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, with revision, the mandatory Banking Organization Systemic Risk Report (FR Y-15; OMB No. 7100-0352). The revisions are effective as of the June 30, 2018, report date.

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, NW, 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, With Revision, of the Following Information Collection

Report title: Banking Organization Systemic Risk Report.

Agency form number: FR Y-15.

OMB control number: 7100-0352.

Effective Date: June 30, 2018.

Frequency: Quarterly.

Respondents: U.S. bank holding companies (BHCs), covered savings and loan holding companies (SLHCs), and U.S. intermediate holding companies (IHCs) of foreign banking organizations with $50 billion or more of total consolidated assets, and any BHC designated as a global systemically important bank holding company (GSIB) that does not otherwise meet the consolidated assets threshold for BHCs.

Estimated number of respondents: 41.

Estimated average hours per response: 401 hours.

Estimated annual burden hours: 65,764 hours.

General description of report: The FR Y-15 quarterly report collects systemic risk data from U.S. bank holding companies (BHCs), covered savings and loan holding companies

(SLHCs),[1] and U.S. intermediate holding companies (IHCs) with total consolidated assets of $50 billion or more, and any BHC identified as a global systemically important banking organization (GSIB) based on its method 1 score calculated as of December 31 of the previous calendar year.[2] The Board uses the FR Y-15 data to monitor, on an ongoing basis, the systemic risk profile of institutions that are subject to enhanced prudential standards under section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).[3] In addition, the FR Y-15 is used to (1) facilitate the implementation of the GSIB surcharge rule,[4] (2) identify other institutions that may present significant systemic risk, and (3) analyze the systemic risk implications of proposed mergers and acquisitions.

Legal authorization and confidentiality: The mandatory FR Y-15 is authorized by sections 163 and 165 of the Dodd-Frank Act (12 U.S.C. 5463 and 5365), the International Banking Act (12 U.S.C. 3106 and 3108), the Bank Holding Company Act (12 U.S.C. 1844), and the Home Owners' Loan Act (12 U.S.C. 1467a).

Most of the data collected on the FR Y-15 is made public unless a specific request for confidentiality is submitted by the reporting entity, either on the FR Y-15 or on the

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[1] Covered SLHCs are those which are not substantially engaged in insurance or commercial activities. See 12 CFR 217.2.

[2] See 12 CFR 217.402.

[3] 12 U.S.C. 5365.

[4] A firm that is identified as a GSIB is required to hold additional capital to increase its resiliency in light of the greater threat it poses to the financial stability of the United States. The Board's rule on the GSIB surcharge establishes the criteria for identifying a GSIB and the methods that those firms use to calculate a risk-based capital surcharge, which is calibrated to each firm's overall systemic risk. *See* 81 FR 90952 (December 16, 2016).

form from which the data item is obtained.[5] Such information will be accorded confidential treatment under Exemption 4 of the Freedom of Information Act (FOIA) (5 U.S.C. 552(b)(4)) if the submitter substantiates its assertion that disclosure would likely cause substantial competitive harm. In addition, items 1 through 4 of Schedule G of the FR Y-15, which contain granular information regarding the reporting entity's short-term funding, will be accorded confidential treatment under exemption 4 for observation dates that occur prior to the liquidity coverage ratio disclosure standard being implemented.[6] To the extent confidential data collected under the FR Y-15 will be used for supervisory purposes, it may be exempt from disclosure under Exemption 8 of FOIA (5 U.S.C. 552(b)(8)).

Current actions: On August 24, 2017, the Board published a notice in the *Federal Register* (82 FR 40154) requesting public comment for 60 days on the extension, with revision, of the FR Y-15. The Board proposed to amend the FR Y-15 to include Mexican pesos in total payments activity rather than as a memorandum item; add securities brokers to the definition of financial institutions; expressly include derivative transactions

[5] A number of the items in the FR Y-15 are retrieved from the FR Y-9C, and certain items may be retrieved from the FFIEC 101 and FFIEC 009. Confidential treatment will also extend to any automatically-calculated items on the FR Y-15 that have been derived from confidential data items and that, if released, would reveal the underlying confidential data.

[6] The liquidity coverage ratio (LCR) disclosure requirement for companies subject to the transition period under 12 CFR 249.50(a) (i.e., institutions with $700 billion or more in total consolidated assets or $10 trillion or more in assets under custody) was implemented on April 1, 2017. Therefore, all Schedule G data for these firms is already available to the public. The LCR disclosure requirement for companies subject to the transition period under 12 CFR 249.50(b) (i.e., institutions with $250 billion or more in total consolidated assets or $10 billion or more in total on-balance sheet foreign exposure) was implemented on April 1, 2018. Therefore, all Schedule G data for these firms will be made available to the public starting with the June 30, 2018, as-of date. The LCR disclosure requirement for companies subject to 12 CFR 249, Subpart G will be implemented on October 1, 2018. As this will mark the full implementation of the LCR disclosure standard, items 1 through 4 of Schedule G for all other firms will be made available to the public starting with the December 31, 2018, as-of date.

where a clearing member bank guarantees performance of a client to a central counterparty; and specify how certain cleared derivatives transactions are reported. The proposal was amended October 18, 2017, to extend the proposed implementation date from December 31, 2017, to March 31, 2018, and to extend the public comment period for the proposal for an additional 30 days (82 FR 49608). The comment period for the proposal expired on November 23, 2017.

