

**Supporting Statement for the  
Report of Selected Money Market Rates  
(FR 2420; OMB No. 7100-0357)**

**Summary**

The Board of Governors of the Federal Reserve System (Board), under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with revision, the mandatory Report of Selected Money Market Rates (FR 2420; OMB No. 7100-0357). The FR 2420 is a transaction-based report that collects daily liability data on federal funds, Eurodollar transactions, and certificates of deposits (CDs) from (1) domestically chartered commercial banks and thrifts that have \$26 billion or more in total assets and (2) U.S. branches and agencies of foreign banks with total third-party assets of \$900 million or more. The FR 2420 data are used in the analysis of current money market conditions and will allow the Federal Reserve Bank of New York (FRBNY) to calculate and publish interest rate statistics for selected money market instruments.

Revisions to the FR 2420 are being proposed to facilitate the Federal Reserve's ability to carry out its monetary policy and supervisory responsibilities. Key proposed changes to the FR 2420 reporting panel are to 1) modestly expand the number of domestic depository institutions that are required to report and reduce the number of foreign banks that are required to report; 2) require U.S. branches and agencies of foreign banks (FBOs) to report the Eurodollar transactions of managed and controlled Caribbean branches; and 3) require International Banking Facilities (IBFs) of reporting institutions to file the FR 2420. In addition, the Board proposes to change some definitions including 1) narrowing the definition of transactions reported as federal funds on the FR 2420 to align with the Reserve Requirements of Depository Institutions (Regulation D) definition; 2) shifting the reporting of other wholesale borrowing transactions currently reported as federal funds to a new schedule; 3) revising the definition of CDs; and 4) including forward starting transactions.

The Board also proposes the addition of several new data elements. These include counterparty type, trade date, and settlement date for all schedules of the report. On the Eurodollar schedule, there is an additional proposed data element that identifies the offshore branch that booked the transaction. On the Time Deposit and Certificate of Deposit schedule, there is one new proposed data element that identifies embedded options; one that specifies the interest rate spread on floating rate instruments; and one that indicates stepped-up interest rates.

Proposed changes would enhance the data and improve the Federal Reserve's ability to monitor activity in unsecured money markets and implement monetary policy. The revised collection also would allow for the publication of the effective federal funds rate (EFFR) and an overnight bank funding rate (OBFR). In addition, the data enhancements would also support the Federal Reserve's ability to monitor firm-specific liquidity conditions for supervisory purposes.

The annual reporting burden for the proposed FR 2420 is estimated to be 89,950 hours, an increase of 42,450 hours from the current burden of 47,500 hours. Copies of the proposed FR 2420 reporting form and instructions are attached. The current FR 2420 reporting form and

instructions are located on the Board's website at [www.federalreserve.gov/apps/reportforms/default.aspx](http://www.federalreserve.gov/apps/reportforms/default.aspx). The first report for the proposed revisions to FR 2420 would be as of October 20, 2015, for Part A - Federal Funds, Part AA - Selected Borrowings from Non-Exempt Entities, and Part B - Eurodollars. The reporting date for proposed revisions to Part C - Time Deposits and Certificates of Deposit would be as of January 15, 2016.

## **Background and Justification**

The Board established the FR 2420 in April 2014 to enhance the Federal Reserve's ability to monitor money markets. The Federal Reserve Bank of New York (FRBNY), on behalf of the Federal Reserve, implements temporary open market operations in money markets, at the directive of the Federal Open Market Committee (FOMC). Having transaction-level data from money markets provides insight into market functioning that was not previously available.

The FR 2420 collects transaction-level data, including transactions executed through brokers and those transacted directly between counterparties. The FR 2420 also includes term federal funds transactions. Similarly, for Eurodollars (dollar-denominated liabilities booked outside the U.S.), the FR 2420 collects transaction-level detail, including transactions executed directly between counterparties. The FR 2420 provides rate level information on CDs for a market where that information was not available previously. The CD data includes negotiable and non-negotiable instruments where only negotiable CD information was available previously.

## **Description of Information Collection**

The FR 2420 is a transaction-based report that collects daily liability data on federal funds, Eurodollars, and certificates of deposits (CDs). Reported information includes the amount of each transaction, the maturity date of the transaction, and the interest rate for each transaction. In addition, as CDs may have floating rates, several additional items are collected to better understand their interest rate structure.

