Supporting Statement for the
Recordkeeping and Disclosure Requirements Associated with Regulation Q
(FR Q; OMB No. 7100-0313)

Regulatory Capital Rule: Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996
(Docket No. R-1576) (RIN 7100-AE74)

Summary

The Board of Governors of the Federal Reserve System (Board), under authority delegated by the Office of Management and Budget (OMB), has extended for three years, with revision, the Recordkeeping and Disclosure Requirements Associated with Regulation Q (FR Q; OMB No. 7100-0313). In September and October of 2013, the Office of the Comptroller of the Currency (OCC), Board, and Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies) published final rules[1] that revised their risk-based and leverage capital requirements for banking organizations. For the Board, Regulation Q - Capital Adequacy of Bank Holding Companies, Savings and Loan Holding Companies, and State Member Banks (12 CFR 217) was revised and created recordkeeping and disclosure requirements.

The agencies adopted a final rule to simplify certain aspects of the capital rule. Under the final rule, non-advanced approaches banking organizations will be subject to simpler regulatory capital requirements for mortgage servicing assets, certain deferred tax assets arising from temporary differences, and investments in the capital of unconsolidated financial institutions than those currently applied. The final rule also simplifies, for non-advanced approaches banking organizations, the calculation for the amount of capital issued by a consolidated subsidiary of a banking organization and held by third parties (sometimes referred to as a minority interest) that is includable in regulatory capital. In addition, the final rule makes technical amendments to, and clarifies certain aspects of, the agencies' capital rule for both non-advanced approaches banking organizations and advanced approaches banking organizations. Section 217.63 of the final rule breaks out the disclosures in Table 8 to include (1) after-tax gain-on-sale on a securitization that has been deducted from common equity tier 1 capital and (2) credit-enhancing interest-only strip that is assigned a 1,250 percent risk weight. The final rule is effective on October 1, 2019.

The current estimated total annual burden for the FR Q is 79,271 hours, and would remain the same with the adopted revisions.

Background and Justification

Section 1831o(c) of the Federal Deposit Insurance 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 International Lending Supervision Act of 1983 (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 applicable federal banking agency may deem appropriate. Section 908 of the ILSA (12 U.S.C.

[1] See 78 FR 55340 (September 10, 2013) and 78 FR 62018 (October 11, 2013).

§ 3907(b)(3)(C)), also directs the Chairman of the Federal Reserve System 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.

On December 7, 2007, the OCC, Board, FDIC, and Office of Thrift Supervision (OTS) issued the joint final rule (December 2007 final rule) titled Risk-Based Capital Standards: Advanced Capital Adequacy Framework implementing a risk-based regulatory capital framework for institutions in the United States (72 FR 69288). The rule was based on the June 2004 Basel Committee on Banking Supervision's document, "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (New Accord).

The December 2007 final rule implemented the New Accord in the United States and builds on improvements to risk assessment approaches that a number of large banks have adopted over the last two decades. In particular, the rule required banks to assign risk parameters to exposures and provides specific risk-based capital formulas that are used to transform these risk parameters into risk-based capital requirements. The collection of information contained in the rule was necessary to ensure that the new risk-based regulatory capital framework is implemented in the United States in a safe and sound manner.

On October 11, 2013, the OCC and Board adopted a final rule that revised their risk-based and leverage capital requirements for banking organizations. The final rule consolidated three separate notices of proposed rulemaking that the OCC, Board, and FDIC published with selected changes.[2] The final rule implemented a revised definition of regulatory capital, 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 risk-based capital rules, a supplementary leverage ratio that incorporated a broader set of exposures in the denominator. The final rule incorporated these new requirements into the agencies' prompt corrective action framework. In addition, the final rule established 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. Further, the final rule amended the methodologies for determining risk-weighted assets for all banking organizations, and introduced disclosure requirements that would apply to top-tier banking organizations domiciled in the United States with $50 billion or more in total assets. The final rule also adopted changes to the agencies' regulatory capital requirements that meet the requirements of section 171 and section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).[3]

The final rule also codified the agencies' regulatory capital rules, which had previously resided in various appendices to their respective regulations, into a harmonized integrated regulatory framework. In addition, the Board amended the advanced approaches and market risk rules to apply to top-tier savings and loan holding companies domiciled in the United States,

[2] See 77 FR 52792, 77 FR 52888, and 77 FR 52978 (August 30, 2012).
[3] See Public Law 111-203, 124 Stat. 1376, 1435-38 (2010).

except for certain savings and loan holding companies that are substantially engaged in insurance underwriting or commercial activities.

