

SUPPORTING STATEMENT

Advanced Capital Adequacy Framework Regulatory Reporting Requirements

FFIEC 101
(OMB No. 3064-0159)

INTRODUCTION

The FDIC is requesting approval from the U.S. Office of Management and Budget (OMB) to extend, with revision, the quarterly regulatory reporting requirements established by the Federal Financial Institutions Examination Council (FFIEC) for banks, savings associations, bank holding companies, savings and loan holding companies, and U.S. intermediate holding companies that must apply the advanced approaches risk-based capital rule (Advanced Capital Adequacy Framework or advanced approaches rule) for regulatory capital purposes.¹ Such institutions are referred to as advanced approaches institutions and must submit the FFIEC 101, Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework. The Federal Reserve Board (FRB) and the Office of the Comptroller of the Currency (OCC) are also submitting requests to OMB for the extension, with revision of the FFIEC 101 for the advanced approaches institutions under their supervision. The FFIEC, of which the FDIC, the FRB, and the OCC are members, has approved the proposed revisions to the FFIEC 101 reporting requirements.

The proposed revisions to the FFIEC 101 include two new tables that would be added to Schedule A to collect information related to the agencies' supplementary leverage ratio (SLR) disclosures required in Table 13 of section 173 of the advanced approaches rule.² SLR Tables 1 and 2 would replace existing items 91 through 98 of FFIEC 101 Schedule A, and generally would be aligned with the international leverage ratio common disclosure template that was adopted by the Basel Committee on Banking Supervision in January 2014.³ In addition, the agencies proposed that an advanced approaches banking organization should provide its LEI on the cover page of the report only if the organization already has an LEI. These proposed revisions are proposed to take effect as of the September 30, 2016, report date.

¹ See the advanced approaches risk-based capital rule: 12 CFR part 3, subpart E (OCC); 12 CFR part 217, subpart E (FRB); and 12 CFR part 324, subpart E (FDIC).

² See 12 CFR 3.173 (OCC); 12 CFR 217.173 (FRB); and 12 CFR 324.173 (FDIC).

³ See Basel Committee on Banking Supervision, Basel III leverage ratio framework and disclosure requirements; pages 11-12; available at <http://www.bis.org/publ/bcbs270.pdf>.

JUSTIFICATION

1. Circumstances and Need

The U.S. implementation of the Advanced Capital Adequacy Framework was initially detailed in the agencies' Risk Based Capital Standards: Advanced Capital Adequacy Framework – Basel II. This final rule was published on December 7, 2007 (72 FR 69288), and became effective April 1, 2008. The Basel II final rule includes an advanced internal ratings-based approach for calculating regulatory credit risk capital and advanced measurement approaches for calculating regulatory operational risk capital. The agencies approved revisions to the Advanced Capital Adequacy Framework as part of their comprehensive revisions to the regulatory capital rules adopted in July 2013: 78 FR 62018, October 11, 2013 (FRB and OCC); 78 FR 55340, September 10, 2013 (FDIC). These revisions took effect for advanced approaches institutions on January 1, 2014.

In September 2014, the agencies approved a final rule revising the definition of the denominator of the SLR (i.e., total leverage exposure) that had been adopted in July 2013 as part of comprehensive revisions to the agencies' regulatory capital rules.⁴ The final rule revised total leverage exposure as defined in the 2013 rule to include the effective notional principal amount of credit derivatives and other similar instruments through which a banking organization provides credit protection (sold credit protection); modified the calculation of total leverage exposure for derivative and repo-style transactions; and revised the credit conversion factors applied to certain off-balance sheet exposures. The final rule also changed the frequency with which certain components of the SLR are calculated and establishes public disclosure requirements for certain items associated with the SLR. The final rule was effective January 1, 2015.

A bank, savings association, bank holding company, or savings and loan holding company⁵ must apply the Advanced Capital Adequacy Framework, as revised, if it:

- (i) Has consolidated total assets (excluding assets held by an insurance underwriting subsidiary) on its most recent year-end regulatory report equal to \$250 billion or more;
- (ii) Has consolidated total on-balance sheet foreign exposure on its most recent year-end regulatory report equal to \$10 billion or more (excluding exposures held by an insurance underwriting subsidiary);
- (iii) Is a subsidiary of a depository institution that uses the Advanced Capital Adequacy Framework to calculate its total risk-weighted assets;
- (iv) Is a subsidiary of a bank holding company or savings and loan holding company that uses the Advanced Capital Adequacy Framework its total risk-weighted assets; or
- (v) Elects to use the Advanced Capital Adequacy Framework to calculate its total risk-weighted assets.

