



BILLING CODE: 4810-33-P

DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

Agency Information Collection Activities:

Information Collection Renewal; Comment Request;

Reporting, Recordkeeping, and Disclosure Requirements

Associated with Proprietary Trading and Certain

Interests in and Relationships with Covered Funds

AGENCY: Office of the Comptroller of the Currency (OCC), Treasury.

ACTION: Notice and request for comment.

SUMMARY: The OCC, as part of its continuing effort to reduce paperwork and respondent burden, invites the general public and other Federal agencies to take this opportunity to comment on a continuing information collection as required by the Paperwork Reduction Act of 1995 (PRA).

In accordance with the requirements of the PRA, the OCC may not conduct or sponsor, and the respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number.

The OCC is soliciting comment concerning renewal of its information collection titled, “Reporting, Recordkeeping, and Disclosure Requirements Associated with Proprietary Trading and Certain Interests in and Relationships with Covered Funds.”

DATES: Comments must be submitted on or before [INSERT 60 DAYS FROM DATE OF PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: Because paper mail in the Washington, DC area and at the OCC is subject to delay, commenters are encouraged to submit comments by e-mail, if possible. Comments may be sent to: Legislative and Regulatory Activities Division, Office of the Comptroller of the Currency, Attention: 1557-00309, 400 7th Street, SW., suite 3E-218, mail stop 9W-11, Washington, DC 20219. In addition, comments may be sent by fax to (571) 465-4326 or by electronic mail to *prainfo@occ.treas.gov*. You may personally inspect and photocopy comments at the OCC, 400 7th Street, SW., Washington, DC 20219. For security reasons, the OCC requires that visitors make an appointment to inspect comments. You may do so by calling (202) 649-6700 or, for persons who are deaf or hard of hearing, TTY, (202) 649-5597. Upon arrival, visitors will be required to present valid government-issued photo identification and submit to security screening in order to inspect and photocopy comments.

All comments received, including attachments and other supporting materials, are part of the public record and subject to public disclosure. Do not include any information in your comment or supporting materials that you consider confidential or inappropriate for public disclosure.

FOR FURTHER INFORMATION CONTACT: Shaquita Merritt, OCC Clearance Officer, (202) 649-5490 or, for persons who are deaf or hard of hearing, TTY, (202) 649-5597, Legislative and Regulatory Activities Division, Office of the Comptroller of the Currency, 400 7th Street, SW., suite 3E-218, mail stop 9W-11, Washington, DC 20219.

SUPPLEMENTARY INFORMATION: Under the PRA (44 U.S.C. 3501-3520), Federal agencies must obtain approval from the OMB for each collection of information that they conduct or sponsor. "Collection of information" is defined in 44 U.S.C. 3502(3) and 5 CFR 1320.3(c) to include agency requests or requirements that members of the public submit reports, keep records, or provide information to a third party. Section 3506(c)(2)(A) of title 44 requires Federal agencies to provide a 60-day notice in the Federal Register concerning each proposed collection of information, including each proposed extension of an existing collection of information, before submitting the collection to OMB for approval. To comply with this requirement, the OCC is publishing notice of the proposed collection of information set forth in this document.

Title: Reporting, Recordkeeping, and Disclosure Requirements Associated with Proprietary Trading and Certain Interests in and Relationships with Covered Funds.

OMB Control No.: 1557-0309.

Type of Review: Regular.

Description: This collection of information is established pursuant to a 2014 final rule¹ required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which was enacted on July 21, 2010.² Section 619 of the Dodd-Frank Act contains certain prohibitions and restrictions on the ability of a banking entity and nonbank financial company supervised by the Board of Governors of the Federal Reserve System (Board) to engage in proprietary trading and have certain interests in, or relationships with, a hedge fund or private equity fund.

¹ 79 FR 5536 (January 31, 2014).

² Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, 124 Stat. 1376 (2010).