Description of Information Collection

The recordkeeping requirements are found in sections 217.3(d), 217.22(h)(2)(iii)(A), 217.35(b)(3)(i)(A), 217.37(c)(4)(i)(E), 217.41(b)(3), 217.41(c)(2)(i), 217.41(c)(2)(ii), 217.121(b), 217.122, 217.123, 217.124, 217.132(b)(2)(iii)(A), 217.132(b)(3), 217.132(d)(1), 217.132(d)(1)(iii), 217.132(d)(2)(iv), 217.132(d)(3)(vi), 217.132(d)(3)(viii), 217.132(d)(3)(ix), 217.132(d)(3)(x), 217.132(d)(3)(xi), 217.141(b)(3), 217.141(c)(1), 217.141(c)(2)(i)-(ii), and 217.153. The disclosure requirements are found in sections 217.42(e)(2), 217.62, 217.63, 217.142, 217.172, and 217.173 Tables 4, 5, 9, 12, and 13. No other federal law mandates these recordkeeping and disclosure requirements.

Minimum Capital Ratios

Recordkeeping Requirements

Section 217.3(d) provides 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 217.22(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

Recordkeeping Requirements

Section 217.35(b)(3)(i)(A) requires, 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 217.37(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 217.41(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.

Section 217.41(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 217.41(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.

Disclosure Requirements

Section 217.42(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 217.62 sets forth disclosure requirements related to a bank's capital requirements. Section 217.62(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 requires the bank to disclose as soon as practicable thereafter, a brief discussion of the change and its likely impact. This section allows for annual disclosure of qualitative information that typically does not change each quarter, provided that any significant changes are disclosed in the interim. Section 217.62(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 217.62(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 217.62 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 217.63 sets forth disclosure requirements for banks with total consolidated assets of $50 billion or more that are not advanced approaches banks. Section 217.63(a) requires a covered institution to make the disclosures in Tables 1 through 10. The covered institution must make these disclosures publicly available for each of the last three years (that is, twelve quarters) or such shorter period beginning on January 1, 2015. Section 217.63(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 in section 217.63 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 (Risk-Weighted Assets - Market Risk) of the rule, and interest rate risk for non-trading activities.

Advanced Approach

Recordkeeping Requirements

Sections 217.121 and 122 requires that a covered institution adopt a written implementation plan that addresses how it will comply with the advanced capital adequacy 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 establish and maintain 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 their 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 217.123 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 217.124 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 217.132(b)(2)(iii)(A) addresses counterparty credit risk of repo-style transactions, eligible margin loans, and over-the-counter (OTC) derivative contracts and allows an institution, with the prior written approval of the agency, 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 Board approval to use its own internal estimates, an institution must satisfy the minimum quantitative standards outlined in this section.

Section 217.132(b)(3) provides that with the prior written approval of the agency, an institution may estimate exposure at default (EAD) for a netting set using a value-at-risk (VaR) model that meets certain requirements.

Section 217.132(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 217.132(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 217.132(d)(2)(iv) provides that for risk-weighted assets using the internal models methodology (IMM), an institution uses an internal model to estimate the expected exposure (EE) for a netting set and then calculates EAD based on that EE. An institution must calculate two EEs and two EADs (one stressed and one unstressed) for each netting as outlined in this section.

Section 217.132(d)(3)(vi) requires that an institution, in order to obtain agency approval to calculate the distributions of exposures upon which the EAD calculation is based, must demonstrate to the satisfaction of the agency that it has been using for at least one year an internal model that broadly meets the minimum standards, with which the institution must maintain compliance. The institution 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 217.132(d)(3)(viii) requires that when estimating model parameters based on a stress period, the institution must use at least three years of historical data that include a period of stress to the credit default spreads of the institution's counterparties. The institution must review the data set and update the data as necessary, particularly for any material changes in its counterparties. The institution must demonstrate at least quarterly that the stress period coincides with increased credit default swap (CDS) or other credit spreads of the institution's counterparties. The institution 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 agency may require the institution to modify its stress calibration to better reflect actual historic losses of the portfolio.

Section 217.132(d)(3)(ix) requires that an institution 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 217.132(d)(3)(x) requires that an institution must have policies for the measurement, management, and control of collateral and margin amounts.

Section 217.132(d)(3)(xi) requires that an institution 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 217.141 addresses operational criteria for recognizing the transfer of risk. Section 217.141(b)(3) requires a well-reasoned legal opinion confirming the enforceability of the credit risk mitigant in all relevant jurisdictions. Section 217.141(c)(1) and 217.141(c)(2)(i) require an advanced approaches institution 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 217.141(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 217.153 provides that an institution must receive prior written approval from its primary Federal supervisor before it can use internal models approach (IMA).

