

**Supporting Statement for the  
Banking Organization Systemic Risk Report  
(FR Y-15; OMB No. 7100-0352)**

## **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 Banking Organization Systemic Risk Report (FR Y-15; OMB No. 7100-0352). The FR Y-15 quarterly report collects systemic risk data from U.S. bank holding companies (BHCs), covered savings and loan holding companies (SLHCs),<sup>1</sup> and intermediate holding companies (IHCs) with total consolidated assets of \$50 billion or more, and any BHC designated as a global systemically important bank holding company (GSIB)<sup>2</sup> based on its method 1 score calculated as of December 31 of the previous calendar year. The Board uses the FR Y-15 data to monitor, on an ongoing basis, the systemic risk profile of the institutions that are subject to enhanced prudential standards under section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).<sup>3</sup>

The Board has revised the FR Y-15 reporting form and instructions to (1) include Mexican pesos in total payments activity on Schedule C and remove it from the Memorandum items, (2) add securities brokers to the definition of financial institutions in the instructions for Schedule B, and (3) make minor clarifications to the form and instructions. The Board has not revised Schedule B, items 5(a) and 11(a) or Schedule D, item 1, as originally proposed. The changes will be effective beginning with reports reflecting the June 30, 2018, report date. The total annual burden for the FR Y-15 report is estimated to be 65,764 hours and has not changed. The reporting form and instructions are available on the Board's public website at [www.federalreserve.gov/apps/reportforms/default.aspx](http://www.federalreserve.gov/apps/reportforms/default.aspx).

## **Background and Justification**

The FR Y-15 report is used to monitor the systemic risk profile of the institutions that are subject to enhanced prudential standards under section 165 of the Dodd-Frank Act. In addition, the FR Y-15 is used to (1) facilitate the implementation of the GSIB surcharge rule, (2) identify other institutions that may present significant systemic risk, and (3) analyze the systemic risk implications of proposed mergers and acquisitions.

In August 2015, the Board published a final rule establishing a GSIB surcharge on the largest, most interconnected U.S. BHCs.<sup>4</sup> The GSIB surcharge is calculated using an indicator-based approach that focuses on those aspects of a BHC's operations that are likely to generate negative externalities in the case of its failure or distress. The rule's methodologies assess six components of a BHC's systemic footprint: size, interconnectedness, substitutability,

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<sup>1</sup> Covered SLHCs are those which are not substantially engaged in insurance or commercial activities. See 12 CFR 217.2, "covered savings and loan holding company."

<sup>2</sup> See 12 CFR 217.402.

<sup>3</sup> See 12 U.S.C. 5365.

<sup>4</sup> See 81 FR 90952 (December 16, 2016).

complexity, cross-jurisdictional activity, and reliance on short-term wholesale funding. The indicators comprising these six components are reported on the FR Y-15.

Additionally, the Dodd-Frank Act requires that the Board consider financial stability as part of its review of certain banking applications and that the Board establish enhanced supervision and prudential requirements for certain large bank holding companies. The FR Y-15 provides information that is used for these purposes.

## **Description of Information Collection**

The report consists of the following schedules:

- Schedule A – Size Indicator,
- Schedule B – Interconnectedness Indicators,
- Schedule C – Substitutability Indicators,
- Schedule D – Complexity Indicators,
- Schedule E – Cross-Jurisdictional Activity Indicators,
- Schedule F – Ancillary Indicators, and
- Schedule G – Short-term Wholesale Funding Indicator.

Some of the reporting requirements within the schedules overlap with data collected by the Consolidated Financial Statements for Holding Companies (FR Y-9C; OMB No. 7100-0128), Country Exposure Report (FFIEC 009; OMB No. 7100-0035), and Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework (FFIEC 101; OMB No. 7100-0319). Where relevant data are reported on the FR Y-9C, FFIEC 009, or FFIEC 101, the FR Y-15 automatically populates those amounts based on the source form so that the information does not need to be reported twice. Automatically retrieved items are listed in the general instructions of the FR Y-15 under section H, titled “Data Items Automatically Retrieved from Other Reports.” Aside from the automatically populated items, the information collected on the FR Y-15 is not available from other sources.

