

**Supporting Statement for the
Report of Selected Money Market Rates
(FR 2420; OMB No. 7100-0357)**

Summary

The Board of Governors of the Federal Reserve System (Board), under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with revision, the mandatory Report of Selected Money Market Rates (FR 2420; OMB No. 7100-0357). The FR 2420 is a transaction-based report that collects daily liability data on federal funds purchased, selected borrowings from non-exempt entities, Eurodollar transactions, and time deposits and certificates of deposits (CDs) from (1) domestically chartered commercial banks and savings associations that have \$18 billion or more in total assets as well as those that have total assets above \$5 billion but less than \$18 billion and meet the activity threshold, (2) U.S. branches and agencies of foreign banks with total third-party assets of \$2.5 billion or more, and (3) significant banking organizations that are active participants in money markets. The FR 2420 also collects daily data on Eurodollar transactions from International Banking Facilities (IBFs) of the above-referenced institutions.¹ The FR 2420 data are used in the publication of the effective federal funds rate (EFFR) and overnight bank funding rate (OBFR) and in analysis of current money market conditions.

Rewrites to the FR 2420 are being proposed to facilitate the Federal Reserve's ability to carry out its monetary policy and supervisory responsibilities. The Board proposes adding a new part to the FR 2420 (Part D) that captures domestic deposits with characteristics making them economically equivalent to Eurodollars from both reporting institutions that shifted deposits from branches in the Caribbean Islands to the U.S., as well as from reporting institutions that have historically booked all or a portion of such deposits only in the U.S. Additionally, the Board proposes eliminating Selected Borrowings from Non-Exempt Entities (Part AA) to reduce regulatory burden by removing a part of the report that collects information that is immaterial for the production of reference rates and the monitoring of money markets. The proposed changes would improve the Federal Reserve's ability to monitor activity in unsecured money markets and implement monetary policy. The revised collection also would ensure that the OBFR remains robust over time and reflective of market conditions for overnight, unsecured funding.

The annual reporting burden for the current FR 2420 is estimated to be 103,300 hours and would remain unchanged with the proposed revisions. The first report for the proposed revisions to FR 2420 would be as of October 1, 2018.

Background and Justification

The Board established the FR 2420 in April 2014 to enhance the Federal Reserve's ability to monitor money markets. The Federal Reserve Bank of New York (FRBNY), on behalf of the Federal Reserve, implements temporary open market operations in money markets, at the

¹ A selected borrowing from a non-exempt entity is an unsecured borrowing (an unsecured primary obligation undertaken by the reporting institution as a means of obtaining funds) in U.S. dollars from a counterparty that is a non-exempt entity as derived from Regulation D, Section 204.2(a)(vii).

directive of the Federal Open Market Committee (FOMC). Having transaction-level data on a variety of money market instruments provides insight into market functioning, allows FRBNY to meet the FOMC's policy directive, and is used in the publication of the EFFR and OBFR.

In October 2015, the Board made changes to the FR 2420 reporting panel that (1) modestly expanded the number of domestic depository institutions required to report and reduced the number of foreign banks that are required to report, (2) required U.S. branches and agencies of foreign banks (FBOs) to report the Eurodollar transactions of managed and controlled Caribbean branches, and (3) required IBFs of reporting institutions to file the FR 2420. In addition, the Board changed some definitions, including (1) narrowing the definition of transactions reported as federal funds on the FR 2420 to align with the Reserve Requirements of Depository Institutions (Regulation D) definition, (2) shifting the reporting of other wholesale borrowing transactions currently reported as federal funds to a new schedule, (3) revising the definition of CDs, and (4) including forward starting transactions. The Board also added several new data elements. These included counterparty type, trade date, and settlement date for all schedules of the report. On the Eurodollar schedule, one new data element was added that identifies the offshore branch that booked the transaction. On the Time Deposit and Certificate of Deposit schedule, one new data element was added that identifies embedded options; one that specifies the interest rate spread on floating rate instruments; and one that indicates stepped-up interest rates.

Description of Information Collection

The FR 2420 is a transaction-based report that collects daily liability data on federal funds, selected borrowings from non-exempt entities, Eurodollars, and time deposits and certificates of deposit (CDs). Transactions in these money market instruments are reportable if executed on the report date and are denominated in U.S. dollars, executed in amounts of \$1 million or more, and are conducted at arm's length. Reported information includes the amount of each transaction; the trade date, settlement date, and maturity date of each transaction; the interest rate for each transaction; and the counterparty type involved in each transaction. In addition, as CDs may have floating rates, several additional items are collected to better understand their interest rate structure.

Federal Funds (Part A)

Part A captures data used for the analysis of federal funds market conditions. Federal funds purchased are unsecured borrowings of the reporting institution's U.S. offices from a counterparty that is an exempt entity as defined in Regulation D.

Selected Borrowings from Non-Exempt Entities (Part AA)

Part AA captures selected unsecured wholesale borrowings that are not included in Federal Funds (Part A). Direct borrowing from a corporate lender is an example. These transactions represent a small, alternate source of information on depository institutions' funding costs.

