SUPPORTING STATEMENT
REGULATORY CAPITAL RULES
(OMB No. 3064-0153)

INTRODUCTION

The Federal Deposit Insurance Corporation (FDIC) is requesting a three-year renewal of the Regulatory Capital Rules (OMB No. 3064-0153). This collection comprises the disclosure and recordkeeping requirements associated with minimum capital requirements and overall capital adequacy standards for insured state nonmember banks, state savings associations, and certain subsidiaries of those entities. The data is used by the FDIC to evaluate capital before approving various applications by insured depository institutions, to evaluate capital as an essential component in determining safety and soundness, and to determine whether an institution is subject to prompt corrective action provisions. The current clearance for the collection expires on July 31, 2017. There is no change in the method or substance of the collection.

A. JUSTIFICATION

1. Circumstances and Need

This statement supports a request to extend without change the FDIC's *Regulatory Capital Rules* information collection, which contains reporting, recordkeeping, and disclosure requirements in the FDIC's 2014 final rule, entitled *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule.*[1] The FDIC's revised capital rule at 12 C.F.R. part 324 is materially identical to a final rule with the same title, jointly issued by the Federal Reserve Board (Board) and the Office of the Comptroller of the Currency (OCC) (collectively, the revised capital rules). The FDIC's and the FRB and OCC's final rules revised and replaced the agencies' prior capital rules and codified the regulatory capital rules, which previously resided in various appendices to the agencies' respective regulations.

The agencies revised their risk-based and leverage capital requirements generally consistent with agreements reached by the Basel Committee on Banking Supervision (BCBS) in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" (Basel III). The revisions include implementation of a new common equity tier 1 minimum capital requirement, a higher minimum tier 1 capital requirement, and, for banking organizations subject to the advanced approaches capital rules, a supplementary leverage ratio that incorporates a broader set of exposures in the denominator measure.

---

[1] *See* FDIC Final Rule at 79 FR 20754 (Apr. 14, 2014); *see also* FDIC Interim Final Rule at 78 FR 55339 (Sept. 10, 2013).

Additionally, consistent with Basel III, the agencies are applying limits on a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified amount of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The agencies' revised capital rules also establish more conservative standards for including an instrument in regulatory capital. The revisions are consistent with section 171 of the Dodd-Frank Act, which requires the agencies to establish minimum risk-based and leverage capital requirements.

In addition, the agencies revised their rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses identified over recent years, including by incorporating aspects of the BCBS's Basel II standardized framework in the "International Convergence of Capital Measurement and Capital Standards: A Revised Framework," including subsequent amendments to that standard, and recent BCBS consultative papers. The revisions include alternatives to credit ratings, consistent with section 939A of the Dodd-Frank Act. The revisions also include methodologies for determining risk-weighted assets for residential mortgages, securitization exposures, and equity exposures. The revised capital rules introduced disclosure requirements that would apply to top-tier banking organizations domiciled in the United States with $50 billion or more in total assets, including disclosures related to regulatory capital instruments.

Finally, the agencies revised the advanced approaches risk-based capital rules consistent with Basel III and other changes to the BCBS's capital standards. The agencies also revised the advanced approaches risk-based capital rules to be consistent with section 939A and section 171 of the Dodd-Frank Act. The agencies' revised capital rules apply the market risk capital rules to state savings associations. In its final rule, the OCC makes the market risk capital rules applicable to federal savings associations, and the Board applies the advanced approaches and market risk capital rules to top-tier savings and loan holding companies domiciled in the United States, in each case, if stated thresholds for trading activity are met.

2. Use of the Information Collected

The FDIC uses the data collected under the rule to fulfill its statutory obligations to adopt a risk-based capital requirement, determine the qualification of an institution for application of the rule, and assess the adequacy of a qualifying bank's risk-based capital. The specific information collection requirements are as follows:

Minimum Regulatory Capital Ratios

Section _.3(d) of the agencies' revised capital rules provide for termination and close-out netting across multiple types of transactions or agreements if the bank obtains a written legal opinion verifying the validity and enforceability of the agreement under certain circumstances and maintains sufficient written documentation of this legal review.