### **Federal Funds (Part A)**

The federal funds data is the only source of transaction-level data available for analysis of federal funds market conditions. Data are reported for federal funds purchased by domestic offices of reporting institutions on the reporting date. For purposes of the FR 2420, "federal funds" is defined as unsecured borrowings of U.S. dollars made to the institution's U.S. offices at the close of business for the report date.

### **Eurodollar Transactions (Part B)**

Eurodollars are an important source of funding for U.S.-based banking offices and the Federal Reserve monitors and analyzes the Eurodollar market concurrently with its coverage of the federal funds market. For purposes of the FR 2420, "Eurodollar transactions" are defined as unsecured liabilities at the close of business in U.S. dollars booked at each non-U.S. office whose total assets booked at that office exceed \$2 billion at the close of business for the report date. Eurodollar transactions are currently collected only from foreign offices of domestic

commercial banks and thrifts and not from U.S. branches and agencies of foreign banks. In addition, Eurodollar transactions are not collected from IBFs of reporting institutions.

### **CDs (Part C)**

Data on CD transactions provide an alternative source of information to the current daily survey of CD rates conducted by the Federal Reserve. These data improve market monitoring capabilities because the report provides CD interest rate information that was not previously available. For purposes of the FR 2420, CD transactions are defined as CDs that are booked in U.S. offices in U.S. dollars and denominated in amounts of \$1 million or more. Reportable CD transactions include CDs evidenced by a negotiable or nonnegotiable instrument, or CDs in book entry form evidenced by a receipt or similar acknowledgement issued by the bank. Unlike federal funds and Eurodollars, CDs frequently have floating rates. For that reason, the FR 2420 collects additional data fields for reportable CD transactions that are necessary to understand the interest rate structure over the life of each CD. These data items are floating or fixed rate, reset period, reference rate, and negotiability.

### **Proposed Revisions**

The Board seeks to amend the FR 2420 by altering reporting entity criteria, by changing certain definitions and reporting requirements, and by collecting additional data elements. These amendments would facilitate the Federal Reserve's ability to carry out its monetary policy and supervisory responsibilities in several important respects.

First, the proposed expanded data collection would improve unsecured money market monitoring and augment the ability of the Federal Reserve to analyze these markets and implement monetary policy objectives established by the Board and the Federal Open Market Committee.

Second, the proposed expanded data collection would provide broader and more detailed data for purposes of calculating the EFFF. The FR 2420 collection captures a greater share of federal funds activity than the brokered data that currently is used to construct the EFFF, as depository institutions report both trades executed through brokers and those negotiated directly between counterparties. The data also allow for greater insight into the transactions underlying the federal funds rate, supporting a robust calculation process. The revised collection also would allow for the publication of an OBFR that is calculated using transactions in both federal funds and Eurodollars. This additional rate will be published to increase the amount and quality of information available to the public about the overnight funding costs of U.S.-based banking offices.<sup>1</sup>

Third, the proposed expanded data collection would provide an important source of information on individual depository institutions' borrowing rates, which is necessary for more effective monitoring of firm-specific liquidity risks for purposes of supervisory surveillance.

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<sup>1</sup> A more detailed description of the plans to change to the calculation process for the federal funds rate and publish the overnight bank funding rate can be found at: [www.newyorkfed.org/markets/opolicy/operating\\_policy\\_150202.html](http://www.newyorkfed.org/markets/opolicy/operating_policy_150202.html).

Specifically, the amended FR 2420, as proposed, would provide complementary rate information that will not be collected going forward by either the Complex Institution Liquidity Monitoring Report (FR 2052a; OMB No. 7100-0361) or the Liquidity Monitoring Report (FR 2052b; OMB No. 7100-0361). These FR 2052 reports currently collect consolidated liquidity information on depository institutions' funding activities, and a limited amount of information on borrowing rates. Going forward, however, information contained on the FR 2420 would replace certain information currently gathered on the FR 2052a, as these data elements would be dropped from the FR 2052a collection. Pricing information on the FR 2052b will not change, as that data is not similar to FR 2420 data. The amended FR 2420 as proposed would offer greater insight on the borrowing costs for these liabilities.