⁴ See 79 FR 57725 (September 26, 2014).

⁵ For simplicity, and unless otherwise indicated, the term "bank" includes banks, savings associations, bank holding companies, and savings and loan holding companies.

Such an institution must begin reporting on the FFIEC 101, Schedule A, except for a few specific line items, at the end of the quarter after the quarter in which the institution triggers one of the four threshold criteria for applying the Advanced Capital Adequacy Framework or elects to use the framework (an opt-in institution), and must begin reporting data on the remaining schedules of the FFIEC 101 at the end of the first quarter in which the institution has begun their parallel run period.

A fundamental aspect of the Advanced Capital Adequacy Framework is the use of a bank's internal risk estimates for many of the parameters used to derive risk-weighted assets. The FFIEC 101 report provides the agencies and, to a limited extent, the public a basis for comparing the main risk estimates (on an aggregated basis) that underlie a bank's risk-based capital measures across institutions and over time.

The changes to the FFIEC 101 report that are the subject of this submission and the reasons for the changes are described in detail in the agencies' initial and final Paperwork Reduction Act (PRA) Federal Register notices published on April 18, 2016 (and for which a correction notice was published on April 27, 2016), and August 18, 2016, respectively.

The agencies' are proposing to collect SLR data in new SLR Tables 1 and 2 of FFIEC 101 Schedule A from all banks subject to the advanced approaches risk-based capital rule unless the advanced approaches banking organization is:

- (i) a consolidated subsidiary of a bank holding company, savings and loan holding company, or depository institution that is subject to the disclosure requirements in Table 13 of section 173 of the advanced approaches rule, or
- (ii) a subsidiary of a non-U.S. banking organization that is subject to comparable public disclosure requirements in its home jurisdiction.

In addition, the FRB has proposed, and is requesting approval, to collect SLR data in SLR Tables 1 and 2 of FFIEC 101 Schedule A from any U.S. intermediate holding companies formed or designated for purposes of compliance with the FRB's Regulation YY (12 CFR 252.153) that are advanced approaches banking organizations, effective with the March 31, 2018, report date. This change in the respondent panel is applicable only to the FRB.

2. Use of Information Collected

The reporting requirements entail the quarterly collection of detailed information, encompassing up to approximately 2,700 data elements on nineteen schedules, that pertains to the main components of a respondent bank's regulatory capital and risk-weighted asset calculations under the Basel II final rule as revised by the agencies in 2013. The FDIC uses the information collected through these reporting requirements in the following ways:

- To assess and monitor the levels and components of each reporting bank's regulatory capital requirements and the adequacy of the bank's capital under the Advanced Capital Adequacy Framework and the revised supplementary leverage ratio;

- To evaluate the impact and competitive implications of the Advanced Capital Adequacy Framework on individual reporting banks and on an industry-wide basis; and
- To supplement on-site examination processes at individual reporting banks.

The reporting schedules also assist banks in understanding expectations around the system development necessary for implementation and validation of the Advanced Capital Adequacy Framework. Submitted FFIEC 101 report data that are released publicly on an individual institution basis also provide other interested parties with information about advanced approaches institutions' regulatory capital.

By incorporating the complete international leverage ratio common disclosure template into SLR Tables 1 and 2 of FFIEC 101 Schedule A, which is one of the proposed revisions that is subject to this submission, the agencies will ensure transparency and comparability of reporting of regulatory capital elements among internationally active banks. The reporting of a bank's LEI, if it already has one, is intended to facilitate financial stability objectives, including the provision of higher quality and more accurate financial data, and improve the quality and comprehensiveness of financial data both nationally and globally.

3. Use of Technology to Reduce Burden

All reporting banks submit their completed reports electronically using the Federal Reserve's Reporting Central application.

