

**Supporting Statement for the
Reporting, Recordkeeping, and Disclosure Requirements
Associated with the Regulation WW
(FR WW; OMB No. 7100-0367)**

***Liquidity Coverage Ratio: Public Disclosure Requirements; Extension of Compliance Period
for Certain Companies To Meet the Liquidity Coverage Ratio Requirements
(Docket No. R-1525) (RIN 7100-AE39)***

Summary

The Board of Governors of the Federal Reserve System (Board), under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with revision, the mandatory Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulation WW (FR WW; OMB No. 7100-0367). The Paperwork Reduction Act (PRA) classifies reporting, recordkeeping, or disclosure requirements of a regulation as an “information collection.”¹

The Board, the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies) implemented through Regulation WW (Liquidity Risk Measurement Standards) a liquidity coverage ratio (LCR) requirement, consistent with the international liquidity standards published by the Basel Committee on Banking Supervision (BCBS)², for large and internationally active banking organizations. Each institution is required to hold high quality, liquid assets (HQLA) such as central bank reserves and government and corporate debt that can be converted easily and quickly into cash in an amount equal to or greater than its projected cash outflows minus its projected cash inflows during a 30-day stress period. The ratio of the firm’s liquid assets to its projected net cash outflow is its LCR. The BCBS published the international liquidity standards in December 2010 as a part of the Basel III reform package³ and revised the standards in January 2013 (as revised, the Basel III Revised Liquidity Framework).⁴ The LCR applies to all banking organizations with \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance sheet foreign exposure and to these banking organizations’ subsidiary depository institutions that have assets of \$10 billion or more. The final rule also applies a less stringent, modified LCR to bank holding companies and savings and loan holding companies that do not meet these thresholds, but have \$50 billion or more in total assets. Bank holding companies and savings and loan holding companies with substantial insurance or commercial operations are not covered by the

¹ See 44 U.S.C. 3501 et seq.

² The BCBS is a committee of banking supervisory authorities that was established by the central bank governors of the G10 countries in 1975. It currently consists of senior representatives of bank supervisory authorities and central banks from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. Documents issued by the BCBS are available through the Bank for International Settlements website at www.bis.org.

³ “Basel III: International framework for liquidity risk measurement, standards and monitoring” (December, 2010), available at www.bis.org/publ/bcbs188.pdf (Basel III Liquidity Framework).

⁴ “Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools” (January 2013), available at www.bis.org/publ/bcbs238.htm.

final rule. This information collection applies to insured state member banks, bank holding companies, savings and loan holding companies, and any subsidiary thereof.

The Board is proposing to revise the FR WW to require depository institution holding companies and nonbank financial companies subject to the LCR (covered company) to disclose publicly information about certain components of its LCR calculation in a standardized tabular format and include a discussion of factors that have a significant effect on its LCR. The annual burden for this information collection is estimated to be 4,453 hours, and increase of 3,360 hours from the current burden of 1,093 hours. There are no required reporting forms associated with this information collection.

Background and Justification

The recent financial crisis demonstrated significant weaknesses in the liquidity positions of banking organizations, many of which experienced difficulty meeting their obligations due to a breakdown of the funding markets. As a result, many governments and central banks across the world provided unprecedented levels of liquidity support to companies in the financial sector in an effort to sustain the global financial system. In the United States, the Board and the FDIC established various temporary liquidity facilities to provide sources of funding for a range of asset classes.

These events came in the wake of a period characterized by ample liquidity in the financial system. The rapid reversal in market conditions and the declining availability of liquidity during the financial crisis illustrated both the speed with which liquidity can evaporate and the potential for protracted illiquidity during and following these types of market events. In addition, the recent financial crisis highlighted the pervasive detrimental effect of a liquidity crisis on the banking sector, the financial system, and the economy as a whole.