### **Schedule A - Size Indicator**

The Size Indicator Schedule includes items addressing derivative exposures and securities financing transaction (SFT) exposures. The schedule also includes other on-balance sheet assets, regulatory adjustments, gross notional amounts of items subject to different credit conversion factors (0%, 20%, 50%, and 100%) under Regulation Q (Capital Adequacy of Bank Holding Companies, Savings and Loan Holding Companies, and State Member Banks),<sup>5</sup> securities received as collateral in securities lending, cash collateral received in conduit securities lending transactions, and credit derivatives sold net of related credit production bought.

### **Schedule B - Interconnectedness Indicators**

The Interconnectedness Indicators Schedule is comprised of three subcategories: intra-financial system assets, intra-financial system liabilities, and securities outstanding. Intra-financial system assets are comprised of funds deposited with or lent to unaffiliated

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<sup>5</sup> See 12 CFR part 217.

financial institutions, certificates of deposit, unused portion of committed lines extended to other financial institutions, holdings of securities issued by other financial institutions, net positive current exposure of SFTs with other financial institutions, and information about over-the-counter derivatives with other financial institutions that have a net positive fair value.

Intra-financial system liabilities include deposits due to depository institutions, deposits due to non-depository financial institutions, borrowings obtained from other financial institutions, unused portions of committed lines obtained from other financial institutions, net negative current exposure of SFTs with other financial institutions, and information about over-the-counter (OTC) derivatives with other financial institutions that have a net negative fair value.

Securities outstanding include secured debt securities, senior unsecured debt securities, subordinated debt securities, commercial paper, certificates of deposit, common equity, and preferred shares and other forms of subordinated funding. Standby letters of credit extended to other financial institutions are reported as a memorandum item.

### **Schedule C - Substitutability Indicators**

The Substitutability Indicators Schedule includes the value of payments sent by the banking organization over the reporting year via large value payment systems or through an agent. These payments are reported by currency. Additional currencies are reported as memorandum items. Payments made in currencies not listed are also collected. The schedule also includes assets held as a custodian on behalf of customers, equity underwriting activity, debt underwriting activity, and unsecured settlement/clearing lines provided.

### **Schedule D - Complexity Indicators**

The Complexity Indicators Schedule includes the notional amount of OTC derivatives cleared through a central counterparty, the notional amount of OTC derivatives settled bilaterally, trading securities, available-for-sale (AFS) securities, trading and AFS securities that meet the definition of level 1 liquid assets, trading and AFS securities that meet the definition of level 2 liquid assets after haircuts, assets valued for accounting purposes using Level 3 measurement inputs, and held-to-maturity securities.<sup>6</sup>

### **Schedule E - Cross-Jurisdictional Activity Indicators**

The Cross-Jurisdictional Activity Indicators Schedule includes foreign claims on an ultimate-risk basis (i.e., immediate-counterparty claims that have been adjusted, where relevant, based on the country of residence of the guarantor or collateral provided), foreign liabilities (excluding local liabilities in local currency), any foreign liabilities to related offices included in the reported foreign liabilities total, and local liabilities in local currency.

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<sup>6</sup> For definitions of level 1 and level 2 liquid assets, see 12 CFR 249.20. For a definition of Level 3 measurement inputs see FASB ASC Topic 820, Fair Value Measurements and Disclosures (formerly FASB Statement No. 157, Fair Value Measurements).

## **Schedule F - Ancillary Indicators**

The Ancillary Indicators Schedule includes total liabilities, retail funding, total gross revenue, total net revenue, foreign net revenue, gross value of cash provided and gross fair value of securities provided in SFTs, gross value of cash received and gross fair value of securities received in SFTs, gross positive fair value of OTC derivative contracts, gross negative fair value of OTC derivative contracts, and number of jurisdictions where the banking organization has a branch, a subsidiary, or other entity that is consolidated under U.S. generally accepted accounting principles.

