

**Supporting Statement for the
Consolidated Holding Company Report of Equity Investments in Nonfinancial Companies
(FR Y-12; OMB No. 7100-0300) and the
Annual Report of Merchant Banking Investments Held for an Extended Period
(FR Y-12A; OMB No. 7100-0300)**

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 Consolidated Holding Company Report of Equity Investments in Nonfinancial Companies (FR Y-12; OMB No. 7100-0300) and Annual Report of Merchant Banking Investments Held for an Extended Period (FR Y-12A; OMB No. 7100-0300). The FR Y-12 report collects information from certain domestic bank holding companies (BHCs), savings and loan holding companies (SLHCs), and U.S. intermediate holding companies (IHCs) on their equity investments in nonfinancial companies. Respondents report the FR Y-12 either quarterly or semiannually based on criteria in the report. The mandatory FR Y-12A report is filed annually by financial holding companies (FHCs) that hold merchant banking investments that are approaching the end of the holding periods permissible under the Board's Regulation Y.¹

The Board revised the FR Y-12 by requiring that dollar values be reported in thousands instead of millions, and by no longer requiring firms to report the fax number of the person to be contacted regarding a report submission. In addition, the Board revised the FR Y-12A by: (1) requiring that dollar values be reported in thousands instead of millions, (2) adding an item for the holding period expiration date of the covered investment, (3) expanding the scope of the item where a respondent indicates its plan and schedule for disposition of its covered investment, (4) clarifying that the top-tier FHC should be the filer for each submitted report, (5) adding an item for the RSSD ID² of the direct holder of the covered investment, (6) clarifying that an FHC needs to continue to file the report until it ceases to hold the covered investment, (7) no longer requiring firms to report the fax number of the person to be contacted regarding a report submission, and (8) making other minor clarifications throughout the instructions. The revisions to the FR Y-12 will be applicable as of the March 31, 2019, reporting date, and the revisions to the FR Y-12A will be applicable as of the December 31, 2019, reporting date. The total current annual paperwork burden for the FR Y-12 and FR Y-12A is estimated to be 5,020 hours. As a result of the revisions, the estimate will increase by 220 hours for a proposed annual paperwork burden of 5,240 hours.

Background and Justification

BHC investments in nonfinancial companies grew substantially during the late 1990s and have continued at a significant level. These investments contributed significantly to earnings and capital at institutions actively involved in this business line. Equity investments also contributed to the volatility of earnings and capital, and increased some institutions' risk profiles.

¹ See 12 CFR 225.172(b)(4) and 225.173(c).

² An RSSD ID is a unique identifier assigned to institutions by the Federal Reserve.

In September 2001, the Board instituted the FR Y-12 report to collect information from holding companies on their equity investments in nonfinancial companies. The information collected allows the Board to monitor the growth in those investments and their contributions to capital, profitability, risk, and volatility. The FR Y-12 provides more timely information than can be obtained through periodic supervisory reviews of this business line and serves to identify institutions that are significantly changing their risk profiles in this business line or devoting significant resources to covered investments.

BHCs that have elected to become FHCs are permitted, pursuant to the Gramm-Leach-Bliley Act (GLB Act), to make investments of any amount, in any type of nonfinancial company, as part of merchant banking activity. The investments permissible under the GLB Act's merchant banking authority are substantially broader in scope than the investment activities otherwise permissible for BHCs. Thus, these investments present the potential for additional volatility and risk in banking organizations' portfolios.

The Board's Regulation Y implements the merchant banking provisions of the GLB Act. Regulation Y authorizes an FHC to own or control a merchant banking investment for no longer than 10 years; provided that merchant banking investments made in, or held through, a private equity fund may be held for the duration of the fund, up to a maximum of 15 years. An FHC must obtain the Board's approval to own or hold a merchant banking investment beyond these time periods.

In order to monitor compliance with these holding period restrictions, the Board implemented the FR Y-12A report in December, 2006. The FR Y-12A data continue to be a useful tool for examiners to monitor institutions that have merchant banking investments that are approaching holding period limitations. Because merchant banking investments are investments by a holding company in a nonfinancial company, information regarding these investments is also included as part of the aggregate investment totals reported on the FR Y-12 report.

