Supporting Statement for the interagency
Funding and Liquidity Risk Management Guidance
(FR 4198; OMB No. 7100-0326)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, without revision, the Funding and Liquidity Risk Management Guidance (FR 4198; OMB No. 7100-0326). The Paperwork Reduction Act (PRA) classifies reporting, recordkeeping, or disclosure requirements of agency guidance as an "information collection."[1] On March 22, 2010, the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (NCUA) (the agencies) published a joint final notice in the *Federal Register* implementing guidance titled "Interagency Policy Statement on Funding and Liquidity Risk Management" (the "Guidance"), effective May 21, 2010.[2]

The Guidance summarizes the principles of sound liquidity risk management that the agencies have issued in the past and, where appropriate, brings them into conformance with the "Principles for Sound Liquidity Risk Management and Supervision" issued by the Basel Committee on Banking Supervision (BCBS) in September 2008. While the BCBS liquidity principles primarily focuses on large internationally active financial institutions, the Guidance emphasizes supervisory expectations for all domestic financial institutions including banks, thrifts and credit unions.

The agencies[3] have identified two sections of the Guidance that fall under the definition of an information collection. Section 14 states that institutions should consider liquidity costs, benefits, and risks in strategic planning and budgeting processes. Section 20 requires that liquidity risk reports provide aggregate information with sufficient supporting detail to enable management to assess the sensitivity of the institution to changes in market conditions, its own financial performance, and other important risk factors.

The Federal Reserve's total annual burden is estimated to be 727,456 hours for the 5,452 financial institutions that are likely to be subject to the Guidance.[4] There are no required reporting forms associated with the Guidance.

Background and Justification

The financial market stress experienced in 2007-2009 emphasized the importance of good

[1] 44 U.S.C. § 3501 et seq.

[2] 75 FR 13656 (March 22, 2010).

[3] As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the OTS was abolished and its functions and powers were transferred to the OCC, the FDIC, and the Federal Reserve. The information collection associated with the Guidance would be extended by the Federal Reserve.

[4] The Guidance would apply to bank holding companies, savings and loan holding companies, state member banks, state-licensed branches and agencies of foreign banks (other than insured branches), and corporations organized or operating under sections 25 or 25A of the Federal Reserve Act (agreement corporations and Edge corporations).

liquidity risk management to the safety and soundness of financial institutions. Supervisors worked on an international and national level through various groups (e.g., BCBS, Senior Supervisors Group, Financial Stability Forum) to assess the implications of the current market conditions on an institution's assessment of liquidity risk and the supervisor's approach to liquidity risk supervision. The industry, through the Institute of International Finance (IIF), also performed work in the area of liquidity risk and issued guidelines in 2008. Additionally, supervisors in Europe and Asia have worked on domestic liquidity guidance. This Guidance applies to all domestic financial institutions, including banks, thrifts, and credit unions. The Guidance emphasizes the key elements of liquidity risk management already addressed separately by the agencies, and provides consistent interagency expectations on sound practices for managing funding and liquidity risk.

The Guidance reiterates the process that institutions should follow to appropriately identify, measure, monitor, and control their funding and liquidity risk. In particular, the Guidance re-emphasizes the importance of cash flow projections, diversified funding sources, stress testing, a cushion of liquid assets, and a formal well-developed contingency funding plan (CFP) as primary tools for measuring and managing liquidity risk. The agencies expect all financial institutions[5] to manage liquidity risk using processes and systems that are commensurate with the institution's complexity, risk profile, and scope of operations. Liquidity risk management processes and plans should be well documented and available for supervisory review. Failure to maintain an adequate liquidity risk management process is considered an unsafe and unsound practice.

Description of Information Collection

An institution's liquidity management process should be sufficient to meet its daily funding needs, and cover both expected and unexpected deviations from normal operations. Accordingly, institutions should have a comprehensive management process for identifying, measuring, monitoring and controlling liquidity risk. Because of the critical importance to the viability of the institution, liquidity risk management should be fully integrated into the institution's risk management processes. Critical elements of sound liquidity risk management include:

- Effective corporate governance consisting of oversight by the board of directors and active involvement by management in an institution's control of liquidity risk.
- Appropriate strategies, policies, procedures, and limits used to manage and mitigate liquidity risk.
- Comprehensive liquidity risk measurement and monitoring systems (including assessments of the current and prospective cash flows or sources and uses of funds) that are commensurate with the complexity and business activities of the institution.
- Active management of intraday liquidity and collateral.
- An appropriately diverse mix of existing and potential future funding sources.

[5] Unless otherwise indicated, this interagency guidance uses the term "financial institutions" or "institutions" to include banks, saving associations, credit unions, affiliated holding companies, state and federally chartered U.S. branches and agencies of foreign banks, and Edge and agreement corporations. Federally-insured credit unions (FICUs) do not have holding company affiliations and therefore references to holding companies contained within this guidance are not applicable to FICUs.

- Adequate levels of highly liquid marketable securities free of legal, regulatory, or operational impediments that can be used to meet liquidity needs in stressful situations.
- Comprehensive CFPs that sufficiently address potential adverse liquidity events and emergency cash flow requirements.
- Internal controls and internal audit processes sufficient to determine the adequacy of the institution's liquidity risk management process.