Section _.22(h)(2)(iii)(A) allows the use of a conservative estimate of the amount of a bank's investment in the capital of unconsolidated financial institutions held through the index security with prior approval by the appropriate agency.

Standardized Approach

Section _.35(b)(3)(i)(A) of the agencies' revised capital rules require, for a cleared transaction with a qualified central counterparty (QCCP), that a client bank apply a risk weight of 2 percent, provided that the collateral posted by the bank to the QCCP is subject to certain arrangements and the client bank has conducted a sufficient legal review (and maintains sufficient written documentation of the legal review) to conclude with a well-founded basis that the arrangements, in the event of a legal challenge, would be found to be legal, valid, binding and enforceable under the law of the relevant jurisdictions.

Section _.37(c)(4)(i)(E) requires that a bank have policies and procedures describing how it determines the period of significant financial stress used to calculate its own internal estimates for haircuts and be able to provide empirical support for the period used.

Section _.41(b)(3) allows for synthetic securitizations a bank's recognition, for risk-based capital purposes, of a credit risk mitigant to hedge underlying exposures if certain conditions are met, including the bank's having obtained a well-reasoned opinion from legal counsel that confirms the enforceability of the credit risk mitigant in all relevant jurisdictions. In addition, section _.41(c)(2)(i) requires that a bank support a demonstration of its comprehensive understanding of a securitization exposure by conducting and documenting an analysis of the risk characteristics of each securitization exposure prior to its acquisition, taking into account a number of specified considerations. Section .41(c)(2)(ii) requires on an on-going basis (no less frequently than quarterly), a bank must evaluate, review, and update as appropriate the analysis required under this section for each securitization exposure.

Section _.42(e)(2) addresses risk-weighted assets for securitization exposures and requires that a bank publicly disclose that is has provided implicit support to the securitization and the risk-based capital impact to the bank of providing such implicit support.

Section _.62(a) specifies a quarterly frequency for the disclosure of information in the applicable tables set out in section _.63 and, if a significant change occurs, such that the most recent reported amounts are no longer reflective of the bank's capital adequacy and risk profile, it also would require the bank to disclose as soon as practicable thereafter, a brief discussion of the change and its likely impact. This section would allow for annual disclosure of qualitative information that typically does not change each quarter, provided that any significant changes are disclosed in the interim. Section _.62(b) requires that a bank have a formal disclosure policy approved by the board of directors that addresses its approach for determining the disclosures it makes. The policy is required to address the associated internal controls and disclosure controls and procedures.
Section .62(c) requires a bank with total consolidated assets of $50 billion or more that is not an advanced approaches bank, if it concludes that specific commercial or financial information required to be disclosed under section _.62 is exempt from disclosure by the agency under the Freedom of Information Act (5 U.S.C. 552), to disclose more general information about the subject matter of the requirement and the reason the specific items of information have not been disclosed.

Section _.63(a) requires certain disclosures for each of the last three years beginning on the effective date of the rule for banks with total consolidated assets of $50 billion or more that are not advanced approaches banks, including qualitative and quantitative disclosures related to capital structure, capital adequacy, capital conservation buffer, general credit risk, counterparty credit risk-related exposures, credit risk mitigation, securitizations, certain equities, and interest rate risk for non-trading activities. In addition, section 63(b) requires quarterly disclosure of a bank's common equity tier 1 capital, additional tier 1 capital, tier 2 capital, tier 1 and total capital ratios, including the regulatory capital elements and all the regulatory adjustments and deductions needed to calculate the numerator of such ratios; total risk-weighted assets, including the different regulatory adjustments and deductions needed to calculate total risk-weighted assets; regulatory capital ratios during any transition periods, including a description of all the regulatory capital elements and all regulatory adjustments and deductions needed to calculate the numerator and denominator of each capital ratio during any transition period; and a reconciliation of regulatory capital elements as they relate to its balance sheet in any audited consolidated financial statements.