The Board received seven comments on the proposal. One commenter expressed general support of the proposal. Six comments focused on the Board's proposal to include in Schedule D, item 1 the notional amount of over-the-counter (OTC) derivative transactions where a clearing member bank guarantees the performance of a client to a central counterparty (CCP). The comments are discussed below. The comments did not address the other proposed changes in detail and either supported or did not object to the other proposed changes.

Detailed Discussion of Public Comments

Comments Related to the Complexity Indicator

Commenters noted that derivatives are cleared using two models: the principal model, where the banking organization facilitates the clearing of derivatives by taking opposing positions with the client and the CCP; and the agency model, where a clearing member banking organization, acting as an agent, guarantees the performance of the client to a CCP. The current reporting instructions for derivative contracts cleared through a CCP in Schedule D, item 1 state that, when the reporting banking organization acts as a financial intermediary under the principal model, the notional amounts for each contract–that is, the transaction with the client and the transaction with the CCP–should be reported. In cases where a clearing member banking organization acts as an agent, the current instructions state that the bank should report the notional amount when the bank guarantees the performance of a CCP to a client. As clearing member banking organizations rarely guarantee the performance of a CCP to a client, the amount of derivatives reported under the agency model is low.

The proposal would have revised the instructions to require reporting of derivative transactions where a clearing member bank guarantees the performance of a client to a CCP under the agency model, thereby increasing parity between the two clearing models.

One commenter observed that shifts in global clearing activity since 2012 have led to widespread adoption of the agency model of clearing in lieu of the principal model, obviating the need to mitigate the differences in reporting between the models. Commenters also argued that the risk associated with client-cleared transactions would have been overstated under the proposal and that the risks associated with these transactions are already appropriately captured in total exposure (Schedule A, item 1(h)), intra-financial system assets (Schedule B, items 5(a) and 5(b)), and intra-financial system liabilities (Schedule B, items 11(a) and 11(b)). These commenters stated that banking organizations engaged in client clearing businesses focus only on the credit risk of their clients and the imposition of applicable credit limits. Commenters argued that this significantly reduces the complexity of the activity and, therefore, the client leg of these transactions should not be included in the complexity indicator.

After considering the comments, the Board has decided not to adopt the proposed reporting of derivative transactions where a clearing member bank guarantees the performance of a client to a CCP in Schedule D, item 1. Although derivatives are often complex, the Board does not believe it is appropriate at this time to treat the client leg of a cleared transaction in the agency model as more complex than a simple credit exposure, and therefore does not believe it is currently necessary to include these exposures in the complexity indicator. Further, part of the motivation for including the client leg of the agency model was to make sure that, for a regulatory framework that encompasses multiple models of clearing, no one model receives significantly more or less representation with respect to the GSIB indicators. The proposal was intended in part to ensure that the agency model would be adequately included in the GSIB indicators compared to the principal model. However, the expansion in the availability and overall use of the agency model somewhat mitigates concerns about the relative treatment of client-cleared transactions between respondents, and the Board is thus not currently concerned that excluding the client leg from the GSIB indicators will result in a significant disparity among reporters. Because the two clearing models remain, however, the Board may need to address inequitable treatment of client-cleared transactions in the future if the principal model again becomes more common.

Comments Related to the Interconnectedness Indicators

Consistent with the proposed change to Schedule D, item 1 discussed above, the Board also proposed to revise the instructions to Schedule B, items 5(a) and 11(a) for reporting derivative contracts cleared under the agency model. The current instructions state that the bank should report the net positive or net negative fair value when the bank guarantees the performance of a CCP to a client. As noted, this rarely occurs, resulting in almost no reporting of derivatives under the agency model in these two items on Schedule B.

Several commenters stated that requiring cleared derivative transactions to be reported where the bank guarantees the performance of a financial institution client could discourage derivative clearing activities, contrary to public policy goals, because client clearing of derivatives may reduce systemic risk. Additionally, these commenters argued that the proposed changes could result in the GSIB surcharge of several firms increasing, which, in turn, could lead these firms to increase clearing costs for derivative end-users.

After considering the comments, the Board is not adopting its proposal with respect to reporting derivatives under the agency model on Schedule B in order to allow additional time to consider how to cover such activity in the context of interconnectedness. The Board will continue to consider whether agency clearing should be incorporated into the interconnectedness measures or elsewhere.

