

**Supporting Statement for
Bank Holding Company Applications and Notifications
(FR Y-3, FR Y-3N, and FR Y-4; OMB No. 7100-0121)**

Summary

The Board of Governors of the Federal Reserve System (Board), under delegated authority from the Office of Management and Budget (OMB), has extended for three years, with revision, the Bank Holding Company Applications and Notifications (OMB No. 7100-0121). This information collection is comprised of the following reporting forms:

- Application to Become a Bank Holding Company and/or Acquire an Additional Bank or Bank Holding Company (FR Y-3),
- Notification to Become a Bank Holding Company and/or Acquire an Additional Bank or Bank Holding Company (FR Y-3N), and
- Notification by a Bank Holding Company to Acquire a Nonbank Company and/or Engage in Nonbanking Activities (FR Y-4).

These filings collect information on proposals by Bank Holding Companies (BHCs) involving formations, acquisitions, mergers, and nonbanking activities. The Board requires the submission of these filings for regulatory and supervisory purposes and to allow the Board to fulfill its statutory obligations under the Bank Holding Company Act of 1956 (the BHC Act). The Board uses this information to evaluate each individual transaction with respect to financial and managerial factors, permissibility, competitive effects, financial stability, net public benefits, and the impact on the convenience and needs of affected communities.

The Board has revised the FR Y-3, FR Y-3N and FR Y-4 reporting forms and instructions in order to improve the clarity of the required information; reflect the impact of new laws, regulations, capital requirements and accounting rules; delete information requests that are not typically useful for the analysis of a proposed transaction; and add transparency for filers regarding the information that is required to consider a proposal. The revisions are intended to ensure that initial filings include the information that the Federal Reserve requires to evaluate a transaction and thereby reduce the need for subsequent information requests, which may delay the Board's consideration of a filing and create additional burden for filers.

The current combined annual burden for the application and notifications is estimated to be 12,607 hours. The proposed revisions are expected to increase the estimated average hours per response for the FR Y-3 by one hour. Due to the fact that the changes for the FR Y-3N and FR Y-4 are largely technical in nature, no increase in estimated average hours per response is anticipated for these forms. The total burden is therefore expected to increase to 12,824.

Background and Justification

The FR Y-3 was created in July 1994 to replace the Application for Prior Approval to Become a Bank Holding Company (FR Y-1; OMB No. 7100-0119) and the Application for Prior Approval for a Bank Holding Company to Acquire an Additional Bank or Bank Holding

Company (FR Y-2; OMB No. 7100-0171). Before they were discontinued, the FR Y-1 and FR Y-2 applications had been in existence since the implementation of the BHC Act.

The FR Y-3N was created in April 1999 to accommodate certain changes to Regulation Y - Bank Holding Companies and Change in Bank Control (12 CFR Part 225) (approved by the Board on February 19, 1997) that established streamlined review processes for certain applications and notifications. These revisions reduced the burden and delay associated with the review process for proposals filed under section 3 of the BHC Act by well-run BHCs (those institutions that meet objective and verifiable measures for each of the criteria set forth in the BHC Act and Regulation Y). These procedures (which became effective April 21, 1997) reduced the amount of information required to be provided by a filer and permitted the Federal Reserve System to take expedited action on proposals meeting the qualifying criteria set forth in the regulation.

The FR Y-4 was created in June 1971 as a result of amendments to the BHC Act in 1970 permitting BHCs to engage in certain nonbanking activities. The notification form was significantly revised in April 1999 to accommodate 1997 revisions to Regulation Y that established streamlined procedures for certain nonbanking proposals. These new procedures were intended to reduce significantly the regulatory burden associated with the review process for proposals filed under section 4 of the BHC Act by well-run BHCs.

In 1999, minor additions and substitutions to the FR Y-3 and FR Y-3N and deletions to the FR Y-4 were necessary after passage of the Gramm-Leach-Bliley Act. The revisions reflected that a filing organization could seek to become, or already had become, a financial holding company (FHC), as well as other related modifications. The 2004 and 2007 reviews of these applications and notifications continued to focus on modifications that clarified the information needed for specific types of proposals, as more detailed initial filings that fully explain the particular type of proposal have proven to be the best means for reducing the burden associated with the review of these applications.

