

**Supporting Statement for the  
Recordkeeping and Disclosure Requirements  
Associated with Securities Transactions  
Pursuant to Regulation H (Reg H-3; OMB No. 7100-0196)**

## **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 mandatory Recordkeeping and Disclosure Requirements Associated with Securities Transactions Pursuant to Regulation H (Reg H-3; OMB No. 7100-0196).<sup>1</sup> These requirements are pursuant to Sections 208.34(c), (d), and (g) of Regulation H, which require that state member banks effecting securities transactions for customers establish and maintain a system of records, furnish confirmations to customers, and establish written policies and procedures relating to securities transactions. State member banks are required to maintain records for three years following a securities transaction. These requirements are necessary to protect the customer, to avoid or settle customer disputes, and to protect the institution against potential liability arising under the anti-fraud and insider trading provisions of the Securities Exchange Act of 1934. The annual paperwork burden imposed on the 846 state member banks for these event-generated requirements is estimated to be 97,869 hours.<sup>2</sup>

## **Background and Justification**

The recordkeeping and disclosure requirements in Regulation H for state member banks are similar to requirements imposed upon broker-dealers by the Securities and Exchange Commission (SEC) and also have been adopted by the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC) and formerly the Office of Thrift Supervision (OTS) for state non-member and national banks, and savings associations, respectively. The Government Securities Act of 1986, implemented by the U.S. Department of the Treasury, exempts state member banks from recordkeeping requirements imposed on government securities brokers and dealers, if they are subject to the requirements of Regulation H (17 CFR 404.4(a)(1)).

## **Description of Information Collection**

The requirements of Section 208.34 of Regulation H apply to all state member banks except institutions effecting fewer than 500 government securities brokerage transactions per year, provided that this exception shall not apply to government securities transactions by a state member bank that has filed a written notice, or is required to file notice, with the Federal

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<sup>1</sup> The Federal Reserve is required to renew these requirements every three years pursuant to the Paperwork Reduction Act of 1995 (PRA), which classifies reporting, recordkeeping, or disclosure requirements of a regulation as an information collection.

<sup>2</sup> State member bank totals are as of year-end 2012, and do not include state chartered nondepository trust companies that are members of the Federal Reserve, which typically do not conduct activities that would require recordkeeping pursuant to this regulation.

Reserve Board that it acts as a government securities broker or a government securities dealer. These reporting and disclosure requirements do not apply to activities of foreign branches of state member banks, activities of nonmember, non-insured trust company subsidiaries of bank holding companies, or activities that are subject to regulations promulgated by the Municipal Securities Rulemaking Board. In addition, state member banks with an annual average of less than 200 securities transactions for customers over the prior three calendar years (exclusive of transactions in U.S. government and agency obligations) are exempt from these Regulation H recordkeeping and disclosure requirements.

Each state member bank effecting securities transactions for customers must maintain records and copies of disclosures as described below for three years following the transaction. Records may be maintained in hard copy, automated, or electronic format. There is no regulatory reporting form associated with these requirements.

#### *Recordkeeping Requirements*

Each state member bank is required by Section 208.34(c) to maintain the following records for a securities transaction in hard copy, automated or electronic form, provided that the records are easily retrievable, readily available for inspection and capable of being reproduced in a hard copy format:

- (1) chronological records of original entry containing an itemized daily record of all purchases and sales of securities. The records of original entry shall show the account or customer for which each such transaction was effected, the description of the securities, the unit and aggregate purchase or sale price (if any), the trade date and the name or other designation of the broker-dealer or other person from whom purchased or to whom sold;
- (2) account records for each customer which shall reflect all purchases and sales of securities, all receipts and deliveries of securities, and all receipts and disbursements of cash with respect to transactions in securities for such account and all other debits and credits pertaining to transactions in securities;
- (3) a separate memorandum (order ticket) of each order to purchase or sell securities (whether executed or cancelled), which shall include:
  - i. the account(s) for which the transaction was effected;
  - ii. whether the transaction was a market order, limit order, or subject to special instructions;
  - iii. the time the order was received by the trader or other bank employee responsible for effecting the transaction;
  - iv. the time the order was placed with the broker-dealer, or if there was no broker-dealer, the time the order was executed or cancelled;
  - v. the price at which the order was executed; and
  - vi. the broker-dealer utilized.
- (4) a record of all broker-dealers selected by the bank to effect securities transactions and the amount of commissions paid or allocated to each such broker during the calendar year; and
- (5) a copy of the notifications described in the disclosure section below.

