

**Supporting Statement for the
Capital Requirements for Board-Regulated Institutions
Significantly Engaged in Insurance Activities
(FR Q-1; OMB No. 7100-NEW)**

*Regulatory Capital Rules: Risk-Based Capital Requirements for
Depository Institution Holding Companies Significantly Engaged in Insurance Activities
(Docket No. R-1673) (RIN 7100-AF56)*

Summary

The Board of Governors of the Federal Reserve System (Board), under authority delegated from the Office of Management and Budget (OMB), has implemented for three years the Capital Requirements for Board-Regulated Institutions Significantly Engaged in Insurance Activities (FR Q-1; OMB No. 7100-NEW). The Board adopted a final rule¹ that established minimum risk-based capital requirements for certain depository institution holding companies significantly engaged in insurance activities (insurance depository institution holding companies). The final rule established an enterprise-wide risk-based capital framework, termed the Building Block Approach (BBA), that incorporates legal entity capital requirements such as the requirements prescribed by state insurance regulators, taking into account differences between the business of insurance and banking. The final rule also contains a risk-based capital requirement, in compliance with section 171 of The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).² The Board also adopted the reporting form FR Q-1 in order to collect information related to the BBA. The capital requirements and associated reporting form meet statutory mandates and will help to prevent the economic and consumer impacts resulting from the failure of organizations engaged in banking and insurance. The FR Q-1 is effective January 1, 2024, with the first as of date being December 31, 2024.

The estimated total annual burden for the FR Q-1 is 1,097 hours. The forms and instructions are available on the Board's public website at <https://www.federalreserve.gov/apps/reportingforms/review>.

Background and Justification

In response to the 2007-2009 financial crisis, Congress enacted the Dodd-Frank Act, which, among other purposes, was enacted to ensure appropriate supervision of depository institution holding companies without regard to charter type of their insured depository institution subsidiaries and to streamline the supervision of such holding companies. In furtherance of these purposes, Title III of the Dodd-Frank Act expanded the Board's supervisory role by transferring to the Board all supervisory functions related to savings and loan holding companies (SLHCs) and their non-depository subsidiaries. As a result, the Board became the federal supervisory authority for all depository institution holding companies, including insurance depository institution holding companies. Concurrent with the expansion of the Board's supervisory role, section 616 of the Dodd-Frank Act amended Home Owners' Loan Act

¹ 88 FR 82950 (November 27, 2023).

² Public Law 111-203, 124 Stat. 1376 (2010).

(HOLA) to provide the Board express authority to adopt regulations or orders that set capital requirements for SLHCs.

Any capital requirements the Board may establish for SLHCs are subject to minimum standards under the Dodd-Frank Act. Specifically, section 171 of the Dodd-Frank Act requires the Board to establish minimum risk-based and leverage capital requirements on a consolidated basis for depository institution holding companies. These requirements must be not less than the capital requirements established by the federal banking agencies to apply to insured depository institutions under the prompt corrective action regulations implementing section 38 of the Federal Deposit Insurance Act, nor quantitatively lower than the capital requirements that applied to these institutions when the Dodd-Frank Act was enacted.

Section 171 of the Dodd-Frank Act was amended in 2014 (2014 Amendment) to provide the Board flexibility when developing consolidated capital requirements for insurance depository institution holding companies. The 2014 Amendment permits the Board, in establishing minimum risk-based and leverage capital requirements on a consolidated basis, to exclude companies engaged in the business of insurance and regulated by a state insurance regulator, as well as certain companies engaged in the business of insurance and regulated by a foreign insurance regulator.

Section 171 of the Dodd-Frank Act also provides that the Board may not require, under its authority pursuant to section 171 of the Dodd-Frank Act or HOLA, a supervised firm that is also a state-regulated insurer and files financial statements with a state insurance regulator or the National Association of Insurance Commissioners (NAIC) utilizing only Statutory Accounting Principles (SAP) to prepare such financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The Board notes that, unlike GAAP, SAP does not include an accounting consolidation concept.

Consistent with these statutory requirements, the Board enacted the BBA as an enterprise-wide risk-based capital framework for bank holding companies (BHCs) and SLHCs that are significantly engaged in insurance activities. The BBA is an aggregation-based approach, designed to comprehensively capture risk, including all material risks, at the level of the entire enterprise or group. This information is not available from other sources.

Description of Information Collection

The FR Q-1, which consists of 14 reporting schedules, collects data regarding the application of the BBA, as codified at Subpart J (Risk-Based Capital Requirements for Board-regulated Institutions Significantly Engaged in Insurance Activities) of the Board's Regulation Q - Capital Adequacy of Bank Holding Companies, Savings and Loan Holding Companies, and State Member Banks (12 CFR Part 217).

