



FEDERAL RESERVE SYSTEM

Agency Information Collection Activities: Announcement of Board Approval under Delegated Authority and Submission to OMB

AGENCY: Board of Governors of the Federal Reserve System.

SUMMARY: The Board of Governors of the Federal Reserve System (Board) is adopting a proposal to extend for three years, without revision, the Basel II Interagency Pillar 2 Supervisory Guidance (Pillar 2 Guidance) (FR 4199; OMB No. 7100-0320).

FOR FURTHER INFORMATION CONTACT: Federal Reserve Board Clearance Officer – Nuha Elmaghrabi – Office of the Chief Data Officer, Board of Governors of the Federal Reserve System, Washington, DC, 20551 (202) 452-3829. Telecommunications Device for the Deaf (TDD) users may contact (202) 263-4869, Board of Governors of the Federal Reserve System, Washington, DC 20551.

OMB Desk Officer – Shagufta Ahmed – Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 10235, 725 17th Street, N.W., Washington, DC 20503 or by fax to (202) 395-6974.

SUPPLEMENTARY INFORMATION: On June 15, 1984, the Office of Management and Budget (OMB) delegated to the Board authority under the Paperwork Reduction Act (PRA) to approve and assign OMB control numbers to collection of information requests and requirements conducted or sponsored by the Board. Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information. Copies of the Paperwork Reduction Act Submission, supporting statements and approved collection of information instrument(s) are placed into OMB's public docket files. The Board may not conduct or sponsor, and the

respondent is not required to respond to, an information collection that has been extended, revised, or implemented on or after October 1, 1995, unless it displays a currently valid OMB control number.

Final approval under OMB delegated authority of the extension for three years, without revision, (or the implementation) of the following information collection:

Report title: Basel II Interagency Pillar 2 Supervisory Guidance (Pillar 2 Guidance).

Agency form number: FR 4199.

OMB control number: 7100-0320.

Frequency: As needed.

Respondents: Banking institutions.

Estimated number of respondents: 13.

Estimated average hours per response: 420.

Estimated annual burden hours: 5,460.

General description of report: The advanced approaches framework requires certain banks and bank holding companies (BHCs) to use an internal ratings-based approach to calculate regulatory credit risk capital requirements and advance measurement approaches to calculate regulatory operational risk capital requirements.

A bank is required to comply with the advanced approaches framework if it meets either of two independent threshold criteria: (1) Consolidated total assets of \$250 billion or more, as reported on the most recent year-end regulatory reports; or (2) consolidated total on-balance sheet foreign exposure of \$10 billion or more at the most recent year-end.

A BHC is required to comply with the advanced approaches framework if the BHC has (1) consolidated total assets (excluding assets held by an insurance underwriting subsidiary) of \$250 billion or more, as reported on the most recent year-end regulatory reports; (2) consolidated total on-balance sheet foreign exposure of \$10 billion or more at the most recent year-end; or (3) a subsidiary depository institution (DI) that meets the criteria to be subject to the advanced approaches rule or elects to adopt the advanced approaches framework. As of year-end 2017, 13 BHCs meet the above criteria and are therefore subject to the advanced approaches rule.¹

Also, some banks or BHCs may voluntarily decide to adopt the advanced approaches framework. Both mandatory and voluntary respondents are required to meet certain qualification requirements before they can use the advanced approaches framework for risk-based capital purposes.

The Pillar 2 Guidance sets the expectation that respondents maintain certain documentation as described in paragraphs 37, 41, 43, and 46 of this portion of the guidance. Details of the expectations for each section are provided below.

Setting and Assessing Capital Adequacy Goals that Relate to Risk

Paragraph 37. In analyzing capital adequacy, a banking organization should evaluate the capacity of its capital to absorb losses. Because various definitions of capital are used within the banking industry, each banking organization should state clearly the definition of capital used in any aspect of its internal capital adequacy assessment process

¹ Regulation YY permits a bank holding company that is a subsidiary of a foreign banking institution to elect not to comply with the advanced approaches rule prior to formation of an intermediate holding companies (IHCs) with the prior approval of the Board. 12 CFR 252.153(e)(2)(C). Currently, no savings and loan holding companies are subject to the advanced approaches rule.

(ICAAP).² Since components of capital are not necessarily alike and have varying capacities to absorb losses, a banking organization should be able to demonstrate the relationship between its internal capital definition and its assessment of capital adequacy. If a banking organization's definition of capital differs from the regulatory definition, the banking organization should reconcile such differences and provide an analysis to support the inclusion of any capital instruments that are not recognized under the regulatory definition. Although common equity is generally the predominant component of a banking organization's capital structure, a banking organization may be able to support the inclusion of other capital instruments in its internal definition of capital if it can demonstrate a similar capacity to absorb losses. The banking organization should document any changes in its internal definition of capital and the reason for those changes.