The Federal Reserve has the sole authority to act on the transactions contemplated under the application and notification forms. The information requested for each type of filing is necessary for the Board to fulfill its responsibilities under the BHC Act. The completed filings are the primary source of comprehensive data on the structure of the proposal, the pro forma financial condition of the filer and of its subsidiary(ies), the competitive position of the filer and entities being acquired, the effect that the proposal would have on the public interest, and the nonbanking activities in which the filer proposes to engage. This information is not available from any other source, and the information is critical to the Federal Reserve being able to determine whether a proposed transaction is financially sound, competitively acceptable, and consistent with the public interest.

Description of Information Collection

The FR Y-3, FR Y-3N, and FR Y-4 are event generated. The application and notification forms collect information concerning proposed BHC formations, acquisitions, mergers, and proposed nonbanking activities. The acquisitions may involve bank, nonbank, and BHC targets.

Generally these applications and notifications are submitted to the appropriate Federal Reserve Bank by existing or proposed BHCs. A Reserve Bank participates in the review of every application and notification filed by a BHC for which the Reserve Bank is responsible. Certain proposals are acted on by a Reserve Bank under delegated authority, while certain other proposals are subject to action by the Board or the Secretary of the Board, acting under delegated authority.¹

Applicants and notificants that file the FR Y-3, FR Y-3N, or FR Y-4 are required to publish a notice in a newspaper of general circulation in the community where the head office of the bank to be acquired is located. The notice must state the name and address of the applicant and its proposed subsidiary, and it must invite the public to submit written comments to the appropriate Federal Reserve Bank. The newspaper notice must be published no more than fifteen calendar days before and no later than seven calendar days after the date that the application is filed with the appropriate Reserve Bank.

FR Y-3

The FR Y-3 application form is completed by:

- an organization seeking prior approval to become a BHC through the acquisition of one or more banks or
- an existing BHC seeking prior approval to (1) acquire 5 percent or more of the shares of an additional bank, (2) acquire additional shares of any bank in which a BHC already has an ownership position of 5 percent or more, but less than 50 percent,² (3) merge or consolidate with another BHC, or (4) otherwise acquire all or a portion of the assets of a bank.

These applications are reviewed under the procedures described in section 225.15 of Regulation Y if the applications do not meet the requirements for filing the FR Y-3N (discussed below). Each of the applications requires information on the proposed transaction, information on competition, convenience and needs, financial stability, and financial and managerial information. The FR Y-3 instructions describe the publication requirements for each application.

FR Y-3N

The FR Y-3N notification form is completed:

- for certain BHC formations using the abbreviated notice procedures described in section 225.17 of Regulation Y or
- to acquire shares, assets, or control of a bank, or a merger or consolidation between BHCs using the streamlined procedures described in section 225.14 of Regulation Y.

¹ In an emergency situation (such as to avert the failure of a bank or savings association), the Director of the Division of Supervision and Regulation may act in cases normally reserved for action by a Reserve Bank.

² Under the BHC Act, a subsidiary is defined as any bank or nonbank company in which a BHC directly or indirectly owns or controls 25 percent or more of any class of the outstanding voting shares or which is otherwise controlled by the BHC. Once a BHC owns 50 percent of a bank, the BHC Act provides that generally no further regulatory approval is required to acquire additional shares of the bank.

Formation notifications filed under section 225.17 of Regulation Y must be provided in writing and contain a certification that the requirements of 12 U.S.C. 1842(a)(C) and section 225.17(a) of Regulation Y are met. The notification also must contain shareholder information prior to and following the reorganization, management information, and financial information.

Acquisition and merger notifications filed under section 225.14 of Regulation Y must be provided in writing and contain a certification that all of the criteria listed in section 225.14(c) are satisfied. Among other criteria, only well-capitalized and well-managed organizations may use the expedited procedure in section 225.14. Each notification also must contain a description of the transaction and the effect on the convenience and needs of the communities to be served, evidence of publication of the proposed transaction, financial information based on the size of the BHC, managerial and capital information that is dependent on the type of proposal, and competitive information.³

Although the FR Y-3N requires the same type of information as the FR Y-3, the FR Y-3N involves less detail. The FR Y-3N instructions describe the publication requirements for notifications filed under section 225.14 of Regulation Y. Notifications filed under section 225.17 do not require public notice.

FR Y-4

The FR Y-4 notification form is completed by a BHC in order to:

- acquire the assets or shares of a nonbank company (including a nonbank insured depository institution) and engage in nonbanking activities under section 4(c)(8) of the BHC Act or
- engage *de novo* in nonbank activities under section 4(c)(8) of the BHC Act.

These notifications generally require information on the proposed transaction, information on competition and public benefits, and financial and managerial information. For notifications to engage *de novo* in nonbanking activities permissible under Regulation Y, only the name and location of the applicant, the name and location of the company that will perform the activity, the activity to be conducted, and the geographic area to be served must be submitted.