Banking organizations' failure to adequately address these challenges was in part due to lapses in basic liquidity risk management practices. Recognizing the need for banking organizations to improve their liquidity risk management and to control their liquidity risk exposures, the agencies worked with regulators from foreign jurisdictions to establish international liquidity standards. These standards include the principles based on supervisory expectations for liquidity risk management in the "Principles for Sound Liquidity Management and Supervision."⁵ In addition to these principles, the BCBS established quantitative standards for liquidity in the "Basel III: International framework for liquidity risk measurement, standards and monitoring" in December 2010, which introduced a liquidity coverage ratio (2010 LCR) and a net stable funding ratio, as well as a set of liquidity monitoring tools. These reforms were intended to strengthen liquidity and promote a more resilient financial sector by improving the banking sector's ability to absorb shocks arising from financial and economic stress. Subsequently, in January 2013, the BCBS issued "Basel III: The Liquidity Coverage Ratio and

⁵ Principles for Sound Liquidity Risk Management and Supervision (September 2008), available at <http://www.bis.org/publ/bcbs144.htm>.

liquidity risk monitoring tools” (Basel III LCR), which updated key components of the 2010 LCR as part of the Basel III liquidity framework.⁶

Current U.S. regulations do not require banking organizations to meet a quantitative liquidity standard. Rather, the agencies evaluate a banking organization’s methods for measuring, monitoring, and managing liquidity risk on a case-by-case basis in conjunction with their supervisory processes.⁷ Since the financial crisis, the agencies have worked to establish a more rigorous supervisory and regulatory framework for U.S. banking organizations that would incorporate and build upon the BCBS standards.

In 2012, pursuant to section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act,⁸ the Board proposed enhanced liquidity standards for large U.S. banking firms, certain foreign banking organizations, and nonbank financial companies designated by the Financial Stability Oversight Council for Board supervision.⁹ These enhanced liquidity standards include corporate governance provisions, senior management responsibilities, independent review, a requirement to hold highly liquid assets to cover stressed liquidity needs based on internally developed stress models, a contingency funding plan, and specific limits on potential sources of liquidity risk.¹⁰

Regulation WW further enhanced supervisory processes by implementing a minimum quantitative liquidity requirement in the form of an LCR. This quantitative requirement focused on short-term liquidity risks and benefited the financial system as a whole by improving the ability of companies subject to the proposal to absorb potential market and liquidity shocks in a severe stress scenario over a short term. The agencies established a minimum LCR that is consistent with the Basel III LCR, with some modifications to reflect characteristics and risks of specific aspects of the U.S. market and U.S. regulatory framework. The reporting and recordkeeping requirements in Regulation WW require that covered institutions promptly notify the Board if they are not meeting the minimum LCR as required by the rule, and that the institutions take prompt action to address any noncompliance. Covered institutions are required to implement certain policies regarding control of its eligible HQLA and to document its methodology for ensuring that eligible HQLA meet the requirements of the rule.

Description of Information Collection

The reporting and recordkeeping requirements in Regulation WW are found in sections 249.22 and 249.40.

⁶ Key provisions of the 2010 LCR that were updated by the BCBS in 2013 include expanding the definition of HQLAs, technical changes to the calculation of various inflow and outflow rates, introducing a phase-in period for implementation, and a variety of rules text clarifications. See www.bis.org/press/p130106b.pdf for a complete list of revisions to the 2010 LCR.

⁷ For instance, the Uniform Financial Rating System adopted by the Federal Financial Institutions Examination Council requires examiners to assign a supervisory rating that assesses a banking organization’s liquidity position and liquidity risk management.

⁸ See 12 U.S.C. § 5365.

⁹ See 77 FR 594 (January 5, 2012); 77 FR 76628 (December 28, 2012).

¹⁰ See 12 U.S.C. § 5365.

Section 249.22 requires that, with respect to each asset eligible for inclusion in a covered company's HQLA amount, the covered company must implement policies that require eligible HQLA to be under the control of the management function in the covered company responsible for managing liquidity risk. The management function must evidence its control over the HQLA by segregating the HQLA from other assets, with the sole intent to use the HQLA as a source of liquidity, or demonstrating the ability to monetize the assets and making the proceeds available to the liquidity management function without conflicting with a business or risk management strategy of the covered company. In addition, section 249.22 requires that a covered company must have a documented methodology that results in a consistent treatment for determining that the covered company's eligible HQLA meet the requirements of section 249.22.

