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

Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements
(Docket No. R-1628) (RIN 7100-AF21)

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 Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulation WW (FR WW; OMB No. 7100-0367). The Board, Office of the Comptroller of the Currency (OCC), and Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies) implemented through Regulation WW - Liquidity Risk Measurement Standards (12 CFR Part 249) a liquidity coverage ratio (LCR) requirement, consistent with the international liquidity standards published by the Basel Committee on Banking Supervision (BCBS)[1], 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 package[2] and revised the standards in January 2013 (as revised, the Basel III Revised Liquidity Framework).[3] 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 final rule.

The agencies adopted a final rule to revise the criteria for determining the applicability of regulatory capital and liquidity requirements for large U.S. banking organizations and the U.S. intermediate holding companies of certain foreign banking organizations. The final rule established four risk-based categories for determining the applicability of requirements under the

[1] 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, European Union, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, and United States. Documents issued by the BCBS are available through the Bank for International Settlements website at https://www.bis.org/.
[2] "Basel III: International framework for liquidity risk measurement, standards and monitoring" (December 2010), available at https://www.bis.org/publ/bcbs188.htm (Basel III Liquidity Framework).
[3] "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools" (January 2013), available at https://www.bis.org/publ/bcbs238.htm.

agencies' regulatory capital rule and LCR rule. Under the final rule, such requirements increased in stringency based on measures of size, cross-jurisdictional activity, weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure. The final rule applied tailored regulatory capital and liquidity requirements to depository institution holding companies and U.S. intermediate holding companies with $100 billion or more in total consolidated assets as well as to certain depository institutions. Separately, the Board adopted a final rule that revised the criteria for determining the applicability of enhanced prudential standards for large domestic and foreign banking organizations using a risk-based category framework that is consistent with the framework described in this final rule, and made additional modifications to the Board's company-run stress test and supervisory stress test rules. In addition, the Board and the FDIC separately adopted a final rule that amends the resolution planning requirements under section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) using a risk-based category framework that is consistent with the framework described in this final rule. The final rule is effective on December 31, 2019.

The agencies final rule revised sections _.1, _.3, _.10, _.30, and _.50 of each of the agencies' respective LCR rules and sections 249.90 and 249.91 of the Board's LCR rule to require certain depository institution subsidiaries of large domestic banking organizations and U.S. intermediate holding companies of foreign banking organizations to calculate an LCR.

The current estimated total annual burden for the FR WW is 4,453 hours, and would decrease to 3,370 hours. The adopted revisions would result in a decrease of 1,083 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 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."[4] 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 liquidity risk monitoring tools" (Basel III LCR), which updated key components of the 2010 LCR as part of the Basel III liquidity framework.[5]

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.[6] 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 Act,[7] 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.[8] 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.[9]

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, recordkeeping, and disclosure 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

[4] Principles for Sound Liquidity Risk Management and Supervision (September 2008), available at https://www.bis.org/publ/bcbs144.htm.
[5] 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 https://www.bis.org/press/p130106b.pdf for a complete list of revisions to the 2010 LCR.
[6] 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.
[7] See 12 U.S.C. § 5365.
[8] See 77 FR 594 (January 5, 2012); 77 FR 76628 (December 28, 2012).
[9] See 12 U.S.C. § 5365.

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, recordkeeping, and disclosure requirements in Regulation WW are found in sections 249.22, 249.40, 249.90, and 249.91.

Section 249.22(a)(2) 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(a)(5) 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(a) requires a covered institution to notify the Board on any business day when its LCR is calculated to be less than the minimum requirement in section 249.10. Section 249.40(b) requires that 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.

Section 249.90 requires that a covered depository institution holding company, U.S. intermediate holding company, or covered nonbank company provide timely public disclosures each calendar quarter of all the information required under this subpart. A covered depository institution holding company, U.S. intermediate holding company, or covered nonbank company must provide the disclosures beginning with the first calendar quarter that includes the date that is 18 months after the covered depository institution holding company or U.S. intermediate holding company first became subject to this subpart. A covered depository institution holding company or covered nonbank company must disclose publicly, in a direct and prominent manner, the information required under this subpart on its public internet site or in its public financial or other public regulatory reports. The disclosures must remain publicly available for at least five years after the initial disclosure date.