The instructions to the FR Y-4 describe two expedited procedures for certain nonbanking proposals, one of which does not require use of a notification form. Both streamlined procedures were implemented in 1995 as replacements for other expedited procedures implemented in 1984. The first expedited procedure allows well-run BHCs to file post-consummation notices for proposals to engage *de novo* in nonbanking activities that have been permitted by regulation.⁴ The second procedure allows well-run BHCs (that also meet certain additional criteria in section

³ In some cases, an acquisition or merger proposal may result in a person or group of persons acquiring control of a BHC for purposes of the Change in Bank Control Act (CIBC Act). The requirements of the CIBC Act may be fulfilled if the notification filed under section 225.14 of Regulation Y contains certain information required under the CIBC Act and under section 225.43 of Regulation Y.

⁴ As indicated above, the notifying BHC does not use the FR Y-4 form to satisfy this requirement. Instead, within 10 business days after commencing the activity, the BHC submits in writing to its appropriate Reserve Bank the information and certifications specified in section 225.22(a)(3) of Regulation Y.

225.23(c) of Regulation Y) to seek prior Federal Reserve approval on a substantially shorter timeframe than usually occurs in the notification review process.⁵ To use the second procedure, a BHC must file, at the appropriate Reserve Bank and at least 12 business days before effecting the proposed transaction, an FR Y-4 that contains the information required in section 225.23(a) of Regulation Y. During the 12-day review period, the Reserve Bank or the Board may indicate that a non-expedited notification is required under section 225.24 of Regulation Y.

Proposals that do not qualify for the two streamlined procedures are subject to the standard (non-expedited) procedures outlined in section 225.24 of Regulation Y. The information requirements for such a notification depend on the type of transaction and are contained in sections 225.24(a)(1) and (2) of Regulation Y. To engage *de novo* in permissible nonbanking activities listed in section 225.28 of Regulation Y (listed activities), the BHC must file a notification containing a description of the activities to be conducted, with appropriate legal authorizations cited, and the identity of the company that will conduct the activity. To engage *de novo* in nonbanking activities not listed in section 225.28 of Regulation Y but previously approved by the Board (unlisted activities), or to acquire a company engaged in listed or unlisted activities, the notification must include a description of the proposal, the identity of any entity involved in the proposal, a statement of public benefits, certain financial information, a description of management expertise, internal controls, and risk-management systems to be utilized, and a copy of any purchase agreement(s). The FR Y-4 instructions describe the publication requirements for each relevant transaction type.

Proposed Revisions

Discussion of Proposed FR Y-3 Revisions

The Board proposed to implement a number of revisions to the FR Y-3. The proposed changes are being made in order to improve the clarity of the requests; obtain information necessary to evaluate the statutory factors, reflect new laws, regulations, capital requirements and accounting rules; delete information requests that are not typically useful for the analysis of the proposal; and add transparency for filers regarding the information that is required to consider a proposal. In addition, several of the new requirements will only need to be provided by the largest financial institutions and therefore will not cause an increase in burden for the majority of applicants. In determining which changes to propose, the Board consulted Reserve Banks' staff to solicit recommendations for changes to the forms and considered the effects of the changes on respondents, including community bank organizations, which represent the vast majority of filers. Although the revisions add items to the FR Y-3, the Board notes that some of these additions are related to information requested on a follow-up basis in certain circumstances. Requesting the information up front should increase the efficiency of the review process.

⁵ The nonbanking proposals that may qualify for this expedited procedure involve a filing (1) to engage *de novo* in any nonbanking activity that the Board has permitted by order or regulation or (2) to acquire voting shares or assets of a going concern engaged in any nonbanking activity that the Board has permitted by order or regulation (except operating a nonbank insured depository institution). This procedure is generally shorter than other non-expedited procedures because it has no publication requirement.

A. Additional Required Items

The seven newly required items are:

- (1) Discussion of the purpose of the transaction and provision of any changes to the business plan or new business lines at the bank or bank holding company to be acquired or the resultant institution. Identification of any new business lines (Item 1).
- (2) A list of all regulatory approvals and filings required for the proposed transaction (Item 4).
- (3) A copy of any findings, orders, approvals, denials or other documentation regarding the proposed transaction issued by any regulatory authority (Item 5).
- (4) Information regarding any litigation or investigations involving the applicant or any of its subsidiaries or the target or any of its subsidiaries during the past two years (Item 13).
- (5) List all offices of the depository subsidiary(ies) of the applicant, target and the resulting pro forma institution (Item 19).
- (6) In cases where the target's or the acquirer's total assets exceed \$10 billion, a description of the nature of cross-border activities (Item 21).
- (7) In cases where the dollar volume related to the service provided either by the acquirer or the target exceeds \$1 billion, the annual volume of certain financial services over the past 12 months for the acquirer and target (Item 22).