Tables 1 through 10 to section _.63 set forth qualitative and quantitative disclosure requirements for scope of application, capital structure, capital adequacy, capital conservation buffer, credit risk, counterparty credit risk-related exposures, credit risk mitigation, securitizations, equities not subject to Subpart F of the rule, and interest rate risk for non-trading activities.

Advanced Approaches

Sections _.121 and _.122 require that a covered institution adopt a written implementation plan that addresses how it will comply with the framework's qualification requirements, including incorporation of a comprehensive and sound planning and governance process to oversee the implementation efforts. The institution must also develop processes for assessing capital adequacy in relation to an organization's risk profile. It must have in place internal risk rating and segmentation systems for wholesale and retail risk exposures, including comprehensive risk parameter quantification processes and processes for annual reviews and analyses of reference data to determine its relevance. It must document its process for identifying, measuring, monitoring, controlling, and internally reporting operational risk; verify the accurate and timely reporting of risk-based capital requirements; and monitor, validate, and refine its advanced systems.

Section _.123 requires an institution to notify its Federal supervisor of changes to advance systems and requires submission of a plan for returning to compliance with qualification requirements.

Section _.124 requires an institution to notify its primary Federal supervisor when it makes a material change to its advanced systems and to develop an implementation plan after any mergers.

Section _.132(b)(2)(iii)(A) addresses counterparty credit risk of repo-style transactions, eligible margin loans, and OTC derivative contracts and allows a bank, with the FDIC's prior written approval, to calculate haircuts (H_s and H_{fx}) using its own internal estimates of the volatilities of market prices and foreign exchange rates. To receive FDIC approval to use its own internal estimates, a bank must satisfy the minimum quantitative standards outlined in the section. Section _.132(b)(3) provides that with the prior written approval of the agency, an institution may estimate EAD for a netting set using a VaR model that meets certain requirements. Section _.132(d)(1) allows the use of the internal models methodology to determine EAD for counterparty credit risk for derivative contracts with prior written approval. Section .132(d)(1)(iii) allows the use of the internal models methodology for derivative contracts, eligible margin loans, and repo-style transactions subject to a qualifying cross-product netting agreement with prior written approval. Section _.132(d)(2)(iv) provides that for risk-weighted assets using the internal models methodology (IMM), a bank uses an internal model to estimate the expected exposure (EE) for a netting set and then calculates EAD based on that EE. A bank must calculate two EEs and two EADs (one stressed and one unstressed) for each netting as outlined in this section. Section _.132(d)(3)(vi) requires that a bank, in order to obtain FDIC approval to calculate the distributions of exposures upon which the EAD calculation is based, must demonstrate to the satisfaction of the FDIC that it has been using for at least

one year an internal model that broadly meets the minimum standards, with which the bank must maintain compliance. In addition, the bank must have procedures to identify, monitor, and control wrong-way risk throughout the life of an exposure. The procedures must include stress testing and scenario analysis. Section _.132(d)(3)(viii) requires that, when estimating model parameters based on a stress period, the bank must use at least three years of historical data that include a period of stress to the credit default spreads of the bank's counterparties. The bank must review the data set and update the data as necessary, particularly for any material changes in its counterparties. The bank must demonstrate at least quarterly that the stress period coincides with increased CDS or other credit spreads of the institution's counterparties. The bank must have procedures to evaluate the effectiveness of its stress calibration that include a process for using benchmark portfolios that are vulnerable to the same risk factors as the institution's portfolio. The FDIC may require the institution to modify its stress calibration to better reflect actual historic losses of the portfolio. Section _.132(d)(3)(ix) requires that a bank subject its internal model to an initial validation and annual model review process. The model review should consider whether the inputs and risk factors, as well as the model outputs, are appropriate. As part of the model review process, the institution must have a backtesting program for its model that includes a process by which unacceptable model performance will be determined and remedied. Section _.132(d)(3)(x) requires that a bank must have policies for the measurement, management and control of collateral and margin amounts. Section _.132(d)(3)(xi) requires that a bank have a comprehensive stress testing program that captures all credit exposures to counterparties, and incorporates stress testing of principal market risk factors and creditworthiness of counterparties.