Description of Information Collection

FR Y-12

The FR Y-12 collects information on the types of investments made by holding companies and their subsidiaries in nonfinancial companies (excluding investments held in trading accounts). The FR Y-12 is filed quarterly by each top-tier domestic holding company that:

- files the Consolidated Financial Statements for Holding Companies (FR Y-9C; OMB No. 7100-0128) and
- has aggregate nonfinancial equity investments that equal or exceed the lesser of \$100 million (on an acquisition cost basis) or 10 percent of the holding company's consolidated tier 1 capital as of the report date.

The FR Y-12 is filed semiannually by each top-tier domestic holding company that:

- files the Parent Company Only Financial Statements for Small Holding Companies (FR Y-9SP; OMB No. 7100-0128) and

- has aggregate nonfinancial equity investments that equal or exceed (on an acquisition cost basis) 10 percent of the holding company's total capital as of the report date.

The current FR Y-12 reporting form comprises four schedules and the information collected in each schedule is discussed below.

Schedule A – Type of Investments

This schedule collects information on the acquisition cost, net unrealized holding gains not recognized as income, carrying value, and publicly quoted value for direct investments made in public entities, nonpublic entities, and all indirect investments. The memoranda items collect information on the number of companies in which investments are made for the entire portfolio, amount of investments made under the merchant banking authority, the pre-tax impact on net income, amount of investments managed for others, and the pre-tax impact of management fee income.

Schedule B – Type of Security

This schedule collects information on the acquisition cost and carrying value of the type of security held by the reporting institution: common stock, convertible debt and convertible preferred stock, and other equity instruments. The memorandum item collects information on unused equity commitments and warrant activity.

Schedule C – Type of Entity within the Banking Organization

This schedule identifies the type of company within the holding company structure through which the investments reported in schedules A and B are held (for example, broker/dealers) and collects the information on the acquisition cost, net unrealized holding gains not recognized as income, and carrying value. The memoranda items collect information on the amount of domestic and foreign investments.

Schedule D - Nonfinancial Investment Transactions during Reporting Period

This schedule collects information on all merchant banking activity of the holding company, on an aggregate basis, for the reporting period. Columns A and B collect acquisition cost and carrying value for all purchases, returns of capital, and net changes in valuation made for all direct public investments. Columns C and D collect acquisition cost and carrying value for all transactions involving all direct nonpublic investments. Columns E and F collect information on the same items for all transactions involving indirect (fund) investments. These data provide valuable insight into the scope of activity on a transaction basis and, when reviewed over time, provide critical trend data useful for holding company supervisory oversight as well as provide valuable information to facilitate industry studies.

FR Y-12A

The FR Y-12A report is filed annually by FHCs with merchant banking investments they have held for longer than 8 years (or 13 years in the case of an investment held through a

qualifying private equity fund). The FR Y-12A collects the following information on such investments:

- The name and location of the corporate entity within the FHC organization that holds the covered investment,
- The date the FHC acquired the covered investment,
- The name and location of the company held,
- The primary activity of the company held (using the North American Industry Classification System (NAICS) activity codes for commonly reported activities wherever possible). FHCs provide a text description of the primary activity of the company held only if it is unable to identify a five- or six-digit NAICS code corresponding to the activity,
- The type of interest held by the FHC (for example, common stock),
- The percentage of ownership held by the FHC (both voting and non-voting),
- The FHC's acquisition cost of the covered investment,
- The value at which the covered investment currently is carried on the FHC's books (carrying value), and
- A brief narrative explanation of the FHC's plan and schedule for disposition of a covered investment.

Proposed Revisions

FR Y-12 and FR Y-12A

The Board proposed to require firms to report dollar values on the FR Y-12 and FR Y-12A reports in thousands instead of millions. Since firms currently file the reports in millions, any amounts reported that are less than \$500 thousand round down and are reported as a \$0. On the FR Y-12A report, this can cause problems as the Board may not be adequately able to assess a respondent's plan for disposing of a covered investment without knowing the dollar value of the investment. For consistency between the FR Y-12 and FR Y-12A reports, the Board proposed to make this change for both reports.

