Supporting Statement for the
Market Risk Regulatory Report for Institutions Subject to the Market Risk Capital Rule
(FFIEC 102; OMB No. 7100-0365)

Summary

The Board of Governors of the Federal Reserve System (Board) requests approval from the Office of Management and Budget (OMB) to extend for three years, with revision, the mandatory Federal Financial Institutions Examination Council (FFIEC) Market Risk Regulatory Report for Institutions Subject to the Market Risk Capital Rule (FFIEC 102; OMB No. 7100-0365). The FFIEC, of which the Board, 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 FFIEC 102 reflects those rules and collect key information from respondents on how they measure and calculate market risk under the agencies' revised regulatory capital rules. The FDIC and the OCC have also submitted a similar request for OMB review for institutions under their supervision.

Each market risk institution files 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 (1) permits 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) provides the most current statistical data available to identify areas of market risk on which to focus for onsite and offsite examinations; (3) allows 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) assists market risk institutions to implement and validate the market risk framework. In the Board's case, state member banks (SMBs), bank holding companies (BHCs), and savings and loan holding companies (SLHCs) subject to the market risk rules are required to file the FFIEC 102.

The agencies propose to revise these collections effective December 31, 2016, to (1) have institutions provide their Legal Entity Identifier (LEI) on both reporting forms, only if they already have one and (2) add Intermediate Holding Companies (IHCs) to the Board's respondent panel and effective March, 31, 2018, to (3) add General Electric Capital Corporation (GECC) to the Board's respondent panel. The current annual burden for the FFIEC 102 is estimated to be 1,344 and would increase 144 hours to 1,488 hours.

[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.

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 proposed 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 allows 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 improves 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 allows supervisors to better understand on an ongoing basis model-implied diversification benefits for individual market risk institutions. The data also enhances 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 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 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 are 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 are 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 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 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 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.

Proposed Revisions

Legal Entity Identifier

The LEI is a 20-digit alpha-numeric code that uniquely identifies entities that engage in financial transactions. The recent financial crisis spurred the development of a Global LEI System (GLEIS). Internationally, regulators and market participants have recognized the importance of the LEI as a key improvement in financial data systems. The Group of Twenty (G-20) nations directed the Financial Stability Board to lead the coordination of international regulatory work and deliver concrete recommendations on the GLEIS by mid-2012, which in turn were endorsed by the G-20 later that same year. In January 2013, the LEI Regulatory Oversight Committee (ROC), including participation by regulators from around the world, was established to oversee the GLEIS on an interim basis. With the establishment of the full Global LEI Foundation in 2014, the ROC continues to review and develop broad policy standards for LEIs. The Board, the FDIC, and the OCC are all members of the ROC.

The LEI system is designed to facilitate several financial stability objectives, including the provision of higher quality and more accurate financial data. In the United States, the Financial Stability Oversight Council (FSOC) has recommended that regulators and market participants continue to work together to improve the quality and comprehensiveness of financial data both nationally and globally. In this regard, the FSOC also has recommended that its member agencies promote the use of the LEI in reporting requirements and rulemakings, where appropriate.[2]

Effective beginning October 31, 2014, the Board started requiring holding companies to provide their LEI on the cover pages of the FR Y-6, FR Y-7, and FR Y-10 reports[3] only if a holding company already has an LEI. Thus, if a reporting holding company does not have an LEI, it is not required to obtain one for purposes of these Board reports. Additionally, effective for December 2015, the Board expanded the collection of the LEI to all holding company subsidiary banking and nonbanking legal entities reportable on certain schedules of the FR Y-10 and in one section of the FR Y-6 and FR Y-7 if an LEI has already been issued for the reportable entity. With respect to the FFIEC 102, the agencies are proposing to have reporting institutions provide their LEI on the cover page of each report beginning December 31, 2016, only if an institution already has an LEI. As with the Board reports, an institution that does not have an LEI would not be required to obtain one for purposes of reporting it on the FFIEC 102.