## **Summary of Revisions**

### **I. Reporting Criteria**

The Board is proposing several changes to the reporting criteria, including (a) lowering the asset-size threshold for domestic depository institutions to report on the FR 2420, (b) raising the asset-size threshold for FBOs to report on the FR 2420, (c) adding an activity-based reporting criterion to capture meaningful activity of domestic depository institutions, (d) requiring FBOs to include the Eurodollar borrowings for managed and controlled Caribbean branches, and (e) requiring all FR 2420 respondents to submit separate reports for their International Banking Facilities (IBFs). Under this proposal, exceptions to the reporting criteria may be made for those institutions that meet the asset size threshold but demonstrate that they have an ongoing business model resulting in a negligible amount of activity in these markets. In addition, an institution that did not meet the asset size threshold at the time of the most recent asset threshold review may be required to begin reporting transactions on the FR 2420 if its transactions consistently place it within the threshold levels.

#### **a. U.S. Bank Asset Size Threshold**

The Board proposes to reduce the current asset threshold for domestic depository institutions to report on the FR 2420 from \$26 billion or more in total assets to \$18 billion or more in total assets. An important segment of federal funds activity that occurs at relatively high rates is not currently captured on the FR 2420 reporting sample because this activity is undertaken by domestic depository institutions with total assets that fall below the \$26 billion reporting threshold. Expanding the current FR 2420 reporting panel to capture this activity is necessary to enhance the representativeness of the data collection, in particular for purposes of calculating the EFFR. This proposed lower threshold is intended to balance the need for more comprehensive data against the reporting burden to the affected depository institutions. Specifically, it is anticipated that the proposed lower threshold would add approximately 22 domestic banks to the pool of FR 2420 respondents.

#### **b. FBO Asset Size Threshold**

The Board proposes to increase the asset size threshold for FBOs to report on the FR 2420 from \$900 million in third-party assets to \$2.5 billion in third-party assets. This

increased threshold would reduce the reporting panel by roughly 31 FBOs, many of which have reported a negligible amount of unsecured borrowing activity each day on the FR 2420. This proposal is intended to reduce reporting burden for these institutions.

c. U.S. Bank Activity Threshold

The Board proposes to require domestic depository institutions with total assets ranging from \$5 billion to \$18 billion and federal funds activity of more than \$200 million on more than two days during the preceding three months to report on all parts of the FR 2420. It is anticipated that there would be a modest number of institutions added to the FR 2420 reporting panel under this proposal. This activity threshold is intended to capture only domestic depository institutions in the specified asset range that are active borrowers in federal funds.

d. Managed and Controlled Cayman and Nassau Branches

The Board proposes to require FBOs to include the Eurodollar borrowings for any “managed and controlled” branches located in the Caribbean with more than \$2 billion in total assets on the FBO’s FR 2420 report.<sup>2</sup> “Managed and controlled” branches are those branches for which the FBO files an FFIEC 002S (OMB No. 7100-0032). Caribbean branches within this specification are maintained by both domestic depository institutions and FBOs to support funding for their U.S. operations with Eurodollar liabilities. The FR 2420 currently captures activity of domestic depository institutions’ Caribbean branches with over \$2 billion in assets, but not Caribbean branch activity of FBOs where those branches are managed and controlled by the FBO’s U.S. branch. The data proposed to be reported on the FR 2420 from these branches are believed to represent a significant portion of the Eurodollar trading activity executed in the U.S. and are an important source of information on the funding activity of foreign banks’ U.S. operations.

e. International Banking Facilities

The Board proposes to require all FR 2420 respondents to submit a separate report (Schedule B only) for the Eurodollar borrowings of their IBFs. IBFs enable U.S. depository institutions to take foreign deposits (Eurodollars) in a U.S. office. The Board proposes to capture the Eurodollar activity of these entities on Schedule B of the FR 2420. The borrowings by these entities currently are believed to represent a modest proportion of overall Eurodollar activity; however, IBFs can be an important element of the overnight Eurodollar market facilitating transactions with international financial and official institutions.

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<sup>2</sup> Currently, all “managed and controlled” branches of FBOs reporting on the FR 2420 are located in the Cayman Islands or Nassau, Bahamas. However, the Board may determine that a FBO branch outside of these two locations but within the Caribbean generally should report on the FR 2420 if the majority of the responsibility for business decisions, including but not limited to decisions with regard to lending or asset management or funding or liability management, or the responsibility for recordkeeping in respect of assets or liabilities for that FBO branch, resides at a FBO that reports on the FR 2420.