4. Efforts to Identify Duplication

There is no other report that collects information pertaining to a bank's regulatory capital calculations under the Advanced Capital Adequacy Framework at the insured institution level. The Basel II final rule requires certain related public disclosures (referred to as Pillar 3 disclosures) at the consolidated holding company level. However, the regulatory reporting requirements in the FFIEC 101 report are generally more detailed than Pillar 3 disclosures, requiring reporting of greater detail about aggregated risk estimates underlying the calculation of a bank's risk-based capital ratios, and are also more standardized in terms of the breakdown of reported portfolio exposures and reported ranges of risk estimates. In addition, while the regulatory reporting requirements apply to large, internationally active organizations and their depository institution subsidiaries, the Pillar 3 disclosures would not be made by these subsidiary institutions. Thus, the Pillar 3 disclosures would not be an acceptable substitute for the Advanced Capital Adequacy Framework Regulatory Reporting Requirements.

Proposed Tables 1 and 2 of FFIEC 101 Schedule A would collect information related to the agencies' SLR disclosures required in Table 13 of section 173 of the advanced approaches rule. Completing the proposed FFIEC 101 items for the SLR would satisfy a bank's requirement to disclose Table 13 and thereby avoid duplication.

5. Minimizing the Burden on Small Banks

Organizations that are subject to the Advanced Capital Adequacy Framework on a mandatory basis are large (\$250 billion or more in consolidated assets) and internationally active organizations (\$10 billion or more in consolidated on-balance sheet foreign exposures) and their depository institution subsidiaries. As a consequence, the advanced approaches rule, and the corresponding FFIEC 101 reporting requirements, have limited applicability to small institutions, including the nearly 3,200 FDIC-supervised institutions with assets of \$550 million or less.

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 regulatory capital ratios, adverse risk trends that become apparent in the forward-looking risk estimates reported by respondents, and evidence of risk estimates that call into question the accuracy of a bank's capital calculation or place other institutions with similar types of exposures at a competitive disadvantage. To be most useful as an off-site analytical tool, these reports are intended to correspond to the frequency and timing of other regulatory submissions including the Consolidated Reports of Condition and Income (Call Report)⁶ and the Bank Holding Company FR Y-9C report.

7. Special Circumstances

There are no special circumstances.

8. Summary of Public Comments

On April 18, 2016, the agencies requested comment on the proposed revisions to the FFIEC 101 reporting requirements that are the subject of this submission.⁷ On April 27, 2016, the agencies published a correction of the April 18 notice.⁸ The comment period for the proposal ended on June 27, 2016. The agencies did not receive any comments addressing the proposed revisions.

9. Payment or Gift to Respondents

No payment or gift will be provided to respondents.

10. Confidentiality

All data submitted in the FFIEC 101 report will be shared among the agencies but, pursuant to 5 U.S.C. § 552(b)(4) and (8), these data will not be released to the public except as follows.

For report dates before a reporting institution has completed its parallel run period, FFIEC 101 Schedule A will be available to the public, except for items 78 (total eligible credit reserves

⁶ For the FDIC, OMB No. 3064-0052.

⁷ See 81 FR 22702 (April 18, 2016).

⁸ See 81 FR 24940 (April 27, 2016).

calculated under the advanced approaches rules); 79 (amount of eligible credit reserves includable in tier 2 capital); 86 (expected credit loss that exceeds eligible credit reserves); 87 (advanced approaches risk-weighted assets); 88 (common equity tier 1 capital ratio calculated using the advanced approaches); 89 (additional tier 1 capital ratio calculated using the advanced approaches); and 90 (total capital ratio using the advanced approaches).

For report dates after a reporting institution has completed its parallel run period, all items reported in Schedules A and B (except for Schedule B, items 31.a and 31.b, column D) and items 1 and 2 of Schedule S will be available to the public.

To ensure transparency of regulatory capital data reported by internationally active banking organizations, the agencies have proposed to make public the SLR information collected in proposed SLR Tables 1 and 2 of FFIEC 101 Schedule A, regardless of a reporting institution's parallel run status.

11. Information of a Sensitive Nature

The FFIEC 101 report contains no questions of a sensitive nature.

12. Estimate of Annualized Burden

Proposed SLR Tables 1 and 2 would replace existing items 91 through 98 of FFIEC 101 Schedule A. Generally, the SLR disclosures apply to an advanced approaches institution, unless it is (1) a consolidated subsidiary of a bank holding company, savings and loan holding company, or a depository institution that is subject to these disclosure requirements or (2) a subsidiary of a non-U.S. banking organization that is subject to comparable public disclosure requirements in its home jurisdiction. As a consequence, the two FDIC-supervised institutions that are advanced approaches institutions will not be required to complete SLR Tables 1 and 2 and will no longer be subject to reporting items 91 through 98 of FFIEC 101 Schedule A. Additionally, the proposed reporting by an advanced approaches institution of its LEI, only if it already has one, imposes negligible burden on an institution. Thus, the FDIC estimates that the reporting burden of completing the FFIEC 101 report, as it proposed to be revised, is expected to decrease from 675 to 674 hours per quarter, on average, for each FDIC-supervised institution required to prepare the FFIEC 101 report.

