Supporting Statement for the
Market Risk Regulatory Reporting Requirements
(FFIEC 102; OMB No. 7100-NEW)

Summary

The Board of Governors of the Federal Reserve System (Federal Reserve) requests approval from the Office of Management and Budget (OMB) to implement, the quarterly Federal Financial Institutions Examination Council (FFIEC) Market Risk Regulatory Reporting Requirements (FFIEC 102; OMB No. 7100-NEW). The FFIEC, of which the Federal Reserve, Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), and Office of Thrift Supervision (OTS) (the agencies) are members, has approved a proposal to implement new regulatory reporting requirements for banks that would be subject to the agencies' revised market risk capital rules (MRR).[1] The FFIEC 102 would be required for banks or bank holding companies (BHCs) with significant aggregate trading assets and liabilities. The FDIC, the OCC, and the OTS have also submitted a similar request for OMB review in order 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 FFIEC 102 data would be used to assess the reasonableness and accuracy of a respondent's calculation of its minimum capital requirements under the revised market risk rules and to evaluate a respondent's capital in relation to its risks.

Respondents would be required to submit data on the components of their market risk capital charge in one schedule. The Federal Reserve's total annual burden for this information collection is estimated to be 1,034 hours for the twenty-two Federal Reserve-regulated respondents that meet the reporting criteria. Draft copies of the reporting forms and instructions are available on the FFIEC web site:
http://www.ffiec.gov/ffiec_report_forms.htm.

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 Federal Reserve and the Secretary of the Treasury to encourage governments, central banks, and regulatory authorities of other major banking countries

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[1] For simplicity, and unless otherwise indicated, this notice uses the term "bank" to include banks, savings associations, and bank holding companies (BHCs). The terms "bank holding company" and "BHC" refer only to BHCs regulated by the Federal Reserve and do not include savings and loan holding companies regulated by the OTS. For a detailed description of the institutions covered by this notice, refer to Section 1(b) of the proposed regulatory text in the notice of proposed rulemaking entitled Risk-Based Capital Standards: Market Risk (71 FR 55958).

to work toward maintaining and, where appropriate, strengthening the capital bases of banking institutions involved in international lending.

Current U.S. risk-based capital requirements are based on an internationally agreed upon 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 10 (G–10) 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 over the past eighteen years. The BCBS has been working for several years to develop 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. On April 29, 2003, the BCBS released for public comment a document entitled, The New Basel Capital Accord (Proposed New Accord), that set forth proposed revisions to the 1988 Accord.

In June 2004, the BCBS issued a final text of a revised regulatory capital framework for banks entitled, International Convergence of Capital Measurement and Capital Standards: A Revised Framework (New Accord), which was intended for use by individual countries as the basis for national consultation and implementation. For market risk, the New Accord generally retains the approach in the existing MRR. However, in releasing the New Accord, the BCBS announced that work would continue and that improvements to the MRR would be developed immediately, especially with respect to the treatment of specific risk. Given the interest of both banks and securities firms in this issue, the BCBS worked jointly with the International Organization of Securities Commissions (IOSCO) on this effort, which culminated in the July 2005 publication of the document entitled, The Application of Basel II to Trading Activities and the Treatment of Double Default Effects, by the BCBS and IOSCO. The July 2005 publication is now incorporated in the New Accord and follows its three pillar structure. With respect to market risk, the Pillar 1 changes clarify the types of positions that are subject to the market risk capital framework and revise modeling standards; the Pillar 2 changes require banks to conduct internal assessments of their capital adequacy with respect to market risk, taking into account the output of their internal models, valuation adjustments, and stress tests; and the Pillar 3 changes require banks to disclose quantitative and qualitative information on their valuation techniques for covered positions, the soundness standard they employ for modeling purposes, and the methodologies they use to make the internal capital adequacy assessment.

On September 25, 2006, the agencies published a notice of proposed rulemaking (NPR) in the *Federal Register*, entitled Risk-Based Capital Standards: Market Risk, to seek public comment on proposed changes to the agencies' existing MRR, which are based on the New Accord. The current NPR recognizes developments in financial products, incorporates advances in risk measurement and management practices, and imposes capital requirements that are generally more sensitive to risk. The NPR seeks to build on improvements to risk assessment approaches that a number of large banks have adopted over the last decade. In particular, the NPR requires 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 NPR are requirements for public disclosure of certain information at the consolidated banking organization level as well as a reference to certain additional regulatory reporting by depository institutions (DIs) and BHCs. The additional regulatory reporting referenced within the NPR, and described more fully herein, comprise the agencies' proposed regulatory reporting requirements.

At present, banks and BHCs that are subject to the existing MRR report the amount of their market risk equivalent assets in their respective quarterly regulatory reports.[2] This current reporting requirement reveals only the end result of the market risk calculations without providing any information concerning the key inputs to the measure for market risk. Accordingly, the agencies are proposing the standardized regulatory reporting requirements described herein in order to assess the reasonableness and accuracy of a bank's calculation of its minimum capital requirements under the NPR and to evaluate a bank's capital in relation to its risks. Importantly, the new reports will allow the agencies to better track growth in more credit-risk related, less liquid, and less actively traded products in the trading book that, in the past, have had risks that have been difficult to capture and measure. These reports should assist the agencies in ensuring that these risks are adequately reflected for safety and soundness purposes.

In this regard, the reported data will enable the agencies to monitor the levels of and trends in components that comprise the market risk measure under the NPR within and across reporting banks. Such component reporting will allow supervisors to better understand, on an ongoing basis, model implied diversification benefits for individual banks. The agencies also will gain the ability to perform bank-to-bank comparisons of the drivers underlying banks' measures for market risk, identify potential outliers through bank-to-peer comparisons, track these drivers at banks over time relative to trends in other risk indicators, and focus onsite examination efforts. Furthermore, the agencies believe that requiring certain common reporting across banks would facilitate comparable application of the NPR.

