SUPPORTING STATEMENT
LIQUIDITY COVERAGE RATIO:
LIQUIDITY RISK MEASUREMENT, STANDARDS, AND MONITORING (LCR)
(OMB Control No. 3064-0197)

INTRODUCTION

This submission is being made in connection with a joint notice of proposed rulemaking[1] published in the *Federal Register* with the Office of the Comptroller of the Currency (OCC) and the Board of Governors of the Federal Reserve System (FRB), and the Federal Deposit Insurance Corporation[2] (FDIC) (collectively, the agencies) on May 24, 2019 (the proposed rule), a previously published joint notice of proposed rulemaking with the OCC, FRB and the FDIC,[3] and a previously published joint notice of proposed rulemaking with the OCC, FRB and the FDIC to implement a net stable funding ratio (NSFR) requirement for large and internationally active banking organizations[4] (collectively, the combined proposal). The combined proposal would revise certain reporting and recordkeeping requirements in the LCR rule found at 12 C.F.R. part 329 therefore changing the burden associated with the current information collection titled, "Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, And Monitoring (LCR)" (OMB No. 3064-0197), which expires on April 30, 2021.

The combined proposal would require a covered company[5] to take certain actions following a NSFR shortfall. In addition, if an institution includes an available stable funding (ASF) amount in excess of the required stable funding (RSF amount) of the consolidated subsidiary, it must implement and maintain written procedures to identify and monitor applicable statutory, regulatory, contractual, supervisory, or other restrictions on transferring assets from the consolidated subsidiaries.

A. JUSTIFICATION

1 "Changes to Applicability Thresholds for Regulatory Capital Requirements for Certain U.S. Subsidiaries of Foreign Banking Organizations and Application of Liquidity Requirements to Foreign Banking Organizations, Certain U.S. Depository Institution Holding Companies, and Certain Depository Institution Subsidiaries; Proposed Rule," 84 FR 24296 (May 24, 2019).

2 The FDIC is issuing this proposed rule under its authorities under Sections 12 U.S.C. 1828 and 1831o of the Federal Deposit Insurance Act.

3 "Proposed Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements," 83 FR 66024 (Dec. 21, 2018).

4 "Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements," 81 FR 35124 (Jun. 1, 2016).

5 Covered company includes bank holding companies, certain savings and loan holding companies, and depository institutions, in each case with $250 billion or more in total consolidated assets or $10 billion or more in total on-balance sheet foreign exposure, as well as any consolidated subsidiary depository institution with total consolidated assets of $10 billion or more. Note that in two recent notices of proposed rulemaking the agencies invited comment on revisions to the framework for determining the applicability of the standardized liquidity requirements, including the LCR rule and the NSFR proposed rule, for U.S. and foreign banking organizations (in the latter case, with respect only to their combined U.S. operations). *See supra* notes 1 and 3. These proposed rulemakings, if adopted, would revise the scope of application of the LCR rule and the NSFR proposed rule.

1. <u>Circumstances and Need</u>

In 2014, the OCC, the FRB and the FDIC adopted the Liquidity Coverage Ratio (LCR) rule that implemented a quantitative liquidity requirement consistent with the liquidity coverage ratio standard established by the Basel Committee on Banking Supervision. The LCR rule establishes a quantitative minimum liquidity coverage ratio that requires a company subject to the rule to maintain an amount of high-quality liquid assets (the numerator of the ratio) that is no less than 100 percent of its total net cash outflows over a prospective 30 calendar-day period (the denominator of the ratio). The LCR rule applies to all internationally active banking organizations, generally, bank holding companies, certain savings and loan holding companies, and depository institutions with more than $250 billion in total assets or more than $10 billion in on-balance sheet foreign exposure, and to their consolidated subsidiaries that are depository institutions with $10 billion or more in total consolidated assets. The LCR rule contains reporting and recordkeeping requirements that are found in Sections 329.22 and 329.40.