Each state member bank is also required, under Section 208.34(g), to establish and maintain written policies and procedures providing:

- (1) assignment of responsibility for supervision of persons who:
  - i. transmit or place orders with broker-dealers; or
  - ii. execute transactions in securities for customers; or
  - iii. process orders for notification and settlement purposes; or perform other back office functions.
- (2) for fair and equitable allocation of securities and prices to accounts under listed circumstances;
- (3) for crossing of buy and sell orders where applicable and permissible under law; and
- (4) that bank officers and employees who make investment recommendations or decisions for the accounts of customers, who participate in the determination of such recommendations or decisions, or who, in connection with their duties, obtain information concerning which securities are being purchased or sold or recommended for such action, must report to the bank, within 10 days after the end of the calendar quarter, all transactions in securities made by them or on their behalf, either at the bank or elsewhere, in which they have a beneficial interest.<sup>3</sup> The report shall identify the securities purchased or sold and indicate the dates of the transactions and whether the transactions were purchases or sales. Excluded from this requirement are transactions for the benefit of the officer or employee over which the officer or employee has no direct or indirect influence or control, transactions in mutual fund shares, and all transactions involving in the aggregate \$10,000 or less during the calendar quarter. For purposes of this paragraph, the term “securities” does not include government securities.

The regulation also provides alternative procedures for certain investment arrangements.

#### *Disclosure Requirements*

For each securities transaction, the state member bank is required, under Section 208.34(d), to furnish its customers with *either*:

- (1) a copy of the broker-dealer confirmation relating to the securities transaction; and certain statements associated with any remuneration received by the bank, *or*
- (2) a written notification disclosing:
  - i. the name of the bank;
  - ii. the name of the customer;
  - iii. whether the bank is acting as agent for the customer, as agent for both the customer and some other person, as principal for its own account, or in any other capacity;

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<sup>3</sup> In July of 2004, the SEC amended Rule 17j-1 of the Investment Company Act of 1940 to extend the reporting time period to 30 calendar days after the end of the calendar quarter for broker-dealers. In May of 2006, the OCC issued Interpretative Letter No. 1062, which granted a waiver of its 10-day reporting time period in order to be consistent with revised SEC Rule 17j-1. Additionally, effective October 2007, the FDIC amended section 344.9(a)(3), to extend to 30-calendar days after the end of the calendar quarter the time period for reporting quarterly personal securities transactions. In November 2007, the OTS amended 12 CFR 551.150(a) to provide that such reports must be filed no later than 30 calendar days after the end of each calendar quarter.

- iv. the date of execution and a statement that the time of execution is available upon written request specifying the identity, price and number of shares or units (or principal amount in the case of debt securities) of such security purchased or sold by the customer;
- v. the amount of any remuneration received or to be received, directly or indirectly, by any broker/dealer from such customer in connection with the transaction;
- vi. the amount of any remuneration received or to be received by the bank from the customer and the source and amount of any other remuneration to be received by the bank in connection with the transaction, unless remuneration is determined pursuant to a written agreement between the bank and the customer, provided, however, in the case of government securities and municipal securities, this paragraph shall apply only with respect to remuneration received by the bank in an agency transaction. If the bank elects not to disclose the source and amount of remuneration it has or will receive from a party other than the customer pursuant to this paragraph, the written notification must disclose whether the bank has received or will receive remuneration from a party other than the customer, and that the bank will furnish within a reasonable time the source and amount of this remuneration upon written request of the customer. This election is not available, however, if, with respect to a purchase, the bank was participating in a distribution of that security, or with respect to a sale, the bank was participating in a tender offer for that security;
- vii. the name of the broker-dealer utilized or, where there is no broker/dealer, the name of the person from whom the security was purchased or to whom it was sold, or the fact that such information will be furnished within a reasonable time upon written request; and
- viii. additional information on yield when a transaction in a debt security meets any of the following conditions:
  - is subject to redemption before maturity;
  - is effected exclusively on the basis of a dollar price;
  - is effected on the basis of yield;
  - is in an asset-backed security which represents an interest in or is secured by a pool of receivables or other financial assets that are subject continuously to prepayment; or
  - is in a debt security, other than a government security, that is unrated by a nationally recognized statistical rating organization.