Section 249.40 requires that a covered institution must notify the Board on any day when its LCR is calculated to be less than the minimum requirement in section 249.10. If an institution's LCR is below the minimum requirement in section 249.10 for three consecutive business days, or if the Board has determined that the institution is otherwise materially noncompliant, the institution must promptly provide a liquidity plan for achieving compliance. The liquidity plan must include, as applicable, (1) an assessment of the institution's liquidity position; (2) the actions the institution has taken and will take to achieve full compliance including a plan for adjusting the institution's risk profile, risk management, and funding sources in order to achieve full compliance and a plan for remediating any operational or management issues that contributed to noncompliance; (3) an estimated timeframe for achieving full compliance; and (4) a commitment to provide a progress report to the Board at least weekly until full compliance is achieved.

There are no required reporting forms associated with this information collection. No other federal law mandates these reporting and recordkeeping requirements.

Proposed Revisions

On December 1, 2015, the Board published a proposed rule (80 FR 75010) and on December 27, 2016, the Board published a final rule (81 FR 94922). The final rule became effective on April 1, 2017. The disclosure requirements are found in sections 249.64, 249.90, and 249.91. The final rule requires a depository institution holding company and nonbank financial company subject to the LCR (covered company) to disclose publicly information about certain components of its LCR calculation in a standardized tabular format and include a discussion of factors that have a significant effect on its LCR. Public disclosure of information about covered company LCR calculations will help market participants and other parties consistently assess the liquidity risk profile of covered companies. Under the final rule, a covered company is required to provide timely public disclosures each calendar quarter. A covered company is required to include the completed disclosure template on its public internet site or in a public financial or other public regulatory report and make its disclosures available to the public for at least five years from the time of the initial disclosure.

A covered company must disclose publicly the information required under subpart J beginning on April 1, 2017, if the covered company is subject to the transition period under section 249.50(a) or April 1, 2018, if the covered company is subject to the transition period

under section 249.50(b). For modified LCR holding companies, the final rule would require them to comply with the public disclosure requirements beginning on October 1, 2018.

Under the final rule, quantitative disclosures will convey information about a covered company's HQLA and short-term cash flows, thereby providing insight into a covered company's liquidity risk profile. Consistent with the BCBS common template, the final rule requires a covered company to disclose both average unweighted amounts and average weighted amounts for the covered company's HQLA, cash outflow amounts, and cash inflow amounts. A covered company is also required to calculate all disclosed amounts as simple averages of the components used to calculate its daily LCR over a calendar quarter, except that modified LCR holding companies are required to calculate all disclosed amounts as simple averages of the components used to calculate their monthly LCR. A covered company is required to calculate all disclosed amounts on a consolidated basis and express the results in millions of U.S. dollars or as a percentage, as applicable.

In addition, the final rule requires a covered company to provide a discussion of certain features of its LCR. A covered company's qualitative discussion may include, but does not have to be limited to, the following items: (1) The main drivers of the LCR; (2) changes in the LCR over time and causes of such changes; (3) the composition of eligible HQLA; (4) concentration of funding sources; (5) derivative exposures and potential collateral calls; (6) currency mismatch in the LCR; and (7) the covered company's centralized liquidity management function and its interaction with other functional areas of the covered company.

Time Schedule for Information Collection

The information collection pursuant to the reporting and recordkeeping requirements is event-generated.

