

**Supporting Statement for the  
Consolidated Financial Statements for Holding Companies  
(FR Y-9C; OMB No. 7100-0128)**

**Summary**

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to revise, without extension, the mandatory Consolidated Financial Statements for Holding Companies (FR Y-9C; OMB No. 7100-0128) effective in 2015.<sup>1</sup> The family of FR Y-9 reporting forms also contains four other mandatory reports, which are not being revised at this time:<sup>2</sup>

1. Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP),
2. Parent Company Only Financial Statements for Small Holding Companies (FR Y-9SP),
3. Financial Statements for Employee Stock Ownership Plan Holding Companies (FR Y-9ES), and
4. Supplement to the Consolidated Financial Statements for Holding Companies (FR Y-9CS).

Pursuant to the Bank Holding Company Act of 1956, as amended, and the Home Owners' Loan Act (HOLA), the Federal Reserve requires bank holding companies (BHCs), savings and loan holding companies (SLHCs), and securities holding companies (collectively "holding companies" (HCs)) to provide standardized financial statements to fulfill the Federal Reserve's statutory obligation to supervise these organizations. HCs file the FR Y-9C and FR Y-9LP quarterly, the FR Y-9SP semiannually, the FR Y-9ES annually, and the FR Y-9CS on a schedule that is determined when this supplement is used.

The Federal Reserve proposes to revise the FR Y-9C for consistency with the Federal Reserve's revised regulatory capital rules.<sup>3</sup> Specifically, the Federal Reserve proposes to revise (1) Schedule HC-R, Regulatory Capital, for data items in the risk-weighted assets section, and (2) Schedule HC-L, Derivatives and Off-Balance Sheet Items, for data items related to securities lent and borrowed, effective March 31, 2015. Institutions will be advised that they may report reasonable estimates for any new or revised data items in their FR Y-9C report for their initial filing of these data, if the information is not readily available.

A copy of selected pages of the proposed reporting forms and instructions, marked to show the revisions, is provided in the attachment. The current annual burden for the FR Y-9 family of reports is estimated to be 193,321 hours and is estimated to increase by 5,248 hours for a proposed annual burden of 198,569 hours.

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<sup>1</sup> In August 2013, the Federal Reserve proposed additional revisions to these regulatory reports to reflect the changes to the calculation of regulatory capital that become effective in 2014 and 2015 (August 2013 reporting proposal).

<sup>2</sup> Board staff may separately propose other changes to this family of reports for 2015 at some later time.

<sup>3</sup> See 78 FR 62018 (October 11, 2013).

## **Background and Justification**

The FR Y-9C, FR Y-9LP, and FR Y-9SP serve as standardized consolidated and/or parent only financial statements for HCs; the FR Y-9ES is a financial statement for HCs that are Employee Stock Ownership Plans (ESOPs). The Board also has the authority to use the FR Y-9CS (a free-form supplement) to collect additional information deemed to be (1) critical and (2) needed in an expedited manner.

The FR Y-9 family of reporting forms continues to be the primary source of financial data for HCs on which examiners rely between on-site inspections and off-site assessments through the Small Bank Holding Company Supervision Program. Financial data from these reporting forms is used to detect emerging financial problems, to review performance and conduct pre-inspection analysis, to monitor and evaluate capital adequacy, to evaluate HC mergers and acquisitions, and to analyze an HCs overall financial condition to ensure the safety and soundness of its operations.

In 2013, the Federal Reserve revised the FR Y-9C to split Schedule HC-R, Regulatory Capital, into two parts: Part I, which collects information on regulatory capital components and ratios, and Part II, which collects information on risk-weighted assets. For report dates in 2014, Part I of Schedule HC-R is designated as Parts I.A and I.B. Part I.A retains data items 1 through 33 of current Schedule HC-R. Part I.B collects items associated with regulatory capital components and ratios consistent with the revised regulatory capital rules. Part II retains data items 34 through 62 and Memoranda items 1 through 10 of current Schedule HC-R. In March 2015, Part I.A will be removed and Part I.B will be re-designated as Part I. The FR Y-9SP was revised to add a new Schedule SC-R, Regulatory Capital, to collect consolidated regulatory capital from small SLHCs subject to the revised regulatory capital rules.

On December 18, 2014, the President signed into law Public Law 113-250 (the Act), which directs the Board to propose revisions to the Small Bank Holding Company Policy Statement (Policy Statement) to raise the total consolidated asset limit in the Policy Statement from \$500 million to \$1 billion, and expand the scope of the Policy Statement to include savings and loan holding companies (SLHCs). In order to implement Congressional intent, the Board revised the Policy Statement and its capital regulations. As a result, the Federal Reserve increased the asset-size thresholds for reporting the FR Y-9C, the FR Y-9LP, and the FR Y-9SP from \$500 million to \$1 billion. Since the revised the Policy Statement exempts small SLHCs (under \$500 million in total consolidated assets) from the minimum capital requirements, the Federal Reserve in January 2015 eliminated Schedule SC-R, Regulatory Capital, Part I, through the emergency clearance process as this schedule is no longer necessary and would be costly and burdensome for institutions to complete.

