Supporting Statement for the
Market Risk Regulatory Report for Institutions Subject to the Market Risk Capital Rule
(FFIEC 102; OMB No. to be assigned)

Summary

The Board of Governors of the Federal Reserve System (Federal Reserve) requests approval from the Office of Management and Budget (OMB) to implement the proposed mandatory quarterly Federal Financial Institutions Examination Council (FFIEC) Market Risk Regulatory Report for Institutions Subject to the Market Risk Capital Rule (FFIEC 102; OMB No. to be assigned). The FFIEC, of which the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) (the agencies) are members, adopted revised regulatory capital rules in July 2013 (revised regulatory capital rules).[1] The proposed FFIEC 102 reflects those rules and would collect key information from respondents on how they measure and calculate market risk under the agencies' revised regulatory capital rules. The proposed FFIEC 102 reporting requirements would take effect as of March 31, 2015, for institutions subject to the market risk capital rule as incorporated into Subpart F of the revised regulatory capital rules (market risk capital rule).[2] The FDIC and the OCC also are submitting a similar request for OMB review for institutions under their supervision.

Each market risk institution would be required to file the FFIEC 102 for the agencies' use in assessing the reasonableness and accuracy of the institution's calculation of its minimum capital requirements under the market risk capital rule and in evaluating the institution's capital in relation to its risks. Additionally, the market risk information collected in the FFIEC 102 would (1) permit the agencies to monitor the market risk profile of and evaluate the impact and competitive implications of the market risk capital rule on individual market risk institutions and the industry as a whole; (2) provide the most current statistical data available to identify areas of market risk on which to focus for onsite and offsite examinations; (3) allow the agencies to assess and monitor the levels and components of each reporting institution's risk-based capital requirements for market risk and the adequacy of the institution's capital under the market risk capital rule; and (4) assist market risk institutions to implement and validate the market risk framework. In the Federal Reserve's case, state member banks (SMBs), bank holding companies (BHCs), and savings and loan holding companies (SLHCs) subject to the market risk rules would be required to file the FFIEC 102.

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[1] The agencies approved and issued the revised regulatory capital rules in July 2013. The Federal Reserve and the OCC published the revised regulatory capital rules in the *Federal Register* on October 11, 2013. See 78 FR 62018. The FDIC published a revised regulatory capital interim final rule and a final rule with no substantive changes in the *Federal Register* on September 10, 2013, and April 14, 2014, respectively. See 78 FR 55340 and 79 FR 20754.

[2] See 12 C.F.R. § 3.201 (OCC); 12 C.F.R. § 217.201 (Federal Reserve); and 12 C.F.R. § 324.201 (FDIC). The market risk capital rule generally applies to any banking institution with aggregate trading assets and trading liabilities equal to (a) 10 percent or more of quarter-end total assets or (b) $1 billion or more. The statutory provisions that grant the agencies the authority to impose capital requirements are 12 U.S.C. § 161 (national banks), 12 U.S.C. § 324 (state member banks), 12 U.S.C. § 1844(c) (bank holding companies), 12 U.S.C. § 1467a(b) (savings and loan holding companies), 12 U.S.C. § 1817 (insured state nonmember commercial and savings banks), and 12 U.S.C. § 1464 (savings associations).

The Federal Reserve's total annual burden for this information collection is estimated to be 1,296 hours for the 27 Federal Reserve regulated respondents that meet the reporting criteria. Copies of the draft reporting forms and instructions are available on the FFIEC website at www.ffiec.gov/ffiec_report_forms.htm.

Background and Justification

In July 2013, the agencies adopted amendments to their capital rules, including the market risk capital rule. The revised market risk capital rule took effect on January 1, 2015, and contains requirements for the public disclosure of certain information at the consolidated banking organization level as well as certain additional regulatory reporting by insured depository institutions (IDIs), BHCs, and SLHCs (BHCs and SLHCs are collectively referred to as "holding companies" (HCs)).