Section _.141 addresses operational criteria for recognizing the transfer of risk. Section _.141(b)(3) requires a well-reasoned legal opinion confirming the enforceability of the credit risk mitigant in all relevant jurisdictions. Section _.141(c)(1) and .141(c)(2)(i) require an advanced approaches bank to demonstrate its comprehensive understanding of a securitization exposure for each securitization exposure by conducting an analysis of the risk characteristics of a securitization exposure prior to acquiring the exposure and document such analysis within three business days after acquiring the exposure. Section _.141(c)(2)(ii) requires that, on an ongoing basis (no less frequently than quarterly), a bank must evaluate, review, and update as appropriate the analysis required under this section for each securitization exposure.
Section _.142, which outlines the capital treatment for securitization exposures, requires that a bank publicly disclose that it has provided implicit support to the securitization and the regulatory capital impact to the bank of providing such implicit support.

Section _.153 provides that a bank must receive prior written approval from its primary Federal supervisor before it can use the Internal Models Approach.

Section 172 specifies that each consolidated bank must publicly disclose its total and tier 1 risk-based capital ratios and their components.

Section 173 requires a bank that is an advanced approaches bank to make the qualitative and quantitative disclosures described in Tables 1 to 12. The bank must make these disclosures publicly available for each of the last three years (that is, twelve quarters) or such shorter period beginning on the effective date of this subpart E. Table 4 to section _.173 addresses disclosures related to capital conservation and countercyclical buffers; Table 5 to section _.173 addresses general disclosures related to credit risk; Table 9 to section _.173 addresses disclosures related to securitizations; and Table 12 to section _.173 addresses disclosures related interest rate risk for non-trading activities.

3. Use of Technology to Reduce Burden

The agencies use information technology to reduce burden on institutions and decrease costs to insured depository institutions and the agencies. Insured depository institutions are required to store data in an electronic format allowing timely retrieval for analysis, reporting and disclosure purposes. Institutions are also encouraged to provide information for public disclosure on their websites.

4. Efforts to Identify Duplication

The information collected is institution-specific. The information is used to determine the qualification of a bank for application of the rule, and assess the adequacy of a qualifying bank's risk-based capital. Substantially all of the information collected is not otherwise available.

5. Minimizing the Burden on Small Entities

The collection impacts a substantial number of small entities. To minimize the burden on these entities, the Basel III Notice of Proposed Rulemaking (NPR) included a transitional framework that would phase in many of the requirements between January 1, 2013, and January 1, 2018. Additionally, the Basel III NPR included an effective date of January 1, 2015, to assist in minimizing potential burden.

6. Consequence of Less Frequent Collections

The FDIC would not be able to adequately monitor capital levels and ensure safety and soundness in covered institutions if the information were collected less frequently.

7. Special Circumstances

The rule requires banks to maintain data used to estimate risk parameters. For wholesale exposures, default data must be maintained for at least 5 years, loss severity data must be maintained for at least 7 years, and exposure amount data must be maintained for at least 7 years. Retail segment exposure default, loss severity and exposure amount data must be maintained for at least five years.

In addition to the requirements for a minimum number of years that data must be maintained, the default, loss severity, and exposure amount data must include periods of economic downturn conditions, or the bank must adjust its estimates of risk parameters to compensate for the lack of data from such periods.

Maintenance of data for these periods is necessary for banks to conduct adequate statistical analysis to support the associated risk parameters used to calculate the risk-based capital requirement.

8. Consultation with Persons Outside the FDIC

A notice seeking public comment for a 60-day period was published in the *Federal Register* on April 28, 2017 (82 FR 19718). No comments were received.

9. Payment or Gift to Respondents

None.

10. Confidentiality

Any information deemed to be of a confidential nature would be exempt from public disclosure in accordance with the provisions of the Freedom of Information Act (5 U.S.C. 552).

11. Information of a Sensitive Nature

This collection contains no sensitive information.

