

## SUPPORTING STATEMENT

### Supervisory Guidance: Supervisory Review Process of Capital Adequacy (Pillar 2) Related to the Implementation of the Basel II Advanced Capital Framework

OMB No. 3064-0165

#### **INTRODUCTION**

The FDIC is seeking OMB approval to renew, without revision, its information collection entitled, “Supervisory Guidance: Supervisory Review Process of Capital Adequacy (Pillar 2) Related to the Implementation of the Basel II Advanced Capital Framework,” OMB NO. 3064-0165. This information expires on December 31, 2024.

#### **JUSTIFICATION**

1. Circumstances that make the collection necessary:

Section 1831o of the Federal Deposit Insurance Act requires each federal banking agency to adopt a prompt corrective action framework.

On September 25, 2006, the Agencies issued a notice of proposed rulemaking seeking public comment on a new risk-based regulatory capital framework based on the Basel Committee on Banking Supervision April 2003 consultative paper entitled “New Basel Capital Accord” (New Accord). The New Accord set forth a “three pillar” framework encompassing risk-based capital requirements for credit risk, market risk, and operational risk (Pillar 1); supervisory review of capital adequacy (Pillar 2); and market discipline through enhanced public disclosures (Pillar 3). On December 7, 2007 (72 FR 69288), the agencies published a final rule adopting the Pillar 1 internal ratings-based approach for calculating regulatory credit risk capital and the advanced measurement approaches for calculating regulatory operational risk capital (together the advanced approaches). The advanced approaches rule is mandatory for the largest U.S. banks and optional for other banks.

On February 28, 2007, the agencies published a notice seeking public comment on “Proposed Supervisory Guidance for Internal Ratings-Based Systems for Credit Risk, Advanced Measurement Approaches for Operational Risk, and the Supervisory Review Process (Pillar 2) Related to Basel II Implementation.” The proposed guidance provided additional detail for certain aspects of Pillar 1 and the supervisory review process to help banks satisfy qualification requirements. This information collection is associated with the information collection requirements contained in the final supervisory guidance document for Pillar 2, which was issued by the Agencies on July 31, 2008. U.S. banks that qualify for and adopt the Advanced Capital Adequacy Framework are subject to the risk-based capital rules described in the agencies’ December 7, 2007, final rule.

The supervisory guidance<sup>1</sup> provides additional detail that should help institutions satisfy the qualification requirements in the final rule.<sup>2</sup> The federal banking agencies believe that the supervisory guidance documents are necessary to supplement the framework with standards to promote safety and soundness and encourage comparability across institutions. An institution's primary federal supervisor will review the institution's framework relative to the qualification requirements in the final rule to determine whether the institution may apply the advanced approaches and has complied with the proposed rule in determining its regulatory capital requirements

In order to assess a bank's conformance with internal capital adequacy standards set forth under Pillar II of the final rule, the Agencies have issued guidance that outlines the agencies' expectations for (i) satisfying the qualification requirements provided in the advanced approaches final rule; (ii) addressing the limitations of the minimum risk-based capital requirements for credit risk and operational risk; (iii) ensuring that each institution has a rigorous process for assessing its overall capital adequacy in relation to its risk profile and a comprehensive strategy for maintaining appropriate capital levels; and (iv) encouraging each institution to improve its risk identification and measurement techniques.

## 2. Use of Information Collected:

The FDIC uses this information to assess an institution's Internal Capital Adequacy Assessment Process (ICAAP) and minimum risk based capital requirements under the final rule. Section 37 of the guidance states that banks should state clearly the definition of capital used in any aspect of ICAAP and document any changes in the internal definition of capital. Under section 41, banks should maintain thorough documentation of ICAAP. Section 43 specifies that boards of directors and senior management should approve the bank's ICAAP, review it on a regular basis, and approve any changes. Boards of directors and senior management are also required under Section 46 to periodically review the assessment of overall capital adequacy and include an analysis of how measures of internal capital adequacy compare with other capital measures.

## 3. Consideration of the use of improved information technology:

Banks are free to use the method they deem most appropriate to maintain any documentation required by the supervisory guidelines.

## 4. Efforts to Identify Duplication:

The information required is not otherwise available to the FDIC.

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

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<sup>1</sup> 73 FR 44620.

<sup>2</sup> The supervisory guidance was based on the Basel II international framework, which has been superseded by the Basel III international framework. However, notwithstanding the revisions to the Pillar 1 requirements, nothing changes the dimensions of the supervisory guidance in the context of Pillar 2.