## **Description of Information Collection**

The FR Y-9C consists of standardized financial statements similar to the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 and FFIEC 041; OMB No. 7100-0036) filed by commercial

banks. It collects consolidated data from HCs and is filed quarterly by top-tier HCs with total consolidated assets of \$500 million or more.<sup>4</sup>

The FR Y-9LP includes standardized financial statements filed quarterly on a parent company only basis from each HC that files the FR Y-9C. In addition, for tiered HCs, a separate FR Y-9LP must be filed for each lower-tier HC.

The FR Y-9SP is a parent company only financial statement filed semiannually by smaller HCs. Respondents include HCs with total consolidated assets of less than \$500 million. This form is a simplified or abbreviated version of the FR Y-9LP. This report is designed to obtain basic parent company balance sheet and income data, data on intangible assets, and data on intercompany transactions.

The FR Y-9ES collects annual financial data from ESOPs, which are also HCs, on their benefit plan activities. It consists of four schedules: a Statement of Changes in Net Assets Available for Benefits, a Statement of Net Assets Available for Benefits, Memoranda, and Notes to the Financial Statements.

The FR Y-9CS is a supplemental report that the Federal Reserve may utilize to collect additional data deemed to be critical and needed in an expedited manner from HCs. The data are used to assess and monitor emerging issues related to HCs and are intended to supplement the other FR Y-9 reports, which are used to monitor HCs between on-site inspections and off-site assessments through the Small Bank Holding Company Supervision Program. The data items included on the FR Y-9CS may change as needed.

### **Proposed FR Y-9C Revisions**

FR Y-9C Schedule HC-R collects regulatory data on (1) tier 1, tier 2, and total capital and regulatory capital ratios (regulatory capital components and ratios portion) and (2) risk-weighted assets (risk-weighted assets portion). The Federal Reserve proposes to revise the reporting requirements for the risk-weighted assets portion of Schedule HC-R by incorporating the standardized approach consistent with the revised regulatory capital rules.<sup>5</sup> Compared to the

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<sup>4</sup> Under certain circumstances described in the General Instructions, HCs with assets under \$500 million may be required to file the FR Y-9C.

<sup>5</sup> For report dates in 2014, the regulatory capital components and ratios portion of Schedule HC-R will be designated Parts I.A and I.B. FR Y-9C filers that are not advanced approaches institutions will file Part I.A, which includes existing data items 1 through 33 of current Schedule HC-R. FR Y-9C filers that are subject to the advanced approaches and to the revised regulatory capital rules effective January 1, 2014, will file Part I.B, which includes the revised reporting requirements consistent with the revised regulatory capital rules. In March 2015, Part I.A would be removed and Part I.B would be designated Part I; all FR Y-9C filers would then submit Part I. An advanced approaches institution as defined in section 100 of the Federal Reserve's revised regulatory capital rules (1) has consolidated total assets (excluding assets held by an insurance underwriting subsidiary) on its most recent year-end regulatory report equal to \$250 billion or more; (2) has consolidated total on-balance sheet foreign exposure on its most recent year-end regulatory report equal to \$10 billion or more (excluding exposures held by an insurance underwriting subsidiary), as calculated in accordance with the Country Exposure Report (FFIEC 009; OMB No. 7100-0035); (3) is a subsidiary of a depository institution that uses the advanced approaches pursuant to subpart E of 12 C.F.R. part 217 to calculate its total risk-weighted assets; or (4) elects to use the advanced approaches to calculate its total risk-weighted assets. See 78 FR 62204 (October 11, 2013).

current schedule, the proposed risk-weighted assets portion of Schedule HC-R would provide a more detailed breakdown of on-balance sheet asset and off-balance sheet item categories, remove the ratings-based approach from the calculation of risk-weighted assets, reflect alternative risk-weighting approaches not reliant on credit ratings, and include an expanded number of risk-weight categories, consistent with the revised regulatory capital rules. The Federal Reserve also proposes to delete current memoranda items 3 through 5 and 7 through 10, as these regulatory capital elements no longer exist under the revised regulatory capital rules.

FR Y-9C Schedule HC-L collects regulatory data on derivatives and off-balance sheet items. The Federal Reserve proposes to revise the reporting requirements for off-balance sheet exposures related to securities lent and borrowed, consistent with the revised regulatory capital rules. Currently, institutions include the amount of securities borrowed in the total amount of all other off-balance sheet liabilities if the amount of securities borrowed is more than 10 percent of total holding company equity capital and disclose the amount of securities borrowed if that amount is more than 25 percent of total holding company equity capital. Compared to the current schedule, the proposed changes to Schedule HC-L would require all institutions to report the amount of securities borrowed. In addition, the proposed changes to Schedule HC-L would place the data item for securities borrowed immediately after the data item for securities lent. The revised capital rules require the identification of all securities borrowed and lent. By removing the current reporting thresholds, the proposed changes to Schedule HC-L would meet this need.

BHCs and top-tier SLHCs that are not substantially engaged in insurance or commercial activities<sup>6</sup> (covered SLHCs), which are subject to consolidated regulatory capital requirements effective January 1, 2015, would begin reporting on the proposed revised Schedule HC-R, Part II, and revised Schedule HC-L starting on March 31, 2015, applying the revised regulatory capital rules. For the March 31, 2015, report date, institutions may provide reasonable estimates for any new or revised FR Y-9C items initially required to be reported as of that date for which the requested information is not readily available.

