

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

Summary

The Board of Governors of the Federal Reserve System (Board), under authority delegated by the Office of Management and Budget (OMB), proposes to extend for three years, with revision, 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). 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) (collectively, holding companies)¹ on their equity investments in nonfinancial companies. The FR Y-12A report is filed by financial holding companies (FHCs)² with merchant banking investments that are approaching the end of the holding periods permissible under the Board's Regulation Y - Bank Holding Companies and Change in Bank Control (12 CFR Part 225), as described in the Respondent Panel section below.³

The Board proposes to revise the FR Y-12 and FR Y-12A instructions by 1) specifying when respondents should submit their reports if the submission deadline falls on a weekend or holiday, 2) modifying and clarifying the recordkeeping requirements of the submitted form, 3) clarifying what must be included in the reported amount of a firm's aggregate nonfinancial equity investment, 4) clarifying in the FR Y-12 instructions which columns are applicable to Schedules A and C, and 5) aligning the submission deadline of the FR Y-12A to be consistent with the FR Y-12 submission deadline. The revisions are proposed to take effect for the December 31, 2023, as of date. There are no proposed revisions to the FR Y-12 and FR Y-12A report forms.

The current estimated total annual burden for the FR Y-12 and FR Y-12A is 1,955 hours and would increase to 2,021 hours. The proposed revisions would result in an increase of 66 hours. The forms and instructions are available on the Board's public website at <https://www.federalreserve.gov/apps/reportforms/default.aspx>.

Background and Justification

¹ The FR Y-12 must be filed by (1) each top-tier domestic holding company that files a 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 or 10 percent of the holding company's consolidated Tier 1 capital as of the report date and (2) each top-tier domestic holding company that files a 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 10 percent of the holding company's total capital as of the report date.

² As used in this supporting statement, the term FHC refers both to BHCs that are FHCs and to SLHCs and foreign banks that have made an effective election to be treated as FHCs.

³ See 12 CFR 225.172(b)(1), (4) and 225.173(c)(1)-(2).

FR Y-12

The Bank Holding Company Act of 1956 (BHC Act) generally prohibits a BHC from making investments in non-banking organizations. However, the BHC Act permits BHCs to make certain nonfinancial equity investments, such as investments in companies that engage in activities the Board has determined to be closely related to banking.⁴ Similar activities limitations apply to foreign banking organizations (FBOs), including those with IHCs.⁵ In addition, the Home Owners' Loan Act (HOLA) permits an SLHC to engage in many activities the Board has determined to be permissible for a BHC.⁶

Holding company investments in nonfinancial companies contribute significantly to earnings and the gain/loss received from the equity investments in nonfinancial companies will flow through retained earnings or accumulated other comprehensive income at institutions actively involved in this business line. Equity investments also contribute to the volatility of earnings and capital, and increase some institutions' risk profiles.

The FR Y-12 collects 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 investments in nonfinancial companies.

FR Y-12A

A BHC that makes an effective election to become an FHC, as well as an SLHC or foreign bank that makes an effective election to be treated as an FHC, may invest in a company that engages in activities that are financial in nature.⁷ Additionally, under merchant banking authority, such an entity may make investments of any amount, in any type of nonfinancial company, subject to certain requirements.⁸

The Board's Regulation Y generally authorizes an FHC to own or control a merchant banking investment for no longer than 10 years. However, 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 holding periods.

⁴ See e.g., 12 U.S.C. § 1843(c)(8); 12 U.S.C. § 1843(c)(6) (investments of less than five percent of the outstanding voting shares of a company). A BHC includes a foreign banking organization and an IHC subsidiary of a foreign banking organization. 12 CFR 225.2(c)(2).

⁵ See 12 U.S.C. § 3106(a) (applying the provisions of the BHC Act to FBOs); 12 CFR 225.2(c)(2) (defining BHCs to include FBOs for purposes of subpart C, Nonbanking Activities and Acquisitions by Bank Holding Companies, of Regulation Y).

⁶ 12 U.S.C. §§ 1467a(c)(2)(F), (H).

⁷ 12 U.S.C. § 1843(k)(1)(A).

⁸ 12 U.S.C. § 1843(k)(4)(H).

In order to monitor compliance with these holding period restrictions, the FR Y-12A requires each FHC to report annually merchant banking investments that the FHC has 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 data allows bank examiners to monitor merchant banking investments that are approaching the end of their applicable holding period. 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.

The information collected by the FR Y-12 and FR Y-12A is not available from other sources. If this information were not collected or were collected less frequently, the Board would not be able to effectively monitor the growth in equity investments in nonfinancial companies and their contributions to capital, profitability, risk, and volatility or investments that are approaching the end of their applicable holding periods.