Those IDIs and HCs that were subject to the agencies' prior market risk capital rule have provided the amount of their market risk equivalent assets in reports, such as the Consolidated Reports of Condition and Income (Call Report) (FFIEC 031 and FFIEC 041; OMB No. 7100-0036) or the Consolidated Financial Statements for Holding Companies (FR Y-9C; OMB No. 7100-0128), as applicable. These regulatory reporting requirements reveal the end result of the market risk calculations but do not include the key components of the measurement of market risk. The agencies are proposing the expanded uniform regulatory reporting requirements in order to assess the reasonableness and accuracy of a market risk institution's calculation of its minimum capital requirements under the market risk capital rule and to evaluate a market risk institution's capital in relation to its risks. Importantly, the FFIEC 102 would allow the agencies to better track growth in more credit-risk related, less liquid, and less actively traded products subject to the market risk capital rule. Historically, the risks of these products have been difficult to capture and measure. These reports are designed to help the agencies in ensuring that these risks are adequately identified and their impact appropriately reflected in assessments of the safety and soundness of market risk institutions.

In this regard, the reported data would improve the agencies' ability to monitor the levels of, and trends in, the components that comprise the market risk measure under the market risk capital rule within and across market risk institutions. Such component reporting would allow supervisors to better understand on an ongoing basis model-implied diversification benefits for individual market risk institutions. The data would also enhance the agencies' ability to perform institution-to-institution comparisons of the drivers underlying market risk institutions' measures for market risk, identify potential outliers through market risk institution-to-peer comparisons, track these drivers over time relative to trends in other risk indicators at market risk institutions, and focus onsite examination efforts.

Description of Information Collection

The FFIEC 102 regulatory reporting requirements would apply on a consolidated basis to each HC and each IDI that is required to calculate its risk-based capital using the market risk capital rule. Reporting HCs and IDIs would submit reports quarterly in line with efforts to monitor market risk institutions' progress toward, and actions under, the market risk capital rule, which requires regular and consistent reports from all market risk institutions. The FFIEC 102 shows the data elements within the market risk exposure class that would be reported under the market risk capital rule.

The FFIEC 102 is subdivided into several sections and memoranda. The sum of the data reported in each of the sections would be used to calculate a market risk institution's risk-weighted assets (RWAs) for market risk. The first section contains data elements relating to a market risk institution's approved regulatory market risk models, including details of value-at-risk (VaR)-based measures (for the previous day's VaR measure and the average over the preceding 60 business days). The second section is similar in structure to the first section except that it includes information on a market risk institution's stressed VaR-based measures. The third section contains data elements relating to specific risk add-ons based on a market risk institution's debt, equity and non-modeled securitization positions. Securitization positions would be broken out for all market risk institutions and for advanced approaches institutions that are also market risk institutions, resulting in the separate reporting of a standardized measure and an advanced measure for specific risk. The fourth section sets forth the data for the incremental risk capital requirement. The fifth section contains data on the comprehensive risk capital measurement including the specific risk add-ons for net long and net short correlation trading positions used in determining a market risk institution's standardized comprehensive risk measure, and as applicable, its advanced comprehensive risk measure. The remaining section contains data elements for de minimis positions. Data elements from these sections combine to produce standardized market RWAs, and as applicable, advanced approaches market RWAs.

The FFIEC 102 also has a Memoranda section that is comprised of 22 line items. Because these line items do not directly contribute to the determination of market RWAs, they would be reported in the separate Memoranda section. The agencies believe that these items would provide additional insight into the risk profile of a market risk institution's trading activity. For example, the first twelve lines of the Memoranda section would contribute to the agencies' understanding of the degree to which diversification effects across the principal market risk drivers are material.

The agencies considered several tradeoffs between the reporting burden on market risk institutions and the information needs of bank supervisors. One issue that the agencies identified was that market risk institutions have exposures in certain products that might fit into more than one of the specified risk categories (e.g., interest rate, equity, foreign exchange, commodities, and credit). For example, convertible securities will mostly be subject to interest rate risk unless their value converges with that of the underlying equity. Similarly, foreign exchange swaps are primarily interest rate positions, but it is possible that a market risk institution might classify some as subject to foreign exchange risk. Accordingly, for purposes of reporting the VaR- or stressed VaR-based measures on the FFIEC 102, market risk institutions may classify their exposures in the same risk categories in which they are reported internally. Similarly, for purposes of reporting on the proposed FFIEC 102, the agencies have defined diversification benefit as any adjustment to VaR- or stressed VaR-based measures that a market risk institution makes to reflect the absence of a perfect statistical correlation between the values of the underlying positions. The agencies also recognize that some market risk institutions may not adjust for diversification benefits in their VaR- or stressed VaR-based estimates, and in that case a market risk institution would not be required to estimate such benefits for purposes of reporting on the FFIEC 102.

