SUPPORTING STATEMENT

Supervisory Guidance: Supervisory Review Process of Capital Adequacy (Pillar 2)
Related to the Implementation of the Basel II Advanced Capital Framework

OMB No. 3064-0165

INTRODUCTION

The FDIC is seeking OMB approval to renew, without revision, its information collection entitled, “Pillar 2 Guidance – Advanced Capital Framework,” OMB N0. 3064-0165.

JUSTIFICATION

1. Circumstances and Need

On September 25, 2006, the Agencies issued a notice of proposed rulemaking seeking public comment on a new risk-based regulatory capital framework based on the Basel Committee on Banking Supervision April 2003 consultative paper entitled “New Basel Capital Accord” (New Accord). The New Accord set forth a “three pillar” framework encompassing risk-based capital requirements for credit risk, market risk, and operational risk (Pillar 1); supervisory review of capital adequacy (Pillar 2); and market discipline through enhanced public disclosures (Pillar 3). On December 7, 2007 (72 FR 69288), the agencies published a final rule adopting the Pillar 1 internal ratings-based approach for calculating regulatory credit risk capital and the advanced measurement approaches for calculating regulatory operational risk capital (together the advanced approaches). The advanced approaches rule is mandatory for the largest U.S. banks and optional for other banks.

On February 28, 2007, the agencies published a notice seeking public comment on “Proposed Supervisory Guidance for Internal Ratings-Based Systems for Credit Risk, Advanced Measurement Approaches for Operational Risk, and the Supervisory Review Process (Pillar 2) Related to Basel II Implementation.” The proposed guidance provided additional detail for certain aspects of Pillar 1 and the supervisory review process to help banks satisfy qualification requirements. This information collection is associated with the information collection requirements contained in the final supervisory guidance document for Pillar 2, which was issued by the Agencies on July 31, 2008. U.S. banks that qualify for and adopt the Advanced Capital Adequacy Framework are subject to the risk-based capital rules described in the agencies’ December 7, 2007, final rule.

In order to assess a bank’s conformance with internal capital adequacy standards set forth under Pillar II of the final rule, the Agencies have issued guidance that outlines the agencies’ expectations for (i) satisfying the qualification requirements provided in the advanced approaches final rule; (ii) addressing the limitations of the minimum risk-based capital requirements for credit risk and operational risk; (iii) ensuring that each institution has a rigorous process for assessing its overall capital adequacy in relation to its risk profile and a comprehensive strategy for maintaining appropriate capital levels; and (iv) encouraging each institution to improve its risk identification and measurement techniques.

2. Use of Information Collected

The FDIC uses this information to assess an institution's Internal Capital Adequacy Assessment Process (ICAAP) and minimum risk based capital requirements under the final rule. Section 37 of the guidance states that banks should state clearly the definition of capital used in any aspect of ICAAP and document any changes in the internal definition of capital. Under section 41, banks should maintain thorough documentation of ICAAP. Section 43 specifies that boards of directors and senior management should approve the bank's ICAAP, review it on a regular basis, and approve any changes. Boards of directors and senior management are also required under Section 46 to periodically review the assessment of overall capital adequacy and include an analysis of how measures of internal capital adequacy compare with other capital measures.

3. Use of Technology to Reduce Burden

Banks are free to use the method they deem most appropriate to maintain any documentation required by the supervisory guidelines.

4. Efforts to Identify Duplication

There is no other report that collects information pertaining to a bank's ICAAP process.

5. Minimizing the Burden on Small Banks

Organizations that are subject to the risk-based capital rules on a mandatory basis are large (over $250 billion in consolidated assets) and internationally active organizations (over $10 billion in consolidated on-balance sheet foreign exposures) and their depository institution subsidiaries. The FDIC believes these reporting requirements have a limited burden on small institutions. The FDIC estimates that one small state nonmember bank (out of a total of 3,242 state nonmember banks with assets of $165 million or less) is subject to the final rule, and correspondingly these reporting requirements, on a mandatory basis.

6. Consequences of Less Frequent Collection

Less frequent reporting would reduce the ability of the FDIC to identify and respond in a timely manner to noncompliance with minimum risk-based capital rules, and evidence of risk estimates that call into question the accuracy of a bank's ICAAP.

7. Special Circumstances

There are no special circumstances.

8. Summary of Public Comments

A 60-day notice seeking public comment on the agencies renewal of the information collection was published on January 22, 2015 (80 FR 3233). No comments were received.

9. Payment or Gift to Respondents

No payment or gift will be provided to respondents.

10. Confidentiality

All documentation required under this supervisory guidance is maintained by the bank and not shared publicly.

11. Information of a Sensitive Nature

The information collection contains no questions of a sensitive nature.

12. Estimate of Annualized Burden

It is estimated that, on average, it will take an FDIC-supervised bank approximately 105 hours per quarter to meet the informational requirements. There are an estimated 8 state nonmember banks that will be required to submit reports under these reporting requirements. The estimated number of respondents includes both institutions for which the Basel II risk-based capital requirements are mandatory and institutions that may be considering opting-in to Basel II (despite the lack of any formal commitment by most of these latter institutions). The combined estimated annual reporting burden for these banks is 3,360 hours. These estimates reflect considerations pertaining to the time required to complete other types of regulatory documentation as well as the greater level of detail required in these requirements.

The annual recurring salary and employee benefit cost to state nonmember banks that will be subject to supervisory guidance requirements for the burden hours shown above is estimated to be $336,000. This cost is based on the application of an hourly rate of $100 to the estimated 3,360 total hours of annual burden, which considers the specialized technical skills in the fields of credit risk and operational risk of those bank staff members involved in implementing the Advanced Capital Adequacy Framework who will be responsible for compliance with the supervisory guidance.

13. Estimate of Total Annual Cost Burden

Under the final rule's risk-based capital requirements, banks are required to maintain a significant volume of information to support the risk estimates used in the calculation of the ICAAP.

14. Estimate of Total Annual Cost to the Federal Government

None.

15. Reason for Change in Burden

No change.

16. Publication

The information collection is intended primarily to meet the supervisory and policy needs of the FDIC and the other agencies. To the extent an institution considers the information to be trade secrets and/or privileged, such information could be withheld from the public under the authority of the Freedom of Information Act, 5 U.S.C. 552(b)(4). Additionally, to the extent that such information may be contained in an examination report such information maybe also be withheld from the public, 5 U.S.C. 552 (b)(8).

17. Display of Expiration Date

Not applicable.

18. Exceptions to Certification

None.

B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.