SUPPORTING STATEMENT

Advanced Capital Adequacy Framework
Regulatory Reporting Requirements

FFIEC 101

OMB Control No. 1557-0239

Office of the Comptroller of the Currency (OCC) requests approval from the Office of Management and Budget (OMB) to revise the Federal Financial Institutions Examination Council (FFIEC) Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework (FFIEC 101) under the emergency clearance provisions of OMB's regulations. The revisions to the FFIEC 101 that are the subject of this request have been approved by the FFIEC, of which the OCC, the Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC) (the agencies) are members. The Board and the FDIC 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 OCC 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 OCC to evaluate the quantitative impact and competitive implications of the framework on individual respondents and on the financial 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 OCC proposes to revise the FFIEC 101 to allow institutions subject to the advanced approaches rule to estimate and report high volatility commercial real estate (HVCRE) exposures on Schedules B and G of the FFIEC 101 in a manner consistent with section 214 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA).[1] To avoid the regulatory burden associated with applying different definitions for HVCRE exposures within a single organization, the agencies propose to allow an institution subject to the advanced approaches rule to estimate and report HVCRE exposures on Schedules B and G of the FFIEC 101 using the definition under section 214 effective for the June 30, 2018, report date. Institutions may refine their estimates in good faith as they obtain additional information, but they will not be required to amend FFIEC 101 reports previously filed for report dates on or after June 30, 2018, as these estimates are adjusted. Alternatively, institutions may report HVCRE exposures in a manner consistent with the current definition contained in the agencies' regulatory capital rules, until the agencies take further action.

[1] The advanced approaches rule refers to minimum capital standards and a risk-weighting methodology for firms that meet defined asset or off-balance sheet criteria, or that meet certain other requirements.

The current total annual burden for the FFIEC 101 would remain unchanged based on 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 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 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)[2] 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 Basel II Capital 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 Basel II Capital 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), 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 Basel II Capital Accord and recognized developments in financial products, incorporated advances in risk measurement and management practices, and imposed capital requirements that are generally more sensitive to risk. In particular, the final rule required 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 bank holding companies. The additional regulatory reporting requirements referenced within the final rule, and described more

[2] 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.

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 OCC 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 OCC'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 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 report assists supervised institutions in understanding expectations surrounding the system development necessary for implementation and validation of the framework.

The OCC monitors and assesses 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 12 CFR 3 includes transitional arrangements that involve capital floors linked to the general risk-based capital rules, 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.

Proposed Revisions

The agencies are proposing reporting revisions to the FFIEC 101 to implement the new CECL accounting standard and the agencies' final rule providing regulatory capital relief to institutions that adopt the new CECL accounting standard.

<u>CECL</u>

In June 2016, the FASB issued ASU 2016-13, which introduced CECL for estimating allowances for credit losses and added Topic 326, Credit Losses, to the Accounting Standards Codification (ASC). The new credit losses standard changes several aspects of existing U.S. generally accepted accounting principles (U.S. GAAP) as follows:

Introduction of a new credit loss methodology.

The new accounting standard developed by the FASB has been designed to replace the existing

incurred loss methodology in U.S. GAAP. Under CECL, the allowance for credit losses is an estimate of the expected credit losses on financial assets measured at amortized cost, which is measured using relevant information about past events, including historical credit loss experience on financial assets with similar risk characteristics, current conditions, and reasonable and supportable forecasts that affect the collectability of the remaining cash flows over the contractual term of the financial assets. In concept, an allowance will be created upon the origination or acquisition of a financial asset measured at amortized cost. At subsequent reporting dates, the allowance will be reassessed for a level that is appropriate as determined in accordance with CECL. The allowance for credit losses under CECL is a valuation account, measured as the difference between the financial assets' amortized cost basis and the amount expected to be collected on the financial assets, i.e., lifetime expected credit losses.

Reduction in the number of credit impairment models.
Impairment measurement under existing U.S. GAAP has often been considered complex because it encompasses five credit impairment models for different financial assets.[3] In contrast, CECL introduces a single measurement objective to be applied to all financial assets measured at amortized cost, including loans held-for-investment (HFI) and held-to-maturity (HTM) debt securities. CECL does not, however, specify a single method for measuring expected credit losses; rather, it allows any reasonable approach, as long as the estimate of expected credit losses achieves the objective of the FASB's new accounting standard. Under the existing incurred loss methodology, institutions use various methods, including historical loss rate methods, roll-rate methods, and discounted cash flow methods, to estimate credit losses. CECL allows the continued use of these methods; however, certain changes to these methods will need to be made in order to estimate lifetime expected credit losses.