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<sup>6</sup> A top-tier SLHC is deemed to be substantially engaged in insurance activities (insurance SLHC) if (1) the top-tier SLHC is an insurance underwriting company (as defined in section 201 of the Dodd Frank Act); or (2) as of June 30 of the previous calendar year it held 25 percent or more of its total consolidated assets in subsidiaries that are insurance underwriting companies (other than assets associated with insurance for credit risk). For purposes of determining the 25 percent threshold, the SLHC must calculate its total consolidated assets in accordance with generally accepted accounting principles (GAAP), or if the SLHC does not calculate its total consolidated assets under GAAP for any regulatory purpose (including compliance with applicable securities laws), the SLHC may estimate its total consolidated assets, subject to review and adjustment by the Federal Reserve. Thus, insurance SLHCs are not required to complete Schedule HC-R, even if they complete other schedules of FR Y-9C.

A top-tier SLHC is deemed to be substantially engaged in commercial activities (commercial SLHC) if (1) the top-tier SLHC is a grandfathered unitary SLHC as defined in section 10(c)(9)(A) of HOLA and (2) as of June 30 of the previous calendar year it derived 50 percent or more of its total consolidated assets or 50 percent of its total revenues on an enterprise-wide basis (as calculated under GAAP) from activities that are not financial in nature under section 4(k) of the Bank Holding Company Act (12 U.S.C. § 1842(k)). This exclusion from the revised regulatory capital rules is similar to the current regulatory reporting exemption for SLHCs substantially engaged in commercial activities and is designed to capture those SLHCs that would likely be subject to a future intermediate HC regulation of the Federal Reserve.

The following table summarizes the proposed reporting criteria for FR Y-9C respondents.

<b>FR Y-9C respondents</b>		
<b>Respondents</b>	<b>2014</b>	<b>2015</b>
Non-advanced approaches BHCs	<ul style="list-style-type: none"> <li>• Complete the current Schedule HC-R, Part I.A and Part II</li> <li>• Do not complete proposed Schedule HC-R, Part I.B</li> </ul>	<ul style="list-style-type: none"> <li>• Current Schedule HC-R, Part I.A is removed and Part I.B is re-designated as Part I</li> <li>• Complete the proposed Schedule HC-R, Part I.B (redesignated as Part I in 2015) and Part II</li> <li>• Schedule HC-R, Part II includes the proposed revised and renumbered risk-weighted assets portion</li> <li>• Proposed changes to Schedule HC-L would be implemented.</li> </ul>
Advanced approaches BHCs	<ul style="list-style-type: none"> <li>• Do not complete Schedule HC-R, Part I.A (items 1 through 33)</li> <li>• Complete current Schedule HC-R, Part II</li> <li>• Complete proposed Schedule HC-R, Part I.B (items 1 through 48)</li> </ul>	
Covered SLHCs other than small covered SLHCs	Do not complete Schedule HC-R	

### **Detailed Description of Proposed Schedules HC-R, Part II**

This section describes the proposed changes to FR Y-9C Schedule HC-R, Part II to implement the reporting of risk-weighted assets consistent with the revised regulatory capital rules. As previously discussed, effective for the March 31, 2015, report date, the existing risk-weighted assets portion of Schedule HC-R, Part II (items 34 through 62 and Memoranda items 1 through 11), would be replaced by a revised Part II that would be completed by HCs that file the FR Y-9C.

Proposed revised Part II of Schedules HC-R would be divided into the following sections: (A) on-balance sheet asset categories; (B) derivatives and off-balance sheet items; (C) totals; and (D) memoranda items for derivatives. A brief description of each of these sections and the corresponding line items is provided below.

#### **A. Schedules HC-R, Part II, Items 1 through 11: Balance Sheet Asset Categories**

Proposed data items 1 through 8 reflect on-balance sheet asset categories (excluding those assets within each category that meet the definition of a securitization exposure), similar to the asset categories included in the current version of Schedule HC-R, but the proposed items would capture greater reporting detail. The number of risk weight categories to which the individual assets in each asset category would be allocated would be expanded consistent with the revised regulatory capital rules. On-balance sheet assets and off-balance sheet items that meet the definition of a securitization exposure would be reported in items 9 and 10, respectively. The proposed instructions, with reference to the revised regulatory capital rules, would describe

the appropriate risk-weight category allocations for each on-balance sheet asset category and the appropriate risk-weight calculations for securitization exposures.

Subject to the separate reporting of securitization exposures from the related on-balance sheet asset category, total on-balance sheet assets are equal to the sum of:

- (1) Cash and balances due from depository institutions;  
Securities, which are composed of
  - (2.a) Held-to-maturity (HTM) securities, and
  - (2.b) Available-for-sale (AFS) securities;
  - (3.a) Federal funds sold, and
  - (3.b) Securities purchased under agreements to resell;Loans and leases held for sale, which are composed of
  - (4.a) Residential mortgage exposures,
  - (4.b) High volatility commercial real estate (HVCRE) exposures,
  - (4.c) Exposures past due 90 days or more or on nonaccrual, and
  - (4.d) All other exposures;Loans and leases, net of unearned income, which are composed of
  - (5.a) Residential mortgage exposures,
  - (5.b) HVCRE exposures,
  - (5.c) Exposures past due 90 days or more or on nonaccrual, and
  - (5.d) All other exposures; less
- (6) Allowance for loan and lease losses;
- (7) Trading assets;
- (8) All other assets;
  - (8.a) Separate account bank-owned life insurance;
  - (8.b) Default fund contributions to central counterparties;
- On-balance sheet securitization exposures, which are composed of
  - (9.a) HTM securities,
  - (9.b) AFS securities,
  - (9.c) Trading assets, and
  - (9.d) All other on-balance sheet securitization exposures;
- (10) Off-balance sheet securitization exposures;
- (11) Total for the institution's on-balance sheet asset categories and on-balance sheet securitization exposures, including for each risk-weight category, calculated as the sum of items 1 through 9.