## **Schedule G – Short-Term Wholesale Funding Indicator**

The Short-Term Wholesale Funding Indicator Schedule captures first, second, and third tier funding and all other components of short-term wholesale funding. First-tier funding consists of funding secured by level 1 liquid assets, retail brokered deposits and sweeps, unsecured wholesale funding obtained outside of the financial sector, and firm short positions involving level 2B liquid assets or assets that do not qualify as high-quality liquid assets (HQLA).<sup>7</sup> Second tier funding consists of funding secured by level 2A liquid assets and covered asset exchanges.<sup>8</sup> Third tier funding consists of funding secured by level 2B liquid assets, other covered asset exchanges, and unsecured wholesale funding obtained within the financial sector. The schedule also captures average risk-weighted assets.

## **Proposed Revisions**

The Board proposed to amend the FR Y-15 to include Mexican pesos in total payments activity rather than as a memorandum item, add securities brokers to the definition of financial institutions, expressly include derivative transactions where a clearing member bank guarantees performance of a client to a central counterparty, and specify how certain cleared derivatives transactions are reported.

## **Respondent Panel**

The FR Y-15 panel comprises BHCs, SLHCs, and IHCs with total consolidated assets of \$50 billion or more, and any BHC designated as a GSIB<sup>9</sup> based on its method 1 score calculated as of December 31 of the previous calendar year.

## **Time Schedule for Information Collection and Publication**

The FR Y-15 must be submitted as of the last calendar day of March, June, September, and December. The submission date for banking organizations for March, June, and September is 50 calendar days after the as of date. The submission date for December is 65 calendar days after the as of date.

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<sup>7</sup> For the list of assets that are level 2B liquid assets and a definition of HQLA, see 12 CFR 249.20 and 249.3, respectively.

<sup>8</sup> For the list of assets that are level 2A liquid assets, see 12 CFR 249.20.

<sup>9</sup> See 12 CFR 217.402.

Respondents are required to submit the report electronically using the Board's standard electronic submission application. The application validates the report data for mathematical and logical consistency and provides the reporting institution with a confirmation of receipt of its submission.

## **Legal Status**

The mandatory FR Y-15 is authorized by sections 163 and 165 of the Dodd-Frank Act (12 U.S.C. 5363 and 5365), International Banking Act (12 U.S.C. 3106 and 3108), Bank Holding Company Act (12 U.S.C. 1844), and Home Owners' Loan Act (12 U.S.C. 1467a).

Most of the data collected on the FR Y-15 is made public unless a specific request for confidentiality is submitted by the reporting entity, either on the FR Y-15 or on the form from which the data item is obtained.<sup>10</sup> Such information will be accorded confidential treatment under exemption 4 of the Freedom of Information Act (FOIA) (5 U.S.C. 552(b)(4)), if the submitter substantiates its assertion that disclosure would likely cause substantial competitive harm. In addition, items 1 through 4 of Schedule G of the FR Y-15, which contain granular information regarding the reporting entity's short-term funding, will be accorded confidential treatment under exemption 4 for observation dates that occur prior to the liquidity coverage ratio disclosure standard being implemented.<sup>11</sup> To the extent confidential data collected under the FR Y-15 will be used for supervisory purposes, it may be exempt from disclosure under exemption 8 of FOIA (5 U.S.C. 552(b)(8)).

## **Consultation outside the Agency**

The FR Y-15 was derived from data collections developed by the Basel Committee on Banking Supervision (BCBS) to assess the global systemic importance of banks. The BCBS in January 2017 revised its data collection after consultation with representatives from numerous national supervisory authorities, including the Board.<sup>12</sup> Many of the proposed changes to the FR Y-15 would correspond to changes made to the BCBS data collection.

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<sup>10</sup> As noted, a number of the items in the FR Y-15 are retrieved from the FR Y-9C and other items may be retrieved from the FFIEC 101 and FFIEC 009. Confidential treatment will extend to any automatically-calculated items on the FR Y-15 that have been derived from confidential data items and that, if released, would reveal the underlying confidential data.