Section 619 of the Dodd-Frank Act added a new section 13 to the Bank Holding Company Act (BHC Act) (codified at 12 U.S.C. 1851) that generally prohibits any banking entity from engaging in proprietary trading or from acquiring or retaining an ownership interest in, sponsoring, or having certain relationships with a hedge fund or private equity fund, subject to certain exemptions.

Section 44.12(e) states that, upon application by a banking entity, the Board may extend the period of time to meet the requirements on ownership limitations under § 44.12(a)(2)(i) for up to 2 additional years, if the Board finds that an extension would be consistent with safety and soundness and not detrimental to the public interest. An application for extension must: (1) be submitted to the Board at least 90 days prior to the expiration of the applicable time period; (2) provide the reasons for application including information that addresses the factors in paragraph (e)(2) of § 44.12; and (3) explain the banking entity's plan for reducing the permitted investment in a covered fund through redemption, sale, dilution, or other methods as required in § 44.12(a)(2).

Section 44.20(d) provides that a banking entity engaged in proprietary trading activity permitted under subpart B of part 44 must comply with the reporting requirements described in Appendix A if (1) the banking entity (other than a foreign banking entity as provided in § 44.20(d)(1)(ii)) has, together with its affiliates and subsidiaries, trading assets and liabilities (excluding trading assets and liabilities involving obligations of or guaranteed by the United States or any agency of the United States) the average gross sum of which (on a worldwide consolidated basis) over the previous consecutive four quarters, as measured as of the last day of each of the four prior calendar quarters, equals or exceeds the threshold established in § 44.20(d)(2); (2)

in the case of a foreign banking entity, the average gross sum of the trading assets and liabilities of the combined U.S. operations of the foreign banking entity (including all subsidiaries, affiliates, branches, and agencies of the foreign banking entity operating, located, or organized in the United States and excluding trading assets and liabilities involving obligations of or guaranteed by the United States or any agency of the United States) over the previous consecutive four quarters, as measured as of the last day of each of the four prior calendar quarters, equals or exceeds the threshold established in § 44.20(d)(2); or (3) the OCC notifies the banking entity in writing that it must satisfy the reporting requirements contained in Appendix A of part 44. The threshold for reporting is \$50 billion beginning on June 30, 2014; \$25 billion beginning on April 30, 2016; and \$10 billion beginning on December 31, 2016. Under the 2014 final rule, a banking entity with \$50 billion or more in trading assets and liabilities must report the information required by Appendix A for each calendar month within 30 days of the end of the relevant calendar month. Beginning with information for the month of January 2015, such information must be reported within 10 days of the end of that calendar month. The OCC may notify a banking entity in writing that it must report on a different basis. Any other banking entity subject to Appendix A shall report the information required by Appendix A for each calendar quarter within 30 days of the end of that calendar quarter unless the OCC notifies the banking entity in writing that it must report on a different basis. Appendix A requires banking entities to furnish the following quantitative measurements for each trading desk of the banking entity: (1) Risk and Position Limits and Usage; (2) Risk Factor Sensitivities; (3) Value-at-Risk (VaR) and stress VaR; (4)

Comprehensive Profit and loss Attribution; (5) Inventory Turnover; (6) Inventory Aging; and (7) Customer-Facing Trade Ratio.

Section 44.3(d)(3) specifies that proprietary trading does not include any purchase or sale of a security by a banking entity for the purpose of liquidity management in accordance with a documented liquidity management plan of the banking entity that:

(1) specifically contemplates and authorizes the particular securities to be used for liquidity management purposes, the amount, types, and risks of these securities that are consistent with liquidity management, and the liquidity circumstances in which the particular securities may or must be used; (2) requires that any purchase or sale of securities contemplated and authorized by the plan be principally for the purpose of managing the liquidity of the banking entity, and not for the purpose of short-term resale, benefitting from actual or expected short-term price movements, realizing short-term arbitrage profits, or hedging a position taken for such short-term purposes; (3) requires that any securities purchased or sold for liquidity management purposes be highly liquid and limited to securities the market, credit, and other risks of which the banking entity does not reasonably expect to give rise to appreciable profits or losses as a result of short-term price movements; (4) limits any securities purchased or sold for liquidity management purposes, together with any other instruments purchased or sold for such purposes, to an amount that is consistent with the banking entity's near-term funding needs, including deviations from normal operations of the banking entity or any affiliate thereof, as estimated and documented pursuant to methods specified in the plan; (5) includes written policies and procedures, internal controls, analysis, and independent testing to ensure that the purchase and sale of securities that are not permitted under

§ 44.6(a) or § 44.6(b) are for the purpose of liquidity management and in accordance with the liquidity management plan described in this paragraph; and (6) is consistent with the OCC's supervisory requirements, guidance, and expectations regarding liquidity management.

Section 44.4(b)(3)(i)(A) provides that a trading desk or other organizational unit of another entity with \$50 billion or more in trading assets and liabilities is not a client, customer, or counterparty unless the trading desk documents how and why a particular trading desk or other organizational unit of the entity should be treated as a client, customer, or counterparty of the trading desk for purposes of § 44.4(b)(2).

Section 44.5(c) requires documentation for any purchase or sale of financial instruments for risk-mitigating hedging purposes that is: (1) not established by the specific trading desk establishing or responsible for the underlying positions, contracts, or other holdings the risks of which the hedging activity is designed to reduce; (2) established by the specific trading desk establishing or responsible for the underlying positions, contracts, or other holdings the risks of which the purchases or sales are designed to reduce, but that is effected through a financial instrument, exposure, technique, or strategy that is not specifically identified in the trading desk's written policies and procedures established under § 44.5(b)(1) or § 44.4(b)(2)(iii)(B) as a product, instrument, exposure, technique, or strategy such desk may use for hedging; or (3) established to hedge aggregated positions across two or more trading desks. In connection with any purchase or sale that meets these specified circumstances, a banking entity must, at a minimum and contemporaneously with the purchase or sale, document: (1) the specific, identifiable risk(s) of the identified positions, contracts, or other holdings

of the banking entity that the purchase or sale is designed to reduce; (2) the specific risk-mitigating strategy that the purchase or sale is designed to fulfill; and (3) the trading desk or other business unit that is establishing and responsible for the hedge. The banking entity must also create and retain records sufficient to demonstrate compliance with § 44.5(c) for at least 5 years in a form that allows the banking entity to promptly produce such records to the OCC on request or such longer period as required under other law or part 44.

Section 44.11(a)(2) requires that covered funds generally must be organized and offered only in connection with the provision of bona fide trust, fiduciary, investment advisory, or commodity trading advisory services and only to persons that are customers of such services of the banking entity (or an affiliate thereof), pursuant to a written plan or similar documentation outlining how the banking entity or such affiliate intends to provide advisory or similar services to its customers through organizing and offering the covered fund.

Section 44.20(b) specifies the contents of the compliance program for a banking entity with total consolidated assets of \$10 billion or more. It includes: (1) written policies and procedures reasonably designed to document, describe, monitor, and limit trading activities (including those permitted under §§ 44.3 to 44.6), including setting, monitoring, and managing required limits set out in § 44.4 and § 44.5 and activities and investments with respect to a covered fund (including those permitted under §§ 44.11 through 44.14) conducted by the banking entity to ensure that all activities and investments conducted by the banking entity that are subject to section 13 of the BHC Act and part 44 comply with section 13 of the BHC Act and part 44; (2) a system of

internal controls reasonably designed to monitor compliance with section 13 of the BHC Act and part 44 and to prevent the occurrence of activities or investments that are prohibited by section 13 of the BHC Act and part 44; (3) a management framework that clearly delineates responsibility and accountability for compliance with section 13 of the BHC Act and part 44 and includes appropriate management review of trading limits, strategies, hedging activities, investments, incentive compensation, and other matters identified in part 44 or by management as requiring attention; (4) independent testing and audit of the effectiveness of the compliance program conducted periodically by qualified personnel of the banking entity or by a qualified outside party; (5) training for trading personnel and managers, as well as other appropriate personnel, to effectively implement and enforce the compliance program; and (6) records sufficient to demonstrate compliance with section 13 of the BHC Act and part 44, which a banking entity must promptly provide to the OCC upon request and retain for a period of no less than 5 years or such longer period as required by the OCC.

