

**Supporting Statement for the  
Regulatory Capital Reporting for Institutions Subject to the  
Advanced Capital Adequacy Framework  
(FFIEC 101; OMB No. 7100-0319)**

**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) Regulatory Reporting Requirements for Institutions Subject to the Advanced Capital Adequacy Framework (FFIEC 101; OMB No. 7100-0319). These data are required for certain large or internationally active state member banks, bank holding companies (BHCs), savings and loan holding companies (SLHCs), intermediate holding companies (IHCs), and also for those institutions that adopt the framework on a voluntary basis and are filed on a quarterly basis. The revisions to the FFIEC 101 that are the subject of this request have been approved by 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. The FDIC and the OCC have also submitted a similar request for OMB review to request this information from banks under their supervision.

The Federal Deposit Insurance Act (FDI Act) and the International Lending Supervision Act of 1983 (ILSA) require the agencies to have risk-based capital requirements and to ensure that banks maintain adequate capital. The Board uses these data to assess and monitor the levels and components of each reporting entity's risk-based capital requirements and the adequacy of the entity's capital under the framework. These data also allow the Board to evaluate the quantitative impact and competitive implications of the framework on individual respondents and on the industry. The reporting schedules also assist banks in understanding expectations surrounding the system development necessary for implementation and validation of the framework. The submitted data that is released publicly also provide other interested parties with information about banks' risk-based capital. Finally, the submitted data supplement on-site examination processes.

The agencies propose removing two credit valuation adjustment (CVA) items from the exposure at default (EAD) column on FFIEC 101 Schedule B, Summary Risk-Weighted Asset Information for Banks Approved to Use Advanced Internal Ratings-Based and Advanced Measurement Approaches for Regulatory Capital Purposes (items 31.a and 31.b, column D). These reporting changes would take effect as of the September 30, 2017, report date. The current annual burden for the FFIEC 101 is estimated to be 59,576 hours, and would remain unchanged with the proposed revisions.

**Background and Justification**

Section 1831(o) of the FDI Act requires each Federal banking agency to adopt a risk-based capital requirement, which is based on the prompt corrective action framework in that section. The ILSA (12 U.S.C. § 3907(a)(1)) mandates that each Federal banking agency require banks to achieve and maintain adequate capital by establishing minimum levels of capital or by

other methods that the appropriate federal banking agency may deem appropriate. Section 908 of the ILSA (12 U.S.C. § 3907(b)(3)(C)) also directs the Chairman of the Federal Reserve Board and the Secretary of the Treasury to encourage governments, central banks, and regulatory authorities of other major banking countries to work toward maintaining and, where appropriate, strengthening the capital bases of banking institutions involved in international lending.

U.S. risk-based capital requirements are based on an internationally agreed upon framework for capital measurement that was developed by the Basel Committee on Banking Supervision (BCBS) and endorsed by the central-bank governors of the Group of Ten (G-10)<sup>1</sup> Countries in 1988. Although the 1988 Accord has been a stabilizing force for the international banking system, the world financial system has become increasingly more complex. The BCBS developed a new regulatory capital framework that recognizes new developments in financial products, incorporates advances in risk measurement and management practices, and more precisely assesses capital charges in relation to risk. In April 2003, the BCBS released for public comment a document entitled The New Basel Capital Accord (Proposed New Accord) that set forth proposed revisions to the 1988 Accord. Also, the agencies participated with other members of the BCBS during the development of the New Accord, which was issued in June 2004. The agencies also participated in the Fourth Quantitative Impact Study during the fall and winter of 2004-2005 (QIS 4; OMB No. 7100-0303), to better understand the potential impact of the proposed framework on the risk-based capital requirements for banks.

On December 7, 2007, the agencies published a final rule in the *Federal Register*, entitled Risk-Based Capital Standards: Advanced Capital Adequacy Framework – Basel II. This final rule was based on the New Basel II Capital Accord and recognizes developments in financial products, incorporates advances in risk measurement and management practices, and imposes capital requirements that are generally more sensitive to risk. In particular, the final rule requires banks to assign risk parameters to exposures and provides specific risk-based capital formulas that would be used to transform these risk parameters in to risk-based capital requirements. Included within the final rule are requirements for public disclosure of certain information at the consolidated banking organization level as well as a reference to certain additional regulatory reporting requirements for banks and BHCs. The additional regulatory reporting requirements referenced within the final rule, and described more fully herein, comprise the agencies' regulatory reporting requirements. Effective with the March 31, 2014, report date, the agencies incorporated the Basel III capital disclosure template in its entirety consistent with the revised regulatory capital rules and revised advanced approaches rules to calculate risk-weighted assets.