<sup>11</sup> The liquidity coverage ratio (LCR) disclosure requirement for companies subject to the transition period under 12 CFR 249.50(a) (i.e., institutions with \$700 billion or more in total consolidated assets or \$10 trillion or more in assets under custody) was implemented on April 1, 2017. Therefore, all Schedule G data for these firms is already available to the public. The LCR disclosure requirement for companies subject to the transition period under 12 CFR 249.50(b) (i.e., institutions with \$250 billion or more in total consolidated assets or \$10 billion or more in total on-balance sheet foreign exposure) was implemented on April 1, 2018. Therefore, all Schedule G data for these firms will be made available to the public starting with the June 30, 2018, as of date. The LCR disclosure requirement for companies subject to 12 CFR 249, Subpart G will be implemented on October 1, 2018. As this will mark the full implementation of the LCR disclosure standard, items 1 through 4 of Schedule G for all other firms will be made available to the public starting with the December 31, 2018, as of date.

<sup>12</sup> See Instructions for the end-2016 GSIB assessment exercise, January 2017, available at [www.bis.org/bcbs/gsib/instr\\_end16\\_gsib.pdf](http://www.bis.org/bcbs/gsib/instr_end16_gsib.pdf).

On August 24, 2017, the Board published an initial notice in the *Federal Register* (82 FR 40154) requesting public comment for 60 days on the extension, with revision, of the FR Y-15. The proposal was amended October 18, 2017, to extend the proposed implementation date from December 31, 2017, to March 31, 2018, and to extend the public comment period for the proposal for an additional 30 days (82 FR 49608). The comment period for the proposal expired on November 23, 2017.

The Board received seven comments on the proposal. One commenter expressed general support of the proposal. Six comments focused on the Board's proposal to include in Schedule D, item 1 the notional amount of over-the-counter (OTC) derivative transactions where a clearing member bank guarantees the performance of a client to a central counterparty (CCP). The comments are discussed below. The comments did not address the other proposed changes in detail and either supported or did not object to the other proposed changes.

On July 3, 2018, the Board published a final notice in the *Federal Register* (83 FR 31144).

## **Detailed Discussion of Public Comments**

### *Comments Related to the Complexity Indicator*

Commenters noted that derivatives are cleared using two models: the principal model, where the banking organization facilitates the clearing of derivatives by taking opposing positions with the client and the CCP, and the agency model, where a clearing member banking organization, acting as an agent, guarantees the performance of the client to a CCP. The current reporting instructions for derivative contracts cleared through a CCP in Schedule D, item 1 state that, when the reporting banking organization acts as a financial intermediary under the principal model, the notional amounts for each contract—that is, the transaction with the client and the transaction with the CCP—should be reported. In cases where a clearing member banking organization acts as an agent, the current reporting instructions state that the bank should report the notional amount when the bank guarantees the performance of a CCP to a client. As clearing member banking organizations rarely guarantee the performance of a CCP to a client, the amount of derivatives reported under the agency model is low.

The proposal would have revised the instructions to require reporting of derivative transactions where a clearing member bank guarantees the performance of a client to a CCP under the agency model, thereby increasing parity between the two clearing models.

One commenter observed that shifts in global clearing activity since 2012 have led to widespread adoption of the agency model of clearing in lieu of the principal model, obviating the need to mitigate the differences in reporting between the models. Commenters also argued that the risk associated with client-cleared transactions would have been overstated under the proposal and that the risks associated with these transactions are already appropriately captured in total exposure (Schedule A, item 1(h)), intra-financial system assets (Schedule B, items 5(a) and 5(b)), and intra-financial system liabilities (Schedule B, items 11(a) and 11(b)). These commenters stated that banking organizations engaged in client clearing businesses focus only

on the credit risk of their clients and the imposition of applicable credit limits. Commenters argued that this significantly reduces the complexity of the activity and, therefore, the client leg of these transactions should not be reported in the complexity indicator.

