

## **FEDERAL RESERVE SYSTEM**

### **Agency Information Collection Activities: Announcement of Board Approval Under Delegated Authority and Submission to OMB**

**AGENCY:** Board of Governors of the Federal Reserve System

**SUMMARY:** Notice is hereby given of the final approval of a proposed information collection by the Board of Governors of the Federal Reserve System (Board) under the Office of Management and Budget (OMB) delegated authority. Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information. Copies of the Paperwork Reduction Act Submission, supporting statement 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.

**FOR FURTHER INFORMATION CONTACT:** Federal Reserve Board Clearance Officer – Nuha Elmaghrabi – Office of the Chief Data Officer, Board of Governors of the Federal Reserve System, Washington, DC 20551 (202) 452-3829. Telecommunications Device for the Deaf (TDD) users may contact (202) 263-4869, Board of Governors of the Federal Reserve System, Washington, DC 20551.

OMB Desk Officer – Shagufta Ahmed – Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 10235, 725 17<sup>th</sup> Street, NW, Washington, DC 20503.

### **Final approval under OMB delegated authority of the extension for three years, with revision, of the following information collection:**

*Report title:* Report of Selected Money Market Rates.

*Agency form number:* FR 2420.

*OMB Control number:* 7100-0357.

*Effective Date:* October 20, 2015, for Part A-Federal Funds, Part AA-Selected Borrowings from Non-Exempt Entities, and Part B-Eurodollars. January 15, 2016, for Part C-Time Deposits and Certificates of Deposit.

*Frequency:* Daily.

*Reporters:* Domestically chartered commercial banks and thrifts that have \$18 billion or more in total assets, or \$5 billion or more in assets and meet certain unsecured borrowing activity thresholds; U.S. branches and agencies of foreign banks with total third-party assets of \$2.5 billion or more.

*Estimated annual reporting hours:* Commercial banks and thrifts – 34,200 hours; U.S. branches and agencies of foreign banks – 35,100 hours; International Banking Facilities – 19,750 hours; Significant banking organizations – 900 hours.

*Estimated average hours per response:* Commercial banks and thrifts – 1.8 hours; U.S. branches and agencies of foreign banks – 1.8 hours; International Banking Facilities – 1.0 hour; Significant banking organizations – 1.8 hours.

*Number of respondents:* Commercial banks and thrifts – 76; U.S. branches and agencies of foreign banks – 78; International Banking Facilities – 79; Significant banking organizations – 2.

*General description of report:* The FR 2420 is a mandatory report that is authorized by sections 9 and 11 of the Federal Reserve Act (12 U.S.C. 324 and 248(a)(2)), sections 7(c)(2) and 8(a) of the International Banking Act (12 U.S.C. 3105(c)(2) and 3106(a)), and section 5(c) of the Bank Holding Company Act (12 U.S.C. 1844(c)(1)(A)). Individual respondent data are regarded as confidential under the Freedom of Information Act (FOIA) (5 U.S.C. 552(b)(4)).

*Abstract:* The FR 2420 is a transaction-based report that currently collects daily liability data on federal funds transactions, Eurodollar transactions, and certificates of deposit (CD) issuance from (1) domestically chartered commercial banks and thrifts that have \$26 billion or more in total assets and (2) U.S. branches and agencies of foreign banks with total third-party assets of \$900 million or more. FR 2420 data are used in the analysis of current money market conditions and will allow the Federal Reserve Bank of New York (FRBNY) to calculate and publish interest rate statistics for selected money market instruments.

*Current Actions:* On April 7, 2015, the Federal Reserve published a notice in the *Federal Register* (80 FR 18620) requesting public comment for 60 days on the extension, with revision, of the FR 2420. The comment period for this notice expired on June 8, 2015. The Federal Reserve received four comment letters on the proposed revisions of the FR 2420; three from trade organizations and one from a U.S. branch of a foreign bank. Substantive comments on the data collection are discussed in detail below. In addition, several technical comments were received and the Federal Reserve will update the final reporting forms and instructions for these comments, as appropriate.

## **Summary of Public Comments**

### **Report Cost-Benefit**

A trade organization asked if the marginal increase in information from adding new U.S. bank reporters outweighs the increase in costs and burden on these additional institutions affected by the proposal. While the Federal Reserve is sensitive to the reporting burden of the affected depository institutions, revisions to the data are being made to fulfill high-priority policy objectives. First, the expanded and enhanced data collection is expected to improve unsecured money market monitoring and augment the ability of the Federal Reserve Bank of New York, on behalf of the Federal Reserve, to analyze these markets and implement monetary policy. Second, the data set is expected to provide robust transaction data for calculating the effective

federal funds rate (EFFR), an improvement over the current rate constructed from brokered data. The collection also is expected to allow for the calculation of a new overnight bank funding rate (OBFR) that uses both federal funds and Eurodollar data. Third, data collected under the FR 2420 report also represent an important source of information on individual depository institutions' borrowing rates, which is expected to allow for more effective monitoring of firm-specific liquidity risks for purposes of supervisory surveillance.