There are currently 2 FDIC-supervised institutions that are required to submit the FFIEC 101 report each quarter. The total estimated annual reporting burden for these banks is 5,392 hours. This estimate reflects considerations pertaining to the time required to complete other types of regulatory reports as well as the greater level of detail required in the FFIEC 101 report relative to other regulatory submissions.

The annual recurring salary and employee benefit cost to the FDIC-supervised institutions that will be subject to these reporting requirements for the burden hours shown above is estimated to be \$943,600. This cost is based on the application of an hourly rate of \$175 to the estimated 5,392 total hours of annual reporting 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 are responsible for completing the regulatory reporting requirements as well as time spent by executive officers responsible for reviewing and approving the completed FFIEC 101 report prior to submission.

13. Estimate of Total Annual Cost Burden

Under the Advanced Capital Adequacy Framework, banks are required to maintain a significant volume of information to support the risk estimates used in the calculation of regulatory capital in accordance with these regulatory capital rules. There are certain additional costs (excluding costs included in Item 12 above) associated with implementing the framework's advanced approaches and the FFIEC 101 reporting requirements relating to developing and maintaining software, data systems, and data processing capabilities. It is difficult to develop estimates of capital and start-up costs as well as operation and maintenance/purchase of services costs that distinguish between those pertaining to these reporting requirements and those related to satisfying the requirements of the Advanced Capital Adequacy Framework.⁹ The agencies did not receive any comments on start-up or operation and maintenance costs with respect to the FFIEC 101 reporting requirements when they were first published for comment¹⁰ or when they requested comment in connection with previous revisions to the FFIEC 101 report. The agencies did not receive any comments on the proposed revisions that are the subject of this submission.

14. Estimate of Total Annual Cost to the Federal Government

Data submissions are received and processed by the Federal Reserve using its Reporting Central application as the data processing platform. The FDIC does not incur material incremental costs in connection with the collection of these data.

15. Reason for Change in Burden

The change in burden associated with this submission is caused by two factors: (1) a decrease (by six) in the number of FDIC-supervised institutions subject to the FFIEC 101 reporting requirements and (2) the changes to the FFIEC 101 reporting requirements that are the subject of this submission, which are expected to decrease the estimated reporting burden for this report from 675 to 674 hours per quarter for FDIC-supervised institutions.

Currently, there are 2 FDIC-supervised institutions subject to the FFIEC 101 reporting requirements compared to the 8 institutions in the currently approved information collection inventory. The analysis of the change in burden requested in this submission is as follows:

Currently approved burden	21,600 hours
Revisions to content of report (program change)	- 8 hours
<u>Adjustment (change in use)</u>	<u>- 16,200 hours</u>
Requested (revised) burden:	5,392 hours

⁹ See 72 FR 69392, December 7, 2007, for a discussion of cost estimates of implementing the original Basel II final rule.

¹⁰ See 71 FR 55981, September 25, 2006.

Net change in burden: - 16,208 hours

16. Publication

The information collected in the FFIEC 101 report is intended primarily to meet the supervisory and policy needs of the FDIC and the other agencies. As such, the majority of the reported items are afforded confidential treatment. As discussed in Section 10 above, for report dates before a reporting institution has completed its parallel run period, most of the data items in Schedule A–Advanced Approaches Regulatory Capital (including proposed new SLR Tables 1 and 2, if applicable), will be made available to the public through the Internet on an individual bank basis. In addition, for report periods after the reporting institution completes its parallel run, all items reported in Schedule A–Advanced Approaches Regulatory Capital (including proposed new SLR Tables 1 and 2, if applicable) and Schedule B–Summary Risk-Weighted Asset Information (except for Schedule B, items 31.a and 31.b, column D) and items 1 and 2 of Schedule S–Operational Risk will be available to the public on an individual bank basis.

17. Display of Expiration Date

Not applicable.

18. Exceptions to Certification

None.

B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.