## II. Data Elements and Reporting Requirements Applicable to All Parts of the FR 2420

### a. Counterparty Type

The Board proposes to add a reporting field to the FR 2420 that would require respondents to identify counterparties by twelve specified “counterparty type” categories. Understanding counterparty types would improve insight into the types of firms providing funding to depository institutions. Information on counterparty type would be particularly critical during times of stress, when certain lender groups may reduce available funding. The following are the proposed FR 2420 counterparty designations, which are largely based on Call Report and FR 2900 definitions.<sup>3</sup> The counterparty designations used for each schedule of the FR 2420 varies based the different transaction types:

#### Part A: Federal Funds

- U.S. depository institution
- U.S. branch or agency of a foreign bank
- Non-depository financial institution that is defined as an exempt entity
- U.S. government-sponsored enterprise that is defined as an exempt entity
- Other exempt entity

#### Part AA: Selected Borrowings from Non-Exempt Entities

- Non-U.S. office of a U.S. depository institution
- Non-U.S. office of a foreign bank
- Non-depository financial institution that is defined as a non-exempt entity
- Non-financial corporate entity
- Other non-exempt entity

#### Part B: Eurodollars and Part C: Time Deposits and Certificates of Deposit (CDs)

- U.S. depository institution
- Non-U.S. office of a U.S. depository institution
- U.S. branch or agency of a foreign bank
- Non-U.S. office of a foreign bank
- Non-depository financial institution
- Non-financial corporate entity
- Other entity

### b. Trade Date and Settlement Date

The Board proposes to add “trade date” and “settlement date” report fields to the FR 2420. Capturing a trade date field would affirm the actual trade date and would help to ensure the accuracy of other report elements. Settlement date is necessary to calculate the settlement period for forward starting transactions.

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<sup>3</sup> The definition for non-financial corporates is taken from the FR 2052 Liquidity Monitoring reports.

### c. Forward Starting Transactions

Currently, the FR 2420 only requires reporting of transactions settling on a spot basis. For federal funds and Eurodollars, spot basis settlement represents same-day settlement and, for CDs, two-day forward settlement. In order to capture the full complement of money market activity, the Board proposes to require reporting of transactions that settle on dates that do not conform to the spot convention; that is, to require reporting of transactions that settle beyond the day of trade execution for federal funds and Eurodollar transactions and on days other than two days after execution for CD transactions.

### **III. Federal Funds**

Currently, Part A of the FR 2420 report requires respondents to report all unsecured borrowings of U.S. dollars made to the reporting institution's U.S. offices on the report date, less deposits (as defined in the Call Report), debt instruments, and repurchase agreements. The Board proposes to amend the definition of "federal funds" applicable to the FR 2420 to correspond to a narrower set of transactions that is consistent with the provisions of the Board's Regulation D (Reserve Requirements of Depository Institutions, 12 C.F.R. part 204). Under the current definition, some FR 2420 respondents are reporting domestic borrowing transactions as federal funds borrowing that do not fall under the federal funds exemption outlined in Regulation D. Aligning the definition of "federal funds transactions" in Part A of the FR 2420 with the "federal funds" exemption in Regulation D would improve the correspondence between the reported transactions and liabilities that are exempt from reserve requirements.

### **IV. Selected Borrowings from Non-Exempt Entities**

The Board proposes to add a new Schedule AA to the FR 2420 report to capture selected unsecured wholesale borrowings that are currently being reported as federal funds borrowing on the FR 2420, but would not be included under the proposed federal funds definition described above. For example, a direct borrowing from a corporate lender would be included as a "federal funds borrowing" under the FR 2420's current definition of "federal funds," but would not be included under the proposed "federal funds" definition described above. The proposed Schedule AA would continue to capture these non-deposit transactions but would re-categorize them as "selected borrowings from non-exempt entities." These transactions represent a small, but potentially important, alternate source of information on depository institutions' funding costs. As these transactions are already reported on the current FR 2420 report, there should be minimal additional burden involved with reporting those same transactions on the proposed schedule to the report.

### **V. Eurodollars**

The Board proposes to add an "office identifier" field to the FR 2420 to identify the non-U.S. branch that booked each Eurodollar deposit. Currently, the FR 2420 requires respondents to report transactions from all non-U.S. branches of domestic institutions with more than \$2 billion in total assets as Eurodollar transactions. Some of these transactions, however, are booked in countries with dollar deposit rates that are substantially different than Eurodollar deposit rates of

transactions executed in the U.S. For purposes of monitoring U.S.-based funding conditions and supporting the calculation of the OBFR, it is necessary to identify the branch that booked the transaction. Accordingly, the proposal would add an “office identifier” field to the FR 2420 to identify the non-U.S. branch that booked each Eurodollar deposit.