### **Time Schedule for Information Collection**

Maintenance of records of securities transactions is event-generated and must occur when securities are purchased or sold. Section 208.34(c) requires records must be maintained for 3 years. State member banks also must collect a quarterly report on certain bank employee's securities transactions. The information is not submitted to the Federal Reserve, is not available to the public, and is not published.

Currently, Regulation H requires that bank officers and employees who make investment recommendations or decisions for the accounts of customers, who participate in the determination of such recommendations or decisions, or who, in connection with their duties, obtain information concerning which securities are being purchased or sold or recommended for such action, must report to the bank, within 10 days after the end of the calendar quarter, all transactions in securities made by them or on their behalf, either at the bank or elsewhere, in which they have a beneficial interest.

### **Sensitive Questions**

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

### **Consultation Outside the Agency**

All of the Board's rulemaking activities under Regulation H are subject to the notice and comment requirements of the Administrative Procedures Act (5 U.S.C. 551 et seq.). On April 18, 2014, the Federal Reserve published a notice in the *Federal Register* (79 FR 21926) requesting public comment for 60 days on the Reg H-3 information collection. The comment period for this notice expired on June 17, 2014. The Federal Reserve did not receive any comments. A final notice was published in the Federal Register on July 18, 2014 (79 FR 42010).

### **Legal Status**

The Board's Legal Division has determined that the Regulation H requirements are authorized by Section 23 of the Securities Exchange Act of 1934 ("the 34 Act"), 15 U.S.C. § 78w, which empowers the Board to make rules and regulations implementing those portions of the 34 Act for which it is responsible. The requirements of 12 C.F.R. § 208.34(c), (d), & (g) also are impliedly authorized by Section 9 of the Federal Reserve Act, 12 U.S.C. § 325, which requires state member banks to submit to examinations by the Federal Reserve System. These securities transactions requirements appear to be reasonably related to the Board's supervisory authority with respect to the safety and soundness of state member banks. Accordingly, the Board is authorized by implication under 12 U.S.C. § 325 to impose these recordkeeping, disclosure, and policy establishment requirements. The obligation of a state member bank to comply with the Regulation H requirements is mandatory, save for the limited exceptions set forth in 12 C.F.R. § 208.34(a).

Inasmuch as the Federal Reserve System does not collect or receive any information concerning securities transactions pursuant to these requirements, no issues of confidentiality normally will arise. If, however, these records were to come into the possession of the Board, they may be protected from disclosure pursuant to exemption 4 of the Freedom of Information Act ("FOIA"), 5 U.S.C. § 552(b)(4), under the standards set forth in National Parks & Conservation Ass'n v. Morton, 498 F.2d 765 (D.C. Cir. 1974), to the extent an institution can establish the potential for substantial competitive harm. They also may be subject to

withholding under FOIA exemption 6, 5 U.S.C. § 552(b)(6), should disclosure constitute an unwarranted invasion of personal privacy. Additionally, if such information were included in the work papers of System examiners or abstracted in System reports of examination, the information also would be protected under exemption 8 of FOIA, 5 U.S.C. § 552(b)(8). Any withholding determination would be made on a case-by-case basis in response to a specific request for disclosure of the information.

## **Estimate of Respondent Burden**

The total annual burden estimate of 97,869 hours comprises recordkeeping and disclosure burden for state member banks.<sup>4</sup> The number of respondents reflects the number of state member banks subject to these requirements, based on data as of year-end 2012. The burden estimates presented in the following are based on three categories of respondents: (1) 3 new state member banks (de novo), (2) state member banks with trust departments of which there are 228, and (3) state member banks without trust departments of which there are 615.<sup>5</sup> All 843 institutions are subject to these requirements.

State member banks with trust departments incur more burden than state member banks without trust powers. The higher burden for the former respondents is attributed to the additional responsibilities related to their investment discretion over customers' managed accounts.<sup>6</sup> State member banks with trust departments must provide disclosures upon request for discretionary accounts in addition to their responsibility for providing disclosures on all nondiscretionary accounts. Further, these institutions must maintain records of each employee's securities transactions for those employees involved in investment decision making processes.