## **B. Schedules HC-R, Part II, Items 12 through 22: Derivatives, Off-Balance Sheet, and Other Items Subject to Risk-Weighting**

Proposed data items 12 through 22 pertain to the reporting of derivatives and off-balance sheet items, excluding those that meet the definition of a securitization exposure (which are reported in item 10 as discussed above). Consistent with the revised regulatory capital rules, new data items would be added and the number of risk weight categories to which the credit equivalent amounts of derivatives and off-balance sheet items would be allocated would be expanded. The proposed instructions, with reference to the revised regulatory capital rules,

would describe the appropriate risk-weight category allocations for each derivative and off-balance sheet item category.

Derivatives, off-balance sheet, other items subject to risk-weighting would consist of:

- (12) Financial standby letters of credit;
  - (13) Performance standby letters of credit and transaction-related contingent items;
  - (14) Commercial and similar letters of credit with an original maturity of one year or less;
  - (15) Retained recourse on small business obligations sold with recourse;
  - (16) Repo-style transactions, which includes securities purchased under agreements to resell (reverse repos), securities sold under agreements to repurchase (repos), securities borrowed, and securities lent;
  - (17) All other off-balance sheet liabilities;
- Unused commitments, which are composed of
- (18.a) Unused portion of commitments with an original maturity of one year or less, excluding asset-backed commercial paper (ABCP) conduits,
  - (18.b) Unused portion of eligible ABCP liquidity facilities with an original maturity of one year or less, and
  - (18.c) Unused portion of commitments and commercial letters of credit that have an original maturity exceeding one year;
  - (19) Unconditionally cancelable commitments;
  - (20) The credit equivalent amount of over-the-counter derivative contracts;
  - (21) The credit equivalent amount of centrally cleared derivative contracts; and
  - (22) Unsettled transactions (failed trades).

### **C. Schedules HC-R, Part II, Items 23 through 31: Totals**

Proposed data items 23 through 31 would apply the risk-weight factors to the exposure amounts reported for assets, derivatives, and off-balance sheet items in items 11 through 23 to calculate a HC's total risk-weighted assets.

Data item 25 would collect information on an HC's risk-weighted assets by risk-weight category. For each column, this would be equal to the product of the amount reported (data item 23) for assets, derivatives, and off-balance sheet items by risk-weight category, multiplied by (data item 24) the applicable risk-weight factor.

Data item 26 would collect an HC's measurement of risk-weighted assets for purposes of calculating the HC's 1.25 percent of risk-weighted assets limit on the allowance for loan and lease losses.

Data item 27 would collect an HC's standardized measurement of market risk-weighted assets, if applicable.

Data item 31 would collect an HC's total risk-weighted assets, calculated as (data item 28) risk-weighted assets before deductions for excess allowance of loan and lease losses and

allocated risk transfer reserve; less (data item 29) excess allowance for loan and lease losses; and less (data item 30) allocated transfer risk reserve.

#### **D. Schedules HC-R, Part II, Memoranda Items 1 through 4: Memoranda**

In proposed memorandum items 1 through 3, an HC would report the current credit exposure and notional principal amounts of its derivative contracts. Consistent with the revised regulatory capital rules, existing memorandum item 2 would be revised.

Memorandum item 1 would continue to collect the HCs total current credit exposure amount for all interest rate, foreign exchange rate, gold, credit (investment grade reference assets), credit (non-investment grade reference assets), equity, precious metals (except gold), and other derivative contracts covered by the revised regulatory capital rules after considering applicable legally enforceable bilateral netting agreements.

Memoranda items 2 and 3, respectively, would collect, by remaining maturity and type of contract, the notional principal amounts of the HCs over-the-counter and centrally cleared derivative contracts subject to the revised regulatory capital rules. Data on interest rate, foreign exchange rate and gold, credit (investment grade reference assets), credit (non-investment grade reference assets), equity, precious metals (except gold), and other derivative contracts would be reported separately. Currently, HCs report these notional principal amounts and remaining maturities, but without distinguishing between over-the-counter and centrally cleared derivatives. In addition, foreign exchange rate contracts and gold contracts would be combined in Memoranda items 2 and 3, whereas each of these two types of contracts currently is reported separately in Memorandum item 2.

Memoranda item 4 would require those HCs subject to the Market Risk Rule to report the portion of their standardized market risk-weighted assets attributable to specific risk (as reported in Schedule HC-R, item 27).