12. Burden Estimates

ESTIMATED HOURLY BURDEN					
BASEL III Advanced Approaches: RECORDKEEPING and DISCLOSURE	**Type of Burden**	**Estimated Number of Respondents**	**Estimated Time per Response**	**Frequency of Response**	**Total Annual Estimated Burden**
Implementation plan -- Section _.121(b): Ongoing	Recordkeeping	2	330	On Occasion	660
Documentation of advanced systems -- Section _.122(j): Ongoing	Recordkeeping	2	19	On Occasion	38
Systems maintenance -- Sections _.122(a), _123(a), _.124(a): Ongoing	Recordkeeping	2	27.9	On Occasion	55.80
Supervisory approvals -- Sections_.122(d)-(h), _.132(b)(3), _.132(d)(1), _.132(d)(1)(iii): Ongoing	Recordkeeping	2	16.82	On Occasion	33.64
Control, oversight and verification of systems -- Sections _.122 to _.124: Ongoing	Recordkeeping	2	11.05	On Occasion	22.10
(CCR) -- Section _.132(b)(2)(iii)(A): One-time	Recordkeeping	1	80	On Occasion	80
(CCR) -- Section _.132(b)(2)(iii)(A): Ongoing	Recordkeeping	2	16	On Occasion	32
(CCR) -- Section _.132(d)(2)(iv): One-time	Recordkeeping	1	80	On Occasion	80
(CCR) -- Section _.132(d)(2)(iv): Ongoing	Recordkeeping	2	40	On Occasion	80
(CCR) -- Section _.132(d)(3)(vi): One-time	Recordkeeping	1	80	On Occasion	80
(CCR) -- Section _.132(d)(3)(viii): One-time	Recordkeeping	1	80	On Occasion	80
(CCR) -- Section _.132(d)(3)(viii): Ongoing	Recordkeeping	2	10	Quarterly	80
(CCR) -- Section _.132(d)(3)(ix): One-time	Recordkeeping	1	40	On Occasion	40
(CCR) -- Section _.132(d)(3)(ix): Ongoing	Recordkeeping	2	40	On Occasion	80
(CCR) -- Section _.132(d)(3)(x): One-time	Recordkeeping	1	20	On Occasion	20
(CCR) -- Section _.132(d)(3)(xi): One-time	Recordkeeping	1	40	On Occasion	40
(CCR) -- Section _.132(d)(3)(xi): Ongoing	Recordkeeping	2	40	On Occasion	80
(OC) -- Section _.141(b)(3), _.141(c)(1), _.141(c)(2)(i)-(ii), _.153: One-time	Recordkeeping	1	40	On Occasion	40
(OC) -- Section _.141(c)(2)(i)-(ii): Ongoing	Recordkeeping	2	10	Quarterly	80
Sections _.142 and _.172: Ongoing	Disclosure	2	5.78	On Occasion	11.56
(CCB and CCYB) -- Section _.173, Table 4 (CR) _.173, Table 5 (Securitization) _.173, Table 9 (IRR) _.173, Table 12: Ongoing	Disclosure	2	35	Quarterly	280
(CCB and CCYB) -- Section _.173, Table 4 (CR) Section _.173, Table 5 (Sec.) Section _.173, Table 9 (IRR) Section _.173, Table 12: One-time	Disclosure	1	280	On Occasion	280
SUBTOTAL: One-time Recordkeeping and Disclosure					740
SUBTOTAL: Ongoing Recordkeeping and Disclosure					1,533.10
TOTAL RECORDKEEPING and DISCLOSURE					2,273.10

