

## 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.<sup>1</sup> 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 are limited to 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 proposed revisions are proposed to take effect as of the September 30, 2017, report date. However, reporting entities would be advised that they may elect to adopt the changes by ceasing to report column D of items 31.a and 31.b on FFIEC 101 Schedule B as of the June 30, 2017, report date.

#### **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

---

<sup>1</sup> 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).

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.

A bank, savings association, bank holding company, or savings and loan holding company<sup>2</sup> 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.

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 its 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.

In September 2014, the agencies approved a final rule revising the definition of the denominator of the supplementary leverage ratio (SLR) (i.e., total leverage exposure) that had been adopted in July 2013 as part of comprehensive revisions to the agencies' regulatory capital rules.<sup>3</sup> 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

---

<sup>2</sup> For simplicity, and unless otherwise indicated, the term "bank" includes banks, savings associations, bank holding companies, and savings and loan holding companies.

<sup>3</sup> See 79 FR 57725 (September 26, 2014).

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.

All banking organizations subject to the advanced approaches rule must report SLR data in SLR Tables 1 and 2 of FFIEC 101 Schedule A unless the 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, as the supervisor of U.S. intermediate holding companies, will collect SLR data in SLR Tables 1 and 2 of FFIEC 101 Schedule A from any such 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.

The proposed changes to the FFIEC 101 report that are the subject of this submission involve the removal of EAD information related to CVAs from Schedule B of the report that already is captured in a separate item on Schedule B. Specifically, the agencies would remove column D (EAD) for items 31.a, "Credit valuation adjustments – simple approach," and 31.b, "Credit valuation adjustments – advanced approach." These 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 for over-the-counter (OTC) derivative activities. The agencies subsequently 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 users of FFIEC 101 data as additional default risk held by the reporting entity. For these reasons, the agencies are proposing to remove column D for items 31.a and 31.b on FFIEC 101 Schedule B. The reasons for these changes also are described in the agencies' initial and final Paperwork Reduction Act (PRA) Federal Register notices published on March 1, 2017, and June 2, 2017, respectively.

## 2. Use of Information Collected

The FFIEC 101 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, the agencies also ensure transparency and comparability of reporting of regulatory capital elements among internationally active banks.

### 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 are not 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.

Tables 1 and 2 of FFIEC 101 Schedule A collect information related to the agencies' SLR disclosures required in Table 13 of section 173 of the advanced approaches rule. Completing the FFIEC 101 items for the SLR satisfies a bank's requirement to disclose Table 13 and thereby avoids 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 approximately 3,000 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)<sup>4</sup> and the FRB's Bank Holding Company FR Y-9C report.

## 7. Special Circumstances

There are no special circumstances.

## 8. Summary of Public Comments

On March 1, 2017, the agencies requested comment on the proposed revisions to the FFIEC 101 reporting requirements that are the subject of this submission.<sup>5</sup> The comment period for the proposal ended on May 1, 2017. The agencies did not receive any comments on 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 is 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 calculated under the advanced approaches rules); 79 (amount of eligible credit reserves

<sup>4</sup> For the FDIC, OMB No. 3064-0052.

<sup>5</sup> See 82 FR 12274 (March 1, 2017).

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 the EAD information related to CVAs reported in Schedule B, items 31.a and 31.b, column D, which the agencies are proposing to remove from the FFIEC 101) and items 1 and 2 of Schedule S are available to the public.

To ensure transparency of regulatory capital data reported by internationally active banking organizations, the agencies make public the SLR information collected in 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

The proposed removal of these two items is not expected to result in a change in the reporting burden of completing the FFIEC 101 report, which is currently estimated at 674 hours per quarter, on average, for each FDIC-supervised institution required to prepare the FFIEC 101 report. The EAD information related to CVAs that is reported in items 31.a and 31.b, column D, of Schedule B of the report, which the agencies are proposing to remove, already is captured in item 10, column D, of Schedule B. Continuing to collect the same EAD information in both places is not only redundant, but also may be misinterpreted by the users of FFIEC 101 data as additional default risk held by the reporting entity. For these reasons, the agencies are proposing to remove column D for items 31.a and 31.b on FFIEC 101 Schedule B.

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 are subject to the FFIEC 101 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

None. 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.<sup>6</sup> 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 comment<sup>7</sup> 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

None. 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

There is no change in burden. As discussed in Item 12 above, the proposed revisions to the FFIEC 101 report that are the subject of this submission are not expected to produce a change in the reporting burden of completing the FFIEC 101 report, which is currently estimated at 674 hours per quarter for FDIC-supervised institutions. In addition, 2 FDIC-supervised institutions currently are subject to the FFIEC 101 reporting requirements, which is unchanged from the number of such institutions in the currently approved information collection inventory for this report. A comparison of the burden requested in this submission with the currently approved burden is as follows:

Currently approved burden	5,392 hours
Revisions to content of report (program change)	± 0 hours
<u>Adjustment (change in use)</u>	<u>± 0 hours</u>
Requested burden:	5,392 hours

Net change in burden: ± 0 hours

---

<sup>6</sup> See 72 FR 69392, December 7, 2007, for a discussion of cost estimates of implementing the original Basel II final rule.

<sup>7</sup> See 71 FR 55981, September 25, 2006.

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 SLR Tables 1 and 2, if applicable), are 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 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, which the agencies are proposing to remove from the FFIEC 101) and items 1 and 2 of Schedule S–Operational Risk are 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.