The FFIEC 102 is necessary to ensure that the new risk-based regulatory capital framework is implemented in the United States in a safe and sound manner. There is no other reporting form that collects from all banks and BHCs the information that would be gathered through the FFIEC 102.

Description of Information Collection

Who Must Report

The proposed regulatory reporting requirements associated with the NPR would apply, on a consolidated basis to any bank or BHC with aggregate trading assets and liabilities equal to 10 percent or more of total assets, or $1 billion or more. The proposed reporting requirements would apply to a bank or BHC meeting the NPR applicability threshold regardless of whether the institution would adopt the proposed advanced capital adequacy framework or remain under the general risk-based capital rule.

[2] For banks, the Consolidated Reports of Condition and Income (Call Report) (FFIEC 031 or FFIEC 041; OMB No. 7100-0036 for the Board) and, for BHCs, the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128).

The Federal Reserve may apply the NPR to a bank or BHC that does not meet the threshold criteria if it deems it necessary or appropriate given the level of market risk of the bank or to ensure safe and sound banking practices. Also, a bank or BHC that does not meet the threshold criteria may request that its primary Federal supervisor apply the NPR to it. Finally, the Federal Reserve may also exclude a bank or BHC that meets the threshold criteria from the NPR if appropriate based on the level of market risk of the bank or BHC and provided such exemption would be consistent with safe and sound banking practices.

Overview of the Data Collection

Respondents would be required to submit quarterly data on the components of their market risk capital charge in Schedule 1. The agencies expect that the report due dates for the proposal would be the same as the report due dates currently required by banks, savings associations, and BHCs when filing their respective quarterly regulatory reports.

Schedule 1 requires data items within the market risk exposure class that would be reported under the NPR. The schedule is subdivided into sections. The first section contains data elements relating to banks' approved regulatory market risk models including details of value at risk (VaR) measures (as of the reporting date and averaged over 60 days) broken down by associated risk categories (interest rate, equity, foreign exchange, commodities, and credit) and specific risk charges. The second section contains data elements relating to market risk exposures covered under the standard method broken down by covered debt and equity positions. Other sections contain data elements relating to summary information on default risk charges and valuation adjustments.

In developing the NPR, the agencies considered several trade-offs between reporting burden and the information needs of bank supervisors. One issue that the agencies identified was that banks have exposures in certain products that might fit into more than one of the specified risk categories (interest rate, equity, foreign exchange, commodities, and credit). For example, convertible securities will mostly be subject to interest rate risk unless their value converges with that of the underlying equity. Similarly, foreign exchange swaps are primarily interest rate positions, but it is possible that a bank might classify some as foreign exchange risk. As a result, the agencies proposed that banks may classify their exposures in the same categories in which they are reported internally for purposes of calculating the VaRs for this reporting schedule. Similarly, the agencies, for purposes of this reporting schedule, have defined correlation benefit as any adjustment to VaR that a bank makes to reflect statistical correlation between the values of the underlying positions. The agencies also recognize that some banks may not adjust for correlation benefits in their VaR estimates, and in that case a bank need not estimate it for purposes of this reporting schedule.

Time Schedule for Information Collection

The FFIEC 102 would be collected quarterly as of the end of the last calendar day of March, June, September, and December. Reporting BHCs and DIs would submit data quarterly because efforts to monitor banks' progress toward, and actions under, the MRR require regular and consistent data submissions from all of the institutions subject to this rule. The first reporting period would be at the end of the first calendar quarter in which the final MRR becomes effective.

The report due dates for the proposal would be the same as the report due dates currently required of banks and BHCs when filing their respective Call Report or FR Y-9C. State member banks (SMBs) must submit the FFIEC 102 to the appropriate Federal Reserve Bank within thirty calendar days following the as-of date; a five-day extension may be given to banks with more than one foreign office. BHCs must submit the FFIEC 102 to the appropriate Federal Reserve Bank within forty calendar days after the March 31, June 30, and September 30 as of dates unless that day falls on a weekend or holiday and within forty-five calendars days after the December 31 as of date.

Sensitive Questions

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

Consultation Outside the Agency

The agencies participated with other members of the BCBS during the development of its Basel II final paper, which was issued in June 2004. Finally, the Federal Reserve published the notice for comment in the *Federal Register* (71 FR 55986).

Legal Status

The Board's Legal Division has determined that 12 U.S.C. 324 and 12 U.S.C. 1844 (c) authorize the Board to require the information collection. All data collected from each reporting entity on Schedules 1 would remain be confidential under the Freedom of Information Act (FOIA) exemption 4 (5 U.S.C. 552(b)(4). The release of this data could cause substantial competitive harm to respondents. However, the data would be shared among the four agencies. 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).

Estimate of Respondent Burden

The total annual burden for the Basel II capital requirements is estimated to be 1,034 hours, as shown in the table below. The Federal Reserve estimates that it would take each respondent 11.75 hours to provide the data each quarter, based on an average of fifteen minutes per data item. This burden represents less than 1 percent of the total Federal Reserve System paperwork burden.

	Number of respondents	*Estimated annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
SMBs	4	4	11.75	188
BHCs	18	4	11.75	846
Total	22			1,034

Based on a rate of $100 per hour, the estimated cost to the public for this information collection is $103,400.

Estimate of Cost to the Federal Reserve System

Estimates of cost to the Federal Reserve System will be obtained.