Description of Information Collection

FR Y-12

The FR Y-12 collects financial data on nonfinancial equity investments by type of investment, type of security, type of entity within the banking organization, and nonfinancial investment transactions during the reporting period. The FR Y-12 reporting form comprises four schedules. The Board understands that respondents use information technology to gather data for and to submit the FR Y-12 electronically.⁹

Schedule A - Type of Investments

This schedule collects information on the acquisition cost, net unrealized holding gains (losses) on equity securities not held for trading, 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 of certain investments, 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 each type of security (common stock, convertible debt and convertible preferred stock, and other equity instruments) held by the reporting institution. The memorandum items collect information on unused equity commitments and warrant activity.

⁹ See www.frb services.org/centralbank/reportingcentral/index.html. A respondent that is required to file this form with the Federal Reserve System should contact its district Federal Reserve Bank if it believes it may not be able to submit the form electronically.

Schedule C - Type of Entity within the Banking Organization

This schedule identifies the type of entity within the holding company structure through which the investments reported in schedules A and B are held (for example, broker-dealers) and collects information on the acquisition cost, net unrealized holding gains (losses) on equity securities not held for trading, 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 any FHC with investments held under the merchant banking authority for a period that exceeds the applicable reporting period for the investment (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 legal 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 holding period expiration date of the covered investment,
- The legal 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.

The Board understands that respondents use information technology to gather data for and to submit the FR Y-12A electronically.¹⁰

Respondent Panel

The FR Y-12 panel comprises a subset of top-tier domestic holding companies that file the FR Y-9C or the FR Y-9SP. A holding company that files the FR Y-9C must file the FR Y-12 if it has aggregate nonfinancial equity investments that equal or exceed the lesser of \$100 million or 10 percent of the holding company's consolidated Tier 1 capital as of the report date. A holding company that files the FR Y-9SP must file the FR Y-12 if it has aggregate nonfinancial equity investments that equal or exceed 10 percent of the holding company's total capital as of the report date.

As noted, 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.

Frequency

The FR Y-12 is submitted quarterly for holding companies that file the FR Y-9C and semiannually for those holding companies that file the FR Y-9SP. The FR Y-12A is submitted annually.

Proposed Revisions to the FR Y-12 and FR Y-12A

The Board proposes to revise the FR Y-12 and FR Y-12A instructions to specify when respondents should submit their reports when the submission deadline falls on a weekend or holiday. The instructions would be revised to state the following: "If the submission deadline falls on a weekend or holiday, the report must be received on the first business day after the Saturday, Sunday, or holiday. Earlier submission aids the Federal Reserve in reviewing and processing the reports and is encouraged. The reports are due by the end of the reporting day on the submission date (5:00 P.M. at each district Reserve Bank.)". The Board also proposes to modify and clarify the FR Y-12 and FR Y-12A instructions to require paper and electronic filers to maintain in their files a physical or electronic scanned copy of the manually signed and attested FR Y-12 and FR Y-12A submissions for a period of three years after submission. Currently, the instructions for the FR Y-12 and FR Y-12A require respondents to maintain these records but do not specify the duration of the recordkeeping requirement. The Board also proposes to clarify in the FR Y-12 instructions that Column B, "Unrealized Holding Gains

¹⁰ See www.frb services.org/centralbank/reportingcentral/index.html. A respondent that is required to file this form with the Federal Reserve System should contact its district Federal Reserve Bank if it believes it may not be able to submit the form electronically.

(Losses) on Equity Securities Not Held for Trading” and Column C, “All Other Unrealized Holding Gains (Losses) on Equity Securities” are only applicable to Schedules A and C.

Additionally, the Board proposes to revise the submission deadline of the FR Y-12A. The FR Y-12A submission deadline would be revised to instruct holding companies to submit their FR Y-12A reports within 45 calendar days of the December 31st as-of date, rather than the current deadline of February 15th (which is 46 calendar days after December 31st). The Board is proposing this change to align the submission deadlines of the FR Y-12 and FR Y-12A and to reduce confusion regarding the due dates. Finally, the Board proposes to revise the FR Y-12 instructions to clarify that the aggregate nonfinancial equity investment amount includes both the amount of any investments that the holding company has made or has committed to make in the future. All of the proposed revisions mentioned above would have a proposed effective date of December 31, 2023.

Time Schedule for Information Collection

The FR Y-12 is filed quarterly for holding companies that file the FR Y-9C, as of the end of March, June, September, and December, and semiannually for those holding companies that file the FR Y-9SP, as of the end of June and December. The FR Y-12 must be submitted within 45 calendar days of the reporting date. The FR Y-12A is filed annually by an FHC 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 report must be submitted by February 15th of the following calendar year. For example, if, as of December 31, 2022, an FHC owns a covered investment, the FHC must submit an FR Y-12A for the investment by February 15, 2023.