Section 44.20(c) specifies that the compliance program of a banking entity must satisfy the requirements and other standards contained in Appendix B, if: (1) the banking entity engages in proprietary trading permitted under subpart B of part 44 and is required to comply with the reporting requirements of § 44.20(d); (2) the banking entity has reported total consolidated assets as of the previous calendar year end of \$50 billion or more or, in the case of a foreign banking entity, has total U.S. assets as of the previous calendar year end of \$50 billion or more (including all subsidiaries, affiliates, branches and agencies of the foreign banking entity operating, located or organized in the United States); or (3) the OCC notifies the banking entity in writing that it must satisfy the

requirements and other standards contained in Appendix B. Appendix B provides enhanced minimum standards for compliance programs for banking entities that meet any of the thresholds in § 44.20(c) as described above. Appendix B sets forth standards with respect to the establishment, oversight, maintenance, and enforcement by banking entities of the enhanced compliance program for ensuring and monitoring compliance with the prohibitions and restrictions on proprietary trading and covered fund activities and investments set forth in section 13 of the BHC Act and part 44. The program must:

- (1) be reasonably designed to identify, document, monitor, and report the permitted trading and covered fund activities and investments; identify, monitor, and promptly address the risk of these covered activities and investments and potential areas of noncompliance; and prevent activities or investments prohibited by, or that do not comply with, section 13 of the BHC Act and part 44;
- (2) establish and enforce appropriate limits on covered activities and investments, including limits on size, scope, complexity, and risks of individual activities or investments consistent with the requirements of section 13 of the BHC Act and part 44;
- (3) subject the effectiveness of the compliance program to periodic independent review and testing, and ensure that the entity's internal audit, corporate compliance, and internal control functions involved in review and testing are effective and independent;
- (4) make senior management and others accountable for effective implementation of compliance program and ensure that the board of directors and chief executive officer (or equivalent) of the banking entity review effectiveness of the compliance program; and
- (5) facilitate supervision and examination by the OCC of permitted trading and covered fund activities and investments.

Section 44.20(d) provides that a banking entity engaged in certain proprietary trading activity must comply with the reporting requirements described in Appendix A if the banking entity's trading activity meets or exceeds the thresholds set forth in § 44.20(d). A banking entity must also, for any quantitative measurement furnished to the OCC pursuant to § 44.20(d) and Appendix A, create and maintain records documenting the preparation and content of these reports, as well as such information as is necessary to permit the OCC to verify the accuracy of such reports, for a period of 5 years from the end of the calendar year for which the measurement was taken.

Section 44.20(e) specifies additional documentation required for covered funds. Any banking entity that has more than \$10 billion in total consolidated assets as reported on December 31 of the previous two calendar years shall maintain records that include: (1) documentation of the exclusions or exemptions other than sections 3(c)(1) and 3(c)(7) of the Investment Company Act of 1940 relied on by each fund sponsored by the banking entity (including all subsidiaries and affiliates) in determining that such fund is not a covered fund; (2) for each fund sponsored by the banking entity (including all subsidiaries and affiliates) for which the banking entity relies on one or more of the exclusions from the definition of covered fund provided by §§ 44.10(c)(1), 44.10(c)(5), 44.10(c)(8), 44.10(c)(9), or 44.10(c)(10), documentation supporting the banking entity's determination that the fund is not a covered fund pursuant to one or more of those exclusions; (3) for each seeding vehicle described in §§ 44.10(c)(12)(i) or 44.10(c)(12)(iii) that will become a registered investment company or SEC-regulated business development company, a written plan documenting the banking entity's determination that the seeding vehicle will become a registered investment company or