Ensuring Integrity of Internal Capital Adequacy Assessments

Paragraph 41. A banking organization should maintain thorough documentation of its ICAAP to ensure transparency. At a minimum, this should include a description of the banking organization's overall capital-management process, including the committees and individuals responsible for the ICAAP; the frequency and distribution of ICAAP-related reporting; and the procedures for the periodic evaluation of the appropriateness

² Under the Board's capital plan rule (12 CFR 225.8), a bank holding company with total consolidated assets of \$50 billion or more is required to develop and maintain a capital plan; however, on July 6, 2018, the Board issued a public statement regarding the impact of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) (Pub L. No. 115-174, 132 Stat. 1296 (2018)). The Board stated, consistent with EGRRCPA, that it will not action to require bank holding companies with total consolidated assets greater than or equal to \$50 billion but less than \$100 billion to comply with the Board's capital plan rule (<https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20180706b1.pdf>). Bank holding companies subject to the capital plan rule must have a capital policy that sets forth a capital adequacy process. ICAAP would constitute an internal capital adequacy process for purposes of the capital plan rule, and bank holding companies that have a satisfactory ICAAP generally would be considered to have a satisfactory internal capital adequacy process for purposes of the capital plan rule.

and adequacy of the ICAAP. In addition, where applicable, ICAAP documentation should demonstrate the banking organization's sound use of quantitative methods (including model selection and limitations) and data-selection techniques, as well as appropriate maintenance, controls, and validation. A banking organization should document and explain the role of third-party and vendor products, services, and information - including methodologies, model inputs, systems, data, and ratings - and the extent to which they are used within the ICAAP. A banking organization should have a process to regularly evaluate the performance of third-party and vendor products, services, and information. As part of the ICAAP documentation, a banking organization should document the assumptions, methods, data, information, and judgment used in its quantitative and qualitative approaches.

Paragraph 43. The board of directors and senior management have certain responsibilities in developing, implementing, and overseeing the ICAAP. The board should approve the ICAAP and its components. The board or its appropriately delegated agent should review the ICAAP and its components on a regular basis and approve any revisions. That review should encompass the effectiveness of the ICAAP, the appropriateness of risk tolerance levels and capital planning, and the strength of control infrastructures. Senior management should continually ensure that the ICAAP is functioning effectively and as intended, under a formal review policy that is explicit and well documented. Additionally, a banking organization's internal audit function should play a key role in reviewing the controls and governance surrounding the ICAAP on an ongoing basis.

Paragraph 46. As part of the ICAAP, the board or its delegated agent, as well as appropriate senior management, should periodically review the resulting assessment of overall capital adequacy. This review, which should occur at least annually, should include an analysis of how measures of internal capital adequacy compare with other capital measures (such as regulatory, accounting-based or market-determined). Upon completion of this review, the board or its delegated agent should determine that, consistent with safety and soundness, the banking organization's capital takes into account all material risks and is appropriate for its risk profile. However, in the event a capital deficiency is uncovered (that is, if capital is not consistent with the banking organization's risk profile or risk tolerance) management should consult and adhere to formal procedures to correct the capital deficiency.

Legal authorization and confidentiality: The collection of information is authorized pursuant to the International Lending Supervision Act (12 U.S.C. 3907(a)(1) and (b)(3)), section 1831o of the Federal Deposit Insurance Act (12 U.S.C. 1831o), section 5 of the Bank Holding Company Act of 1956 (12 U.S.C. 1844), section 10(b)(2) of the Homeowners' Loan Act (12 U.S.C. 1467a(b)), and section 171 of the Dodd-Frank Act (12 U.S.C. 5371). The FR 4199 is voluntary.

Because the collections of information associated with the FR 4199 do not involve the submission of information to the Board, no issues of confidentiality would normally arise. To the extent that the Board collects information kept by a banking organization as a record during an examination of the banking organization, confidential treatment may be afforded to the records under exemption 8 of the Freedom of Information Act (FOIA) (5 U.S.C. 552(b)(8)), which protects information collected as part of the Board's

supervisory process. Additionally, individual respondents may request that certain information be afforded confidential treatment pursuant to exemption 4 of FOIA (5 U.S.C. 552(b)(4)) if the information has not previously been publicly disclosed and the release of the data would likely cause substantial harm to the competitive position of the respondent.

Current actions: On October 22, 2018, the Board published a notice in the Federal Register (83 FR 53248) requesting public comment for 60 days on the extension, without revision, of the FR 4199. The comment period for this notice expired on December 21, 2018. The Board did not receive any comments.

Board of Governors of the Federal Reserve System, January 30, 2019.

Michele Taylor Fennell,

Assistant Secretary of the Board.

BILLING CODE 6210-01-P

[FR Doc. 2019-00903 Filed: 2/1/2019 8:45 am; Publication Date: 2/4/2019]