

FEDERAL RESERVE SYSTEM

Agency information collection activities: Proposed collections; comment request

AGENCY: Board of Governors of the Federal Reserve System

SUMMARY: Background

On June 15, 1984, the Office of Management and Budget (OMB) delegated to the Board of Governors of the Federal Reserve System (Board) its approval authority under the Paperwork Reduction Act, as per 5 CFR 1320.16, to approve of and assign OMB control numbers to collection of information requests and requirements conducted or sponsored by the Board under conditions set forth in 5 CFR 1320 Appendix A.1. Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information. Copies of the OMB 83-Is and supporting statements and approved collection of information instruments are placed into OMB's public docket files. The Federal Reserve may not conduct or sponsor, and the respondent is not required to respond to, an information collection that has been extended, revised, or implemented on or after October 1, 1995, unless it displays a currently valid OMB control number.

Request for comment on information collection proposals

The following information collections, which are being handled under this delegated authority, have received initial Board approval and are hereby published for comment. At the end of the comment period, the proposed information collections, along with an analysis of comments and recommendations received, will be submitted to the Board for final approval under OMB delegated authority. Comments are invited on the following:

- a. whether the proposed collections of information are necessary for the proper performance of the Federal Reserve's functions; including whether the information has practical utility;
- b. the accuracy of the Federal Reserve's estimate of the burden of the proposed information collections, including the validity of the methodology and assumptions used;
- c. ways to enhance the quality, utility, and clarity of the information to be collected; and
- d. ways to minimize the burden of information collections on respondents, including through the use of automated collection techniques or other forms of information technology.

DATES: Comments must be submitted on or before September 21, 2004.

ADDRESSES: You may submit comments, identified by FR 2436 or FR Y-12, by any of the following methods:

- Agency Web Site: <http://www.federalreserve.gov>. Follow the instructions for submitting comments at

<http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.

- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.
- E-mail: regs.comments@federalreserve.gov. Include docket number in the subject line of the message.
- FAX: 202/452-3819 or 202/452-3102.
- Mail: Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, DC 20551.

All public comments are available from the Board's web site at

www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm as submitted, except as necessary for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper in Room MP-500 of the Board's Martin Building (20th and C Streets, N.W.) between 9:00 a.m. and 5:00 p.m. on weekdays.

FOR FURTHER INFORMATION CONTACT: A copy of the proposed forms and instructions, the Paperwork Reduction Act Submission (OMB 83-1), supporting statements, and other documents that will be placed into OMB's public docket files once approved may be requested from the agency clearance officer, whose name appears below.

Cynthia Ayouch, Federal Reserve Board Clearance Officer (202-452-3829), Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, DC 20551. Telecommunications Device for the Deaf (TDD) users may contact (202-263-4869), Board of Governors of the Federal Reserve System, Washington, DC 20551.

Proposal to approve under OMB delegated authority the extension for three years, with revision, of the following reports:

1. *Report title:* Semiannual Report of Derivatives Activity

Agency form number: FR 2436

OMB control number: 7100-0286

Frequency: Semiannual

Reporters: Large U.S. dealers of over-the-counter (OTC) derivatives

Annual reporting hours: 2,400 hours

Estimated average hours per response: 150 hours

Number of respondents: 8

General description of report: This information collection is voluntary (12 U.S.C. §§ 248(a)(2) and 353-359) and is given confidential treatment (5 U.S.C. §552(b)(4)).

Abstract: This voluntary report collects derivatives market statistics from eight large U.S. dealers of OTC derivatives. Data are collected on notional amounts and gross market values of the volumes outstanding of broad categories of foreign exchange,

interest rate, equity- and commodity-linked OTC derivatives contracts across a range of underlying currencies, interest rates, and equity markets.

This collection of information complements the ongoing triennial Survey of Foreign Exchange and Derivatives Market Activity (FR 3036; OMB No. 7100-0285). The FR 2436 collects similar data on the outstanding volume of derivatives, but not on derivatives turnover. The Federal Reserve conducts both surveys in coordination with other central banks and forwards the aggregated data furnished by U.S. reporters to the Bank for International Settlements, which publishes global market statistics that are aggregations of national data.

Current Actions: The Federal Reserve proposes to revise the FR 2436 by adding tables to collect data on credit default swaps, effective with the December 31, 2004, report date. Given the very rapid growth of credit derivatives in recent years, the G-10 central banks determined that data on credit default swaps should be collected semiannually. The credit default swaps data would be collected on new Tables 4A through 4D, while existing Table 4 and Table 5 would be re-numbered as Table 5 and Table 6, respectively.

The Federal Reserve proposes to collect data on outstanding positions (notional, gross positive and gross negative market values) of credit default swap contracts for protection bought and protection sold by instrument type and counterparty type. Distinguishing between protection bought and protection sold is of interest because it gives some indication of how credit default swaps are used to shift credit risk among market participants. Additionally, notional values of credit default swap contracts would be reported by rating category of the underlying reference entity, sector of the underlying reference entity, and remaining contract maturity.