The Board also proposed to remove the item that captures the fax number of the person to be contacted regarding a report submission from the FR Y-12 and FR Y-12A reports, as this information is no longer needed.

FR Y-12A only

The Board proposed to revise the FR Y-12A to require respondents to indicate the date on which the permissible holding period expires for a merchant banking investment. As previously mentioned, FHCs are only allowed to hold merchant banking investments for a specified number of years, unless the Board approves an extension request. Currently, the date of expiration for the permissible holding period is not included on the form. As a result, the Board routinely needs to follow up with FHCs for this information. To streamline this process, the Board proposed to add an item for the date on which the permissible holding period expires for a covered investment (item 1.a.)

The Board also proposed to expand the scope of the existing item where an FHC indicates its plan and schedule for disposition of its covered investment (current item 8). Since FHCs can only hold merchant banking investments for a specified number of years, the FR Y-12A report currently contains an item where FHCs explain their plans and schedules for disposition of these investments. In reviewing these plans, the Board frequently needs to reach out to the FHCs to obtain more information than is provided in FR Y-12A submissions. For example, the Board may ask about previous efforts to dispose of the covered investment, or any potential challenges related to the disposition. Therefore, the Board proposed to expand the scope of item 8 in order to have a more complete picture of the disposition process. This expanded item will streamline the review process for the FR Y-12A report by allowing the Board to ask FHCs fewer follow up questions regarding FR Y-12A submissions. To better incorporate this expanded scope, the Board proposed to rename this item from ‘Plan and Schedule for disposition of the Covered Investment’ to ‘Past Efforts and Future Plan, Including Timing, to Achieve Disposition of Covered Investment Within the Holding Period.’

The Board proposed to clarify that the top-tier FHC should be the filer for each submitted report. Currently, there is diversity in practice among FR Y-12A filers in that some firms file at the FHC level, while other firms file at the direct holder level. The instructions are ambiguous as to which firm within the organization should be the filer. For consistency and clarity, the Board proposes to clarify the instructions to state that all firms should report at the FHC level. On a case-by-case basis, top-tier holding companies can be given exemptions to file certain regulatory reports. In these cases, lower-tier holding companies typically file on their behalf. The proposed revisions to the FR Y-12A will now indicate that if the top-tier FHC is exempt from reporting the FR Y-12A report, then a lower-tier holding company must file on its behalf.

The Board also proposed to add an item that requires an FHC to report the RSSD ID of the direct holder of the covered investment within its organization. An RSSD ID is a unique identifier assigned to institutions by the Federal Reserve. The FR Y-12A report currently has an item for the name and location of the direct holder of the covered investment, but not an item for the RSSD ID of the direct holder. Submission of the RSSD ID of the direct holder will better enable the Board to monitor the covered investment, and will allow the Board to more effectively scope examinations to put more resources towards specific subsidiaries if they are direct holders of covered investments.

Finally, the Board proposed to clarify that a FHC needs to continue to file the FR Y-12A report until the FHC ceases to hold its covered investment. The instructions currently require FHCs to file the report if they hold merchant banking investments for longer than 8 years (or 13 years in the case of an investment held through a qualifying private equity fund). A FHC may hold such investments beyond the permissible holding period if it receives Board approval to do so. However, the instructions did not clearly state that a FHC needs to continue to file the FR Y-12 report until it ceases to hold its merchant banking investment, even if the permissible holding period has been extended by the Board. Adding such clarifying language removes ambiguity about when an FHC can cease reporting the FR Y-12A report.

Respondent Panel

The FR Y-12 reporting panel comprises a subset of top-tier domestic holding companies that file the FR Y-9C or the FR Y-9SP. A screening question on both FR Y-9 reports, developed from the FR Y-12 reporting threshold criteria, is used to determine whether the holding company is required to complete the FR Y-12. FHCs generally have to submit an FR Y-12A if they hold merchant banking investments for longer than 8 years (or 13 years in the case of an investment held through a qualifying private equity fund). The applicable reporting periods (8 or 13 years) for merchant banking investments are less than the permissible holding periods (10 or 15 years) for the investments so that the Board can monitor investments that are approaching the end of the holding periods generally permitted under Regulation Y.