Eurodollars (Part B)

Eurodollars are an important source of funding for U.S.-based banking offices and the Federal Reserve monitors and analyzes the Eurodollar market concurrently with its coverage of the federal funds market. Eurodollars are unsecured liabilities of the reporting institution's non-U.S. offices. IBFs of reporting institutions must also file a separate FR 2420 Part B.

Time Deposits and Certificates of Deposit (Part C)

Data on time deposits and CD transactions provide alternative sources of information to the current daily survey of CD rates conducted by the Federal Reserve and improve market monitoring capabilities as it provides additional, previously unavailable, detail on CD interest rate structure. Time deposits and CDs are booked by the reporting institution, and may be evidenced by a negotiable or nonnegotiable instrument, or a deposit in book entry form evidenced by a receipt or similar acknowledgement issued by the bank. Unlike federal funds and Eurodollars, CDs frequently have floating rates. For that reason, the FR 2420 collects additional data fields for reportable CD transactions that are necessary to understand the interest rate structure over the life of each CD. These data items are floating or fixed rate, a step-up indicator, reset period, reference rate and spread information, negotiability, and embedded options.

Proposed Revisions

The Board proposes to revise the FR 2420 by adding Selected Deposits (Part D) and removing Selected Borrowings from Non-Exempt Entities (Part AA). Other minor edits in the reporting instructions are proposed to improve clarity.

Summary of Revisions

1. Addition of Selected Deposits (Part D)

The Board proposes adding a new section, Part D, to the FR 2420, intended to capture short-term wholesale unsecured deposits that are economically equivalent to federal funds purchased in Part A or Eurodollars in Part B. The primary target for this collection would be reporting institutions that, in recent years, shifted deposits from branches in the Caribbean Islands² to the U.S., which has caused this borrowing to fall outside the scope of the current FR 2420. The proposed Part D would also collect data from institutions that have historically booked all or a portion of such deposits in their U.S. offices.

Since June 2016, some Eurodollar activity from Cayman and Nassau branches of foreign banks has shifted to U.S. branches of those banks, causing Eurodollar volume reported on the FR 2420 to decline significantly, obscuring vision into the wholesale funding market and reducing the robustness of the data used in calculating the OBFR. Federal Reserve staff are

² Caribbean islands includes the Cayman Islands and Nassau, Bahamas or any other location within the Caribbean if the majority of the responsibility for business decisions for that FBO branch reside at the U.S. branch of the foreign bank that reports on the FR 2420.

aware of at least roughly \$35 billion in overnight Eurodollar transactions that have moved from the Cayman Islands to New York. The motivation has been described as the simplification of corporate structure for the drafting of living wills. Accordingly, the Board proposes to add Part D to the FR 2420 to capture these short-term, wholesale, domestic deposits.

To capture the intended data, a selected deposit is defined as a deposit denominated in U.S. dollars, in an amount of \$1 million or more, that is issued in a U.S. office of the reporting institution on the report date. A selected deposit is a deposit issued with an original specified term to maturity of six or less days such that the dollar amount of the deposit is payable as follows:

- a) On a certain calendar date that is six or less days after the settlement date of the deposit, or
- b) At the end of a specified period of time that is six or less days after the settlement date of the deposit.

Selected deposits include deposits issued for which the terms were negotiated at arm's length on the report date, which have interest rates specified as part of the terms that were negotiated, with an original maturity of six or less days and are issued to either a personal or a non-personal counterparty.

Selected deposits exclude deposits that do not have a specified term to maturity and are payable immediately on demand and deposits that are issued as collateral for another transaction (e.g., a deposit issued as collateral for a loan).

The data elements collected for Selected Deposits are identical to the elements collected for Federal Funds Purchased (Part A) and Eurodollars (Part B), with the exception of 'office identifier.' The reporting deadline is the same as the deadline for Parts A and B.

2. Removal of Selected Borrowings From Non-Exempt Entities (Part AA)

The Board proposes deleting Selected Borrowings from Non-Exempt Entities, Part AA, from the FR 2420 to offset additional reporting burden resulting from the proposal to add Part D. There are two additional reasons for the Board's proposed deletion. First, Part AA does not capture data currently used or expected to be used in the calculation of reference rates. Second, Part AA currently collects very little data and the Part AA instructions sometimes cause confusion among FR 2420 respondents. Currently, respondents are instructed to include borrowings from non-exempt entities in Part AA, and are also instructed to exclude deposits as defined in Regulation D (Section 204.2(a)(1)) from Part AA. However, borrowings from non-exempt entities are typically defined as deposits under Regulation D, which has caused confusion for respondents reporting data on Part AA and limited the amount of useful data captured on this part of the report form.