Disclosure Requirements

Section 217.142 which outlines the capital treatment for securitization exposures, requires that an institution disclose publicly that it has provided implicit support to the securitization and the regulatory capital impact to the bank of providing such implicit support.

Section 217.172 specifies that each consolidated institution must publicly disclose its total and tier 1 risk-based capital ratios and their components.

Section 217.173 requires an institution that is an advanced approaches institution to make the qualitative and quantitative disclosures described in Tables 1 through 12. The institution must make these disclosures publicly available for each of the last three years (that is, twelve quarters) or such shorter period beginning on January 1, 2014. Table 4 to section 217.173 addresses disclosures related to capital conservation and countercyclical capital buffers, Table 5 to section 217.173 addresses general disclosures related to credit risk, Table 9 to section 217.173 addresses disclosures related to securitizations, Table 12 to section 217.173 addresses disclosures related to interest rate risk for non-trading activities, and Table 13 to section 217.173 addresses disclosures related to supplementary leverage ratios.

Risk-based Capital Surcharge for GSIBs

Recordkeeping Requirements

A bank holding company (BHC) is a global systemically important BHC (GSIB) if its method 1 score equals or exceeds 130 basis points. A BHC must calculate its method 1 and method 2 scores on an annual basis by December 31 of each year.

Section 217.402 requires an advanced approaches BHC to annually calculate its method 1 score, which is the sum of its systemic indicator scores for the twelve systemic indicators set forth in Table 1 of the final rule. The systemic indicator score in basis points for a given systemic indicator is equal to the ratio of the amount of that systemic indicator, as reported on the bank holding company's most recent Banking Organization Systemic Risk Report (FR Y-15; OMB

No. 7100-0352); to the aggregate global indicator amount for that systemic indicator published by the Board in the fourth quarter of that year; multiplied by 10,000; and multiplied by the indicator weight corresponding to the systemic indicator as set forth in Table 1 of the final rule.

Section 217.403 requires a BHC to annually calculate its GSIB surcharge, which is the greater of its method 1 and method 2 scores. The method 2 score is equal to the sum of the global systemically important BHC's systemic indicator scores for the nine systemic indicators set forth in Table 1 of the final rule and the global systemically important BHC's short-term wholesale funding score. The systemic indicator score is equal to the amount of the systemic indicator, as reported on the global systemically important BHC's most recent FR Y-15, multiplied by the coefficient corresponding to the systemic indicator set forth in Table 1 of the final rule.

Adopted Revisions to the FR Q

The agencies adopted a final rule to simplify certain aspects of the capital rule. The final rule is responsive to the agencies' March 2017 report to Congress pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996, in which the agencies committed to meaningfully reduce regulatory burden, especially on community banking organizations. The key elements of the final rule apply solely to banking organizations that are not subject to the advanced approaches capital rule (non-advanced approaches banking organizations). Under the final rule, non-advanced approaches banking organizations will be subject to simpler regulatory capital requirements for mortgage servicing assets, certain deferred tax assets arising from temporary differences, and investments in the capital of unconsolidated financial institutions than those currently applied. The final rule also simplifies, for non-advanced approaches banking organizations, the calculation for the amount of capital issued by a consolidated subsidiary of a banking organization and held by third parties (sometimes referred to as a minority interest) that is includable in regulatory capital. In addition, the final rule makes technical amendments to, and clarifies certain aspects of, the agencies' capital rule for both non-advanced approaches banking organizations and advanced approaches banking organizations. The final rule is effective on October 1, 2019, except for the amendments to 12 CFR 217.21, 217.22, and 217.300(b) and (d), which are effective January 1, 2020.

Section 217.63 of the final rule breaks out the disclosures in Table 8 to include (1) after-tax gain-on-sale on a securitization that has been deducted from common equity tier 1 capital and (2) credit-enhancing interest-only strip that is assigned a 1,250 percent risk weight.

Time Schedule for Information Collection

This information collection contains recordkeeping and disclosure requirements, as mentioned above. The recordkeeping and disclosure requirements are required annually and quarterly.

Legal Status

Section 38(o) of the Federal Deposit Insurance Act (12 U.S.C. § 1831o(c)), section 908 of the ILSA (12 U.S.C. § 3907(a)(1)), section 9(6) of the Federal Reserve Act (12 U.S.C. § 324),

and section 5(c) of the Bank Holding Company Act of 1956 (12 U.S.C. § 1844(c)) authorize the Board to require the information collection. The obligation to respond to this information collection is mandatory.