Time Schedule for Information Collection

The FR Y-12 data are collected as of the end of each calendar quarter from those holding companies that file the FR Y-9C and as of the end of June and December from those holding companies that file the FR Y-9SP. The FR Y-12 data are submitted to the appropriate Reserve Bank within 45 calendar days after the as-of date for all FR Y-9C and FR Y-9SP respondents. The FR Y-12A annual report must be submitted by February 15 of the following calendar year to the appropriate Reserve Bank.

Legal Status

The FR Y-12 and FR Y-12A are authorized to be collected from BHCs and FHCs pursuant to section 5(c) of the Bank Holding Company Act (BHC Act) (12 U.S.C. 1844(c)(1)(A)); from SLHCs pursuant to section 10(b)(2) of the Home Owners' Loan Act (HOLA) (12 U.S.C. 1467a(b)(2)), as amended by section 369(8) of the Dodd-Frank Wall Street and Consumer Protection Act (Dodd-Frank Act); and from IHCs pursuant to section 5(c) of the BHC Act, (12 U.S.C. 1844(c)(1)(A)), as well as pursuant to sections 102(a)(1) and 165 of the Dodd-Frank Act, (12 U.S.C. 5311(a)(1) and 5365),³ and the Board's Regulation YY (12 CFR 252.153(b)(2)).

In addition, with respect to the FR Y-12A report, section 4(k)(7)(A) of the BHC Act (12 U.S.C. 1843(k)(7)(A)) authorizes the Board and the Treasury Department to jointly develop implementing regulations governing merchant banking activities for purposes of section 4(k)(4)(H) of the BHC Act. Section 4(k)(4)(H) of the BHC Act (12 U.S.C. 1843(k)(4)(H)) and subpart J of the Board's Regulation Y (12 CFR 225.170 et seq.) authorize a

³ Section 165(b)(2) of Title I of the Dodd-Frank Act (12 U.S.C. 5365(b)(2)) refers to a "foreign-based bank holding company." Section 102(a)(1) of the Dodd-Frank Act (12 U.S.C. 5311(a)(1)) defines "bank holding company" for purposes of Title I of the Dodd-Frank Act to include foreign banking organizations that are treated as BHCs under section 8(a) of the International Banking Act (12 U.S.C. 3106(a)). The Board has required, pursuant to section 165(b)(1)(B)(iv) of the Dodd-Frank Act (12 U.S.C. 5365(b)(1)(B)(iv)) certain of the foreign banking organizations that are subject to section 165 of the Dodd-Frank Act to form U.S. IHCs. Accordingly, the parent foreign-based organization of a U.S. IHC is treated as a BHC for purposes of the BHC Act and section 165 of the Dodd-Frank Act. Because section 5(c) of the BHC Act authorizes the Board to require reports from subsidiaries of BHCs, section 5(c) provides additional authority to require U.S. IHCs to report the information contained in the FR Y-12 and FR Y-12A reports.

BHC that has made an effective FHC election to acquire merchant banking investments that are not otherwise permissible for an FHC. Section 10(c)(2)(H) of the HOLA, as amended by section 606(b) of the Dodd-Frank Act (12 U.S.C. 1467a(c)(2)(H)) and section 8(a) of the International Bank Act (12 U.S.C. 3106(a)) extend certain authorities and requirements of the BHC Act to SLHCs and to foreign banks, respectively. The obligation to respond to the FR Y-12 and FR Y-12A reports is mandatory.

The Board does not consider information collected on the FR Y-12 report to be confidential, and the completed version of this report generally is made available to the public upon request. However, exemption 4 of the Freedom of Information Act (FOIA) provides an exemption from public disclosure for “trade secrets and commercial or financial information obtained from a person and privileged or confidential” (5 U.S.C. 552(b)(4)). Thus, if a respondent feels that disclosure of confidential commercial or financial information on the FR Y-12 report is reasonably likely to result in substantial harm to its competitive position under exemption 4 of the FOIA, the respondent may request confidential treatment for such information pursuant to the Board’s Rules Regarding the Availability of Information (12 CFR 261.15).