Given these critical uses for the data, the Federal Reserve is seeking to ensure that the reporting panel captures entities that are meaningfully involved in unsecured money markets and that it remains robust to changes in borrower composition in these markets. Additional U.S. bank reporters are necessary to provide insight into a distinct and important segment of the federal funds market. The federal funds borrowing in this segment can represent a significant proportion of overall activity in certain market environments, and can occur at rates that are distinct from funding activity conducted by other institutions. However, the Federal Reserve understands the need to strike a balance between reporting burden and the collection of information required to fulfill its policy objectives. As such, adjustments are being made to the asset-size thresholds to reduce reporting burden, as discussed below. In addition, exceptions may be made for those institutions that meet the asset-size threshold but can demonstrate that they have an ongoing business model that results in a negligible amount of activity in these markets. The "Reporting Exception" section below provides more information on how an exception may be obtained.

### **Asset Size and Activity Thresholds**

A trade organization wrote that the asset-size threshold imposes costs on institutions that may not have substantial activity and noted that, according to Call Report data, institutions with between \$15 billion and \$26 billion in assets hold only about five percent of total federal funds purchased. This trade organization noted that the activity threshold approach is more targeted and should be used for any institution to which the Federal Reserve intends to extend reporting requirements.

Asset-size thresholds create a stable panel of reporters, by ensuring that banks of meaningful size will be consistently required to report activity in a timely manner. This stable panel of banks is necessary to effectively analyze trends in unsecured funding markets and publish the EFFR and OBFR. The Federal Reserve proposed a lower asset-size threshold in order to create a more comprehensive dataset that captures an important segment of the federal funds market that is not currently covered in the existing criteria. Collectively, the federal funds activity of domestic depository institutions with assets between \$15 billion and \$26 billion can be notable. Call Report data suggest that the aggregate amount of federal funds activity of banks in this asset size varies and has, at times, represented more than 10 percent of federal funds activity. In addition, in the current market environment, borrowing by these institutions often occurs at different rates than seen in the current sample and represents an important segment of the market that the current FR 2420 report does not capture.

Activity thresholds, on the other hand, are beneficial for providing insight into activity that is outside the scope of the regular panel of reporters, and represents an important supplement to the asset-size thresholds. However, activity thresholds used alone can create gaps in reporting and a more inconsistent panel of banks. These thresholds necessarily require a look-back period to

measure activity and some forward period to prepare for reporting; thus, there is a significant lag between the threshold for activity being met and the commencement of reporting. The Federal Reserve considered relying more heavily on an activity threshold and found that the panel of banks was more inconsistent and the data capture was less complete.

Nonetheless, the Federal Reserve understands the need to find a balance between the burden being placed on reporting institutions and the achievement of reporting objectives. In light of the burden on smaller institutions of FR 2420 reporting, the Federal Reserve will retain the asset-size thresholds, but raise the minimum reporting threshold for domestically chartered commercial banks and thrifts from \$15 billion to \$18 billion. With this revised criteria, U.S. institutions with between \$15 billion and \$18 billion in assets will now only report if they meet the activity threshold. This change in threshold will result in a reduction in the number of additional, smaller institutions being required to report under the asset-size threshold.

### **Reporting Exception**

A trade organization asked for clarification on how and with what frequency institutions with ongoing business models that result in negligible activity can apply for exceptions to filing the FR 2420 report. Institutions can request a review of their reporting requirement at any point that they believe the reporting is an unreasonable burden. Requests should be made in writing and provide a look back of the data for at least two quarters and provide justification on why continuing to provide these data causes an undue burden.

### **Implementation Date**

Two trade organizations requested additional time to implement the revisions. One organization noted that the proposed timeline would be difficult to implement, as the recommended revisions add and redefine several elements of the FR 2420 report. This organization stated that the current panel of banks would need two quarters after final requirements and newly covered institutions would need one year. A second organization stated that although the proposal was well-developed and vetted, it would be difficult to commit systems and personnel until the final *Federal Register* notice. This organization asked the Federal Reserve to re-assess the proposed date, with not less than 6 months from the final requirements for implementation.

The revisions to the FR 2420 data are being implemented to meet high priority policy objectives. Most of the reporters under the new criteria are active reporters under the existing criteria. However, in order to provide the lead time for new reporters to prepare for reporting and still fulfill these objectives, the initially proposed reporting date of September 9, 2015 will be extended to October 20, 2015 for Part A-Federal Funds, Part AA-Selected Borrowings from Non-Exempt Entities, and Part B-Eurodollars. The reporting date for Part C-Time Deposits and Certificates of Deposit will be extended until January 15, 2016. This delay will allow reporters to focus on the changes applicable to the most time-sensitive parts of the report.

