

**Supporting Statement for the
Single-Counterparty Credit Limits
(FR 2590; OMB No. 7100-0377)**

*Single-Counterparty Credit Limits for
Bank Holding Companies and Foreign Banking Organizations
(Docket No. R-1534; RIN 7100-AE38)*

Summary

The Board of Governors of the Federal Reserve System (Board), under authority delegated by the Office of Management and Budget (OMB), has extended for three years, with revision, the Single-Counterparty Credit Limits (FR 2590; OMB No. 7100-0377) reporting form, associated notice requirements, and recordkeeping requirements. The FR 2590 was implemented in connection with the Board's single-counterparty credit limits rule (SCCL rule),¹ codified in the Board's Regulation YY - Enhanced Prudential Standards (12 CFR Part 252).²

The information collected by the Single-Counterparty Credit Limits reporting form allows the Board to monitor a covered company's or a covered foreign entity's compliance with the SCCL rule. A covered company is any U.S. bank holding company (BHC) or savings and loan holding company (SLHC) that is subject to Category I, II, or III standards. A covered foreign entity is a foreign banking organization (FBO) that is subject to Category II or III standards or that has total global consolidated assets of \$250 billion or more, and any U.S. intermediate holding company (IHC) that is subject to Category II or III standards. In addition to the reporting form, the FR 2590 information collection incorporates notice requirements pertaining to requests that may be made by a covered company or covered foreign entity to request temporary relief from specific requirements of the SCCL rule. A respondent must retain one exact copy of each completed FR 2590 report in electronic form and these records must be kept for at least three years.

The final SCCL rule had an effective date of October 5, 2018, and an initial compliance date of January 1, 2020, for a foreign banking organization that has the characteristics of a global systemically important banking organization, and July 1, 2020, for any other foreign banking organization subject to the rule, unless that time is extended by the Board in writing. The Board modified these initial compliance dates to July 1, 2021, and January 1, 2022, respectively, regarding the SCCL applicable to such a foreign banking organization's combined U.S. operations only.³ There are no changes to the reporting or recordkeeping requirements for such entities.

The estimated total annual burden for FR 2590 is 171,780 hours, and would remain unchanged with the revisions. The reporting form and instructions are available on the Board's

¹ 83 FR 38460 (August 6, 2018).

² See 12 CFR 252, subparts H and Q.

³ The Board is not providing any amendment at this time that would modify the initial compliance dates in the final rule for, or otherwise amend the application of, single-counterparty credit limits applicable to any U.S. intermediate holding company of a foreign banking organization subject to the rule.

public website at <https://www.federalreserve.gov/apps/reportforms/review.aspx>.

Background and Justification

As demonstrated during the 2007-2008 financial crisis, large credit exposures, particularly between financial institutions, can spread financial distress and undermine financial stability. Section 165(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)⁴ directed the Board to prescribe regulations that prohibit covered companies and covered foreign entities from having a credit exposure to any unaffiliated company that exceeds 25 percent of the capital stock and surplus of the covered company or covered foreign entity, or such lower limit as the Board may determine by regulation to be necessary to mitigate risks to the financial stability of the United States. In order to implement section 165(e) of the Dodd-Frank Act, the Board issued the SCCL rule in the third quarter of 2018.

The Board's SCCL rule applies a single-counterparty credit limit to covered companies and covered foreign entities, generally using a base of tier 1 capital, and applies an additional single-counterparty credit limit for exposures between major counterparties.⁵ The SCCL rule requires each covered company and covered foreign entity to calculate its aggregate net credit exposure to a counterparty using the methods set forth in the rule, and sets limits on the aggregate net credit exposure that each covered company and covered foreign entity may have to the counterparty. In addition, certain provisions in the SCCL rule permit a covered company or covered foreign entity to request temporary relief from specific requirements of the rule.

The FR 2590 reporting form collects information necessary to allow the Board to monitor respondents' compliance with the SCCL rule. Additionally, aside from the FR 2590 reporting form, the FR 2590 information collection incorporates certain notices required by the SCCL rule. This information is not available from other sources.

