

**SUPPORTING STATEMENT
BASEL II – NOTICE OF PROPOSED RULEMAKING**

A. Justification.

1. Circumstances that make the collection necessary:

In June, 2004, the Basel Committee on Banking Supervision (BCBS)¹ issued a document entitled “International Convergence of Capital Measurement and Capital Standards: A Revised Framework” (New Accord). The New Accord recognizes developments in financial products, incorporates advances in risk measurement and management practices, and assesses capital requirements that are generally more sensitive to risk. It is intended to be used by individual countries as the basis for national consultation and implementation. The Federal banking agencies are issuing this proposed rule to implement the New Accord for banks in the United States.

The collections of information are necessary in order to implement the New Accord. The proposed rule sets forth a new risk-based capital adequacy framework that would require some national banks and allow other qualifying national banks to use an internal ratings-based approach to calculate regulatory credit risk capital requirements and advanced measurement approaches to calculate regulatory operational risk capital requirements. The information collection requirements in the proposed rule are found in Appendix F, Sections 21-23, 42, 44, 53 and 71.

2. Use of the information:

The OCC will use the information collected to meet its statutory obligations to adopt and implement a risk-based capital requirement, determine the qualification of a bank for application of the rule, and assess the adequacy of a qualifying bank’s risk-based capital.

Section by Section Analysis

Sections 21 and 22 require that a national bank adopt a written implementation plan that addresses how it will comply with the Framework’s qualification requirements, including incorporation of a comprehensive and sound planning and governance process to oversee the implementation efforts. The national bank must also develop processes for assessing capital adequacy in relation to an organization’s risk profile. It must have in place 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 its relevance. It must: (i) document its process for identifying, measuring, monitoring, controlling, and internally reporting

¹ The BCBS is a committee of banking supervisory authorities, which was established by the central bank governors of the G-10 countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

operational risk; (ii) verify the accurate and timely reporting of risk-based capital requirements; and (iii) monitor, validate, and refine its advanced systems.

Section 23 requires an institution to update its implementation plan after any mergers.

Section 42 outlines the capital treatment for securitization exposures. A national bank must 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 44 requires national banks to review and update each internal credit assessment whenever new material is available, but at least annually. It must validate its internal credit assessment process on an ongoing basis and at least annually.

Section 53 outlines the internal models approach (IMA). Prior written approval is required for use of IMA.

Section 71 specifies that each consolidated bank must publicly disclose its total and tier 1 risk-based capital ratios and their components.

3. Consideration of the use of improved information technology:

National banks may use any information technology that permits review by OCC examiners.

4. Efforts to identify duplication:

The required information is unique and is not duplicative of any other information already collected. There will, however, be a transition period during the parallel run where duplicative information will be produced for a limited period. This is necessary to implement the rule.

5. Methods used to minimize burden if the collection has a significant impact on a substantial number of small entities:

Not applicable. The collection does not have a significant impact on a substantial number of small entities.

6. Consequences to the Federal program if the collection were conducted less frequently:

The OCC will not be able to adequately monitor capital levels and ensure safety and soundness.

7. Special circumstances that would cause an information collection to be conducted in a manner inconsistent with 5 CFR Part 1320:

The information collection will be conducted in a manner consistent with 5 CFR Part 1320.

8. Efforts to consult with persons outside the agency:

On August 4, 2003, the agencies jointly sought comment with a Basel II ANPR (68 FR 45900), and received about 100 comments from banks, trade associations, supervisory authorities, and other interested parties. A number of these commenters found the approach discussed in the ANPR burdensome and costly. The agencies participated with other members of the Basel Committee during the development of the Basel Committee’s Basel II final paper, which was issued in June 2004. The agencies also participated in the BCBS’s Fourth Quantitative Impact Study during the fall and winter of 2004-2005 (QIS 4), to better understand the potential impact of the proposed framework on the risk-based capital requirements for banks. In addition, the NPR containing the collection for which we are currently seeking approval will have an extended public comment period (120 days) to assure full public participation in the development of Basel II information collections.

9. Payment or gift to respondents:

None.

10. Any assurance of confidentiality:

The information will be kept confidential only as permitted by means of an exemption under the Freedom of Information Act. 5 U.S.C. § 552.

11. Justification for questions of a sensitive nature:

There are no questions of a sensitive nature.