After considering the comments, the Board has decided not to adopt the proposed reporting of derivative transactions where a clearing member bank guarantees the performance of a client to a CCP in Schedule D, item 1. Although derivatives are often complex, the Board does not believe it is appropriate at this time to treat the client leg of a cleared transaction in the agency model as more complex than a simple credit exposure, and therefore does not believe it is currently necessary to include these exposures in the complexity indicator. Further, part of the motivation for including the client leg of the agency model was to make sure that, for a regulatory framework that encompasses multiple models of clearing, no one model receives significantly more or less representation with respect to the GSIB indicators. The proposal was intended in part to ensure that the agency model would be adequately included in the GSIB indicators compared to the principal model. However, the expansion in the availability and overall use of the agency model somewhat mitigates concerns about the relative treatment of client-cleared transactions between respondents, and the Board is thus not currently concerned that excluding the client leg from the GSIB indicators will result in a significant disparity among reporters. Because the two clearing models remain, however, the Board may need to address inequitable treatment of client-cleared transactions in the future if the principal model again becomes more common.

#### *Comments Related to the Interconnectedness Indicators*

Consistent with the proposed change to Schedule D, item 1 discussed above, the Board also proposed to revise the instructions to Schedule B, items 5(a) and 11(a) for reporting derivative contracts cleared under the agency model. The current instructions state that the bank should report the net positive or net negative fair value when the bank guarantees the performance of a CCP to a client. As noted, this rarely occurs, resulting in almost no reporting of derivatives under the agency model in these two items on Schedule B.

Several commenters stated that requiring cleared derivative transactions to be reported where the bank guarantees the performance of a financial institution client could discourage derivative clearing activities, contrary to public policy goals, because client clearing of derivatives may reduce systemic risk. Additionally, these commenters argued that the proposed changes could result in the GSIB surcharge of several firms increasing, which, in turn, could lead these firms to increase clearing costs for derivative end-users.

After considering the comments, the Board is not adopting its proposal with respect to reporting derivatives under the agency model on Schedule B in order to allow additional time to consider how to cover such activity in the context of interconnectedness. The Board will continue to consider whether agency clearing should be incorporated into the interconnectedness measures or elsewhere.

### *Other Comments Received*

No comments were received regarding the inclusion of Mexican pesos in total payments activity or the addition of securities brokers to the definition of financial institution. Accordingly, the Board is adopting revisions to the FR Y-15 reporting form and instructions to include Mexican pesos in total payments activity on Schedule C and remove it from the Memorandum items, and to add securities brokers to the definition of financial institutions in the instructions for Schedule B. These changes are effective for the June 30, 2018, reporting date.

Several commenters stated that the proposed changes to the reporting of OTC derivatives in Schedule D would make the FR Y-15 inconsistent with the Basel Committee GSIB assessment reporting instructions.<sup>13</sup> In addition, certain commenters stated that the proposed revisions to Schedule B, items 5(a) and 11(a), and Schedule D, item 1, were inconsistent with the Administrative Procedure Act (APA). The Board is not adopting these proposed changes, making these arguments moot.<sup>14</sup>

One commenter noted that the definition of “financial institution” in the FR Y-15 is different from other regulatory reports and recommended aligning the varying definitions. In response, the Board acknowledges that its regulations and reporting sometimes use differing definitions for similar concepts and that this may require firms to track differences among the different definitions. Firms should review the definition of “financial institution” in the instructions of the form on which they are reporting, and should not look to similar definitions in other forms as dispositive for appropriate reporting on the FR Y-15.

A commenter also asked for clarification about whether securities financing transactions follow the regulatory capital rule definition of repo-style transactions. As described in the General Instructions of Schedule A, several items involve securities financing transactions (i.e., repo-style transactions), which are transactions such as repurchase agreements, reverse repurchase agreements, and securities lending and borrowing, where the value of the transactions depends on the market valuations and the transactions are often subject to margin agreements. For purposes of reporting on the FR Y-15, the intent is that securities financing transactions are synonymous with repo-style transactions under the regulatory capital rule. In a future update of the FR Y-15, the Board will work to replace the term “securities financing transactions” with “repo-style transactions” to better align the FR Y-15 language with the regulatory capital rule.