If a respondent considers the information to be trade secrets and/or privileged such information could be withheld from the public under the authority of the Freedom of Information Act (5 U.S.C. § 552(b)(4)). Additionally, to the extent that such information may be contained in an examination report such information maybe also be withheld from the public (5 U.S.C. § 552 (b)(8)).

Consultation Outside the Agency

The Board worked with the OCC and FDIC to amend the regulation that is requiring this revision.

Public Comments

On October 27, 2017, the agencies published a joint notice of proposed rulemaking in the *Federal Register* (82 FR 49984) requesting public comment for 60 days on the extension, with revision, of the FR Q. The comment period for this notice expired on December 26, 2017. The agencies received no comments on the Paperwork Reduction Act (PRA). On July 22, 2019, the agencies published a final rule in the *Federal Register* (84 FR 35234). On November 13, 2019, the agencies published a notice in the *Federal Register* (84 FR 61804) to revise the effective date of the final rule. The final rule is effective on October 1, 2019, except for the amendments to 12 CFR 217.21, 217.22, and 217.300(b) and (d), which are effective January 1, 2020.

Estimate of Respondent Burden

As shown in the table below, the current estimated total annual burden for the FR Q is 79,727 hours, and would remain the same with the adopted revisions. These recordkeeping and disclosure requirements represent less than 1 percent of the Board's total paperwork burden.

FR Q	*Estimated number of respondents*[4]	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
Initial Setup				
Standardized Approach				
Recordkeeping				
Sections 217.35(b)(3)(i)(A), 217.37(c)(4)(i)(E), 217.41(b)(3), and 217.41(c)(2)(i)	1	1	122	122
Disclosure				
Sections 217.42(e)(2), 217.62, and 217.63	1	1	226.25	226
Advanced Approach				
Recordkeeping				
Sections 217.132(b)(2)(iii)(A), 217.132(d)(2)(iv), 217.132(d)(3)(vi), 217.132(d)(3)(viii), 217.132(d)(3)(ix), 217.132(d)(3)(x), 217.132(d)(3)(xi), 217.141(b)(3), 217.141(c)(1), 217.141(c)(2)(i)-(ii), and 217.153	1	1	460	460
Disclosure				
Section 217.173 Tables 2, 3, 4, 5, 9, and 12	1	1	328	328
Initial Setup Total				1,136
Ongoing				
Minimum Capital Ratios				
Recordkeeping				
Sections 217.3(d) and 217.22(h)(2)(iii)(A)	1,431	1	16	22,896
Standardized Approach				
Recordkeeping				
Sections 217.35(b)(3)(i)(A), 217.37(c)(4)(i)(E), and 217.41(c)(2)(ii)	1,431	1	20	28,620

[4] Of these respondents, 628 are considered small entities as defined by the Small Business Administration (i.e., entities with less than $550 million in total assets), https://www.sba.gov/document/support--table-size-standards.

Disclosure				
Sections 217.42(e)(2), 217.62, and 217.63	25	4	131.25	13,125
Advanced Approach				
Recordkeeping				
Sections 217.121(b), 217.122, 217.123, 217.124, 217.132(b)(2)(iii)(A), 217.132(b)(3), 217.132(d)(1), 217.132(d)(1)(iii), 217.132(d)(2)(iv), 217.132(d)(3)(ix), and 217.132(d)(3)(xi)	17	1	540.77	9,193
Sections 217.132(d)(3)(viii) and 217.141(c)(2)(i)-(ii)	17	4	20	1,360
Disclosure				
Sections 217.142 and 217.172	17	1	5.78	98
Section 217.173 Tables 2, 3, 4, 5, 9, and 12	17	4	41	2,788
Section 217.173 Table 13	25	4	5	500
Risk-based Capital Surcharge for GSIBs				
Recordkeeping				
Sections 217.402 and 217.403	21	1	0.5	11
Ongoing Total				78,591
Total				79,727

The estimated total annual cost to the public for this information collection is $4,592,275.[5]

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

[5] 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 $19, 45% Financial Managers at $71, 15% Lawyers at $69, and 10% Chief Executives at $96). 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 2018*, published March 29, 2019, https://www.bls.gov/news.release/ocwage.t01.htm. Occupations are defined using the BLS Occupational Classification System, https://www.bls.gov/soc/.

Estimate of Cost to the Federal Reserve System

The cost to the Federal Reserve System is negligible.