12. Burden estimate:

Section Number	Section Title	Requirement	Estimated Burden Hours
Section 21	Qualification Process Timing	Paragraphs (a),(b), (c) and (e)(4): Written Implementation Plan, Parallel run, and reporting.	4,240
Section 22	Risk Rating and Segmentation Systems	Paragraph (b)(4): Identify all defaulted retail exposures and group them in segments. Describe the bank’s rating philosophy and explain migration.	200
	Quantification of risk parameters for wholesale and retail exposures	Paragraph (c)(8): Annually conduct a comprehensive review and analysis of reference data to determine relevance, quality, and consistency.	4,240

Section Number	Section Title	Requirement	Estimated Burden Hours
	Operational Risk management systems	Paragraphs: (h)(1)(ii) and (iii): Document a process to identify, measure, monitor and control operational risk and report operational risk exposures and losses to management and board of directors.	400
	Operational risk quantification systems	Paragraph (h)(3)(i)(D)(ii): With prior written approval, a bank may generate an estimate of operational exposure using an alternative approach, included in implementation plan.	120
	Data Management and Maintenance	Paragraphs (i)(2) and (3): Data management and maintenance systems. Retain data using electronic format that allows timely retrieval. Retain sufficient data elements related to the key risk drivers.	4,240
	Control and Oversight Mechanisms	Paragraphs (j)(2) and (j)(4)(i), (ii), and (iii): Board must annually evaluate effectiveness of and approve bank's advanced systems.	160
	Documentation	Paragraph (k): Must adequately document all material aspects of its advanced systems.	240
Section 23	Ongoing Qualification	Paragraphs (a), (b), (c): Keep the implementation plan current for mergers.	240
Section 42	Capital Requirement for Securitization Exposures: Implicit Support	Paragraph (h)(2): Must disclose publicly that it has provided implicit support to the securitization and regulatory capital impact to the bank of providing implicit support.	160
Section 44	Internal Assessment Approach	Paragraph (a)(1): Bank qualification criteria, prior written approval of use of	240

Section Number	Section Title	Requirement	Estimated Burden Hours
		IAA, review and update each internal credit assessment whenever new material is available but at least annually, validate internal credit assessment process on an ongoing basis and at least annually.	
		Paragraph (a)(2)(iii): Perform detailed credit analysis of asset sellers' risk profiles.	480
Section 53	Internal Models Approach	Paragraph (a): Must have prior written approval from agency to use IMA, and a model that assesses potential decline in value of its equity exposure.	160
		Paragraph (a)(5): Daily market prices must be available for all modeled exposures.	90
		Paragraph (a)(6): Must be able to demonstrate using theoretical and empirical evidence that proxies used in modeling are comparable to equity exposures and adjustments have been made for differences.	120
Section 71	Disclosure Requirements	Each consolidated bank must publicly disclose each quarter its total and tier 1 risk-based capital ratios and their components. If a bank is not a consolidated subsidiary of a bank holding company that is required to publicly disclose all the information in the FRB's Section 71, then the bank must publicly disclose all the information set forth in the FRB's Sec. 71.	240
TOTAL			15,570

The burden is calculated as follows:

Number of Respondents: 52

Number of Responses Per Respondent: 24 (17 Reporting; 7 Recordkeeping)

Total Number of Responses: 1,248

Burden Per Respondent: 15, 570 hours

Total Estimated Annual Burden: 809,640 hours

Cost of Hour Burden to Respondents:

The OCC estimates the cost of the hour burden to respondents as follows:

809,640 x \$100/hour (combination of various levels of staff) = \$ 80,964,000

Total Hour Burden Cost: \$ 80,964,000

13. Estimate of total annual costs to respondents (excluding cost of hour burden in Item #12):

Not applicable.

14. Estimate of annualized costs to the Federal government:

Not applicable.

15. Change in burden:

Former Burden:

N/A

New Burden:

52 respondents; 15,570 burden hours per respondent; 809,640 burden hours

Difference:

+ 52 respondents; +15,570 burden hours per respondent; + 809,640 burden hours

The program change (increase) is due to the fact that this is a new collection.

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

The OCC has no plans to publish the information for statistical purposes.

17. Reasons for not displaying OMB approval expiration date:

The OCC is not requesting permission to not display the OMB approval expiration date.

18. Exceptions to the certification statement in Item 19 of OMB Form 83-I:

None.

B. Collections of Information Employing Statistical Methods.

Not applicable.