Purchased credit-deteriorated (PCD) financial assets.
CECL introduces the concept of PCD financial assets, which replaces purchased credit-impaired (PCI) assets under existing U.S. GAAP. The differences in the PCD criteria compared to the existing PCI criteria will result in more purchased loans HFI, HTM debt securities, and available-for-sale (AFS) debt securities being accounted for as PCD financial assets. In contrast to the existing accounting for PCI assets, the new standard requires the estimate of expected credit losses embedded in the purchase price of PCD assets to be estimated and separately recognized as an allowance as of the date of acquisition. This is accomplished by grossing up the purchase price by the amount of expected credit losses at acquisition, rather than being reported as a credit loss expense. As a result, as of the acquisition date, the amortized cost basis of a PCD financial asset is equal to the purchase price of the asset plus the allowance for credit losses, rather than equal to the purchase price as is currently recorded for PCI loans.

AFS debt securities.
The new accounting standard also modifies the existing accounting practices for impairment on AFS debt securities. Under this new standard, institutions will recognize a credit loss on an AFS debt security through an allowance for credit losses, rather than a direct write-down as is

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[3] Current U.S. GAAP includes five different credit impairment models for instruments within the scope of CECL: ASC Subtopic 310-10, Receivables-Overall; ASC Subtopic 450-20, Contingencies-Loss Contingencies; ASC Subtopic 310-30, Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality; ASC Subtopic 320-10, Investments-Debt and Equity Securities - Overall; and ASC Subtopic 325-40, Investments-Other-Beneficial Interests in Securitized Financial Assets.

required by current U.S. GAAP. The recognized credit loss is limited to the amount by which the amortized cost of the security exceeds fair value. A write-down of an AFS debt security's amortized cost basis to fair value, with any incremental impairment reported in earnings, would be required only if the fair value of the AFS debt security is less than its amortized cost basis and either (1) the institution intends to sell the debt security, or (2) it is more likely than not that the institution will be required to sell the security before recovery of its amortized cost basis. Although the measurement of credit loss allowances is changing under CECL, the FASB's new accounting standard does not address when a financial asset should be placed in nonaccrual status. Therefore, institutions should continue to apply the agencies' nonaccrual policies that are currently in place. In addition, the FASB retained the existing write-off guidance in U.S. GAAP, which requires an institution to write off a financial asset in the period the asset is deemed uncollectible.

Institutions must apply ASU 2016-13 in their Call Report submissions in accordance with the effective dates set forth in the ASU, if an institution is required to file such form. For institutions that are public business entities (PBE) and also are Securities and Exchange Commission (SEC) filers, as both terms are defined in U.S. GAAP, the new credit losses standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Thus, for an SEC filer that has a calendar year fiscal year, the standard is effective January 1, 2020, and the institution must first apply the new credit losses standard in its Call Report for the quarter ended March 31, 2020.

For a PBE that is not an SEC filer, the credit losses standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Thus, for a PBE that is not an SEC filer and has a calendar year fiscal year, the standard is effective January 1, 2021, and the institution must first apply the new credit losses standard in its Call Report for the quarter ended March 31, 2021. For an institution that is not a PBE, the credit losses standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Thus, for an institution that is not a PBE and has a calendar year fiscal year, the standard is effective January 1, 2022, and the institution must first apply the new credit losses standard in its Call Report for the quarter ended March 31, 2022. For regulatory reporting purposes, early application of the new credit losses standard is permitted for all institutions for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

A. JUSTIFICATION.

1. __Circumstances that make the collection necessary:__

The OCC is charged with assuring the safety and soundness of national banks and Federal savings associations. (12 U.S.C. 1). In carrying out those duties, banks must submit information to the OCC: 12 U.S.C. 161 (national banks) and 12 U.S.C. 1464 (savings associations). The OCC uses this information to assess and monitor the levels and components of each bank's risk-based capital requirements and the adequacy of the entity's capital under the Advanced Capital Adequacy Framework, which is a significant component of a bank's safety and soundness.

2. Use of the information:

The OCC uses the information to assess and monitor the levels and components of each bank's risk-based capital requirements and the adequacy of the entity's capital under the Advanced Capital Adequacy Framework. The data allows the OCC to evaluate the quantitative impact and competitive implications of the framework on individual respondents and on the industry. The reporting schedules assist banks in understanding expectations surrounding the system development necessary for implementation and validation of the framework. The data also improves the OCC's ability to monitor bank activities through the examination processes.