## **VI. Time Deposits and CDs**

### **a. Definition for CDs**

The Board proposes to require FR 2420 respondents to report all time deposits and certificates of deposit with a term equal to or greater than 7 days in Schedule C, regardless of whether the respondent labels them as “CDs” or “term time deposits.” The current FR 2420 instructions only require that “certificates of deposit” be reported. Discussions with market participants, however, have revealed that there is little distinction between a nonnegotiable CD and a time deposit. In addition, some market participants have specifically not reported borrowings designated as “term time deposits” because they were not internally characterized as CDs. The proposed amendment will ensure more complete reporting of the relevant data.

### **b. Interest Rate Spread**

Currently, the FR 2420 report does not have an “interest rate spread” reporting field. Without this field, the underlying value of the reference rate and spread components cannot be determined with certainty. Accordingly, the Board proposes to add an “interest rate spread” field to the FR 2420 report. This new reporting field will enable calculation of the value of the underlying reference rate without looking up the reference rate in an additional data source. This field would be labelled ‘NA’ for fixed-rate CDs.

### **c. Option Identifiers and Step Up Indicator**

The Board proposes to add report fields to the FR 2420 that would identify CDs with embedded options as well as CDs and time deposits with rates that change over the term of the CD. CDs with options are becoming an increasingly important financial instrument with growing issuance, particularly in products with options to extend the maturity date. One additional data field would need to be added to identify instruments with embedded options. In addition, experience with the current data suggests that there is also a segment of the CD market with rates that rise or “step up” over the course of the instrument’s life. An additional field would be necessary to identify these transactions. These fields could be particularly important for informing the use of CD rates in the calculation of reference rates, as options affect the comparability of instruments to others with the same stated maturity dates.

- CDs with embedded options should be identified with an additional field that would capture the type of option, specifically ‘callable,’ ‘puttable,’ ‘extendable,’ and ‘other,’ or indicate ‘NA’ for CDs without embedded options.
- Rates that will rise or fall over the life of the time deposit or CD based on a pre-arranged agreement would be identified under the proposal with an additional field that would be a ‘Y’ or ‘N’ step-up indicator.



## **Reporting panel**

Since federal funds are the key category for this data collection, the FR 2420 reporting panel is comprised of commercial banks, thrifts, and branches and agencies of foreign banks. Commercial banks and thrifts with \$26 billion or more in total assets on the September 30 Call Report each year are required to submit the FR 2420 daily for the following year. This threshold currently captures the 54 largest depository institutions which provides sufficient coverage to have a statistically representative sample. U.S. branches and agencies of foreign banks are required to report daily, if third-party assets are \$900 million or more on the September 30 FFIEC 002. This threshold currently captures the 109 largest U.S. branches and agencies of foreign banks.

## **Frequency**

The FR 2420 report is submitted daily. Data collected is used by FRBNY daily as part of the market monitoring responsibilities. Part of that analysis calculates average rates across products and tenors, and follows trends in the aggregate levels of transactions. In order to calculate timely effective rates, daily data are needed. The Federal Reserve proposes that the FR 2420 report continue to be submitted daily.

## **Time Schedule for Information Collection**

The FR 2420 is a mandatory electronic report. Respondents are required to file the FR 2420 with the FRBNY for each business day as follows: (1) Federal Funds, Part A, is due by 7 a.m. ET one business day after the report date, (2) Eurodollars, Part B, is due by 7 a.m. ET one business day after the report date, and (3) CDs, Part C, is due by 2 p.m. ET two business days after the report date.

## **Legal Status**

The Board's Legal Division has determined that the mandatory FR 2420 is authorized by sections 9 and 11(a)(2) of the Federal Reserve Act (12 U.S.C. §§ 324 and 248(a)(2)) and by section 7(c)(2) of the International Banking Act (12 U.S.C. § 3105(c)(2)). Individual respondent data are regarded as confidential under the Freedom of Information Act (5 U.S.C. § 552(b)(4)).

## **Consultation Outside the Agency**

The Clearing House, American Bankers Association, and Institute of International Bankers were consulted about the proposed changes to the FR 2420 in late 2014 and early 2015. Their comments were considered and incorporated into this proposal. On April 7, 2015, the Federal Reserve published an initial notice in the *Federal Register* (80 FR 18620) requesting public comment for 60 days on the extension, with revision, of the FR 2420. The comment period for this notice expired on June 8, 2015. The Federal Reserve received four comment letters on the proposed revisions of the FR 2420; three from trade organizations and one from a U.S. branch of a foreign bank. Substantive comments on the data collection are discussed in

detail below. In addition, several technical comments were received and the Federal Reserve will update the final reporting forms and instructions for these comments, as appropriate.