The Board uses the data collected to:

- Assess the components of each bank's risk-based capital requirements;
- Assess each bank's capital relative to inherent risks and the Board's minimum capital requirements;
- Monitor the levels and components of the risk-based capital requirements for banks through peer, outlier, and risk trend analyses;
- Evaluate the quantitative impact and competitive implications of the implementation of

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<sup>1</sup> The Group of Ten is made up of eleven industrial countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States) which consult and cooperate on economic, monetary and financial matters.

the framework on risk-based capital levels within reporting banks and on an overall industry basis;

- Provide market participants, depositors, the public, supervisors, and other interested parties with information about banks' risk-based capital; and
- Supplement on-site examination processes and decisions pertaining to the allocation of supervisory resources.

In addition, this proposal assists supervised institutions in understanding expectations surrounding the system development necessary for implementation and validation of the framework.

The Board needs to monitor and assess international active banks' conformance with capital adequacy standards and understand the capital resulting from the implementation of the framework. The general risk-based regulatory capital data submitted by international active banks does not provide enough relevant information regarding risk-based capital under the framework. Because the final rule includes transitional arrangements that involve capital floors linked to the general risk-based capital rules (as defined in the final rule), the Board believes it is necessary to require data submissions under both the general risk-based capital rules and advanced risk-based capital frameworks for as long as a bank is subject to risk-based capital floors.

As noted in the final rule, the Board conducts analyses to gauge the impact of the framework, and the preparedness of banks to compute risk-based capital consistent with those requirements, during the parallel run and transitional floor periods. Data submitted through these reporting requirements, combined with dual reporting requirements for the general risk-based capital data, provides quantitative support for these impact analyses. Such analyses also helps the Board evaluate the competitive and cyclical implications of the framework relative to capital requirements for banks subject to the general risk-based capital rules and the adequacy of capital generated under the framework. General risk-based capital data are currently captured in the Consolidated Reports of Condition and Income (Call Report) for banks (FFIEC 031, FFIEC 041, and FFIEC 051; OMB No. 7100-0036) and the Consolidated Financial Statements for Holding Companies (FR Y-9C; OMB No. 7100-0128).

The FFIEC 101 is necessary to ensure that the new risk-based regulatory capital framework is implemented in the United States in a safe and sound manner. There is no other reporting form that collects from all banks and BHCs the information that is gathered through the FFIEC 101.

## **Description of Information Collection**

### *Who Must Report*

The FFIEC 101 information collections are mandatory for institutions using the advanced approaches risk-based capital rule (advanced approaches banking organizations): national banks (12 U.S.C. § 161), state member banks and bank holding companies (12 U.S.C. § 324 and 12 U.S.C. § 1844(c)), savings and loan holding companies (12 U.S.C. § 1467a(b)), intermediate

holding companies (12 U.S.C. § 1844(c), 12 U.S.C §§ 3106 and 3108(a), 12 U.S.C. § 5365, 12 CFR 252.153(b)(2)), insured state nonmember commercial and savings banks (12 U.S.C. § 1817), and savings associations (12 U.S.C. § 1464).

### *Overview of the Data Collection*

Respondents are required to submit detailed data on the components of their capital and risk-weighted assets in nineteen schedules (A through S). A limited portion of this data is publicly available (Schedules A and B and data items 1 and 2 of Schedule S). The majority of the data is not publicly available.

### *Publicly Available Data*

Schedules A and B (and data items 1 and 2 of proposed Schedule S, Operational Risk) include data items that are publicly available for each reporting entity for reporting periods subsequent to its parallel run period. Schedule A contains information about the components of Tier 1 capital, Tier 2 capital, and adjustments to regulatory capital as defined within the rule. Schedule B contains summary information about risk-weighted assets by risk type, and, in the case of credit risk exposures, outstanding balances and aggregated information about the drivers and estimates that underlie the calculation of risk-weighted assets.