Intermediate Holding Companies

On December 14, 2012, the Board invited comment on a notice of proposed rulemaking (proposed Regulation YY)[4] that would have required a Foreign Banking Organization (FBO) with $50 billion in non-branch assets to establish a U.S. IHC, imposed enhanced prudential

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[2] Financial Stability Oversight Council 2015 Annual Report, page 14, at http://www.treasury.gov/initiatives/fsoc/studies-reports/Documents/2015%20FSOC%20Annual%20Report.pdf.
[3] Annual Report of Holding Companies (FR Y-6), Annual Report of Foreign Banking Organizations (FR Y-7); and Report of Changes in Organizational Structure (FR Y-10) (OMB No. 7100-0297).
[4] See 77 FR 76628 (December 28, 2012).

standards on the U.S. IHC, and required the U.S. IHC to submit any reporting forms in the same manner and to the same extent as a bank holding company. On February 18, 2014, the Board adopted a final rule implementing enhanced prudential standards for FBOs (Regulation YY),[5] with certain revisions in response to comments. The Board indicated in the preamble to Regulation YY that it would address the reporting requirements for U.S. IHCs at a later date. Accordingly, based on the background provided above, the agencies propose to add U.S. IHCs that are subject to the market risk capital rule to the FFIEC 102 panel of Board respondents. For such U.S. IHCs, the agencies are proposing to implement these changes beginning with the December 31, 2016, report date.

General Electric Capital Corporation

In July 2013, the FSOC determined that material financial distress at General Electric Capital Corporation (GECC) could pose a threat to U.S. financial stability and that GECC should be subject to supervision by the Board and to enhanced prudential standards. The FSOC's basis for its final determination noted GECC's interconnections with financial intermediaries through its financing activities and its funding model as well as a large portfolio of on-balance-sheet assets comparable to those of the largest U.S. bank holding companies. In particular, FSOC noted GECC's significant use of wholesale funding, including short-term wholesale funding (commercial paper), and use of long-term debt and securitization debt, which could expose other large financial institutions to GECC's distress, among other reasons for its determination. GECC became subject to the Board's supervision immediately upon the FSOC's final determination. As a result GECC is required to submit the FFIEC 102 in the same manner as a bank holding company beginning March 31, 2018.

Time Schedule for Information Collection and Publication

The FFIEC 102 is collected on a quarterly basis as of the last calendar day of March, June, September, and December. The report due dates 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. The data submitted on the FFIEC 102 is shared among the three agencies and made available to the public.

Legal Status

The Board's Legal Division has determined that with respect to BHCs, section 5(c) of the Bank Holding Company Act (12 U.S.C. § 1844(c)), authorizes the Board to require a BHC and any subsidiary "to keep the Board informed as to (1) 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. With respect to SLHCs, the Board is authorized to require SLHCs to "file with the Board, such reports as may be required … in such form and for such periods as the Board may prescribe" (12 U.S.C. § 1467a(b)(2)). Section 165 of the Dodd-Frank Act, section 5(c) of the Bank Holding Company Act and sections 8(c) and 13 of the International Banking Act authorize the Board to

[5] See 79 FR 17240 (March 27, 2014).

require the reports from IHCs (12 U.S.C. § 5365, 12 U.S.C. § 1844(c), and 12 U.S.C. §§ 3106(c) and 3108). The obligation to respond is mandatory for institutions subject to the market risk rule.

The market risk data collected generally are 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 and 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 July 5, 2016, the agencies, under the auspices of the FFIEC, published an initial notice in the *Federal Register* (81 FR 43605) requesting public comment for 60 days on the extension, with revision, of the FFIEC 102 (adding LEI and IHCs). The comment period expired for this notice expired on September 6, 2016. The agencies did not receive any comments. On October 13, 2016, the agencies published a final notice in the *Federal Register* (81 FR 70739).

On December 3, 2014, the Board published a notice in the *Federal Register* (79 FR 71768) requesting public comment for 60 days on the revision of the FFIEC 102 (adding GECC). The comment period for this notice expired on February 2, 2015. The Board did not receive any comments. On July 24, 2015, the Board published a final notice in the *Federal Register* (80 FR 44111).

Estimate of Respondent Burden

The current annual reporting burden for FFIEC 102 is estimated to be 1,344 hours and would increase to 1,488 hours. The change in the number of respondents reflects the addition of two IHCs and GECC to the Board's respondent panel. These reporting requirements represent less than 1 percent of the total Federal Reserve System paperwork burden.

	Number of respondents[6]	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
Current				
FFIEC 102	28	4	12	1,344
Proposed				
FFIEC 102	31	4	12	1,488
Change				144

The current total cost to the public is estimated to be $71,434 and with the proposed revisions would increase to $79,087 for the FFIEC 102.[7]

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.

[6] 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/contracting/getting-started-contractor/make-sure-you-meet-sba-size-standards/table-small-business-size-standards.

[7] 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 $65, 15% Lawyers at $66, and 10% Chief Executives at $89). 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 2015*, published March 30, 2016, www.bls.gov/news.release/ocwage.t01.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.