#### **Detailed Description of Proposed Revisions to Schedule HC-L**

This section describes the proposed changes to FR Y-9C, Schedule HC-L, to implement the reporting of securities lent and borrowed consistent with the revised regulatory capital rules. Effective for the March 31, 2015, report date, the existing line item for securities lent (current item 6 of Schedule HC-L) would be renumbered and the existing reporting requirements for securities borrowed (current items 9 and 9.a) would be revised as described below.

In current Schedule HC-L, securities lent and borrowed are reported separately, not in sequential order. Furthermore, all institutions must report securities lent, but securities borrowed are reported and disclosed only if the amount exceeds specified thresholds. Securities borrowed are included in data item 9, All other off-balance sheet liabilities, if the amount of securities borrowed is greater than 10 percent of Schedule HC, data item 27.a, Total holding company equity capital. If the amount of securities borrowed is greater than 25 percent of total holding company equity capital, then that amount is reported separately in data item 9.a, Securities borrowed.

Proposed data item 6.a would be used for reporting securities lent and data item 6.b would be used for reporting securities borrowed. The total amount of securities borrowed would be reported in data item 6.b regardless of amount, not just when the amount is more than the 10 percent of the holding company equity capital threshold, as is currently the case.

### **Proposed FR Y-9SP Revisions**

Board staff proposed to revise the FR Y-9SP reporting requirements to align with the revised regulatory capital rules, which would have applied to covered SLHCs with total consolidated assets of less than \$500 million (small covered SLHCs). Board staff proposed to revise Schedule SC-R, Part II, as described above for the FR Y-9C, to collect consolidated risk-weighted assets data for small covered SLHCs.

Public Law 113-250 directs the Board to publish in the *Federal Register* proposed revisions to the Policy Statement to, in part, exempt small SLHCs from the minimum capital requirements mandated by section 171 of the Dodd-Frank Wall Street Reform and Consumer Protection Act as if they were BHCs subject to the Small BHC Policy Statement. On January 29, 2015, the Board issued an interim final rule that would exclude SLHCs that have total consolidated assets of less than \$500 million and that meet other qualitative requirements from the Board's regulatory capital requirements (Regulation Q). In light of Public Law 113-250 and the rulemaking, the Federal Reserve will not finalize the proposed revisions to the FR Y-9SP, Part II, for SLHCs with total consolidated assets of less than \$500 million that meet the qualitative requirements of the Policy Statement.

### **Frequency**

The Federal Reserve recommends no changes to the reporting frequency of the FR Y-9 family of reports. The current reporting frequencies provide adequate timely data to meet the analytical and supervisory needs of the Federal Reserve.

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

The FR Y-9C and FR Y-9LP are filed quarterly as of the end of March, June, September, and December. The filing deadline for the FR Y-9C is 40 calendar days after the March 31, June 30, and September 30 as-of dates and 45 calendar days after the December 31 as-of date. The filing deadline for the FR Y-9LP is 45 calendar days after the quarter-end as-of date. The FR Y-9SP is filed semiannually as of the end of June and December. The filing deadline for the FR Y-9SP is 45 calendar days after the as-of date. The annual FR Y-9ES is collected as of December 31 and the filing deadline is July 31, unless an extension is granted for filing by October 15.

The data from the FR Y-9 family of reports that are not given confidential treatment are available to the public on the FFIEC website ([www.ffiec.gov/nicpubweb/nicweb/nichome.aspx](http://www.ffiec.gov/nicpubweb/nicweb/nichome.aspx)) and through the National Technical Information Service.

## **Legal Status**

The Board's Legal Division determined that the FR Y-9 family of reports is authorized by section 5(c) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)). Additionally, 12 U.S.C. §§ 1467a(b)(2)(A) and 1850a(c)(1)(A), respectively, authorize the Board to require that savings and loan holding companies and supervised securities holding companies file the FR Y-9C and FR Y-9SP. Overall, the Board does not consider the financial data in these reports to be confidential. However, a respondent may request confidential treatment pursuant to sections (b)(4), (b)(6), and (b)(8) of the Freedom of Information Act (5 U.S.C. 552(b)(4), (b)(6), and (b)(8)). The applicability of all these exemptions would need to be reviewed on a case-by-case basis.

## **Consultation Outside the Agency**

On August 6, 2014, the Federal Reserve published a notice in the *Federal Register* (79 FR 45808) requesting public comment for 60 days on the revision, without extension, of the FR Y-9. The comment period for this notice expired on October 6, 2014. The Federal Reserve received three comment letters from two banking organizations and one bankers' association. In addition, three commenters submitted comments on the proposed revisions to the Call Reports, which parallel proposed revisions to the FR Y-9C. Because these changes to the Call Report parallel the proposed revisions to the FR Y-9C, the Federal Reserve also considered the comments on the Call Report in developing the final notice. In summary, the commenters asked that the Federal Reserve (1) clarify the applicability of the proposed reporting requirements, (2) add additional items, (3) combine two items, (4) provide additional risk-weight categories for some items, and (5) clarify the instructions for certain line items.