Description of Information Collection

Reporting Requirements

FR 2590 Reporting Form

The FR 2590 reporting form is designed comprehensively to capture the credit exposures of a respondent organization to its counterparties in accordance with the SCCL rule. The rule prohibits any covered company from having an aggregate net credit exposure to an unaffiliated counterparty in excess of 25 percent of its tier 1 capital and prohibits a U.S. global systemically important bank holding company (G-SIB) from having aggregate net credit exposures to any major counterparty in excess of 15 percent of its tier 1 capital. The SCCL rule applies similar single-counterparty credit limits to FBOs subject to Category II or III standards or that have total consolidated assets of \$250 billion or more. However, the SCCL rule allows an FBO to comply with the rule by certifying to the Board that it meets, on a consolidated basis, a single-

⁴ See 12 U.S.C. § 5365(e).

⁵ Under the SCCL rule, a "major counterparty" is defined as a covered company that is a U.S. G-SIB, certain large FBOs, and any nonbank financial company supervised by the Board (12 CFR 252.71(x), 252.171(y)).

counterparty credit limit established by its home country supervisor that is consistent with the Basel Committee on Banking Supervision’s large exposure standard (BCBS Large Exposure Standard). The SCCL rule also applies single-counterparty credit limits to U.S. IHCs of FBOs that are subject to Category II or III standards, based on the IHC’s tier 1 capital.⁶

The FR 2590 reporting form requests general information about the respondent organization (e.g., the respondent organization’s amount of its capital stock and surplus, whether the respondent is considered a major covered company or major covered foreign entity under the rule). The form also asks any respondent that is an FBO whether that FBO is certifying to the Board that it meets large exposure standards on a consolidated basis established by its home country supervisor that are consistent with the BCBS Large Exposure Standard. The form requires identification of counterparties by name and by entity type (e.g., sovereign, securitization). The form then requests data required to calculate the respondent organization’s credit exposures, which are reported on nine schedules. Five of these schedules (Schedules G-1 through G-5) collect information related to the gross exposures of the respondent organization to various counterparties. A respondent organization must add the exposure amounts in the five G schedules to calculate its aggregate gross credit exposure. A respondent organization would then calculate its net credit exposure by adjusting its gross credit exposures using Schedules M-1 and M-2, which collect information related to eligible collateral and other eligible credit risk mitigants (e.g., eligible guarantees), respectively. The respondent organization must take into account special provisions in the SCCL rule that require aggregation of certain connected counterparties due to economic interdependence—meaning the underlying risk of one counterparty’s financial distress or failure would cause the financial distress or failure of another counterparty, as indicated by the presence of certain enumerated factors in the SCCL rule—or due to the presence of certain control relationships described in the rule.⁷ Data relevant to understanding the presence of any relationships that require such aggregation are reported in Schedules A-1 and A-2. In filling out the schedules described above, the respondent organization must report exposures by counterparty, with a single counterparty in each row. The form requires each respondent organization to report its top 50 counterparties.

Schedule G-1: General Exposures. This schedule contains seven general gross credit exposure categories that are described in sections 252.73, 252.75, 252.173, and 252.175 of the SCCL rule: (1) deposits, (2) loans and leases, (3) debt securities or investments, (4) equity securities or investments, (5) committed credit lines, (6) guarantees and letters of credit, and (7) securitization arising from the look-through approach.⁸ These gross exposures are summed

⁶ However, until January 1, 2021, a U.S. IHC that is subject to Category II or III standards and has less than \$250 billion in total consolidated assets is prohibited from having an aggregate net credit exposure that exceeds 25 percent of the consolidated capital stock and surplus of the U.S. IHC, rather than 25 percent of the U.S. IHC’s tier 1 capital. After January 1, 2021, those U.S. IHCs will be prohibited from having an aggregate net credit exposure that exceeds 25 percent of the U.S. IHC’s tier 1 capital, similar to covered companies and other covered foreign entities.

⁷ The requirement to aggregate counterparties based on these relationships can be found in sections 252.76 and 252.176 of the Board’s Regulation YY.

⁸ Calculation of gross credit exposure as a result of item (vii) (securitization arising from the look-through approach) is described in sections 252.75 and 252.175 of Regulation YY. Gross credit exposure to a securitization that does not require application of the look-through approach would be reported as either item (iii) (debt securities or investments) or item (iv) (equity securities or investments), as applicable.

together, by counterparty, in the final column of Schedule G-1.

Schedule G-2: Repurchase Agreement Exposures. This schedule collects gross credit exposures arising from repurchase agreements and reverse repurchase agreements as provided in sections 252.73 and 252.173 of the SCCL rule. It requires the respondent organization to identify the assets transferred and received in the transaction. Examples include sovereign debt, non-sovereign debt, main index equities, and cash. The penultimate column asks for the total gross credit exposure under bilateral netting agreements. The final column tallies the total gross credit exposure resulting from these transactions by counterparty.