## **Summary of Public Comments**

### *Report Cost-Benefit*

In reference to the Federal Reserve's originally proposed \$15 billion reporting threshold, a trade organization asked if the marginal increase in information from adding new U.S. bank reporters outweighs the increase in costs and burden on these additional institutions affected by the proposal. While the Federal Reserve is sensitive to the reporting burden of the affected depository institutions, revisions to the data are being made to fulfill high-priority policy objectives. First, the expanded and enhanced data collection is expected to improve unsecured money market monitoring and augment the ability of the Federal Reserve Bank of New York, on behalf of the Federal Reserve, to analyze these markets and implement monetary policy. Second, the data set is expected to provide robust transaction data for calculating the EFFR, an improvement over the current rate constructed from brokered data. The collection also is expected to allow for the calculation of the new OBFR that uses both federal funds and Eurodollar data. Third, data collected under the FR 2420 report also represent an important source of information on individual depository institutions' borrowing rates, which is expected to allow for more effective monitoring of firm-specific liquidity risks for purposes of supervisory surveillance.

Given these critical uses for the data, the Federal Reserve is seeking to ensure that the reporting panel captures entities that are meaningfully involved in unsecured money markets and that it remains robust to changes in borrower composition in these markets. Additional U.S. bank reporters are necessary to provide insight into a distinct and important segment of the federal funds market. The federal funds borrowing in this segment can represent a significant proportion of overall activity in certain market environments and can occur at rates that are distinct from funding activity conducted by other institutions. However, the Federal Reserve understands the need to strike a balance between reporting burden and the collection of information required to fulfill its policy objectives. As such, adjustments were made to the asset-size thresholds to reduce reporting burden, as discussed below, which resulted in an upward adjustment from the originally proposed \$15 billion reporting threshold to the \$18 billion threshold referenced above. In addition, exceptions may be made for those institutions that meet the asset-size threshold but can demonstrate that they have an ongoing business model that results in a negligible amount of activity in these markets. The "Reporting Exception" section below provides more information on how an exception may be obtained.

### *Asset Size and Activity Thresholds*

A trade organization wrote that the asset-size threshold imposes costs on institutions that may not have substantial activity and noted that, according to Call Report data, institutions with between \$15 billion and \$26 billion in assets hold only about five percent of total federal funds purchased. This trade organization noted that the activity threshold approach is more targeted and should be used for any institution to which the Federal Reserve intends to extend reporting

requirements. Asset-size thresholds create a stable panel of reporters, by ensuring that banks of meaningful size will be consistently required to report activity in a timely manner. This stable panel of banks is necessary to effectively analyze trends in unsecured funding markets and publish the EFR and OFR. The Federal Reserve proposed a lower asset-size threshold in order to create a more comprehensive dataset that captures an important segment of the federal funds market that is not currently covered in the existing criteria. Collectively, the federal funds activity of domestic depository institutions with assets between \$15 billion and \$26 billion can be notable. Call Report data suggest that the aggregate amount of federal funds activity of banks in this asset size varies and has, at times, represented more than 10 percent of federal funds activity. In addition, in the current market environment, borrowing by these institutions often occurs at different rates than seen in the current sample and represents an important segment of the market that the current FR 2420 report does not capture.

Activity thresholds, on the other hand, are beneficial for providing insight into activity that is outside the scope of the regular panel of reporters, and represents an important supplement to the asset-size thresholds. However, activity thresholds used alone can create gaps in reporting and a more inconsistent panel of banks. These thresholds necessarily require a lookback period to measure activity and some forward period to prepare for reporting; thus, there is a significant lag between the threshold for activity being met and the commencement of reporting. The Federal Reserve considered relying more heavily on an activity threshold and found that the panel of banks was more inconsistent and the data capture was less complete.

Nonetheless, the Federal Reserve understands the need to find a balance between the burden being placed on reporting institutions and the achievement of reporting objectives. In light of the burden on smaller institutions of FR 2420 reporting, the Federal Reserve will retain the asset-size thresholds, but will raise the minimum reporting threshold for domestically chartered commercial banks and thrifts from \$15 billion to \$18 billion. With this revised criteria, U.S. institutions with between \$15 billion and \$18 billion in assets will now only report if they meet the activity threshold. This change in threshold will result in a reduction in the number of additional, smaller institutions being required to report under the asset-size threshold.