### **Detailed Discussion of Public Comments**

#### ***Proposed FR Y-9C, Schedule HC-R, Part II***

In the March 2015 proposal, Schedule HC-R, Part II – the portion of the FR Y-9C that risk-weighted assets (RWAs) – would be modified to ensure that all banking organizations are reporting RWAs consistent with the standardized approach outlined in the 2013 revisions to the regulatory capital rules. All HCs that are subject to FR Y-9C filing requirements would submit this revised Schedule HC-R, Part II. Compared to the current schedule, the proposed Schedule HC-R, Part II, would provide a more detailed breakdown of on-balance sheet asset and off-balance sheet item categories, remove the ratings-based approach from the calculation of risk-weighted assets, reflect reporting of alternative risk-weighting approaches not reliant on credit ratings, and include an expanded number of risk-weight categories, consistent with the revised regulatory capital rules.

The final version of Schedule HC-R, Part II, would be divided into the following sections: (A) balance sheet asset categories; (B) on- and off-balance-sheet securitization exposures; (C) total balance sheet assets; (D) derivatives, off-balance sheet, and other items subject to risk weighting; (E) totals; and (F) memoranda. These distinct category headings

would-be added in order to enhance the clarity of the reporting form and do not affect the number of line items banking organizations would be required to complete.

One commenter noted that the proposed reporting instructions refer the reader to the Federal Reserve's regulatory capital rules for additional information and requested that the Federal Reserve incorporate the information from the regulatory capital rules into the reporting instructions. The Federal Reserve will clarify the cross-references to the regulatory capital rules in the final reporting instructions. However, the Federal Reserve believes that incorporating the additional information from the Board's regulatory capital rules into the reporting instructions would unduly add significant length to the instructions, and condensing the information would likely omit significant details.

One commenter requested the addition of a separate line item for total equity exposures, while another commenter requested the addition of a three-way breakout of equity exposures to investment funds similar to that found in the Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework (FFIEC 101; OMB No. 7100-0319). The FFIEC 101 requires institutions to report equity exposures to investment funds by the methodology used to risk weight these exposures. The Federal Reserve believes that importing the equity exposure reporting template found in the FFIEC 101 into the FR Y-9C Schedule HC-R, Part II, would add complexity and undue burden for smaller institutions required to complete the FR Y-9C. However, because of the approaches available for risk weighting investments in investment funds (including mutual funds), the Federal Reserve will add data items for reporting the exposure and risk-weighted asset amount of such investments to the appropriate balance sheet asset categories. The Federal Reserve will add detailed guidance related to equity exposure reporting in the final instructions for Schedule HC-R, Part II.

A brief description of the proposed revisions and the comments received on specific line items in Schedule HC-R, Part II, is provided below.

#### **A. Proposed Schedule HC-R, Part II, Items 1-11: Balance Sheet Asset Categories**

Proposed line items 1 through 8 reflect balance sheet asset categories (excluding those assets within each category that meet the definition of a securitization exposure), similar to the asset categories included in the current version of Schedule HC-R, Part II. However, the proposed data items would capture greater detail. The number of risk-weight categories to which the individual assets in each asset category would be allocated would be expanded consistent with the revised regulatory capital rules. On-balance sheet assets and off-balance sheet items that meet the definition of a securitization exposure would be reported in items 9 and 10, respectively.

Two commenters noted that several risk-weight categories for item 8, "Other assets," on the proposed reporting form are not available for data input (i.e., the categories are shaded out). However, the commenters stated the categories may be applicable, particularly to address the exposures underlying separate account bank-owned life insurance (BOLI) assets. In response to these comments, the Federal Reserve will add data items to collect the exposure amount and risk-weighted asset amount of these BOLI assets, which would be reported separately from the other

risk weightings within item 8, “Other assets.” In addition, the Federal Reserve will clarify the instructions to allow for the reporting of 150 percent and 300 percent risk-weight categories for item 8, “Other assets.”

One commenter requested clarification of the reporting of default fund contributions (DFCs) made by the reporting banking organization to qualifying central counterparties (QCCPs) in item 8, “Other assets.” The commenter noted that the proposed reporting instructions for item 8 stated that such contributions should be allocated to the risk-weight categories defined for column B through column Q. However, the commenter observed that DFCs to QCCPs are subject to two alternative methodologies (Methods 1 and 2) for calculating risk-weighted assets, one of which may result in risk-weightings not captured in column B through column Q. In response to this comment, the Federal Reserve will add data items to collect the exposure amount and risk-weighted asset amount of DFCs to QCCPs, which would be reported separately from the risk weightings otherwise captured in item 8. The Federal Reserve will clarify the instructions to describe how respondents should report DFCs under Method 1 as well as Method 2.

One commenter noted that items 2 through 8 could include securitization exposures, and when added with item 9, “On-balance sheet securitization exposures,” it would double count such exposures in reporting item 11, “Total assets.” The Federal Reserve notes that the reporting instructions for each proposed balance sheet asset category (items 1 through 8) explicitly state that the reporting banking organization must exclude securitization exposures. The Federal Reserve will clarify the proposed reporting form to explicitly state that these data items should exclude securitization exposures from items 2 through 8 and be reported in item 9.

The Federal Reserve notes that, although the proposed reporting form and instructions addressed the reporting of an institution’s securitization exposures and the treatment of financial collateral, a subsequent review found the proposal did not clearly articulate the risk weighting and reporting of assets and certain other items secured by financial collateral in the form of securitization exposures or mutual funds. In addition, the proposed reporting form and instructions did not fully address the two approaches for recognizing the effects of qualifying financial collateral. The approaches for risk weighting securitization exposures and investments in mutual funds also are applicable to such exposures when they serve as financial collateral. To account for the possible risk weight outcomes when exposures are secured by these types of collateral, the Federal Reserve will add data items to columns R and S for reporting the exposure amount and risk-weighted asset amount of these collateralized exposures separately from the other risk weightings within appropriate balance sheet asset categories (and derivative and off-balance sheet item categories).