B. Clarification of certain requirements and preferences:

- (1) Board's preference for electronic submission of the application.
- (2) Indication of the need to contact Board staff to determine whether to file an Interagency Biographical and Financial Report (IBFR) for applications under section 3(a)(1) of the BHC Act (Item 10). Required provision of an IBFR for any new (to the applicant) principal shareholders, directors, or senior executive officers in an application under either section (3)(a)(3) or (3)(a)(5) of the Bank Holding Company Act (BHC Act) (Item 10f).
- (3) Revised threshold amounts for provision of certain information (Items 9 and 12).
- (4) Changes to requested capital ratio calculations based on revised capital guidelines (Items 8 and 9).
- (5) Modified or expanded requests regarding convenience and needs and the Community Reinvestment Act (Items 17 and 18).

C. Deletion of three items that are no longer believed to be helpful in evaluating the application or notification.

- (1) Description of the due diligence review conducted on the target operations by the acquirer (Previously Item 3). Submitted responses in prior applications did not provide valuable additional information.
- (2) Provision of asset quality financial figures (Previously Item 5). Sufficient information regarding asset quality is available from regulatory reports.
- (3) Change in financial condition since the most recent report of inspection or examination (Previously Item 9). Sufficient information regarding the entities' current financial condition is available from regulatory reports.

- D. Other minor changes to the form include those to improve style, grammar, comprehension, and to provide accurate citations and addresses.

Discussion of FR Y-3N and FR Y-4 Revisions

The proposed revisions to the FR Y-3N and FR Y-4 include minor changes to improve style, grammar, comprehension, and to provide accurate citations and addresses. On the FR Y-4, the Board also proposed to state the Board's preference for electronic submission of the application.

Time Schedule for Information Collection

The application and notifications submitted with these forms are event generated and the data are not part of any published reporting series. All timeframes are generally dependent upon when the filer chooses to enter into a transaction that requires an individual submission. The filing may be processed under various schedules. Final action may ultimately be taken by the appropriate Reserve Bank under delegated authority, by the Secretary of the Board under delegated authority, or by the Board directly.

FR Y-3

The FR Y-3 applications filed under section 225.15 of Regulation Y must satisfy established criteria to be processed under delegated authority. If the delegation criteria are satisfied, the Reserve Bank or the Secretary of the Board, as appropriate, will act on the application within five business days after the close of the public comment period (which generally is about thirty days after receipt of a final filing). If it is determined that an application does not meet the criteria for processing under delegated authority, the application will be forwarded to the Board for action. These applications will be acted on within 60 calendar days of receipt, unless the Board notifies the applicant that the processing period is being extended and discloses the reasons for the extension.

FR Y-3N

Proposals to form a BHC that would control a single bank and that satisfy all the criteria in section 225.17 of Regulation Y may be consummated within 30 calendar days after the BHC has provided the appropriate Reserve Bank with a notification that contains all the required information.

Proposals by existing BHCs to acquire additional banks or BHCs and that meet all the criteria in section 225.14 of Regulation Y must be acted on by the Reserve Bank or the Secretary of the Board (as appropriate) under delegated authority within five business days after the close of the public comment period.

FR Y-4

Nonbanking proposals by well-run BHCs that meet all of the criteria in section 225.23(c) of Regulation Y must be acted upon by the Reserve Bank, the Secretary of the Board, or the Board (as appropriate) within 12 business days of a substantially complete filing being submitted at the appropriate Reserve Bank.⁶

Non-expedited notifications filed under section 225.24 of Regulation Y must satisfy established criteria to be processed under delegated authority. If the delegation criteria are satisfied, the Reserve Bank or the Secretary of the Board, as appropriate, will act on the notification within five business days after the close of the public comment period (which is generally about 30 days after receipt of the filing). If it is determined that the notification does not meet the criteria for processing under delegated authority, the application will be transferred to the Board for action generally within 60 calendar days of receipt. Under the BHC Act, the Board must act on nonbanking proposals within 60 days of receipt of a “complete notice,” which generally occurs sometime after the initial date of filing. In the case of all nonbank proposals, the Board may extend the statutory 60 day processing period for an additional 30 calendar days, if necessary, and for proposals involving unlisted activities, may extend the 30 day processing period for an additional 90 calendar days.