Instrument types would be disaggregated into single-name and multiple-name instruments.

Counterparty types would be disaggregated into reporting dealers, other financial institutions, and nonreporting financial institutions. In addition, other financial institutions would be further disaggregated into:

- banks and securities firms
- insurance, reinsurance, and financial guaranty firms
- special purpose entities
- hedge funds
- other

This finer disaggregation of counterparty types, as compared to the disaggregation for other types of OTC derivatives, would enable central banks and other data users to get a clearer picture of how credit default swaps transfer credit risk within the global financial system.

Notional values would be further disaggregated by the credit rating of the underlying reference entity, by the sector of the underlying reference entity, and by remaining maturity of outstanding credit default swap contracts.

Proposed Table 4A-Credit Default Swaps by Rating Category. Data would be disaggregated into upper investment grade (AA and higher), lower investment grade (A and BBB), non investment grade (BB and lower), and not rated. Information on the credit rating of the reference entity would give central banks and other data users a clearer picture of the nature and amount of credit risk that is being transferred in the credit default swap market.

Proposed Table 4B-Credit Default Swaps by Sector of the Reference Entity. Data would be disaggregated into financial firms, nonfinancial firms, sovereigns, and multiple sectors (for multiple-name instruments). Information on the sector of the reference entity would give central banks and other data users a clearer picture of the nature of the credit risk that is being transferred in the credit default swap market.

Proposed Table 4C-Credit Default Swaps by Remaining Contract Maturity. Data would be disaggregated into one year or less, over one year through five years, and over five years.

Proposed Table 4D-Credit Default Swaps, Gross Positive and Gross Negative Market Values. Data would show the magnitude of unsettled changes in value of credit default swap contracts outstanding at the time of reporting. Such a time series is a valuable source of information for researchers and market participants in developing an understanding of the role and function of the credit default swap market in financial systems in various circumstances.

The Federal Reserve would like to solicit comments about Table 4A; specifically about the costs and benefits of a further breakdown of column “A/BBB” into two separate columns, “A” and “BBB.” At many institutions, the “A” and “BBB” categories are of comparable size, and the proportion in each category is not constant over time, but appears to vary over the business cycle. Moreover, the default probabilities of A- and BBB-rated bonds, while both quite small, are nonetheless quite different, with a BBB-rated bond four times more likely to default over a five-year period than an A-rated bond.

2. *Report title:* Consolidated Bank Holding Company Report of Equity Investments in Nonfinancial Companies

Agency form number: FR Y-12

OMB control number: 7100-0300

Frequency: Quarterly and semi-annually

Reporters: Bank holding companies

Annual reporting hours: 1,696 hours

Estimated average hours per response: 16 hours

Number of respondents: 28

General description of report: This information collection is mandatory pursuant to Section 5(c) of the Bank Holding Company Act (12 U.S.C. 1844(c)) and data may be exempt from disclosure pursuant to Sections (b)(4) and (b)(8) of the Freedom of Information Act (5 U.S.C. 552(b)(4) and (b)(8)).

Abstract: The FR Y-12 was implemented as of September 30, 2001, in response to the Gramm-Leach-Bliley Act (GLB Act) of 1999, which broadened the scope of permissible investments in nonfinancial companies. The FR Y-12 collects information from certain domestic bank holding companies (BHCs) on their investments in nonfinancial companies on three schedules: Type of Investments, Type of Security, and Type of Entity within the Banking Organization. Large BHCs report on a quarterly basis, and small BHCs report semi-annually.

Current Actions: The Federal Reserve proposes to revise the FR Y-12 reporting form and instructions to enhance the Federal Reserve's ability to monitor and supervise the private equity merchant banking (PEMB) activity across all BHCs for purposes of safety and soundness. The proposed revisions to the FR Y-12 include (1) modifying the reporting threshold to reduce regulatory burden; (2) adding a memorandum item to Schedule A to collect data on investments managed for others; (3) adding a memorandum item to Schedule B to identify whether the BHC holds any warrants received in connection with equity investment activity; (4) simplifying Schedule C by eliminating three columns used to collect data on direct investments in public entities, direct investments in nonpublic entities, and all indirect investments; and (5) adding Schedule D "Nonfinancial Investment Transactions During the Reporting Period" to collect information on all PEMB activity of the BHC during the reporting period and to better reflect the industry's focus on monitoring "cash in and cash out." The Federal Reserve proposes to defer implementation of the revised FR Y-12 until March 31, 2005, to coincide with the implementation of proposed revisions to the FR Y-9C and FR Y-9SP reports (OMB No. 7100-0128).