Other Comments Received

No comments were received regarding the inclusion of Mexican pesos in total payments activity or the addition of securities brokers to the definition of financial institution. Accordingly, the Board is adopting revisions to the FR Y-15 reporting form and instructions to include Mexican pesos in total payments activity on Schedule C and remove it from the Memorandum items, and to add securities brokers to the definition of financial institutions in the instructions for Schedule B. These changes are effective for the June 30, 2018, reporting date.

Several commenters stated that the proposed changes to the reporting of OTC derivatives in Schedule D would make the FR Y-15 inconsistent with the Basel

Committee GSIB assessment reporting instructions.[7] In addition, certain commenters stated that the proposed revisions to Schedule B, items 5(a) and 11(a), and Schedule D, item 1, were inconsistent with the Administrative Procedure Act (APA). The Board is not adopting these proposed changes, making these arguments moot.[8]

One commenter noted that the definition of "financial institution" in the FR Y-15 is different from other regulatory reports and recommended aligning the varying definitions. In response, the Board acknowledges that its regulations and reporting sometimes use differing definitions for similar concepts and that this may require firms to track differences among the definitions. Firms should review the definition of "financial institution" in the instructions of the form on which they are reporting and should not look to similar definitions in other forms as dispositive for appropriate reporting on the FR Y-15.

A commenter also asked for clarification about whether securities financing transactions follow the regulatory capital rule definition of repo-style transactions. As described in the General Instructions of Schedule A, several items involve securities financing transactions (i.e., repo-style transactions), which are transactions such as

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[7] The international GSIB assessment reporting instructions for year-end 2017 are available at www.bis.org/bcbs/gsib/reporting_instructions.htm.

[8] Even if the argument regarding the APA were not moot, the Board would not have violated the APA if it decided to implement the proposed revisions to Schedule B, items 5(a) and 11(a), and Schedule D, item 1. The proposed revisions to the FR Y-15 constitute an interpretive rule or general statement of policy, and therefore may be adopted without the publication of a general notice of proposed rulemaking in the *Federal Register*. Even if such publication were necessary to adopt the proposed revisions, this requirement was satisfied because the proposal was published for comment in the *Federal Register* for a 60-day comment period. After receiving initial feedback on the proposal, the comment period was extended for 30 days to solicit additional feedback. Moreover, redlined forms, instructions, and an OMB supporting statement were made available on the Board's public website. The materials afforded commenters the opportunity to provide specific feedback regarding the exact changes being proposed. Indeed, commenters provided significant feedback based on the proposal.

repurchase agreements, reverse repurchase agreements, and securities lending and borrowing, where the value of the transactions depends on the market valuations and the transactions are often subject to margin agreements. For purposes of reporting on the FR Y-15, the intent is that securities financing transactions are synonymous with repo-style transactions under the regulatory capital rule. In a future update of the FR Y-15, the Board will work to replace the term "securities financing transactions" with "repo-style transactions" to better align the FR Y-15 language with the regulatory capital rule.

In addition, a commenter asked for clarification regarding potential inconsistencies between similar items that are reported on different reporting forms. In particular, the commenter noted that the instructions for the FR Y-15, FFIEC 101 (Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework), and FR Y-14Q (Capital Assessments and Stress Testing) do not consistently allow for a reduction in fair value of sold credit protection. The Board will conduct a coordinated effort with the other banking agencies on changes to the FFIEC 101 and the FR Y-14 to ensure that the instructions appropriately clarify how any adjustments for sold credit protection should be reported.[9]

Further, a commenter asked for clarification regarding the reporting of holdings of equity investments in unconsolidated investment funds sponsored or administered by the respondent. Specifically, the commenter wanted to know whether such investments would be reported as equity securities in Schedule B, item 3(e). Per the general instructions for Schedule B, item 3, firms must include "securities issued by equity-

[9] Any changes to these reporting forms would have to be proposed in a future *Federal Register* notice with a 60-day comment period, as required by the Paperwork Reduction Act (PRA).

accounted associates (i.e., associated companies and affiliates accounted for under the equity method of accounting) and special purpose entities (SPEs) that are not part of the consolidated entity for regulatory purposes." Therefore, such equity investments would be included in item 3(e).

A commenter also requested clarification on how collateral may reduce the exposure reported in the FR Y-15, Schedule B, items 5(a) and 11(a). For item 5(a), in cases where a qualifying master netting agreement is in place, a reporting bank may reduce its value of derivative assets by subtracting the net collateral position from the underlying obligation. In circumstances where the net collateral exceeds the payment obligation, the bank should report a fair value of zero for the netting set. Similarly, for item 11(a), in cases where a qualifying master netting agreement is in place, a reporting bank may reduce its value of derivative liabilities exposure by subtracting the net collateral position from the underlying obligation. In circumstances where the net collateral exceeds the payment obligation owed to the counterparty, the bank should report a fair value of zero for the netting set.

Board of Governors of the Federal Reserve System, June 28, 2018.

Michele Taylor Fennell,

Assistant Secretary of the Board.

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