Legal Status

The Board's Legal Division has determined that the FR WW is authorized by section 5 of the Bank Holding Company Act (12 U.S.C. § 1844), sections 9 and 11 of the Federal Reserve Act (12 U.S.C. §§ 324 and 334), section 10 of the Home Owners' Loan Act (12 U.S.C. § 1467a), and section 165 of the Dodd-Frank Act (12 U.S.C. § 5365). Section 5(c) of the Bank Holding Company Act authorizes the Board to require bank holding companies to submit reports to the Board regarding their financial condition. Section 9 of the Federal Reserve Act (FRA) requires member banks to file reports regarding nonbank affiliates that "contain such information as in the judgment of the Board...shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Board to inform itself as to the effect of such relations upon the affairs of such bank." Section 11 of the FRA authorizes the Board to require of member banks "such statements and reports as it may deem necessary." Section 10 of the Home Owners' Loan Act requires a savings and loan holding company to file "such reports as may be required by the Board" and provides that such reports "shall contain such information concerning the operations of such savings and loan holding company and its subsidiaries as the Board may require." Section 165 of the Dodd-Frank Act requires the Board to establish prudential standards

for certain bank holding companies; these standards include liquidity requirements. The obligation to respond is mandatory.

No issue of confidentiality arises in connection with the recordkeeping requirements of Regulation WW, as no information is collected by the Board. However, Regulation WW also contains two types of reporting requirements. One reporting requirement concerns the liquidity coverage ratio, the amount of high quality assets held by the bank, and the bank's total net cash outflow. This information will be reported on quarterly basis as an average and made directly to the public by the bank; there will be no issue of confidentiality regarding this information. The second reporting requirement, found in section 249.40 of Regulation WW, requires a bank whose liquidity coverage ratio falls below the regulatory minimum for three business days to report this fact the appropriate bank regulatory authority. Making this reporting requirement public would be likely to cause substantial competitive harm to the bank making the report and impair the Board's ability to obtain sensitive financial information from supervised institutions. This information is therefore exempt from disclosure pursuant to exemptions 4 and 8 of the Freedom of Information Act (5 U.S.C. §§ 552(b)(4) and (b)(8), respectively). Exemption 4 covers confidential commercial or financial information while exemption 8 covers matters contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of the Board, an agency responsible for the regulation and supervision of financial institutions.

Consultation Outside the Agency

On December 1, 2015, the Board published a notice of proposed rulemaking in the *Federal Register* (80 FR 75010) for public comment. The comment period for this notice expired on February 2, 2016. The Board did not receive any public comments on the PRA analysis. On December 27, 2016, the Board published a final rule in the *Federal Register* (81 FR 94922). The final rule is effective on April 1, 2017.

Estimate of Respondent Burden

The current annual burden for the FR WW is estimated to be 1,093 hours. The annual burden for the proposed FR WW would be 4,453 hours, an increase of 3,360 hours for the new disclosure requirements. These reporting, recordkeeping, and disclosure requirements represent less than 1 percent of the total Federal Reserve System paperwork burden.

FR WW	<i>Number of respondents</i> ¹¹	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current				
Reporting				
Section 249.40(a)	3	12	0.25	9
Section 249.40(b)	3	1	0.25	1
Section 249.40(b)(4)	3	4	0.25	<u>3</u>
				13
Recordkeeping				
Sections 249.22(a)(2) and (a)(5)	39	1	20	780
Section 249.40(b)	3	1	100	<u>300</u>
				1,080
<i>Current Total</i>				1,093
Proposed				
Reporting				
Section 249.40(a)	3	12	0.25	9
Section 249.40(b)	3	1	0.25	1
Section 249.40(b)(4)	3	4	0.25	<u>3</u>
				13
Recordkeeping				
Sections 249.22(a)(2) and (a)(5)	39	1	20	780
Section 249.40(b)	3	1	100	<u>300</u>
				1,080
Disclosure				
Sections 249.66, 90, and 91	35	4	24	3,360
<i>Proposed Total</i>				4,453
<i>Change</i>				3,360

The total cost to the public is estimated to increase from the current level of \$60,006 to \$244,470 for the revised FR WW.¹²

¹¹ Of these respondents, none are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) www.sba.gov/contracting/getting-started-contractor/make-sure-you-meet-sba-size-standards/table-small-business-size-standards.

¹² 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.nr0.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.

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 is negligible.