Organizations that are subject to the risk-based capital rules on a mandatory basis are large and internationally active organizations and their depository institution subsidiaries.<sup>3</sup> The FDIC believes the reporting requirements in this information collection place a limited burden on small institutions. The FDIC estimates that four small state nonmember bank (out of a total of 2,636 state nonmember banks with assets of \$600 million or less) is subject to the rule, and correspondingly these reporting requirements, on a mandatory basis. There are no alternatives that would result in lowering the burden on small institutions while still accomplishing the purpose of the rule.

6. Consequences of Less Frequent Collection:

Less frequent reporting would reduce the ability of the FDIC to identify and respond in a timely manner to noncompliance with minimum risk-based capital rules, and evidence of risk estimates that call into question the accuracy of a bank’s ICAAP. The FDIC would not be able to adequately monitor capital levels and ensure institution safety and soundness.

7. Special circumstances necessitating collection inconsistent with 5 CFR 1320.5(d)(2):

There are no special circumstances. This information collection is conducted in accordance with the guidelines in 5 CFR 1320.5(d)(2).

8. Efforts to Consult with Persons Outside the Agency:

A 60-day notice seeking public comment on the agencies renewal of the information collection was published on October 10, 2024 (89 FR 82242). No comments have been received.

9. Payment or Gift to Respondents

None.

10. Any Assurance of Confidentiality:

The information will be kept private to the extent permitted by law.

11. Information of a Sensitive Nature:

No sensitive information is collected.

12. Estimate of Annualized Burden:

**Summary of Annual Burden**

	Type	Estimated	Estimat	Frequen	Total
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<sup>3</sup> To be subject to the advanced approaches rule, an institution must have \$250 billion or more in total consolidated assets or \$10 billion or more in total balance sheet foreign exposures. Advanced approaches banks include only Category I banks (GSIBs) and Category II banks (banks with total consolidated assets of \$700 billion or more or cross-jurisdictional activity of \$75 billion or more, and that do not qualify as U.S GSIBs).



Supervisory Guidance: Supervisory Process of Capital Adequacy (Pillar 2) Related to the Implementation of the Basel II Advanced Capital Framework (Voluntary)	100.00	15	5	30	10	25	15	\$90.52
<b>Weighted Average Hourly Compensation Rate:</b>								<b>\$90.52</b>
<p>Source: Bureau of Labor Statistics: 'National Industry-Specific Occupational Employment and Wage Estimates: Industry: Credit Intermediation and Related Activities (5221 And 5223 only)' (May 2022), Employer Cost of Employee Compensation (March 2022), and Employment Cost Index (March 2022 and December 2023). Standard Occupational Classification (SOC) Codes: Exec. And Mgr = 11-0000 Management Occupations; Lawyer = 23-0000 Legal Occupations; Compl. Ofc. = 13-1040 Compliance Officers; IT = 15-0000 Computer and Mathematical Occupations; Fin. Anlst. = 13-2051 Financial and Investment Analysts; Clerical = 43-0000 Office and Administrative Support Occupations.</p> <p>Note: The estimated hourly compensation rate for a given IC is the average of the hourly compensation rates for the occupations used to comply with that IC, weighted by the estimated share of hours spent by each occupation. The weighted average hourly compensation rate for the entire ICR is the average of the estimated hourly compensation rates for all ICs, weighted by the share of hourly burden for IC. These hourly weights, as shown in the "Hourly Weight" column of this table, are the quotients of the estimated number of annual burden hours for each IC and the total estimated number of annual burden hours across all ICs.</p>								

### Total Estimated Cost Burden

FDIC estimates the total annual cost burden for OMB 3064-0165 by multiplying the total annual estimated burden hours reported in Table 1 by the weighted average hourly compensation estimate reported in Table 2. The total annual cost burden is estimated as: 420 hours per year \* \$90.52 = \$38,018. This is an increase of \$4,263 from the 2021 ICR. The increase is driven by increases in estimated hourly compensation rates for all the underlying occupations except for Compliance Officers.

Information Collection Request	Annual Burden (Hours)	Weighted Average Hourly Compensation Rate	Annual Respondent Cost
Supervisory Guidance: Supervisory Process of Capital Adequacy (Pillar 2) Related to the Implementation of the Basel II Advanced Capital Framework	420	\$90.52	\$38,018
<b>Total Annual Respondent Cost:</b>			<b>\$38,018</b>
Source: FDIC.			

13. Estimate of Annualized Costs to Respondents:

None.

14. Estimate of Annualized Costs to the Federal Government

None.

15. Reason for Change in Burden

There has been no change in the method or substance of the information collection.

16. Information regarding collections whose results are planned to be published for statistical use:

None.

17. Display of Expiration Date

Not applicable.

18. Exceptions to Certification Statement:

Not applicable.

B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.