Section 14 - Strategic Planning and Budgeting Processes

Section 14 of the Guidance states that institutions should consider liquidity costs, benefits, and risks in strategic planning and budgeting processes. Documenting these costs, benefits, and risks is considered to be an information collection. Significant business activities should be evaluated for liquidity risk exposure as well as profitability. More complex and sophisticated institutions should incorporate liquidity costs, benefits, and risks in the internal product pricing, performance measurement, and new product approval process for all material business lines, products and activities. Incorporating the cost of liquidity into these functions should align the risk-taking incentives of individual business lines with the liquidity risk exposure their activities create for the institution as a whole. The quantification and attribution of liquidity risks should be explicit and transparent at the business line management level and should include consideration of how liquidity would be affected under stressed conditions.

Section 20 - Liquidity Risk Reports

Section 20 of the Guidance would require that liquidity risk reports provide aggregate information with sufficient supporting detail to enable management to assess the sensitivity of the institution to changes in market conditions, its own financial performance, and other important risk factors. Institutions should also report on the use and availability of government support, such as lending and guarantee programs, and implications on liquidity positions, particularly since these programs are generally temporary or reserved as a source for contingent funding.

Time Schedule for Information Collection

The documentation required by the Guidance is maintained by each institution; therefore, the documentation is not collected or published by the Federal Reserve System. These recordkeeping requirements are documented on occasion. Bank examiners verify compliance with this recordkeeping requirement during examinations.

Sensitive Questions

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

Consultation Outside the Agency

The interagency working group that developed the Guidance comprises representatives from the OCC, the FDIC, and the Federal Reserve. The agencies would consult on any proposed revisions.

On March 15, 2016, the Federal Reserve published a notice in the *Federal Register* (81 FR 13791) requesting public comment for 60 days on the extension, without revision, of this information collection. The comment period for this notice expired on May 16, 2016.

Legal Status

The Board's Legal Division has determined that this information collection is mandatory based on the following relevant statutory provisions.

- Section 9(6) of the Federal Reserve Act (12 U.S.C. 324) requires state member banks to make reports of condition to their supervising Reserve Bank in such form and containing such information as the Board may require.
- Section 5(c) of the Bank Holding Company Act (12 U.S.C. 1844(c)) authorizes the Board to require a BHC and any subsidiary to submit reports to keep the Board informed as to its financial condition, [and] systems for monitoring and controlling financial and operating risk.
- Section 7(c)(2) of the International Banking Act of 1978 (12 U.S.C. 3105(c)(2) requires branches and agencies of foreign banking organizations to file reports of condition with the Federal Reserve to the same extent and in the same manner as if the branch or agency were a state member bank.
- Section 25A of the Federal Reserve Act (12 U.S.C. 625) requires Edge and agreement corporations to make reports to the Board at such time and in such form as it may require.
- Section 10(b) of the Home Owners' Loan Act requires an SLHC to file reports on the operation of the SLHC and any subsidiary as the Board may require and in such form and for such periods as the Board may require.

Because the records required by the Guidance are maintained at the institution, issues of confidentiality are not expected to arise. Should the documents be obtained by the Federal Reserve System during the course of an examination, they would be exempt from disclosure under exemption 8 of FOIA, 5 U.S.C. 552(b)(8). In addition, some or all of the information may be "commercial or financial" information protected from disclosure under exemption 4 of FOIA, under the standards set forth in National Parks & Conservation Ass'n v. Morton, 498 F.2d 765 (D.C. Cir. 1974).

Estimate of Respondent Burden

The total annual paperwork burden, for institutions regulated by the Federal Reserve, is estimated to be 727,456 hours, as shown in the table below. The Federal Reserve estimates that compliance with Section 14 of the Guidance would take large institutions (defined as those with over $100 billion in assets) 720 hours per year, mid-sized institutions (defined as those with $10 - $100 billion in assets) 240 hours per year, and small institutions (defined as those with less than $10 billion in assets) 80 hours per year to comply. For Section 20 of the Guidance, the Federal Reserve estimates it would take each institution 4 hours per month to comply. The total burden for the Guidance represents approximately 6 percent of total Federal Reserve paperwork burden.

	Number of respondents[6]	*Estimated annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
Section 14 - Strategic Planning and Budgeting Processes				
Large institutions	28	1	720	20,160
Mid-sized institutions	73	1	240	17,520
Small institutions	5,351	1	80	428,080
Total Section 14				465,760
Section 20 - Liquidity Risk Reports	5,452	12	4	261,696
Total burden				727,456

The estimated cost to the public for this information collection is $37,645,848.[7]

Estimate of Cost to the Federal Reserve System

Since records are maintained at the financial institutions, the cost to the Federal Reserve System is negligible.

[6] Of these respondents, 4,081 are small entities as defined by the Small Business Administration (i.e entities with less than $550 million in assets). www.sba.gov/content/table-small-business-size-standards.

[7] Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at $17, 45% Financial Managers at $63, 15% Lawyers at $64, and 10% Chief Executives at $87). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages May 2014, published March 25, 2015 http://www.bls.gov/news.release/ocwage.t01.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.