Respondent Panel

The FR Q-1 panel comprises top-tier depository institution holding companies significantly engaged in insurance activities (insurance depository institution holding

companies). Top-tier depository institution holding companies are considered to be significantly engaged in insurance activities if:

- (1) The institution is made subject to the BBA by order of the Board,
- (2) The top tier depository institution holding company is an insurance underwriting company, or
- (3) The top tier depository institution holding company, held, as of June 30 of the previous calendar year, 25 percent or more of its total consolidated assets in insurance underwriting legal entities (other than assets associated with insurance underwriting for credit risk). For the purposes of this determination top-tier depository institution holding company must calculate its total consolidated assets in accordance with U.S. GAAP, if GAAP financial statements are prepared for any regulatory purpose, including compliance with applicable securities laws. If GAAP financial statements are not prepared for any regulatory purpose, the top-tier depository institution holding company may estimate its total consolidated assets under U.S. GAAP.

Frequency and Time Schedule

The FR Q-1 is submitted annually as of December 31, with a submission deadline of March 31 of the following year. Reporters generally file the FR Q-1 electronically using an XML format filed in Reporting Central or an Excel format filed in One Agile Supervision Solution (OASiS).

Public Availability of Data

All items on the FR Q-1 are confidential with the exception of the cover page and the section titled Publicly Reported Items (Column K, Building Block Available Capital; Column L, Building Block Capital Requirement; and Column M, BBA Ratio) in Schedule VI, Overall Results. This information will be available to the public via the National Information Center public website, (<https://www.ffiec.gov/NPW>).

Legal Status

The Board is authorized to collect the information on the FR Q-1 from BHCs pursuant to section 5(c) of the Bank Holding Company Act of 1956 (12 U.S.C. § 1844(c)), which allows the Board to require a BHC and any subsidiary of a BHC to submit reports regarding a firm's financial condition and compliance with applicable law, and from SLHCs pursuant to section 10 of the HOLA (12 U.S.C. § 1467a(b)(2)), which allows the Board to require any SLHC and certain subsidiaries of a SLHC to submit a report containing such information concerning the operation of the SLHC and its subsidiaries as the Board may require. The FR Q-1 report is mandatory for reporting institutions.

If a reporting institution requests confidential treatment, the Board will determine whether the information is entitled to confidential treatment on a case-by-case basis. To the extent a respondent submits personal, medical, or similar files, the disclosure of which would constitute an unwarranted invasion of privacy, the respondent may request confidential treatment pursuant to exemption 6 of the Freedom of Information Act (FOIA) (5 U.S.C. § 552(b)(6)). To

the extent a respondent submits confidential commercial or financial information in connection with the FR Q-1, which is both customarily and actually treated as private by the reporting institution, the respondent may request confidential treatment pursuant to exemption 4 of the FOIA (5 U.S.C. § 552(b)(4)). To the extent a respondent submits information that is matter contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of an agency responsible for the regulation or supervision of financial institutions, the information would be confidential pursuant to exemption 8 of the FOIA (5 U.S.C. § 552(b)(8)).

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Public Comments

On October 24, 2019, the Board published a notice of proposed rulemaking in the *Federal Register* (84 FR 57240) requesting public comment on the implementation of the FR Q-1. The comment period for this notice expired on December 23, 2019. The Board received no comments specifically related to the Paperwork Reduction Act. The Board did receive two comments relating to the difficulties of providing certain information for all subsidiaries. The Board lowered the reporting burden by adding a materiality threshold that will eliminate some of the reporting on immaterial inventory companies. On November 27, 2023, the Board published a final rule in the *Federal Register* (88 FR 82950). The final rule is effective on January 1, 2024.

Estimate of Respondent Burden

As shown in the table below, the estimated total annual burden for the FR Q-1 is 1,097 hours. The Board estimates that the average hours per response for initial setup would be 175.50 and for ongoing reporting would be 43.88. The burden estimate was produced using the standard Board burden calculation methodology. These reporting requirements represent less than 1 percent of the Board’s total paperwork burden.

FR Q-1	<i>Estimated number of respondents³</i>	<i>Estimated annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Initial setup	5	1	175.50	878
Ongoing	5	1	43.88	<u>219</u>
<i>Total</i>				1,097

³ Of these respondents, none are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$850 million in total assets). Size standards effective March 17, 2023. See <https://www.sba.gov/document/support-table-size-standards>.

The estimated total annual cost to the public for the FR Q-1 is \$72,676.⁴

Sensitive Questions

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

Estimate of Cost to the Federal Reserve System

The estimated cost to the Federal Reserve System for collecting and processing this report is \$27,500 per year.

⁴ Total cost to the responding public is estimated using the following formula: total burden hours, multiplied by the cost of staffing, where the cost of staffing is calculated as a percent of time for each occupational group multiplied by the group's hourly rate and then summed (30% Office & Administrative Support at \$22, 45% Financial Managers at \$80, 15% Lawyers at \$79, and 10% Chief Executives at \$118). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor Statistics (BLS), *Occupational Employment and Wages, May 2022*, published April 25, 2023, <https://www.bls.gov/news.release/ocwage.t01.htm>. Occupations are defined using the BLS Standard Occupational Classification System, <https://www.bls.gov/soc/>.