The purpose of the detailed reports, identified below, is to obtain information that broadly reflects risk segments within each portfolio. The reports enable the OCC to conduct off-site assessment of banks' regulatory capital calculations, perform trend analyses of capital changes, conduct peer analyses of capital and risk parameters, and direct the focus of on-site examination efforts.

The information is collected using the form "FFIEC 101." The FFIEC 101 contains nineteen schedules, A through S, for banks to submit detailed data on the components of their capital and risk-weighted assets.

Schedule A includes information about the components of Tier 1 capital, Tier 2 capital, and adjustments to regulatory capital as defined in the NPRM. Schedule B contains: summary information about risk-weighted assets by risk type; and, for credit risk exposures, outstanding balances and aggregated information about the drivers and estimates on which the calculation of risk-weighted assets are based.

Schedules C-J include data items within the wholesale exposure category for banks' risk-weighted assets.

Schedules K-O are data items within the retail exposure category and each schedule represents a sub-portfolio of the retail exposure category for banks' risk-weighted assets.

Schedules P and Q are data items within the securitization exposure class for banks' risk-weighted assets.

Schedule R provides: information about a bank's equity exposures by type of exposure and by approach to measuring required capital; and information on equity exposures subject to specific weights and equity exposures to investment funds.

Schedule S provides data within the operational risk exposure class. The data items include details about historical operational losses for the reporting period and those used to model operational risk capital.

3. Consideration of the use of improved information technology:

Banks must file the information required under this collection electronically. Any information technology that permits review by OCC examiners may be used.

4. Efforts to identify duplication:

The required information is unique and is not duplicative of any other information already collected.

5. If the collection of information impacts small businesses or other small entities, describe any methods used to minimize burden.

Small banks are not impacted by this collection. The FFIEC 101 is only required for advanced approaches banks, which are generally those with at least $50 billion of assets.

6. Consequences if the collection were conducted less frequently:

The OCC would not be able to adequately monitor capital levels and ensure safety and soundness of national banks and Federal savings associations in a timely manner.

7. Special circumstances:

There are no special circumstances in this collection.

8. Efforts to consult with persons outside the agency:

The OCC, along with the FDIC and Board, requested comment for 60 days on the proposed changes through a notice published in the Federal Register on September 28, 2018. See 83 FR 49160.

The agencies received comments on the proposals covered in the notice from two entities, a bankers' association and a bank. None of the comments addressed the proposed revisions to this information collection (FFIEC 101).

9. Payment or gift to respondents:

None.

10. Any assurance of confidentiality:

The FFIEC 101 information collections are generally given confidential treatment (5 U.S.C. 552(b)(4)). However, the agencies make public the information collected on the FFIEC 101 Schedule A, except for a few advanced approaches-specific line items identified below, for all advanced approaches institutions regardless of their parallel run status starting with the report for the March 31, 2014, report date. For report dates after the reporting institution conducts a satisfactory parallel run Schedules A and B, as well as line items 1 and 2 of Schedule S, of the institution's FFIEC 101 are no longer given confidential treatment.

11. Justification for questions of a sensitive nature:

There are no questions of a sensitive nature.

12. Burden estimate:

Estimated Number of Respondents: 14 national banks and savings associations.

Estimated Time per Response: 675 burden hours per quarter to file.

Estimated Total Annual Burden: 37,800 hours.

Cost of Hour Burden to Respondents:

37,800 hours x $117 = $4,422,600

To estimate wages we reviewed data from May 2017 for wages (by industry and occupation) from the U.S. Bureau of Labor Statistics (BLS) for depository credit intermediation (NAICS 522100). To estimate compensation costs associated with the rule, we use $117 per hour, which is based on the average of the 90th percentile for seven occupations adjusted for inflation (2.2 percent), plus an additional 34.2 percent to cover private sector benefits for financial activities.

13. Estimate of total annual costs to respondents (excluding cost of hour burden in Item #12):

Not applicable.

14. Estimate of annualized costs to the Federal government:

Not applicable.

15. Change in burden:

The OCC anticipates no change in burden for the respondents it supervises, as the OCC believes that either continuing to use the existing definition of HVCRE or using the definition of HVCRE ADC Loan as defined by statute will represent a similar amount of burden.

16. Publication of information for statistical purposes:

The OCC is not publishing the information for statistical purposes.

17. Reasons for not displaying OMB approval expiration date:

Not applicable.

18. Exceptions to the certification statement in Item 19 of OMB Form 83-I:

None.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS.

Not applicable.