Proposed Revisions to the FR Y-12 Reporting Form and Instructions

Schedule A - Type of Investments

- **Retitle** – Memorandum item 3 from "Impact on net income from items 1, 2, and 3 above" to "Pre-tax impact on net income from items 1, 2, and 3 above." This modification would clarify the intent of the original item, as discussed in the instructions.
- **Add** – Memorandum item 4 "Investments managed for others." This item would collect information on the extent of the BHC's role in managing private equity investments for others. This item would be used to provide new information regarding the extent of the institution's PEMB operation. Significant investment funds management activity could increase the inherent legal and reputational risk of the institution.

Schedule B - Type of Security

- **Add** – Memorandum item 2 "Does the BHC hold any Warrants or similar instruments received in connection with equity investment activity? (Enter "1" if yes, "0" if no)."

This item would be used to identify whether the BHC holds any warrants or similar instruments received in connection with equity investment activity or similar “equity kickers” that, while typically carried at only a nominal value, may potentially increase the risk profile of the corporation.

Schedule C - Type of Entity within the Banking Organization

Schedule C would be modified to categorize the type of investments, reported in Schedule A, by the booking entity within the banking organization. The portfolio totals from Schedule C should equal portfolio totals reported for Schedule A.

- **Add** – New column “(Column B) Net Unrealized Holding Gains Not Recognized As Income.” This information would identify net unrealized holding gains (or losses) that have not been recognized as income within the BHC structure through which the investments are made, as reported in Schedules A and B.
- **Retitle** – Old column “(Column B) Carrying Value” as “(Column C) Carrying Value.”
- **Add** – Item 2.b “Edge and agreement corporations,” renumber “SBICs” as item 2.a, and renumber “Broker/Dealers” as item 2.c. This breakout from “All other” would provide consistency with item 1, as Edge and agreement corporations may be housed in either a depository institution or parent holding company structure.
- **Add** – Item 2.d “Private Equity subsidiaries” and renumber “All other” as item 2.e. This additional breakout would identify those BHCs that have established nonbank subsidiaries primarily devoted to the PEMB activity. The larger BHCs active in PEMB have typically established private equity subsidiaries.
- **Delete** – Current Columns C, D, and E Carrying Value for: “Direct Investments in Public Entities,” “Direct Investments in Nonpublic Entities,” and “All Indirect Investments.” These data were not significantly different than data collected in Schedule A, and Columns A and B of Schedule C.

Schedule D - Nonfinancial Investment Transactions During the Reporting Period

- **Add** – This proposed schedule would collect information on all PEMB activity of the BHC, on an aggregate basis, for the reporting period. Columns A and B would collect acquisition cost and carrying value for all purchases, returns of capital, and net changes in valuation made for all direct investments. Columns C and D would collect information on the same items for all transactions involving indirect (fund) investments. These data would provide valuable insight into the scope of activity on a transaction basis and, when reviewed over time, would provide critical trend data useful for industry studies as well as BHC supervisory monitoring.

The proposed FR Y-12 instructions would be reorganized and clarified to conform with the proposed changes to the reporting form.

Proposed Revisions to the FR Y-12 Respondent Reporting Threshold Criteria

- **Modify** the reporting threshold criteria for respondents that file the FR Y-9C, by decreasing the aggregate nonfinancial equity investments threshold from \$200 million

to \$100 million (on an acquisition cost basis) and increasing the consolidated Tier 1 capital threshold from 5 percent to 10 percent.

- **Modify** the reporting threshold criterion for respondents that file the FR Y-9SP, by increasing the total capital threshold from 5 percent to 10 percent.

The proposed decrease in the reporting threshold from \$200 million to \$100 million would require reporting from large complex banking organizations that have a significant concentration of capital invested in this asset class, but fall below the current reporting threshold.

The proposed increase in the reporting threshold from 5 percent to 10 percent of capital would reduce burden for respondents, while continuing to screen for the smaller BHCs with a significant concentration of capital invested in this asset class.

- **Delete** – “Has the bank holding company made an effective election to become a financial holding company?” This information is readily available on the National Information Center database.
- **Modify** – Clarify the legal authority to read: “Directly or indirectly through a subsidiary or affiliate, any nonfinancial equity investments within a Small Business Investment Company structure, *or* under section 4(c)(6) or 4(c)(7) of the Bank Holding Company Act, *or* pursuant to the merchant banking authority of section 4(k)(4)(H) of the Bank Holding Company Act, *or* pursuant to the investment authority granted by Regulation K.”

The Federal Reserve would like to solicit comments on the following issues related to the FR Y-12:

1. **Request comment on the reporting of information on an acquisition cost and carrying value basis.** Specifically, whether the revised instructions on "acquisition cost" give BHCs the flexibility to report carrying cost in a manner consistent with how they maintain their internal books and records.
2. **Request comment on the reporting of information on convertible debt.** Specifically, whether the reporting of convertible debt information is burdensome.
3. **Request comment on proposed Schedule D, “Nonfinancial Investment Transactions During the Reporting Period.”** Specifically, whether the information requested is readily available.

Board of Governors of the Federal Reserve System, July 19, 2004.

/signed/

Jennifer J. Johnson,
Secretary of the Board.