The general exposure breakdowns in Schedule B are as follows:

- Wholesale Exposures, including separate reporting for the following types of exposures: Corporate; Bank; Sovereign; Income Producing Real Estate; High Volatility Commercial Real Estate; Eligible Margin Loans, Repo-Style Transactions, and OTC Derivatives with Cross Product Netting; Eligible Margin Loans, Repo-Style Transactions, and OTC Derivatives without Cross Product Netting;
- Retail Exposures, including separate reporting for the following types of exposures: Residential Mortgage Closed-end First Liens, Residential Mortgage Closed-end Junior Liens, Residential Mortgage Revolving Exposures, Qualifying Revolving Exposures, and Other Retail Exposures;
- Securitization Exposures;
- Equity Exposures;
- Other Assets;
- Excess Eligible Credit Reserves Not Included in Tier 2 Capital;
- Market Risk Equivalent Assets; and
- Operational Risk.

Some of the aggregate data items submitted in Schedule B are derived from information contained in the more detailed confidential supporting schedules described below. The data contained in Schedule B describe the main summary-level components of banks' risk-weighted assets, but would not allow users to exactly replicate banks' risk-weighted asset calculations since the data are averaged, weighted, and rounded.

Schedule S shows the data items within the operational risk exposure class that banks submit. Data items 1 and 2 are publicly available and include high-level information on

operational risk capital, expected operational loss, eligible operational risk offsets, and total risk-based capital requirements for operational risk.

The intent of these disclosures is to provide market participants, depositors, supervisors, the public, and other interested parties with a sufficient level of detail (comparable, in principle, to risk-based capital information collected currently) about banks' major capital and risk-weighted asset components as well as summary information about the composition of regulatory capital and the risk parameters that underlie risk-weighted asset calculations.

#### *Non-publicly Available Data*

The data items contained in Schedules C through S describe the main components of banks' risk-weighted assets and are essentially expanded detail of the more summary information contained in the public data items shown in Schedule B. The data submitted in these schedules are not made available to the public (except for data items 1 and 2 of Schedule S, Operational Risk). Supervisors request these data to support comparisons of certain critical capital drivers across banks and across time. For the reasons cited previously, however, the information contained in the columns of the tables would not allow users to exactly replicate banks' risk-weighted asset calculations. A brief description of the content of Schedules C through S follows.

**Wholesale Exposures.** Schedules C through J show data items within the wholesale exposure category that are submitted. Each schedule represents a sub-portfolio of the wholesale exposure category as listed on the public Schedule B. For each reported sub-portfolio, the schedule groups exposures into sub-portfolio segments using supervisor-defined probability of default (PD) ranges. The reported cells within these schedules then describe the main risk parameters and characteristics of each sub-portfolio segment.

**Retail Exposures.** Schedules K through O show data items within the retail exposure category that are submitted. Again, each schedule represents a sub-portfolio of the retail exposure category as listed on the public Schedule B. PD ranges are used to sub-divide each sub-portfolio into segments.<sup>2</sup> The reported cells within these schedules then describe the main risk parameters and characteristics of each sub-portfolio segment. The retail schedules also incorporate risk characteristics that are believed to be commonly used drivers within banks' risk management and measurement processes, including the distribution of each sub-portfolio segment by loan-to-value ranges (applies only to real estate exposures), weighted average credit bureau score, and weighted average account age.<sup>3</sup>

**Securitization Exposures.** Schedules P and Q show data items within the securitization exposure class that are submitted. Schedule P provides information by rating categories about exposures subject to either the Ratings-Based Approach (RBA) or the Internal Assessment Approach (IAA). Schedule Q provides certain memoranda information about unrated securitization exposures, exposures treated under the Supervisory Formula Approach, synthetic

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<sup>2</sup> Unlike the wholesale credit exposure reporting schedules, the PD ranges for retail exposures differ from sub-portfolio to sub-portfolio.

<sup>3</sup> For qualifying revolving exposures and other (non-mortgage) retail exposures, the exposure at default (EAD) of accounts under two years old is reported instead of weighted average age for each sub-portfolio exposure segment.

securitizations, and risk-weighted assets relating to early amortization features of securitizations as prescribed in the rule.

