

**Supporting Statement  
Basel II Capital Requirements  
New Collection**

**A. Justification**

**1. Circumstances and Need**

This statement supports a request for extension without change of an existing information collection associated with implementation of the new risk-based regulatory capital framework known as Basel II.

Section 1831(o) 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 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 Board of Governors 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 Federal Deposit Insurance Corporation (FDIC), jointly with the Board of Governors of the Federal Reserve System (FRB), Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS) (collectively, the agencies) issued a joint final rule, entitled Risk-Based Capital Standards: Advanced Capital Adequacy Framework, implementing a new risk-based regulatory capital framework for U.S. financial institutions based on consultative papers issued by the Basel Committee on Banking Supervision in April 2003 and June 2004, entitled respectively, “The New Basel Capital Accord” and “International Convergence of Capital Measurement and Capital Standards: A Revised Framework” (Basel II). Basel II 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 for use by individual countries as the basis for national consultation and implementation.

The agencies’ final rule requires some institutions, and allows other qualifying institutions, 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 rule’s collections of information ensure that the new risk-based regulatory capital framework is implemented in the United States in a safe and sound manner.

## 2. Use of the Information

The agencies use the data collected under the rule to fulfill their statutory obligations to adopt a risk-based capital requirement, determine the qualification of an institution for application of the rule, and assess the adequacy of a qualifying bank's risk-based capital.

## 3. Use of Technology to Reduce Burden

The agencies use information technology to reduce burden on institutions and decrease costs to banks and the agencies. Qualifying banks are required to store data in an electronic format allowing timely retrieval for analysis, reporting and disclosure purposes. Qualifying banks are also encouraged to provide information for public disclosure on their websites.

## 4. Efforts to Identify Duplication

The information collected is institution-specific. The information is used to determine the qualification of a bank for application of the rule, and assess the adequacy of a qualifying bank's risk-based capital. Substantially all of the information collected is not otherwise available.

## 5. Minimizing the Burden on Small Entities

This collection affects only the very largest insured institutions, and consequently has no impact on small business burden.

## 6. Consequence of Less Frequent Collections

The FDIC would not be able to adequately monitor capital levels and ensure safety and soundness in covered institutions if the information were collected less frequently.

## 7. Special Circumstances

The proposed rule requires banks to maintain data used to estimate risk parameters. For wholesale exposures, default data must be maintained for at least 5 years, loss severity data must be maintained for at least 7 years, and exposure amount data must be maintained for at least 7 years. Retail segment exposure default, loss severity and exposure amount data must be maintained for at least five years.

In addition to the requirements for a minimum number of years that data must be maintained, the default, loss severity, and exposure amount data must include periods of economic downturn conditions, or the bank must adjust its estimates of risk parameters to compensate for the lack of data from such periods.

Maintenance of data for these periods is necessary for banks to conduct adequate statistical analysis to support the associated risk parameters used to calculate the risk-based capital requirement.

#### 8. Consultation with Persons Outside the FDIC

On July 17, 2009 (74 FR 34865), the agencies jointly sought comment on an extension without change of the information collection. No comments were received.

#### 9. Payment to Respondents

None.

#### 10. Confidentiality

Information deemed confidential is exempt from public disclosure under the Freedom of Information Act (5 U.S.C. 552).

#### 11. Information of a Sensitive Nature

None.

#### 12. Burden Estimate

Summary:

Frequency of response: Occasional.

Number of respondents: 19.

Average number of hours to prepare information:

Written implementation plan – 330 hours

Documentation – 19 hours

Systems maintenance – 27.89 hours

Prior written approvals – 16.84

Control, oversight and verification of systems – 11.05 hours

Disclosures – 5.79 hours

Total average numbers of hours per respondent – 410.57 hours.

Total annual burden: 7,801 hours.

Cost per response: \$100 per hour.

Estimated annual cost: \$780,100.

### Section-by-section analysis of burden:

Sections 21 and 22 require that a covered institution 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 institution 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 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 23 requires an institution to update their implementation plan after any mergers.

Various other sections of the document require prior written approval by supervisors, including Sections 44 and 53. Section 44 describes the internal assessment approach (IAA). Prior written approval is required for use of the IAA. An institution must 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. Section 42 also requires an institution to publicly disclose that it has provided implicit support to a securitization and the regulatory capital impact to the bank of providing such implicit support.

Section Number	Section Title	Total Estimated Burden Hours	All / a Portion Usual and Customary?
Section 21	Implementation	6,270	
Section 22	Documentation	361	
Section 22, 23	Systems maintenance	530	
various sections	Supervisory approvals	320	
Section 22	Control, oversight and verification of systems	210	
Section 71, 42	Disclosures	110	

### 13. Capital, Start-Up and Maintenance Costs

Not applicable. Qualifying banks have established systems to accumulate data and produce reports for the internal calculation of economic capital.

14. Estimated Annual Cost to the Federal Government

The FDIC assumes that annually the 19 qualifying banks will each make 4 requests for approval under various sections of the proposed rule. At 10 hours per approval and at a cost of \$80 per hour, the total cost to the FDIC is \$60,800.

15. Reason for Change in Burden

There is no change in burden.

16. Publication

No publication is made of the information.

17. Display of Expiration Dates

Not applicable.

18. Exceptions to Certification

None.

**B. Statistical Methods**

Not applicable.