#### **B. Schedule HC-R, Part II, items 12 through 22: Derivatives, Off-Balance Sheet, and Other Items Subject to Risk Weighting**

Proposed line items 12 through 22 pertain to the reporting of derivatives, off-balance sheet, and other items subject to risk weighting, excluding those that meet the definition of a securitization exposure (which are reported in item 10).

One commenter noted that in accordance with section 37 of the Federal Reserve’s revised regulatory capital rules, banking organizations must calculate the exposure amount and risk-weighted assets for repo-style transactions on a netting set basis. A netting set may contain transactions that are reported as assets, liabilities, and off-balance sheet items (as long as they are executed under the same master netting agreement), and the basis for the risk-weighted assets calculation is the net exposure, adjusted for volatility and foreign exchange haircuts. As proposed, Schedule HC-R, Part II, would have split the reporting of repo-style transactions between assets (reported in item 3, “Federal funds sold and securities purchased under agreements to resell,” i.e., reverse repos) and liabilities and off-balance sheet items (reported in item 16, “Repo-style transactions (excluding reverse repos)”). However, since risk-weighted assets for repo-style transactions are based on the net exposure at a netting set level (inclusive of volatility and foreign exchange haircuts), the method proposed for allocating repo-style transaction exposures between two reporting items and across the risk-weight categories in a way that would tie back to the amounts required to be reported in column A of Schedule RC-R, Part II (i.e., for item 3, the balance sheet carrying amount, and for item 16, the notional value), does not align with the treatment of repo-style transactions under the revised regulatory capital rules. The commenter recommended that the Federal Reserve amend the reporting form to collect all repo-style transactions in a single item, and amounts attributed to risk-weighting categories for this item would tie to an “exposure” amount reported in Column A.

In response to this comment, the Federal Reserve will revise proposed item 16 of Schedule HC-R, Part II, to include all repo-style transactions in item 16, re-titled as “Repo-style transactions,” which would also include securities purchased under agreements to resell (reverse repos) in order for banking organizations to calculate their exposure based on master netting set agreements. In addition, the Federal Reserve will split proposed item 3 of Schedule HC-R, Part II, into item 3(a), “Federal funds sold (in domestic offices),” and item 3(b), “Securities purchased under agreements to resell.” However, after an institution reports the balance sheet carrying amount of its reverse repos in column A of item 3(b), it would report this same amount as an adjustment in column B of item 3(b), resulting in no allocation of the balance sheet carrying amount of reverse repos across the risk-weight categories in item 3. This reporting methodology would ensure that the sum of the balance sheet asset amounts reported in items 1 through 9, column A, of Schedule HC-R, Part II, that an institution would report in item 11 of Schedule HC-R, Part II, continues to equal the “Total assets” reported in item 12 of the FR Y-9C balance sheet (Schedule HC).

Another commenter noted that, under the Federal Reserve’s revised regulatory capital rules, a banking organization is required to hold risk-based capital against all repo-style transactions, regardless of whether the transactions generate on-balance sheet exposures. The commenter also noted that the proposed reporting instructions for Schedule HC-R, Part II, state that “Although securities sold under agreements to repurchase are reported on the balance sheet (Schedule HC) as liabilities, they are treated as off-balance sheet items under the regulatory capital rules.” The commenter then questioned the intent of the Federal Reserve’s proposed reporting form that would require an institution to calculate a capital charge for these “off-balance sheet items” despite the fact that the security pledged by the institution as collateral for the repo remains on the balance sheet for accounting purposes and would therefore require a separate on-balance sheet risk-weighting. The Federal Reserve adopted this reporting approach

for consistency with the revised regulatory capital rules, which recognize that institutions face counterparty credit risk when engaging in repo-style transactions. However, under certain conditions, the Federal Reserve's revised regulatory capital rules also allow banking organizations to recognize the risk mitigating effects of financial collateral when risk weighting their repo-style exposures. The final reporting form and instructions for Schedule HC-R, Part II, will implement this treatment of repo-style transactions, which is set forth in the revised regulatory capital rules.

Although the proposed reporting form and instructions addressed the reporting of a banking organization's unsettled transactions as part of item 8, "All other assets," the Federal Reserve notes that during a subsequent review of the proposal it did not clearly address the fact that a banking organization's unsettled transactions could potentially be composed of both on- and off-balance sheet exposures. In order to more clearly assess risk-based capital against delayed trades where the counterparty has failed to deliver an instrument or make a payment in a timely manner, the Federal Reserve will modify Schedule HC-R, Part II, by adding line item 22, "Unsettled transactions (failed trades)."

### **C. Schedule HC-R, Part II, Items 23 through 31: Totals**

Proposed items 23 through 31 would apply the risk-weight factors to the exposure amounts reported for assets, derivatives, and off-balance sheet items in items 11 through 23 to calculate a banking organization's total risk-weighted assets. The Federal Reserve did not receive any comments on these line items and will implement as proposed.