Proposed Rulemaking

The combined proposal would revise Sections 329.1, .3, .30, .50, and .105 of the FDIC's LCR rule to require depository institution subsidiaries of certain U.S. intermediate holding companies of foreign banking organizations to calculate an LCR and NSFR. In addition, Section 329.110 would require a covered company to take certain actions following any NSFR shortfall. A covered company would be required to notify its appropriate Federal banking agency of the shortfall no later than 10 business days (or such other period as the appropriate Federal banking agency may otherwise require by written notice) following the date that any event has occurred that would cause or has caused the covered company's NSFR to be less than 1.0. It must also submit to its appropriate Federal banking agency its plan for remediation of its NSFR to at least 1.0, and submit at least monthly reports on its progress to achieve compliance. Section 329.108(b) provides that if an institution includes an ASF amount in excess of the RSF amount of the consolidated subsidiary, it must implement and maintain written procedures to identify and monitor applicable statutory, regulatory, contractual, supervisory, or other restrictions on transferring assets from the consolidated subsidiaries. These procedures must document which types of transactions the institution could use to transfer assets from a consolidated subsidiary to the institution and how these types of transactions comply with applicable statutory, regulatory, contractual, supervisory, or other restrictions. Section 329.110(b) requires preparation of a plan for remediation to achieve an NSFR of at least equal to 1.0, as required under Section 329.100.

2. <u>Use of the Information Collected</u>

The LCR rule is designed to promote the short-term resilience of the liquidity risk profile of large and internationally active banking organizations, thereby improving the banking sector's ability to absorb shocks arising from financial and economic stress, and to further improve the measurement and management of liquidity risk.

3. Use of Technology to Reduce Burden

Respondents may use any type of improved information technology they have available to meet the requirements of this regulation.

4. Efforts to Identify Duplication

There is no duplication. This information is not available elsewhere.

5. Minimizing Burden on Small Entities

This collection does not have a significant impact on a substantial number of small entities. In particular, according to Call Report data as of December 31, 2018, there were 3,489 FDIC-supervised institutions. Only two of these FDIC-supervised institutions are affected by the LCR rule, none of which has total assets of less than $550 million therefore meeting the Small Business Administration's definition of a "small entity."

6. Consequences of Less Frequent Collections

Less frequent collection would result in safety and soundness concerns.

7. Special Circumstances

None.

8. Consultation with Persons Outside the FDIC

On May 24, 2019, the agencies published the proposed rule in the *Federal Register* (84 FR 24296). The comment period for the proposed rule in connection with the Paperwork Reduction Act of 1995 closes on June 21, 2019.

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. Estimates of Hour Burden and Annualized Cost

Summary of Annual Burden and Internal Cost							
	Type of Burden	Obligation to Respond	Estimated Number of Respondents	Estimated Frequency of Responses	Estimated Time per Response	Frequency of Response	Total Annual Estimated Burden
Liquidity Coverage Ratio (LCR) - 12 CFR 329.40 and .110							
§ 329.40(a) - Notification that liquidity coverage ratio is less than minimum in § 329.10	Reporting	Mandatory	2	12	0.25	On Occasion	6.00
§ 329.110(a) - NSFR shortfall notification	Reporting	Mandatory	2	12	0.25	On Occasion	6.00
§ 329.40(b) - Notification that liquidity coverage ratio is less than minimum in § 329.10 for 3 consecutive days or otherwise noncompliant	Reporting	Mandatory	2	1	0.25	On Occasion	0.50
§ 329.110(b) - NSFR shortfall liquidity plan	Reporting	Mandatory	2	1	0.25	On Occasion	0.50
§ 329.40(b) - Liquidity plan for achieving compliance	Recordkeeping	Mandatory	2	1	100.00	On Occasion	200.00
§ 329.110(b) - NSFR liquidity plan for achieving compliance	Recordkeeping	Mandatory	2	1	100.00	On Occasion	200.00
§ 329.40(b)(3)(iv) - Report of progress toward achieving compliance	Reporting	Mandatory	2	4	0.25	On Occasion	2.00
§ 329.110(b)(3) - NSFR report of progress toward achieving compliance	Reporting	Mandatory	2	4	0.25	On Occasion	2.00
Liquidity Coverage Ratio (LCR) - 12 CFR 329.22 and .108							
§ 329.22(a)(2) - Policies that require eligible HQLA to be under control of liquidity risk management function	Recordkeeping	Mandatory	2	1	10.00	On Occasion	20.00
§ 329.22(a)(5) - Documented methodology providing consistent treatment for determining whether eligible HQLA meets operational requirements	Recordkeeping	Mandatory	2	1	10.00	On Occasion	20.00
§ 329.108(b) - NSFR consolidation procedures	Recordkeeping	Mandatory	2	1	20.00	On Occasion	40.00
TOTAL HOURLY BURDEN							497 hours
TOTAL INTERNAL COST	$73.00	/HR					$36,281.00