**Equities.** Schedule R provides information about a bank's equity exposures by type of exposure and by approach to measuring required capital. Schedule R also provides information on equity exposures subject to specific risk weights and equity exposures to investment funds. A bank also completes the appropriate section of the schedule based on whether it uses a simple risk-weight approach, a full internal models approach, or a partially modeled approach to measuring required capital for equity exposures.

**Operational Risk.** Schedule S shows the data items within the operational risk exposure class that banks submit. Data items submitted in this schedule, which are confidential, include various details about historical operational losses, on a stand-alone and group-wide basis, for the current reporting period and those historical operational losses used to model operational risk capital. The schedule also contains confidential data items related to scenarios, distribution assumptions, and loss caps used to model operational risk capital.

### **Proposed Revisions**

The agencies propose to remove two items which collect EAD information related to CVAs that already is captured in a separate item on FFIEC 101 Schedule B. Specifically, the agencies are proposing to remove column D (EAD) for items 31.a, "Credit valuation adjustments simple approach," and 31.b, "Credit valuation adjustments advanced approach." These line items were added to the FFIEC 101 report in March of 2014, and were intended to provide data pertaining to the CVA requirements under the agencies' regulatory capital rules<sup>4</sup> for over-the-counter (OTC) derivative activities.

Under these rules, CVA is the fair value adjustment to reflect counterparty credit risk in the valuation of an OTC derivative contract that has a positive fair value. The advanced approaches risk-based capital rules provide two approaches for calculating the CVA capital requirement: the simple and advanced CVA approaches. The conditions for each approach, as well as the methods for calculation, are described in section 132 of the regulatory capital rules. Currently, EAD information pertaining to CVAs that is reported in FFIEC 101 Schedule B remains confidential, even after an institution completes its parallel run period.

The agencies have determined that the EAD information reported in column D of items 31.a and 31.b on FFIEC 101 Schedule B is already captured in column D of item 10 (OTC derivatives - no cross-product netting - EAD adjustment method) on FFIEC 101 Schedule B. Continuing to collect the same EAD information in both places is not only redundant, but also may be misinterpreted by the agencies' users of FFIEC 101 data as additional default risk held by the reporting entity. For these reasons, the agencies propose removing column D for items 31.a and 31.b on FFIEC 101 Schedule B. The agencies would continue to collect the amount of risk-weighted assets for CVAs in column G of items 31.a and 31.b on FFIEC 101 Schedule B.

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<sup>4</sup> For national banks and federal savings associations (12 CFR part 3) (OCC); for state member banks and holding companies (12 CFR part 217) (Board); and for state nonmember banks and state savings associations (12 CFR part 324) (FDIC).

The reporting changes would take effect as of the September 30, 2017, report date. However, as the two items being removed are not made public or otherwise shared outside the agencies, reporting entities may elect to adopt the changes immediately by ceasing to report column D of items 31.a and 31.b on FFIEC 101 Schedule B.

### **Time Schedule for Information Collection**

The FFIEC 101 is collected quarterly as of the end of the last calendar day of March, June, September, and December. Reporting HCs and banks submit data quarterly because efforts to monitor banks' progress toward, and actions under, the framework require regular and consistent data submissions from all of the institutions adopting this framework. The first reporting period for Schedules A through S for each reporting entity seeking to qualify for the advanced approaches corresponds to the first quarter of its parallel run period.

The report due dates are 60 days following the end of a quarter while a state member bank or HC is in its parallel run period. After completing its parallel run period, the report due dates are the same as the report due dates currently required of banks and HCs when filing their respective Call Report or FR Y-9C. State member banks must submit the FFIEC 101 to the appropriate Federal Reserve Bank within thirty calendar days following the as-of date; a five-day extension may be given to banks with more than one foreign office. HCs must submit the FFIEC 101 to the appropriate Federal Reserve Bank within forty calendar days after the March 31, June 30, and September 30 as of dates unless that day falls on a weekend or holiday and within forty-five calendar days after the December 31 as of date.

Individual respondent data, excluding confidential information, would be available on the National Information Center public website.