### **D. Schedule HC-R, Part II, Memoranda Items 1 through 4: Memoranda**

In proposed memoranda items 1 through 3, a banking organization would report the current credit exposure and notional principal amounts of its derivative contracts. Memorandum item 4 would require those banking organizations subject to the Market Risk Rule to report the portion of their standardized market risk weighted assets (as reported in Schedule HC-R, item 27) that is attributable to specific risk.

Memorandum item 1 would continue to collect the "Current credit exposure across all derivative contracts covered by the risk-based capital standards." One commenter noted that, prior to the proposed revisions, the instructions for Memorandum item 1 stated that all written option contracts (except those that are, in substance, financial guarantees) are not covered by the risk-based capital standards. The commenter asked if this was an explicit change in the reporting of written option contracts. The Federal Reserve notes that this exclusion was inadvertently omitted from the proposed instructions for Memorandum item 1 and will clarify the instructions to note that written option contracts will continue to be excluded from reporting in Memorandum item 1, consistent with the revised regulatory capital rules.

The Federal Reserve did not receive any comments on memoranda items 2, 3 or 4, and will implement as proposed.

### ***Proposed FR Y-9C, Schedule HC-L***

FR Y-9C, Schedule HC-L collects regulatory data on derivatives and off-balance sheet items. The Federal Reserve proposed to revise the reporting requirements for off-balance sheet exposures related to securities lent and borrowed, consistent with the revised regulatory capital rules. Compared to the current schedule, the proposed changes to Schedule HC-L would require all banking organizations to report the amount of securities borrowed. At present, banking organizations include the amount of securities borrowed in the total amount of all other off-balance sheet liabilities reported in item 9 of Schedule HC-L if the amount of securities borrowed is more than 10 percent of total holding company equity capital and they disclose the amount of securities borrowed if that amount is more than 25 percent of total holding company equity capital. In addition, the proposed changes to Schedule HC-L would require institutions to report securities borrowed in a new item 6.b immediately after the line item for securities lent, which would be renumbered from item 6 to item 6.a.

One commenter noted that the current instructions for item 9 state to “report all securities borrowed against collateral (other than cash)” for such purposes as serving “as a pledge against deposit liabilities or delivery against short sales,” whereas the current instructions for item 6 state to report all securities owned that are “lent against collateral or on an uncollateralized basis.” The commenter characterizes current item 9 as inclusive of only certain types of securities borrowings such as those collateralized by “other than cash” and those “for purposes as a pledge against deposit liabilities or short sales,” whereas current item 6 covers all types of securities lending regardless of the type of collateral. The commenter suggested clarifying the scope of these two items.

The Federal Reserve will clarify the instructions for new item 6(b) to state that institutions should report all types of securities borrowing, regardless of collateral type or purpose. The phrases “other than cash” and “for such purpose as a pledge against deposit liabilities or delivery against short sales” will be deleted from the final instructions for new item 6(b).

On February 26, 2015, the Federal Reserve published a final notice in the *Federal Register* (80 FR 10483) for the FR Y-9.

### **Estimates of Respondent Burden**

The current annual reporting burden for the FR Y-9 family of reports is estimated to be 193,321 hours and would increase to 198,569 hours as shown in the following table. This total increase is associated with increases in the estimated hours per response for the FR Y-9C due to the proposed changes. The average estimated hours per response for non-advanced approaches FR Y-9C filers would increase from 48.84 hours to 50.84 hours. The average estimated hours per response for advanced approaches FR Y-9C filers would increase from 50.09 hours to 52.09 hours. The revised annual burden for the FR Y-9 family of reports would represent 1.27 percent of total Federal Reserve System paperwork burden.

	<i>Number of respondents<sup>7</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<b>Current</b>				
FR Y-9C – non AA HCs	644	4	48.84	125,812
FR Y-9C – AA HCs	12	4	50.09	2,404
FR Y-9LP	818	4	5.25	17,178
FR Y-9SP	4,390	2	5.40	47,412
FR Y-9ES	86	1	0.50	43
FR Y-9CS	236	4	0.50	<u>472</u>
	<i>Total</i>			193,321
<b>Proposed</b>				
FR Y-9C – non AA HCs	644	4	50.84	130,964
FR Y-9C – AA HCs	12	4	52.09	2,500
FR Y-9LP	818	4	5.25	17,178
FR Y-9SP	4,390	2	5.40	47,412
FR Y-9ES	86	1	0.50	43
FR Y-9CS	236	4	0.50	<u>472</u>
	<i>Total</i>			198,569
	<i>Change</i>			5,248

The total cost to the public is estimated to increase from the current level of \$9,840,039 to \$10,107,162 for the revised FR Y-9 reports.<sup>8</sup>

### 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 cost to the Federal Reserve System for collecting and processing these reports is estimated to be \$1,982,100.

<sup>7</sup> Of these respondents, 132 for the FR Y-9C (non AA BHCs), 0 for the FR Y-9C (AA BHCs), 158 for the FR Y-9LP, 3,839 for the FR Y-9SP, 86 for the FR Y-9ES, and 0 for the FR Y-9CS are small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) [www.sba.gov/content/small-business-size-standards](http://www.sba.gov/content/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 May 2013*, published April 1, 2014, [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/).