Public Availability of Data

Data reported on the FR Y-12 and FR Y-12A reports are not published. With certain exceptions, microdata are considered public information and are available through the Board’s Freedom of Information Office.

Legal Status

The Board is authorized to collect information on the FR Y-12 and FR Y-12A from BHCs and SLHCs pursuant to its reporting authorities, which are located in section 5(c) of the BHC Act for BHCs¹¹ and section 10(b)(2) of the Home Owners’ Loan Act for SLHCs.¹² The Board is authorized to collect information on the FR Y-12 from IHCs pursuant to section 5(c) of the BHC Act¹³ and sections 102(a)(1) and 165 of the Dodd-Frank Act.¹⁴ The Board is also

¹¹ 12 U.S.C. § 1844(c)(1)(A).

¹² 12 U.S.C. § 1467a(b)(2).

¹³ 12 U.S.C. § 1844(c)(1)(A).

¹⁴ 12 U.S.C. §§ 5311(a)(1) and 5365. Section 165(b)(2) of the Dodd-Frank Act, 12 U.S.C. § 5365(b)(2), refers to “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 bank holding companies under section 8(a) of the International Banking Act, 12 U.S.C. § 3106(a). The

authorized to collect information on the FR Y-12A report by section 4(k)(7)(A) of the BHC Act,¹⁵ which authorizes the Board and the Treasury Department to jointly develop implementing regulations governing merchant banking activities.¹⁶ The obligation to respond to the FR Y-12 and FR Y-12A reports is mandatory.

The completed version of the FR Y-12 is generally available to the public upon request. To the extent a respondent submits nonpublic commercial or financial information in connection with the FR Y-12, which is both customarily and actually treated as private by the respondent, the respondent may request confidential treatment pursuant to exemption 4 of the Freedom of Information Act (FOIA).¹⁷

The Board generally considers the information collected on the FR Y-12A to be confidential because it is expected to be confidential commercial or financial information that is both customarily and actually treated as private by the institution, and thus may be kept confidential pursuant to exemption 4 of the FOIA.¹⁸

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Public Comments

On July 19, 2023, the Board published an initial notice in the *Federal Register* (88 FR 46161) 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 expires on September 18, 2023.

Estimate of Respondent Burden

As shown in the table below, the estimated total annual burden for the FR Y-12 and FR Y-12A is 1,955 hours and would increase to 2,021. The number of FR Y-12 (quarterly and semiannual) respondents is based on the number of respondents that submitted data for the June 30, 2022, as of date, and the number of FR Y-12A respondents is based on the number of respondents that submitted data for the December 31, 2021, as of date. These reporting and recordkeeping requirements represent less than 1 percent of the Board's total paperwork burden.

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. intermediate holding companies. 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 report.

¹⁵ 12 U.S.C. § 1843(k)(7)(A).

¹⁶ See 12 U.S.C. § 1467a(c)(2)(H) and 12 U.S.C. § 3106(a).

¹⁷ 5 U.S.C. § 552(b)(4).

¹⁸ *Id.*

FR Y-12 and FR Y-12A	<i>Estimated number of respondents¹⁹</i>	<i>Estimated Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<u>Current</u>				
Reporting				
FR Y-12 (Quarterly)	23	4	16.5	1,518
FR Y-12 (Semiannual)	8	2	16.5	264
FR Y-12A	23	1	7.5	<u>173</u>
<i>Current Total</i>				1,955
<u>Proposed</u>				
Reporting				
FR Y-12 (Quarterly)	23	4	16.5	1,518
FR Y-12 (Semiannual)	8	2	16.5	264
FR Y-12A	23	1	7.5	173
Recordkeeping				
FR Y-12 (Quarterly)	23	4	.5	46
FR Y-12 (Semiannual)	8	2	.5	8
FR Y-12A	23	1	.5	<u>12</u>
<i>Proposed Total</i>				2,021

¹⁹ Of these respondents, 0 FR Y-12 (Quarterly), 0 FR Y-12 (Semiannual), and 10 FR Y-12A are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$850 million in total assets), <https://www.sba.gov/document/support--table-size-standards>. There are no special accommodations given to mitigate the burden on small institutions.

The estimated total annual cost to the public for these information collections is \$118,180 and would increase to \$122,169 with the proposed revisions.²⁰

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 for collecting and processing the FR Y-12 and FR Y-12A is \$31,600.

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 \$21, 45% Financial Managers at \$74, 15% Lawyers at \$71, and 10% Chief Executives at \$102). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor Statistics (BLS), Occupational Employment and Wages, May 2021, published March 31, 2022, <https://www.bls.gov/news.release/ocwage.t01.htm#>. Occupations are defined using the BLS Standard Occupational Classification System, <https://www.bls.gov/soc/>.