Schedule G-3: Securities Lending Exposures. This schedule collects similar information to that collected in Schedule G-2 with respect to securities lending and securities borrowing transactions. Again, the final column tallies the total gross credit exposure resulting from these transactions by counterparty.

Schedule G-4: Derivatives Exposures. Schedule G-4 requires the respondent organization to report the gross notional value of its derivatives transactions by counterparty, consistent with sections 252.73 and 252.173 of the SCCL rule. If the respondent organization has been authorized by the Board to use internal-models-based methodologies, then it can report its exposures using the “Internal Model Method” columns.⁹ Another column in Schedule G-4 is available for a respondent organization to report gross credit exposures resulting from qualifying master netting agreements.¹⁰ All respondent organizations are required to complete the total gross credit exposure column.

Schedule G-5: Risk Shifting Exposures. Schedule G-5 collects information related to gross credit exposures that have been affected by the risk shifting requirements of sections 252.74 and 252.174 of the SCCL rule. Risk shifting is required when a respondent organization employs six types of credit risk mitigants: (1) eligible collateral, (2) eligible guarantees, (3) eligible credit and equity derivatives, (4) other eligible hedges, (5) unused portion of certain extensions of credit, and (6) credit transactions involving excluded and exempt entities. Risk shifting also may be required in connection with credit transactions involving excluded and exempt entities. The final column aggregates the total gross exposure, by counterparty, due to risk shifting.

Schedule M-1: Eligible Collateral. Sections 252.74 and 252.174 of the SCCL rule permit a respondent organization to subtract the value of any eligible collateral provided by a counterparty in connection with a particular transaction from its gross credit exposure for that transaction. The value of all such eligible collateral is reported in Schedule M-1. Eligible collateral includes, but is not limited to, sovereign debt, non-sovereign debt, main index equities, other publicly traded equities, and cash. The final column sums the total credit risk mitigation impact due to eligible collateral, by counterparty.

Schedule M-2: General Risk Mitigants. Schedule M-2 collects information related to

⁹ If the respondent organization has not been authorized by the Board to use internal-models-based methodologies, the organization should leave these columns blank.

¹⁰ “Qualifying master netting agreement” is defined in sections 252.71(cc) and 252.171(ee) of Regulation YY.

credit risk mitigation techniques other than the receipt of collateral used by the firm to reduce its gross credit exposure in a given transaction. Permitted credit risk mitigation methods, described in sections 252.74 and 252.174 of the SCCL rule, are (1) eligible guarantees, (2) eligible credit and equity derivatives, (3) other eligible hedges, (4) unused portion of certain extensions of credit, and (5) credit transactions involving excluded and exempt entities. The final column sums the total credit risk mitigation effected by use of these techniques, by counterparty.

Summary of Net Credit Exposures. The reporting form contains a summary sheet that sums the respondent organization's aggregate gross credit exposure (as reported in the final columns of each of the five G schedules); calculates the respondent organization's aggregate net credit exposures by reducing its aggregate gross credit exposure by its aggregate credit risk mitigants (calculated by taking the sum of the final columns of the two M schedules); and divides the respondent organization's aggregate net credit exposure by its eligible capital base.¹¹ The resulting ratio shows whether the respondent organization's aggregate net credit exposures comply with the limits of the SCCL rule.

Schedule A-1: Economic Interdependence. Sections 252.76(b) and 252.176(b) of the SCCL rule require a covered company or covered foreign entity to aggregate its net credit exposures to counterparties that are economically interdependent—meaning that the underlying risk of one counterparty's financial distress or failure would cause the financial distress or failure of another counterparty—if its aggregate net credit exposure to a counterparty exceeds 5 percent of its tier 1 capital.¹² Those sections enumerate specific factors that those covered companies or covered foreign entities must consider in order to assess whether counterparties are economically interdependent. Such factors include whether 50 percent or more of one counterparty's gross revenue is derived from the other counterparty, or whether two or more counterparties rely on the same source for the majority of their funding.¹³ The SCCL rule requires that counterparties that must be aggregated be treated as a single counterparty (reported in Schedule A-1 as an “interconnected counterparty group”) for purposes of the aggregate net credit exposure limits of the rule. Schedule A-1 requires the respondent organization to provide its aggregate net credit exposure to each member of the interconnected counterparty group (one per column). The final column of Schedule A-1 sums the total net credit exposure of the respondent organization to each connected counterparty group.

