners Loan Act requires a savings and loan holding company to file “such reports as may be required by the Board” and provides that such reports “shall contain such information concerning the operations of such savings and loan holding company and its subsidiaries as the Board may require.” Section 165 of the Dodd-Frank Act requires the Board to establish prudential standards for certain bank holding companies; these standards include liquidity requirements. The obligation to respond is mandatory.

No issue of confidentiality arises in connection with the recordkeeping requirements of Regulation WW, as no information is collected by the Federal Reserve. However, Regulation WW also contains two types of reporting requirements. One reporting requirement concerns the liquidity coverage ratio, the amount of high quality assets held by the bank, and the bank’s total net cash outflow. This information will be reported on quarterly basis as an average and made directly to the public by the bank; there will be no issue of confidentiality regarding this information. The second reporting requirement, found in section 249.40 of Regulation WW, requires a bank whose liquidity coverage ratio falls below the regulatory minimum for three business days to report this fact the appropriate bank regulatory authority. Making this reporting requirement public would be likely to cause substantial competitive harm to the bank making the report and impair the Federal Reserve’s ability to obtain sensitive financial information from supervised institutions. This information is therefore exempt from disclosure pursuant to exemptions 4 and 8 of the Freedom of Information Act (5 U.S.C. §§ 552(b)(4) and (b)(8), respectively). Exemption 4 covers confidential commercial or financial information while exemption 8 covers matters contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of the Federal Reserve, an agency responsible for the regulation and supervision of financial institutions.

Consultation Outside the Agency

On November 29, 2013, the agencies published a joint notice of proposed rulemaking in the Federal Register for public comment (78 FR 71818). The comment period expired on January 31, 2014. The agencies received over 100 comments on the proposed rule, but there were no specific comments on the PRA estimates. On October 10, 2014, the agencies published a notice of final rulemaking in the Federal Register (79 FR 61440). The final rule is effective on January 1, 2015, and the comment period for PRA estimates expired on December 9, 2014. The agencies did received any comments on the PRA estimates.

Estimate of Respondent Burden

The total annual burden for the Federal Reserve’s reporting and recordkeeping requirements associated with Regulation WW is estimated to be 1,153 hours for the 42

institutions it deems respondents for purposes of the PRA. These reporting and recordkeeping requirements represent less than 1 percent of the total Federal Reserve System paperwork burden.

Reg WW	<i>Number of respondents</i> ¹¹	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Reporting				
Section 249.40(a)	3	12	0.25	9
Section 249.40(b)	3	1	0.25	1
Section 249.40(b)(4)	3	4	0.25	3
Recordkeeping				
Section 249.22(a)(2)	42	1	10	420
Section 249.22(a)(5)	42	1	10	420
Section 249.40(b)	3	1	100	<u>300</u>
<i>Total</i>				1,153

The total cost to the public for this information collection is estimated to be \$59,668.¹²

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The cost to the Federal Reserve System is negligible.

¹¹ Of these respondents, none are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) www.sba.gov/content/table-small-business-size-standards.

¹² Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at \$17, 45% Financial Managers at \$63, 15% Lawyers at \$64, and 10% Chief Executives at \$87). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages May 2014*, published March 25, 2015, www.bls.gov/news.release/ocwage.nr0.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.