### **Legal Status**

The Board's Legal Division has determined that section 9(6) of the Federal Reserve Act for state member banks (12 U.S.C. § 324), section 5(c) of the Bank Holding Company Act for BHCs and IHCs (12 U.S.C. § 1844(c)), the Homeowners' Loan Act for savings and loan holding companies (12 U.S.C. § 1467a(b)(2)), and section 165 of the Dodd-Frank Act for IHCs (12 U.S.C. § 5365) authorize the Board to require the information collection. The FFIEC 101 is mandatory for advanced approaches banking organizations.

Some items collected as part of the FFIEC 101 will be made public upon filing. For these items, the issue of confidentiality will not arise unless the submitter asks for confidential treatment and provides a basis to withhold the information as confidential commercial information whose disclosure would cause substantial competitive harm, justifying confidential treatment under exemption 4 of the Freedom of Information Act (FOIA). Such requests would have to be considered on a case-by-case basis.

Some items are proposed to be withheld during the so-called "parallel run" period, but released publicly thereafter. These include Schedule A, Schedule B, and items 1-2 in Schedule S, Operational Risk. Schedule A collects information about the components of tier 1

capital, tier 2 capital, adjustments to regulatory capital, regulatory capital ratios, and capital buffer. Schedule B contains summary information about risk-weighted assets by risk type, and, in the case of credit risk exposures, outstanding balances and aggregated information about the estimates that underlie the calculation of risk-weighted assets. Schedule S collects data related to operational risk under the agencies' advanced approaches rules.

The parallel run period is designed in significant part to allow the supervisory agencies to assess the quality of a banking organization's internal models and systems and determine whether the banking organization is ready for the implementation of the advanced approaches. During the parallel run period, supervisors may request a banking organization to amend its internal models, risk measurement and management infrastructure. Public disclosure of these schedule items during the parallel run period could lead investors, competitors, and the public to misjudge the financial health of the institutions, when in fact there has been no change to their underlying fundamentals and, therefore, could result in substantial competitive harm. The specific items treated as confidential during the parallel run period are Schedule A items 78, 79, 86, 87, 88, 89, and 90, as well as Schedules B through S. These classes of data may be protected from disclosure during the parallel run period under exemption 4 of the FOIA.

Finally, Schedules C through S would remain confidential both during and after the parallel run period. The data items found in these schedules contain more detailed information than included in the public schedules, including sensitive information breaking down individual banking organization exposures to borrowers by probability of default, exposures at default, and loss given default. Disclosure of this information could result in substantial competitive harm to the institution, particularly because many financial institutions will not be reporting such data, and would benefit from the public disclosure of such detailed information regarding their competitors they would not be required to disclose themselves. Accordingly, FOIA exemption 4 permits confidential treatment for these data items.

### **Consultation Outside the Agency**

On March 1, 2017, the agencies, under the auspices of the FFIEC, published an initial notice in the *Federal Register* (82 FR 12274) requesting public comment for 60 days on the extension, with revision, of the FFIEC 101. The comment period for this notice expired on May 1, 2017. No comments were received addressing the proposed revisions. On June 2, 2017, the agencies published a final notice in the *Federal Register* (82 FR 25655).

### **Estimate of Respondent Burden**

The current total annual burden for the FFIEC 101 is estimated to be 59,576 hours and would remain unchanged based on the proposed revisions. These reporting requirements represent less than 1 percent of the total Federal Reserve paperwork burden.



<b>FFIEC 101</b>	<i>Number of respondents<sup>5</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
SMBs	6	4	674	16,176
BHCs and SLHCs	16	4	677	43,328
IHCs	6	4	3	<u>72</u>
<i>Total</i>				59,576

The current cost to the public for this information collection is estimated to be \$3,270,722.<sup>6</sup>

### **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 ongoing costs for collecting and processing the data are estimated to be \$157,694 per year.

<sup>5</sup> Of these respondents, none are considered small entities 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](http://www.sba.gov/contracting/getting-started-contractor/make-sure-you-meet-sba-size-standards/table-small-business-size-standards).

<sup>6</sup> 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 \$67, 15% Lawyers at \$67, and 10% Chief Executives at \$93). 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 2016*, published March 31, 2017, [www.bls.gov/news.release/ocwage.t01.htm](http://www.bls.gov/news.release/ocwage.t01.htm). Occupations are defined using the BLS Occupational Classification System, [www.bls.gov/soc/](http://www.bls.gov/soc/).