Section 249.91 requires a covered depository institution holding company or covered nonbank company to disclose publicly information about certain components of its LCR calculation in a standardized tabular format (Table 1 to section 249.91(a)) 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. 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, a covered company must 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, a covered company is required 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.

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

Respondent Panel

The FR WW panel comprises insured state member banks, bank holding companies, U.S. intermediate holding companies, savings and loan holding companies, and any subsidiary thereof.

Adopted Revisions

The agencies adopted a final rule to revise the criteria for determining the applicability of regulatory capital and liquidity requirements for large U.S. banking organizations and the U.S. intermediate holding companies of certain foreign banking organizations. The final rule established four risk-based categories for determining the applicability of requirements under the agencies' regulatory capital rule and LCR rule. Under the final rule, such requirements increased in stringency based on measures of size, cross-jurisdictional activity, weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure. The final rule applied tailored regulatory capital and liquidity requirements to depository institution holding companies and U.S. intermediate holding companies with $100 billion or more in total consolidated assets as well as to certain depository institutions. Separately, the Board adopted a final rule that revised the criteria for determining the applicability of enhanced prudential standards for large domestic and foreign banking organizations using a risk-based category framework that is consistent with the framework described in this final rule, and made additional modifications to the Board's company-run stress test and supervisory stress test rules. In addition, the Board and the FDIC separately adopted a final rule that amends the resolution planning requirements under section 165(d) of the Dodd-Frank Act using a risk-based category framework that is consistent with the framework described in this final rule. The final rule is effective on December 31, 2019.

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Time Schedule for Information Collection

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

Legal Status

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

The Board, OCC, and FDIC coordinated in developing these revisions.

Public Comments

On December 21, 2018, the agencies published a notice of proposed rulemaking for U.S. banking organizations in the *Federal Register* (83 FR 66024) for public comment. The comment period for this notice expired on January 22, 2019. On May 24, 2019, the agencies published a notice of proposed rulemaking for foreign banking organizations in the *Federal Register* (84 FR 24296) for public comment. The comment period for this notice expired on June 21, 2019. The agencies did not receive any public comments on the PRA analysis. On November 1, 2019, the agencies published a final rule in the *Federal Register* (84 FR 59230). The final rule is effective on December 31, 2019.

Estimate of Respondent Burden

As shown in the table below, the estimated total annual burden for the FR WW is 4,453 hours, and would decrease to 3,370 hours with the adopted revisions. These reporting, recordkeeping, and disclosure requirements represent less than 1 percent of the Board's total paperwork burden.

FR WW	*Estimated number of respondents*[10]	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
Current				
Reporting				
Section 249.40(a)	3	12	0.25	9
Section 249.40(b)	3	1	0.25	1
Section 249.40(b)(3)(iv)	3	4	0.25	3
Recordkeeping				
Sections 249.22(a)(2) and (a)(5)	39	1	20	780
Section 249.40(b)	3	1	100	300
Disclosure				
Sections 249.64, 90, and 91	35	4	24	3,360
Current Total				4,453
Proposed				
Reporting				
Section 249.40(a)	3	12	0.5	18
Section 249.40(b)	3	1	0.5	2
Section 249.40(b)(3)(iv)	3	4	0.5	6
Recordkeeping				
Sections 249.22(a)(2) and (a)(5)	23	1	40	920
Section 249.40(b)	3	1	200	600
Disclosure				
Sections 249.90 and 91	19	4	24	1,824
Proposed Total				3,370
Change				(1,083)

The current estimated total annual cost to the public for the FR WW is $256,493 and would decrease to $194,112 with the adopted revisions.[11]

[10] Of these respondents, none are considered small entities as defined by the Small Business Administration (i.e., entities with less than $600 million in total assets), https://www.sba.gov/document/support--table-size-standards.

[11] 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 Standard Occupational Classification System, https://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.