Annualized Cost of Internal Hourly Burden:
497 hours x $73 per hour[6] = $36,281.00.

Estimated Category of Personnel Responsible for Complying with the PRA Burden	Total Estimated Hourly Compensation	Estimated Weights	Estimated Total Weighted Labor Cost Component
Executives and Managers*	$122	0%	$0
Lawyers**	$156	0%	$0
Compliance Officer***	$63	50%	$32
IT Specialists†	$89	0%	$0
Financial Analysts††	$83	50%	$42
Clerical‡	$32	0%	$0
Total Estimated Weighted Average Hourly Compensation Rate		100%	$73

Source: Bureau of Labor Statistics: "National Industry-Specific Occupational Employment and Wage Estimates: Depository Credit Intermediation Sector: hourly 75th percentile wage" (May 2017), Employer Cost of Employee Compensation (December 2018), Consumer Price Index (December 2018).

Note: The wage information reported by the BLS in the Specific Occupational Employment and Wage Estimates does not include health benefits and other non-monetary benefits. According to the December 2018 Employer Cost of Employee Compensation data compensation rates for health and other benefits are 33.7 percent of total compensation. Additionally, the wage has been adjusted for inflation according BLS data on the Consumer Price Index for Urban Consumers (CPI-U) so that it is contemporaneous with the non-wage compensation statistic. The inflation rate was 3.59 percent between May 2017 and December 2018.

* Occupation (SOC Code): Management Occupations (110000)

** Occupation (SOC Code): Lawyers, Judges, and Related Workers(231000)

*** Occupation (SOC Code): Compliance Officers(131041)

† Occupation (SOC Code): Computer and Mathematical Occupations (150000)

†† Occupation (SOC Code): Financial Analyst (132051)

‡ Occupation (SOC Code): Office and Administrative Support Occupations(430000)

13. Capital, Start-Up, Operating, and Maintenance Costs

None.

6 The wage information reported by the BLS in the Specific Occupational Employment and Wage Estimates does not include health benefits and other non-monetary benefits. According to the December 2018 Employer Cost of Employee Compensation data compensation rates for health and other benefits are 33.7 percent of total compensation. Additionally, the wage has been adjusted for inflation according BLS data on the Consumer Price Index for Urban Consumers (CPI-U) so that it is contemporaneous with the non-wage compensation statistic. The inflation rate was 3.59 percent between May 2017 and December 2018.

14. Estimate of annualized costs to the government

None.

15. Change in burden

There is a 249 increase in hourly burden as a result of the combined proposal. As discussed above, the combined proposal would revise certain LCR reporting and recordkeeping requirements found at 12 C.F.R. part 329.

16. Publication

The information is not published.

17. Display of expiration date

Not applicable.

18. Exceptions to certification statement

None.

B. STATISTICAL METHODS

Not applicable.