### *Recordkeeping Requirements*

The recordkeeping requirements include the documentation of the details of customer transactions, establishing and maintaining written policies and procedures, and the maintenance of quarterly reports filed by employees to the institution regarding the employees' securities activities. The Federal Reserve estimates that, to comply with the recordkeeping requirements of securities transactions and policies and procedures, the 228 respondents with trust powers will take on average two hours per month and the 615 respondents without trust powers will take on average 15 minutes a month. The Federal Reserve estimates on average 3 new state member banks (de novo) will establish policies and procedures relating to securities transactions. In addition, the Federal Reserve estimates that, for the recordkeeping requirements of employee quarterly reports, respondents with trust powers will take on average two hours a quarter and respondents without trust powers will take on average 15 minutes a quarter. The total burden hours for recordkeeping are estimated to be 17,193 hours.

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<sup>4</sup> Estimate of respondent burden hours is calculated in the following manner: number of respondents, multiplied by annual frequency (for total annual responses), and multiplied by average hours per response.

<sup>5</sup> Reports of Condition and Income (Call Reports) (FFIEC 031 & 041; OMB No. 7100-0036).

<sup>6</sup> Investment discretion is the authority to determine or make decisions as to what securities or other property shall be purchased or sold by or for an account.

### *Disclosure Requirements*

The disclosure requirements include notifications to customers for all securities transactions effected by the institution for its non-discretionary accounts. Additionally, upon the customer's request, the institution must provide notifications to customers for securities transactions effected by the institution for discretionary accounts. The Federal Reserve estimates that, to comply with the disclosure requirements of securities transactions, the 228 respondents with trust powers will take, on average, 16 hours per month, and the 615 respondents without trust powers will take on average 5 hours per month. The total burden hours for disclosure requirements is estimated to be 80,676 hours. These recordkeeping and disclosure requirements represent less than 1 percent of total Federal Reserve System paperwork burden.

	<i>Estimated number of respondents<sup>7</sup></i>	<i>Estimated annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated total annual burden hours</i>
<i>Recordkeeping</i>				
<b>State Member Banks (de novo)</b>				
Establish				
Policies and Procedures <b>208.34(g)</b>	3	1	40	120
<b>State Member Banks w/ Trust Departments</b>				
Securities transactions <b>208.34(c)</b>	228	12	2.00	5,472
Policies and procedures <b>208.34(g)</b>	228	12	2.00	5,472
Employee quarterly report <b>208.34(g)</b>	228	4	2.00	<u>1,824</u>
<i>Subtotal</i>				12,768
<b>State Member Banks w/o Trust Departments</b>				
Securities transactions <b>208.34(c)</b>	615	12	0.25	1,845
Policies and procedures <b>208.34(g)</b>	615	12	0.25	1,845
Employee quarterly report <b>208.34(g)</b>	615	4	0.25	<u>615</u>
<i>Subtotal</i>				4,305
<i>Total recordkeeping</i>				<u>17,193</u>
<i>Disclosure</i>				
<b>State Member Banks w/ Trust Departments</b>				
Securities transactions <b>208.34(d)</b>	228	12	16.00	43,776
<b>State Member Banks w/o Trust Departments</b>				
Securities transactions <b>208.34(d)</b>	615	12	5.00	36,900
<i>Total disclosure</i>				<u>80,676</u>
<i>Total</i>				<u>97,869</u>

The total cost to Federal Reserve respondents is estimated to be \$4,981,532.<sup>8</sup>

<sup>7</sup> Of these respondents, 369 are small entities as defined by the Small Business Administration (i.e., entities with less than \$500 million in total assets) [www.sba.gov/content/table-small-business-size-standards](http://www.sba.gov/content/table-small-business-size-standards).

<sup>8</sup> 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 \$18, 45% Financial Managers at \$61, 15% Lawyers at \$63, and 10% Chief Executives at \$86). Hourly rate for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2013, [www.bls.gov/news.release/ocwage.nr0.htm](http://www.bls.gov/news.release/ocwage.nr0.htm) Occupations are defined using the BLS Occupational Classification System, [www.bls.gov/soc/](http://www.bls.gov/soc/)



### **Estimate of Cost to the Federal Reserve System**

The cost to the Federal Reserve System associated with these recordkeeping and disclosure requirements is negligible.