## **Submission Deadline**

A trade organization noted the 7 a.m. deadline imposes administrative costs for covered institutions and these costs are magnified, on a relative basis, for smaller institutions, which have fewer resources. A second organization stated that banks continue to experience challenges in meeting the 7 a.m. deadline for federal funds reporting as it conflicts with normal batch processing. This organization noted the time will also be a challenge for the expanded Eurodollar reporting requirements.

After considering these comments, the Federal Reserve determined that federal funds and Eurodollar data are needed by 7 a.m. each business day for the preceding day's reportable transactions to support the implementation of monetary policy and daily market monitoring. Therefore, the Federal Reserve is retaining the 7 a.m. deadline in the final report. The FR 2420 data provide a key insight on the previous day's unsecured market activity in the morning when the Federal Reserve is monitoring markets for the purposes of implementing monetary policy. In addition, in 2016, the data will be used as the source for daily calculation of the EFFF and OBFR. The EFFF is published in the morning in order to provide the market with a timely view on the previous day's activity.

## **Supervisory Purpose**

A trade organization objected to the broadening of the purpose of the reporting form to include a supervisory component. According to this organization, the timing and frequency of FR 2420 reporting makes it difficult for covered institutions to subject data to proper regulatory reporting controls. The trade organization would prefer the Federal Reserve to use the supervisory and reporting framework already in place to monitor individual firm liquidity conditions. The organization requested clarification on the interaction of the FR 2420 with the FR 2052b, which eliminated the requirement for daily reporting from institutions with between \$15 to \$26 billion in total assets after acknowledging through the FR 2052b implementation process that daily reporting is burdensome and unnecessary for these institutions. The organization also wrote that given significant changes being implemented to the FR 2052a, banks do not have enough information to comment on whether the FR 2420 report is duplicative or complementary. The organization noted that not all institutions that would be required to file the FR 2420 are required to file the FR 2052b. Furthermore, according to this organization, the FR 2420 collection encompasses institutions for whom the Federal Reserve is not the primary regulator, and it is unclear by which process the Federal Reserve will coordinate with the other banking agencies.

FR 2420 data are used by the Federal Reserve to carry out both monetary policy and supervisory functions. Although daily reporting for smaller institutions may not be required for supervisory surveillance on the FR 2052b, reporting at a daily frequency is required on the FR 2420 for analysis of current money market conditions and publication of the EFFF and OBFR. Institutions with asset sizes under the \$26 billion represent an important segment of the federal funds market that is not currently captured by the FR 2420 report, and collecting their borrowing transactions is necessary for understanding unsecured money markets. As noted above, the minimum asset-size threshold for reporting by U.S. institutions on the FR 2420 is being raised to \$18 billion in order to balance the need to capture this information with the reporting burden on

smaller institutions. This higher minimum threshold will eliminate the need for daily reporting for many smaller institutions. Furthermore, including a supervisory component to the FR 2420 report is not expected to increase, in itself, the burden on institutions required to file an FR 2420 since all report submissions are subject to control, audit, and governance protocols.

Utilization of the FR 2420 report for supervisory purposes will complement existing liquidity monitoring reports and allow the Federal Reserve to reduce reporting requirements in those reports. Specifically, with regard to the interaction between the FR 2420 and FR 2052, the Federal Reserve has reviewed the current and proposed reports and confirms there is no duplicated information or material overlaps between these reports. A subset of the FR 2420 pricing data was already being collected on the FR 2052a as part of supervisory liquidity monitoring. Going forward, information contained on the FR 2420 will replace certain information currently gathered on the FR 2052a, as these data elements will be dropped from the FR 2052a collection. Pricing information on the FR 2052b will not change, as that data is not similar to FR 2420 data. However, the amended FR 2420 will offer greater insight on the borrowing costs for these firms' liabilities. Pricing information, when used in tandem with liquidity data, is an area that supervisors review when gauging a firm's overall liquidity profile. Rapid changes in pricing can indicate a firm is entering a period of constrained market access and subsequent liquidity stress.

For institutions whose primary regulator is not the Federal Reserve and who do not file FR 2052 reports, the FR 2420 data is intended primarily for monetary policy purposes. The Federal Reserve does not plan to share these data with other agencies.

### **Clarifications and Other Issues**

One trade organization asked for clarification on several definitions, including counterparty types, embedded options on CDS, borrowings from GSEs and FHLBs, deposits from non-financial corporations, and the office identifier on Part B. Each of these definitions will be updated with further clarification in the reporting instructions. The organization also asked for a formal process for Frequently Asked Questions. The Federal Reserve will have a process to document reporting questions and communicate these to reporters. Lastly, the organization asked for the Reporting Central application to be open for testing as soon as possible. The application will be available for testing at least one month before the implementation dates.

One commenter provided additional comments outside the scope of the data collection proposal that focused on the calculation of the published rates.

Board of Governors of the Federal Reserve System, July 15, 2015.

(signed)

**Robert deV. Frierson,**  
*Secretary of the Board.*  
Billing Code 6210-01-P