### *Reporting Exception*

A trade organization asked for clarification on how and with what frequency institutions with ongoing business models that result in negligible activity can apply for exceptions to filing the FR 2420 report. Institutions can request a review of their reporting requirement at any point that they believe the reporting is an unreasonable burden. Requests should be made in writing and provide a look back of the data for at least two quarters and provide justification on why continuing to provide these data causes an undue burden.

### *Implementation Date*

Two trade organizations requested additional time to implement the revisions. One organization noted that the proposed timeline would be difficult to implement, as the recommended revisions add and redefine several elements of the FR 2420 report. This organization stated that the current panel of banks would need two quarters after final

requirements and newly covered institutions would need one year. A second organization stated that although the proposal was well-developed and vetted, it would be difficult to commit systems and personnel until the final *Federal Register* notice. This organization asked the Federal Reserve to re-assess the proposed date, with not less than 6 months from the final requirements for implementation.

The revisions to the FR 2420 data are being implemented to meet high priority policy objectives. Most of the reporters under the new criteria are active reporters under the existing criteria. However, in order to provide the lead time for new reporters to prepare for reporting and still fulfill these objectives, the initially proposed reporting date of September 9, 2015 will be extended to October 20, 2015 for Part A - Federal Funds, Part AA - Selected Borrowings from Non-Exempt Entities, and Part B - Eurodollars. The reporting date for Part C - Time Deposits and Certificates of Deposit will be extended until January 15, 2016. This delay will allow reporters to focus on the changes applicable to the most time-sensitive parts of the report.

#### *Submission Deadline*

A trade organization noted the 7 a.m. deadline imposes administrative costs for covered institutions and these costs are magnified, on a relative basis, for smaller institutions, which have fewer resources. A second organization stated that banks continue to experience challenges in meeting the 7 a.m. deadline for federal funds reporting as it conflicts with normal batch processing. This organization noted the time will also be a challenge for the expanded Eurodollar reporting requirements.

After considering these comments, the Federal Reserve determined that federal funds and Eurodollar data are needed by 7 a.m. each business day for the preceding day's reportable transactions to support the implementation of monetary policy and daily market monitoring. Therefore, the Federal Reserve is retaining the 7 a.m. deadline in the final report. The FR 2420 data provide a key insight on the previous day's unsecured market activity in the morning when the Federal Reserve is monitoring markets for the purposes of implementing monetary policy. In addition, in 2016, the data will be used as the source for daily calculation of the EFR and OFR. The EFR is published in the morning in order to provide the market with a timely view on the previous day's activity.

#### *Supervisory Purpose*

A trade organization objected to the broadening of the purpose of the reporting form to include a supervisory component. According to this organization, the timing and frequency of FR 2420 reporting makes it difficult for covered institutions to subject data to proper regulatory reporting controls. The trade organization would prefer the Federal Reserve to use the supervisory and reporting framework already in place to monitor individual firm liquidity conditions. The organization requested clarification on the interaction of the FR 2420 with the FR 2052b, which eliminated the requirement for daily reporting from institutions with between \$15 to \$26 billion in total assets after acknowledging through the FR 2052b implementation process that daily reporting is burdensome and unnecessary for these institutions. The organization also wrote that given significant changes being implemented to the FR 2052a, banks

do not have enough information to comment on whether the FR 2420 report is duplicative or complementary. The organization noted that not all institutions that would be required to file the FR 2420 are required to file the FR 2052b. Furthermore, according to this organization, the FR 2420 collection encompasses institutions for whom the Federal Reserve is not the primary regulator, and it is unclear by which process the Federal Reserve will coordinate with the other banking agencies.

FR 2420 data are used by the Federal Reserve to carry out both monetary policy and supervisory functions. Although daily reporting for smaller institutions may not be required for supervisory surveillance on the FR 2052b, reporting at a daily frequency is required on the FR 2420 for analysis of current money market conditions and publication of the EFR and OBR. Institutions with asset sizes under the \$26 billion represent an important segment of the federal funds market that is not currently captured by the FR 2420 report, and collecting their borrowing transactions is necessary for understanding unsecured money markets. As noted above, the minimum asset-size threshold for reporting by U.S. institutions on the FR 2420 is being raised to \$18 billion in order to balance the need to capture this information with the reporting burden on smaller institutions. This higher minimum threshold will eliminate the need for daily reporting for many smaller institutions. Furthermore, including a supervisory component to the FR 2420 report is not expected to increase, in itself, the burden on institutions required to file an FR 2420 since all report submissions are subject to control, audit, and governance protocols.