Schedule A-2: Control Relationships. Sections 252.76(c) and 252.176(c) of the SCCL

¹¹ As noted above, a respondent organization's aggregate net credit exposure limits under the SCCL rule are based on a percentage of either its capital stock and surplus or its tier 1 capital. “Eligible capital base,” as reported on this form, refers to either the respondent organization's capital stock and surplus or its tier 1 capital, as applicable.

¹² Until January 1, 2021, a U.S. IHC that is subject to Category II or III standards and has less than \$250 billion in total consolidated assets does not have to conduct an assessment for economic interdependence; however, after January 1, 2021, such a U.S. IHC will be required to conduct an assessment for economic interdependence in the same manner as all covered companies and other covered foreign entities. See section 252.176(a) of the SCCL rule.

¹³ A covered company or covered foreign entity is required to conduct an assessment for economic interdependence only if its aggregate net credit exposure to a counterparty exceeds 5 percent of its tier 1 capital. See sections 252.76(b) and 252.176(b) of the SCCL rule. If none of the enumerated factors is met, then the covered company or covered foreign entity need not aggregate exposures to those counterparties unless the Board determines that one or more other counterparties of the covered company or covered foreign entity are economically interdependent. *Id.*

rule require a covered company or covered foreign entity to aggregate exposures to counterparties due to the presence of certain control relationships.¹⁴ These sections require that counterparties that are connected by certain specified control relationships be treated as a single counterparty (reported in Schedule A-2 as a “control counterparty group”) for purposes of the aggregate net credit exposure limits of the SCCL rule. Schedule A-2 requires the respondent organization to provide its aggregate net credit exposure to each member of the interconnected counterparty group (one per column). The final column of Schedule A-2 sums the total net credit exposure of the respondent organization to each control counterparty group.

Notice Requirements in the SCCL Rule

Certain provisions in the SCCL rule permit a covered company or covered foreign entity to request temporary relief from specific requirements of the rule. Specifically, the SCCL rule permits a covered company or covered foreign entity to request temporary relief from requirements to aggregate one or more counterparties even if one or more factors indicating economic interdependence or control relationships are met, subject to certain conditions, including that such relief be in the public interest and consistent with the purpose of the rule.¹⁵ The SCCL rule also permits a covered company or covered foreign entity that is not in compliance with the requirements of the rule to request a special temporary credit exposure limit exemption from the Board to permit continued credit transactions with that counterparty, based upon a finding that those transactions are necessary or appropriate to preserve the safety and soundness of the covered company or U.S. financial stability.¹⁶ These notices must be submitted to the Board and are not part of the FR 2590 report.

Recordkeeping Requirements

The instructions for the FR 2590 report state that a respondent must retain one exact copy of each completed report in electronic form. These records must be kept for at least three years.

Respondent Panel

The FR 2590 respondent panel comprises U.S. BHCs and SLHCs that are subject to Category I, II, or III standards, FBOs that are subject to Category II or III standards or that have total global consolidated assets of \$250 billion or more, and U.S. IHCs that are subject to Category II or III standards.

Revisions to the FR 2590

The final SCCL rule had an effective date of October 5, 2018, and an initial compliance date of January 1, 2020, for a foreign banking organization that has the characteristics of a global

¹⁴ Until January 1, 2021, a U.S. IHC that is subject to Category II or III standards and has less than \$250 billion in total consolidated assets does not have to conduct an assessment for certain control relationships; however, after January 1, 2021, such a U.S. IHC will be required to conduct an assessment for certain control relationships in the same manner as all covered companies and other covered foreign entities. See section 252.176(a) of the SCCL rule.

¹⁵ See sections 252.76(b)(3), 252.76(c)(2), 252.176(b)(3), and 252.176(c)(2) of the SCCL rule.

¹⁶ See sections 252.78(c)(2) and 252.178(c)(2) of the SCCL rule.

systemically important banking organization, and July 1, 2020, for any other foreign banking organization subject to the rule, unless that time is extended by the Board in writing. The Board modified these initial compliance dates to July 1, 2021, and January 1, 2022, respectively, regarding the SCCL applicable to such a foreign banking organization's combined U.S. operations only. There are no changes to the reporting or recordkeeping requirements for such entities. The final rule is effective on May 28, 2020.