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<sup>13</sup> The international GSIB assessment reporting instructions for year-end 2017 are available at [www.bis.org/bcbs/gsib/reporting\\_instructions.htm](http://www.bis.org/bcbs/gsib/reporting_instructions.htm).

<sup>14</sup> Even if the argument regarding the APA were not moot, the Board would not have violated the APA if it decided to implement the proposed revisions to Schedule B, items 5(a) and 11(a), and Schedule D, item 1. The proposed revisions to the FR Y-15 constitute an interpretive rule or general statement of policy, and therefore may be adopted without the publication of a general notice of proposed rulemaking in the *Federal Register*. Even if such publication were necessary to adopt the proposed revisions, this requirement was satisfied because the proposal was published for comment in the *Federal Register*, for a 60-day comment period. After receiving initial feedback on the proposal, the comment period was extended for 30 days to solicit additional feedback. Moreover, redlined forms, instructions, and an OMB supporting statement were made available on the Board’s public website. The materials afforded commenters the opportunity to provide specific feedback regarding the exact changes being proposed. Indeed, commenters provided significant feedback based on the proposal.



In addition, a commenter asked for clarification regarding potential inconsistencies between similar items that are reported on different reporting forms. In particular, the commenter noted that the instructions for the FR Y-15, FFIEC 101 (Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework), and FR Y-14Q (Capital Assessments and Stress Testing) do not consistently allow for a reduction in fair value of sold credit protection. The Board will conduct a coordinated effort with the other banking agencies on changes to the FFIEC 101 and the FR Y-14 to ensure that the instructions appropriately clarify how any adjustments for sold credit protection should be reported.<sup>15</sup>

Further, a commenter asked for clarification regarding the reporting of holdings of equity investments in unconsolidated investment funds sponsored or administered by the respondent. Specifically, the commenter wanted to know whether such investments would be reported as equity securities in Schedule B, item 3(e). Per the general instructions for Schedule B, item 3, firms must include “securities issued by equity-accounted associates (i.e., associated companies and affiliates accounted for under the equity method of accounting) and special purpose entities (SPEs) that are not part of the consolidated entity for regulatory purposes.” Therefore, such equity investments would be included in item 3(e).

A commenter also requested clarification on how collateral may reduce the exposure reported in the FR Y-15, Schedule B, items 5(a) and 11(a). For item 5(a), in cases where a qualifying master netting agreement is in place, a reporting bank may reduce its value of derivative assets by subtracting the net collateral position from the underlying obligation. In circumstances where the net collateral exceeds the payment obligation, the bank should report a fair value of zero for the netting set. Similarly, for item 11(a), in cases where a qualifying master netting agreement is in place, a reporting bank may reduce its value of derivative liabilities exposure by subtracting the net collateral position from the underlying obligation. In circumstances where the net collateral exceeds the payment obligation owed to the counterparty, the bank should report a fair value of zero for the netting set.

## **Estimate of Respondent Burden**

The total annual burden for the FR Y-15 is estimated to be 65,764 hours and is not expected to change with the proposed revisions. The Mexican peso was already collected in the reporting form as a memoranda item. Further, the addition of the term securities broker to the definition of financial institution in the reporting instructions is expected to be immaterial with regard to burden. These reporting requirements represent less than 1 percent of the Board’s total paperwork burden.

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<sup>15</sup> Any changes to these reporting forms would have to be proposed in a future *Federal Register* notice with a 60 day comment period, as required by the Paperwork Reduction Act (PRA).

	<i>Number of respondents<sup>16</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<b>FR Y-15</b>	41	4	401	65,764

The estimated total annual cost to the public for this collection of information is \$3,686,072.<sup>17</sup>

### **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 estimated cost to the Federal Reserve System is \$130,200.

<sup>16</sup> Of these respondents, none are considered small entities as defined by the Small Business Administration (i.e. entities with less than \$550 million in assets) [www.sba.gov/document/support--table-size-standards](http://www.sba.gov/document/support--table-size-standards).

<sup>17</sup> Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at \$18, 45% Financial Managers at \$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](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/).