Utilization of the FR 2420 report for supervisory purposes will complement existing liquidity monitoring reports and allow the Federal Reserve to reduce reporting requirements in those reports. Specifically, with regard to the interaction between the FR 2420 and FR 2052, the Federal Reserve has reviewed the current and proposed reports and confirms there is no duplicated information or material overlaps between these reports. A subset of the FR 2420 pricing data was already being collected on the FR 2052a as part of supervisory liquidity monitoring. Going forward, information contained on the FR 2420 will replace certain information currently gathered on the FR 2052a, as these data elements will be dropped from the FR 2052a collection. Pricing information on the FR 2052b will not change, as that data is not similar to FR 2420 data. However, the amended FR 2420 will offer greater insight on the borrowing costs for these firms' liabilities. Pricing information, when used in tandem with liquidity data, is an area that supervisors review when gauging a firm's overall liquidity profile. Rapid changes in pricing can indicate a firm is entering a period of constrained market access and subsequent liquidity stress.

For institutions whose primary regulator is not the Federal Reserve and who do not file FR 2052 reports, the FR 2420 data is intended primarily for monetary policy purposes. The Federal Reserve does not plan to share these data with other agencies.

#### *Clarifications and Other Issues*

One trade organization asked for clarification on several definitions, including counterparty types, embedded options on CDS, borrowings from GSEs and FHLBs, deposits from non-financial corporations, and the office identifier on Part B. Each of these definitions

was updated with further clarification in the reporting instructions. The organization also asked for a formal process for Frequently Asked Questions. The Federal Reserve will have a process to document reporting questions and communicate these to reporters. Lastly, the organization asked for the Reporting Central application to be open for testing as soon as possible. The application will be available for testing at least one month before the implementation dates.

One commenter provided additional comments outside the scope of the data collection proposal that focused on the calculation of the published rates. On July 20, 2015, the Federal Reserve published a final notice in the *Federal Register* (80 FR 42803).

### **Estimate of Respondent Burden**

As presented in the table below, the current annual reporting burden for the FR 2420 is estimated to be 47,500 hours. The annual reporting burden for the proposed FR 2420 would be 89,950 hours, an increase of 42,450 hours. The estimated average hours per response for commercial banks and thrifts, U.S. branches and agencies of foreign banks, and significant banking organizations would increase to 1.8 hours based on the proposed changes. The estimated average hours per response for IBFs would be 1 hour based on the proposed changes. These reporting requirements represent less than 1 percent of the total Federal Reserve System paperwork burden.

<b>FR 2420</b>	<i>Number of respondents<sup>4</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<b>Current</b>				
Commercial banks and thrifts	54	250	1.5	20,250
U.S. branches and agencies of foreign banks	109	250	1.0	<u>27,250</u>
<i>Total</i>				47,500
<b>Proposed</b>				
Commercial banks and thrifts	76	250	1.8	34,200
U.S. branches and agencies of foreign banks	78	250	1.8	35,100
International Banking Facilities	79	250	1.0	19,750
Significant banking organizations	2	250	1.8	<u>900</u>
<i>Total</i>				89,950
<i>Change</i>				42,450

The total cost to the public is estimated to increase from the current level of \$2,458,125 to \$4,654,913 for the revised FR 2420.<sup>5</sup>

### **Sensitive Questions**

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

<sup>4</sup> Of these respondents, none are considered small entities as defined by the Small Business Administration (i.e., entities with \$550 million or less in total assets) [www.sba.gov/content/small-business-size-standards](http://www.sba.gov/content/small-business-size-standards).

<sup>5</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 \$17, 45% Financial Managers at \$63, 15% Lawyers at \$64, and 10% Chief Executives at \$87). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages May 2014*, published March 25, 2015, [www.bls.gov/news.release/ocwage.t01.htm](http://www.bls.gov/news.release/ocwage.t01.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 proposed cost to the Federal Reserve System for collecting and processing the FR 2420 is estimated to be \$399,200 per year, an increase of \$129,400 from the current cost of \$269,800. The one-time cost to implement the revised report is estimated to be \$521,300.