SEC-regulated business development company; the period of time during which the vehicle will operate as a seeding vehicle; and the banking entity's plan to market the vehicle to third-party investors and convert it into a registered investment company or SEC-regulated business development company within the time period specified in § 44.12(a)(2)(i)(B); and (4) for any banking entity that is, or is controlled directly or indirectly by a banking entity that is, located in or organized under the laws of the United States or of any State, if the aggregate amount of ownership interests in foreign public funds that are described in § 44.10(c)(1) owned by such banking entity (including ownership interests owned by any affiliate that is controlled directly or indirectly by a banking entity that is located in or organized under the laws of the United States or of any State) exceeds \$50 million at the end of two or more consecutive calendar quarters, beginning with the next succeeding calendar quarter, documentation of the value of the ownership interests owned by the banking entity (and such affiliates) in each foreign public fund and each jurisdiction in which any such foreign public fund is organized, calculated as of the end of each calendar quarter, which documentation must continue until the banking entity's aggregate amount of ownership interests in foreign public funds is below \$50 million for two consecutive calendar quarters.

Section 44.20(f)(1) applies to banking entities with no covered activities. A banking entity that does not engage in activities or investments pursuant to subpart B or subpart C of part 44 (other than trading activities permitted pursuant to § 44.6(a)) may satisfy the requirements of § 44.20 by establishing the required compliance program prior to becoming engaged in such activities or making such investments (other than trading activities permitted pursuant to § 44.6(a)).

Section 44.20(f)(2) applies to banking entities with modest activities. A banking entity with total consolidated assets of \$10 billion or less as reported on December 31 of the previous two calendar years that engages in activities or investments pursuant to subpart B or subpart C of part 44 (other than trading activities permitted under § 44.6(a)) may satisfy the requirements of § 44.20 by including in its existing compliance policies and procedures appropriate references to the requirements of section 13 of the BHC Act and part 44 and adjustments as appropriate given the activities, size, scope and complexity of the banking entity.

Section 44.11(a)(8)(i) requires that a banking entity clearly and conspicuously disclose, in writing, to any prospective and actual investor in the covered fund (such as through disclosure in the covered fund's offering documents): (1) that any losses in such covered fund will be borne solely by investors in the covered fund and not by the banking entity or its affiliates; therefore, the banking entity's losses in such covered fund will be limited to losses attributable to the ownership interests in the covered fund held by the banking entity and any affiliate in its capacity as investor in the covered fund or as beneficiary of a restricted profit interest held by the banking entity or any affiliate; (2) that such investor should read the fund offering documents before investing in the covered fund; (3) that the ownership interests in the covered fund are not insured by the FDIC, and are not deposits, obligations of, or endorsed or guaranteed in any way, by any banking entity (unless that happens to be the case); and (4) the role of the banking entity and its affiliates and employees in sponsoring or providing any services to the covered fund.

Affected Public: Businesses or other for-profit.

Burden Estimates:

Number of respondents: 381.

Total estimated annual burden: 28,016 hours (14,386 hours for initial setup and 13,630 hours for ongoing compliance).

Frequency of Response: On occasion.

Comments: Comments submitted in response to this notice will be summarized and included in the request for OMB approval. All comments will become a matter of public record. Comments are invited on:

- (a) Whether the collection of information is necessary for the proper performance of the functions of the OCC, including whether the information has practical utility;
- (b) The accuracy of the OCC's estimate of the information collection burden;
- (c) Ways to enhance the quality, utility, and clarity of the information to be collected;
- (d) Ways to minimize the burden of the collection on respondents, including through the use of automated collection techniques or other forms of information technology; and
- (e) Estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

Dated: November 10, 2016

Karen Solomon
Deputy Chief Counsel
Office of the Comptroller of the Currency

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