The Board generally considers the information collected on the FR Y-12A to be confidential under exemption 4 of the FOIA (5 U.S.C. 552(b)(4)). Information reported on the FR Y-12A is competitively sensitive and its release would likely result in substantial harm to the competitive position of an FHC or SLHC. In addition, if the FR Y-12A data is obtained as a part of an examination or supervision of a financial institution, this information may also be withheld pursuant to exemption 8 of the FOIA, which protects information contained in “examination, operating, or condition reports” obtained in the bank supervisory process (5 U.S.C. 552(b)(8)).

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Public Comments

On November 5, 2018, the Board published an initial notice in the *Federal Register* (83 FR 55366) requesting public comment for 60 days on the extension, with revision, of the FR Y-12 and FR Y-12A. The comment period for this notice expired on January 4, 2019. The Board received one comment.

The commenter supported the collection of supervisory information through the FR Y-12 and FR Y-12A reports and did not contest the accuracy of the burden estimate. In addition, the commenter made three recommendations. The first recommendation was that the collected information should be notarized. In response, since the FR Y-12 and FR Y-12A currently require an attestation of truthfulness and accuracy by an executive officer of the holding company, staff believes this obviates the need for notarization. The second recommendation was to use a website for submissions to minimize burden. The Board currently allows submission of the FR Y-12 and FR Y-12A by mail or electronically via the Federal Reserve System’s Reporting Central application, so staff does not believe an additional electronic submission

mechanism is necessary. The third recommendation was to ensure that respondents are aware of exactly which information must be reported, and the reasons that this information is required. In response, Board staff has strived to draft instructions for the FR Y-12 and FR Y-12A reports that are as clear as possible, and will continue to explore ways to increase the clarity of those instructions. The Board’s public OMB supporting statements⁴ and *Federal Register* notices regarding the FR Y-12 and FR Y-12A reports explain that the information collected by the reports is necessary for the Board to carry out its responsibilities of supervising holding companies and maintaining U.S. financial stability.

The revisions to the FR Y-12 and FR Y-12A will be implemented as proposed. On March 4, 2019, the Board published a final notice in the *Federal Register* (84 FR 7367).

Estimate of Respondent Burden

As shown in the table below, the current annual reporting burden for the FR Y-12 is estimated to be 1,947 hours and remains unchanged with the proposed revisions. The current annual reporting burden for the FR Y-12A is estimated to be 3,073 hours, and with the proposed revisions, the total annual burden will increase by 220 hours to 3,293 hours. These reporting requirements represent less than 1 percent of the Board’s total paperwork burden.

	<i>Number of respondents⁵</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current				
FR Y-12 (Quarterly)	27	4	16.5	1,782
FR Y-12 (Semiannually)	5	2	16.5	165
FR Y-12A	439	1	7	<u>3,073</u>
<i>Total</i>				5,020
Proposed				
FR Y-12 (Quarterly)	27	4	16.5	1,782
FR Y-12 (Semiannually)	5	2	16.5	165
FR Y-12A	439	1	7.5	<u>3,293</u>
<i>Total</i>				5,240
<i>Change</i>				220

⁴ The “OMB supporting statement” is a document submitted by an agency to OMB describing in detail a collection of information subject to the PRA and any proposed changes to the collection.

⁵ Of these respondents, 0 FR Y-12 (Quarterly), 3 FR Y-12 (Semiannual), and 0 FR Y-12A are considered small entities 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.

The estimated annual reporting cost to the public for these information collections is \$281,371 and will increase to \$293,702 with the proposed revisions.⁶

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 the FR Y-12 is estimated to decrease from \$23,280 to \$23,180 with a one-time implementation cost of \$3,400. The cost to the Federal Reserve System for the FR Y-12A is estimated to increase from \$9,300 to \$9,500 with a one-time implementation cost of \$4,100.

⁶ 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/.