Time Schedule for Information Collection and Publication

The FFIEC 102 would be collected on a quarterly basis as of the last calendar day of March, June, September, and December. The report due dates would coincide with the report due dates currently required of IDIs and HCs when filing their respective Call Reports or FR Y-9C reports, as applicable. Market risk institutions would begin reporting effective with the March 31, 2015, report date. The data submitted on the FFIEC 102 would be shared among the three agencies and made available to the public.

Legal Status

With respect to BHCs, Section 5(c) of the Bank Holding Company Act, 12 U.S.C. § 1844(c), authorizes the Federal Reserve to require a BHC and any subsidiary "to keep the Federal Reserve informed as to (i) its financial condition, [and] systems for monitoring and controlling financial and operating risks … ." Section 9(6) of the Federal Reserve Act, 12 U.S.C. § 324, requires SMBs to make reports of condition to their supervising Reserve Bank in such form and containing such information as the Federal Reserve may require. Finally, with respect to SLHCs, under Section 312 of the Dodd-Frank Act, 12 U.S.C. § 5412, the Federal Reserve succeeded to all powers and authorities of the U.S. Treasury Department's Office of Thrift Supervision and its Director, including the authority to require SLHCs to "file … such reports as may be required … in such form and for such periods as the [agency] may prescribe." 12 U.S.C. § 1467a(b)(2). The Federal Reserve is therefore authorized to collect this information. The obligation to respond to this information request is mandatory.

The market risk data collected would be publicly available and so subject to public disclosure under the Freedom of Information Act (FOIA), 5 U.S.C. § 552(b). Reporting institutions could request confidential treatment for such data under FOIA exemption 4, 5 U.S.C. § 552(b)(4). As required information, the data may be withheld under Exemption 4 only if the public disclosure could result in substantial competitive harm to the submitting institution, under National Parks & Conservation Association v. Morton, 498 F.2d 765 (D.C. Cir. 1974). Confidential treatment may be accorded such information under this standard, on a case-by-case basis, and in response to specific requests.

Consultation Outside the Agency and Discussion of Public Comments

On September 2, 2014, the agencies published an initial *Federal Register* notice (79 FR 52108) and requested public comment for 60 days on the implementation of the FFIEC 102. The comment period expired on November 3, 2014. The agencies received one comment requesting clarification of the calculation of items pertaining to the comprehensive risk capital requirement. The agencies have updated the relevant items on the reporting form and instructions to align with the calculation methodology for the comprehensive risk capital requirement in the market risk capital rule.

On February 18, 2015, the agencies published a final *Federal Register* notice (80 FR 8760) with an additional 30-day comment period. The comment period expires on March 20, 2015.

Estimate of Respondent Burden

The total annual burden for FFIEC 102 is estimated to be 1,296 hours. The Federal Reserve estimates that, on average, it would take each respondent 12 hours to provide the data each quarter. This reporting burden represents less than 1 percent of the total Federal Reserve System paperwork burden.

	Number of respondents[3]	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
FFIEC 102	27	4	12 hours	1,296

The estimated cost to the public for this information collection is $65,966.[4]

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 for collecting and processing the FFIEC 102 is estimated to be $100,000 per year. The one-time cost to implement the report is estimated to be $300,000.

[3] Of these respondents, none are considered a small entity as defined by the Small Business Administration (i.e., entities with $550 million or less in total assets). www.sba.gov/content/small-business-size-standards.

[4] 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 $18, 45% Financial Managers at $61, 15% Lawyers at $63, and 10% Chief Executives at $86). 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 2013*, published April 1, 2014, www.bls.gov/news.release/ocwage.nr0.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.