Minimum Regulatory Capital Ratios: RECORDKEEPING	Type of Burden	Estimated Number of Respondents	Estimated Time per Response	Frequency of Response	Total Annual Estimated Burden
(CCR Operational Requirements) -- Sections _.3(d) and_.22(h)(2)(iii)(A): Ongoing	Recordkeeping	3,787	16	On Occasion	60,592
SUBTOTAL: One-time Recordkeeping					0
SUBTOTAL: Ongoing Recordkeeping					60,592
TOTAL RECORDKEEPING					60,592
Standardized Approach: RECORDKEEPING and DISCLOSURE	**Type of Burden**	**Estimated Number of Respondents**	**Estimated Time per Response**	**Frequency of Response**	**Total Annual Estimated Burden**
(QCCP) -- Section _.35(b)(3)(i)(A): One-time	Recordkeeping	1	2	On Occasion	2
(QCCP) -- Section _.35(b)(3)(i)(A): Ongoing	Recordkeeping	3,787	2	On Occasion	7,574
(CT) -- Section _.37(c)(4)(i)(E): One-time	Recordkeeping	1	80	On Occasion	80
(CT) -- Section _.37(c)(4)(i)(E): Ongoing	Recordkeeping	3,787	16	On Occasion	60,592
(SE) -- Section _.41(b)(3) and _.41(c)(2)(i): One-time	Recordkeeping	1	40	On Occasion	40
(SE) -- Section _.41(c)(2)(ii): Ongoing	Recordkeeping	3,787	2	On Occasion	7,574
(S.E.) -- Section _.42(e)(2), (C.R.) Sections_.62(a),(b),& (c), (Q&Q) Sections_.63(a) & (b): One-time	Disclosure	1	226.25	On Occasion	226.25
(S.E.) -- Section _.42(e)(2), (C.R.) Sections_.62(a),(b),& (c), (Q&Q) Sections_.63(a) & (b) and _.63 Tables: Ongoing	Disclosure	1	131.25	Quarterly	525
SUBTOTAL: One-time Recordkeeping and Disclosure					348.25
SUBTOTAL: Ongoing Recordkeeping and Disclosure					76,265
TOTAL RECORDKEEPING and DISCLOSURE					76,613.25
ESTIMATED COST TO RESPONDENTS ASSOCIATED WITH HOURLY BURDEN					
Total One-Time Burden Hours					1,088.25
Total Ongoing Burden Hours					138,390.10
TOTAL BURDEN HOURS					139,478.35
Total Estimated Ongoing Cost (139,479 hours * $82.61/hour)					$11,522,360.19

Estimated Ongoing Cost to Respondents:

The total estimated hourly compensation costs for covered institutions for Accountants and Auditors, Compliance Officers, Financial Analysts, Legal Occupations, Management Occupations, Software Developers and Programmers, Computer and Mathematical Occupations are $63.76, $56.95, $75.47, $112.57, $106.17, $85.78, $77.57, respectively.

Occupations	May 2015 Hourly Wage Rates	Inflation Adjusted to September 2016*	Total Hourly Compensation
Accountants and Auditors	$42.99	$43.74	$63.76
Compliance Officers	$38.40	$39.07	$56.95
Financial Analysts	$50.89	$51.78	$75.47
Legal Occupations	$75.90	$77.22	$112.57
Management Occupations	$71.59	$72.84	$106.17
Software Developers and Programmers	$57.84	$58.85	$85.78
Computer and Mathematical Occupations	$52.30	$53.21	$77.57

* Hourly wage rates adjust by the change in the US seasonally adjusted CPI-U between May 2016 and September 2016, 1.74 percent.

This amounts to an average cost per hour of $82.61.

139,479 hours x $82.61 = $11,522,360.19

13. Capital, Start-Up and Maintenance Costs

None.

14. Estimated Annual Cost to the Federal Government

None. The reports are processed by existing FDIC staff.

15. Reason for Change in Burden

There is no change in the method or substance of the collection. The 597,796 reduction in burden hours is a result of economic fluctuation as well as a decrease in the number of entities that will need to incur the implementation burden. In particular, the number of respondents has decreased while the hours per response remain the same. The overall reduction in burden hours also reflects a decrease in the number of entities that will incur any one-time implementation burden, as a majority of the entities have already fully implemented the one-time requirements associated with the rule.

16. Publication

The information is not published.

17. Display of Expiration Date

Not applicable.

18. Exceptions to Certification

None.

B. STATISTICAL METHODS

Not applicable.