Time Schedule for Information Collection

U.S. and foreign G-SIBs are required to comply with the SCCL rule by January 1, 2020, and all other covered companies and covered foreign entities are required to comply by July 1, 2020.¹⁷ As a result, the first data collection of the FR 2590 report will occur as of the end of the first quarter of 2020 for respondents that are U.S. and foreign G-SIBs, and as of the end of the third quarter of 2020 for all other respondents. After the initial compliance date, respondent organizations will be required to file this form on a quarterly basis, consistent with the SCCL rule's compliance requirements.¹⁸ Respondents will file the FR 2590 report quarterly, as of the close of business March 31, June 30, September 30, and December 31. Submission will be due 40 calendar days after March 31, June 30, and September 30, and 45 calendar days after December 31.

Notices associated with requests for temporary relief from specific requirements of the SCCL rule must be provided to the Board when a firm seeks such a request.

Public Availability of Data

There is no data related to this information collection available to the public.

Legal Status

The FR 2590 is authorized pursuant to section 5(c) of the Bank Holding Company Act of 1956 (BHC Act) (12 U.S.C. § 1844(c)) for BHCs and section 10(b) of the Home Owners' Loan Act (12 U.S.C. § 1467a(b)) for SLHCs. With respect to FBOs and their subsidiary IHCs, the FR 2590 is authorized pursuant to section 5(c) of the BHC Act, in conjunction with section 8 of the International Banking Act of 1978 (12 U.S.C. § 3106). The FR 2590 is mandatory.

The data collected on the FR 2590 report will be kept confidential under exemption 4 of the Freedom of Information Act (FOIA), which protects from disclosure trade secrets and commercial or financial information (5 U.S.C. § 552(b)(4)), and exemption 8 of FOIA, which protects from disclosure information related to the supervision or examination of a regulated financial institution (5 U.S.C. § 552(b)(8)).

¹⁷ Note that the Board has proposed separately to amend the SCCL rule to extend the initial compliance dates for FBOs to comply with the SCCL applicable to their U.S. operations. 84 FR 64031 (November 20, 2019).

¹⁸ A respondent organization would report compliance on a quarterly basis, unless the Board determines and notifies the covered company or covered foreign entity in writing that more frequent compliance is required. See sections 252.78(a)(2) and 252.178(a)(3) of the SCCL rule.

Regarding notices associated with requests for temporary relief from specific requirements of the SCCL rule, a firm may request confidential treatment under the Board’s rules regarding confidential treatment of information at 12 CFR 261.15. The Board will consider whether such information may be kept confidential in accordance with exemption 4 of FOIA (5 U.S.C. § 552(b)(4)) or any other applicable FOIA exemption.

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Public Comments

On November 20, 2019, the Board published a notice of proposed rulemaking in the *Federal Register* (84 FR 64031) requesting public comment on the extension, with revision, of FR 2590. The comment period for this notice expired on December 20, 2019. The Board did not receive any comments related to the Paperwork Reduction Act analysis. On May 28, 2020, the Board published a final rule in the *Federal Register* (85 FR 31949).

Estimate of Respondent Burden

As shown in the table below, the estimated total annual burden for FR 2590 is 171,780 hours. With regard to the notice requirements pertaining to requests for temporary relief from specific requirements of the SCCL rule, only firms that seek such requests would need to file any documentation. These reporting and recordkeeping requirements represent 1.9 percent of the Board’s total paperwork burden.

FR 2590	<i>Estimated number of respondents</i> ¹⁹	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Reporting				
One-time implementation	75	1	1,273	95,475
Ongoing	75	4	254	76,200
Requests for temporary relief	3	1	10	30
Recordkeeping				
	75	4	0.25	<u>75</u>
<i>Total</i>				171,780

¹⁹ Of these respondents, none are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$600 million in total assets), <https://www.sba.gov/document/support-table-size-standards>.

The estimated total annual cost to the public for the FR 2590 is \$9,920,295, and would remain the same with the revisions.²⁰

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 estimated cost to the Federal Reserve System for collecting and processing this information collection is \$204,800.

²⁰ 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 \$20, 45% Financial Managers at \$71, 15% Lawyers at \$70, and 10% Chief Executives at \$93). 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 2019*, published March 31, 2020, <https://www.bls.gov/news.release/ocwage.t01.htm>. Occupations are defined using the BLS Standard Occupational Classification System, <https://www.bls.gov/soc/>.