For nonbanking proposals initiated under the post-consummation procedures of section 225.22(a)(3) of Regulation Y, a well-run BHC must notify the appropriate Reserve Bank within 10 business days after commencing the activity.

Legal Status

The FR Y-3 application and FR Y-3N notification are mandatory and submitted pursuant to sections 3(a) and 5(b) of the BHC Act, which requires Board approval for formations, acquisitions, and mergers of bank holding companies (12 U.S.C. 1842(a)) and section 5(b) of the BHC Act, which authorizes the Board to issue regulations and orders to carry out these functions (12 U.S.C. 1844(b)). The FR Y-4 notification is mandatory and submitted pursuant to section 4(j) of the BHC Act, which requires bank holding companies to give advance written notice to the Board of any nonbanking activities (12 U.S.C. 1843(j)) and section 5(b) of the BHC Act (12 U.S.C. 1844(b)), described above.

The information submitted in the FR Y-3, FR Y-3N, and FR Y-4 is considered to be public unless an institution requests confidential treatment for portions of the particular application or notification. Applicants may rely on any Freedom of Information Act exemption, but such requests for confidentiality must contain detailed justifications corresponding to the claimed exemption. Requests for confidentiality will be evaluated on a case-by-case basis.

⁶ The Board generally acts only on those 12-day notifications that involve certain unlisted activities for which no delegated authority exists.

Consultation Outside the Agency

On March 23, 2018, the Board published an initial notice in the *Federal Register* (83 FR 12758) requesting public comment for 60 days on the extension, with revision, of the FR Y-3, FR Y-3N, and FR Y-4. The comment period for this notice expired on May 22, 2018. The Board did not receive any comments. The revisions will be implemented as proposed. On July 20, 2018, the Board published a final notice in the *Federal Register* (83 FR 34580).

Estimate of Respondent Burden

The annual burden for the revised FR Y-3, FR Y-3N, and FR Y-4 is estimated to be 12,824 hours, as shown in the following table. The proposed revisions are expected to increase the estimated average hours per response for the FR Y-3 by one hour. Due to the fact that the changes for the FR Y-3N and FR Y-4 are largely technical in nature, no increase in estimated average hours per response is anticipated for these forms. The current burden estimates are based on the number of applications and notifications, including post-consummation notices, received in 2015 and 2016. These reporting requirements represent less than 1 percent of total Federal Reserve System paperwork burden.

	<i>Number of respondents⁷</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<i>Current</i>				
FR Y-3				
Section 3(a)(1)	81	1	49	3,969
Sections 3(a)(3) and 3(a)(5)	136	1	59.5	8,092
FR Y-3N				
Sections 3(a)(1), 3(a)(3), and 3(a)(5)	26	1	5	130
FR Y-4				
Complete notification	30	1	12	360
Expedited notification	11	1	5	55
Post-consummation	1	1	0.5	<u>1</u>
	<i>Total</i>			12,607
<i>Proposed</i>				
FR Y-3				
Section 3(a)(1)	81	1	50	4,050
Sections 3(a)(3) and 3(a)(5)	136	1	60.5	8,228
FR Y-3N				
Sections 3(a)(1), 3(a)(3), and 3(a)(5)	26	1	5	130
FR Y-4				
Complete notification	30	1	12	360
Expedited notification	11	1	5	55
Post-consummation	1	1	0.5	<u>1</u>
	<i>Total</i>			12,824
	<i>Change</i>			217

The total annual cost to the public for these reports is estimated to be \$706,622 and would increase to \$718,785 with the proposed revisions.⁸

⁷ Of the respondents, 93 are considered small entities (25 FR Y-3 section 3(a)(1) filers, 43 FR Y-3 sections 3(a)(3) and 3(a)(5) filers, 13 FR Y-3N sections 3(a)(1), 3(a)(3), and 3(a)(5) filers, 9 FR Y-4 complete notification filers; 3 FR Y-4 expedited notification filers, and 0 FR Y-4 post-consummation filers) as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) www.sba.gov/document/support-table-size-standards.

⁸ 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 \$69, 15% Lawyers at \$68, and 10% Chief Executives at \$94). 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 2017*, published March 30, 2018, www.bls.gov/news.release/ocwage.t01.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.

Sensitive Questions

These collections of information contain no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The information submitted in the applications is not automated. The cost to the Federal Reserve System of printing and mailing instructions is negligible.