3. Data Elements and Reporting Requirements Applicable to All Parts of the FR 2420

The Board proposes some wording changes throughout the FR 2420 instructions to help clarify reporting expectations for respondents. As an example, the Board proposes to amend the definition of federal funds purchased applicable to the FR 2420 to explicitly exclude borrowings from a Federal Reserve Bank. While borrowings from Federal Reserve Banks were never meant to be included in the definition of federal funds purchased for the purpose of the FR 2420, respondents frequently reported such borrowings in Part A of the report form. Adding explicit instructions to exclude borrowings from Federal Reserve Banks from Part A of the FR 2420 should help to clarify the type of data to be reported. There are several other instances of these types of clarifications in the proposed FR 2420 instructions.

Reporting panel

The FR 2420 reporting panel is comprised of commercial banks, savings associations, branches and agencies of foreign banks, IBFs, and significant banking organizations representing entities actively participating in the federal funds and/or other money markets.³ Commercial banks and savings associations with \$18 billion or more in total assets on the September 30 Consolidated Reports of Condition and Income (Call Report) (FFIEC 031, FFIEC 041, and FFIEC 051; OMB No. 7100-0036) each year are required to submit the FR 2420 daily for the following year. Additionally, commercial banks and savings associations with total assets above \$5 billion, but less than \$18 billion, and federal funds activity totaling more than \$200 million on two or more days over the preceding three months are included in the reporting panel. These thresholds currently capture 99 depository institutions which provide sufficient coverage to have a statistically representative sample. U.S. branches and agencies of foreign banks are required to report daily if third-party assets are \$2.5 billion or more on the September 30 Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002; OMB No. 7100-0032). This threshold currently captures the 84 largest U.S. branches and agencies of foreign banks. IBFs of the above-referenced institutions are required to report daily for Eurodollars (Part B) only. This requirement currently captures 82 IBFs. There is currently one institution deemed a significant banking institution.

Frequency

The FR 2420 report is submitted daily. Data collected are used by FRBNY as part of the Federal Reserve's daily market monitoring responsibilities. Part of that analysis calculates average rates across products and tenors, and follows trends in the aggregate levels of transactions. In order to calculate timely effective rates, daily data are needed. The Federal Reserve proposes that the FR 2420 report continue to be submitted daily.

Time Schedule for Information Collection

The FR 2420 is a mandatory electronic report. Respondents are required to file the

³ A significant banking organization is an entity that does not fall within the normal criteria for reporting but, nonetheless, is a participant in money markets whose data is important to the analysis and monitoring of market activity.

FR 2420 with the FRBNY for each business day as follows: (1) Federal Funds, Part A, is due by 7 a.m. ET one business day after the report date, (2) Eurodollars, Part B, is due by 7 a.m. ET one business day after the report date, and (3) CDs, Part C, is due by 2 p.m. ET two business days after the report date. The proposed Selected Deposits, Part D, would be due by 7 a.m. ET one business day after the report date.

Legal Status

The FR 2420 is authorized by section 11(a)(2) of the Federal Reserve Act, which authorizes the Board to require depository institutions to make such reports of their liabilities and assets as the Board may determine to be necessary or desirable to enable the Board to discharge its responsibility to monitor and control monetary and credit aggregates (12 U.S.C. 248(a)(2)). The FR 2420 is also authorized pursuant to section 7(c)(2) of the International Banking Act (IBA), which provides that Federal branches and agencies of foreign banks are subject to section 11(a) of the Federal Reserve Act as if they were a state member bank (12 U.S.C. 3105(c)(2)). Section 7(c)(2) of the IBA also provides that state-licensed branches and agencies of foreign banks are subject to the requirement in section 9 of the Federal Reserve Act that they file reports of condition with the appropriate Federal Reserve Bank (12 U.S.C. 324). The obligation to comply with the reporting requirements of FR 2420 is mandatory.

The individual financial institution information provided by each respondent would not be otherwise available to the public. The proposed revisions, as well as information currently collected, would be accorded confidential treatment under the authority of exemption 4 of the Freedom of Information Act (5 U.S.C. 552(b)(4)). Exemption 4 protects from disclosure trade secrets and privileged or confidential commercial or financial information.

Consultation Outside the Agency

A representative group of large FR 2420 respondents was consulted in December 2016 to better understand the reasons banks were shifting Eurodollar deposits from Caribbean Islands to deposits at their U.S. branches. Additionally, large commercial banks were also consulted in late 2017 about the proposed changes to the FR 2420. The comments from the large FR 2420 respondents and the representative group were considered and incorporated into this proposal. Outreach was also done to the major federal funds and Eurodollar deposit brokers to better understand the extent to which new institutions would be required to report in the FR 2420. These brokers reported that there may be a few additional institutions, but that institutions actively negotiating deposits in their U.S. offices are the same institutions actively funding through Eurodollar deposits, or those that formerly were actively funding through Eurodollars. The banks consulted confirmed that the deposits intended to be captured in the new Part D could be an important wholesale funding source for reporting institutions. To ensure that the instructions have captured the key potential elements of transactions in this wholesale funding source, the characteristics listed for deposits reportable in the new Part D will be available for public comment.

On May 18, 2018, the Board published an initial notice in the *Federal Register* (83 FR 23276) requesting public comment for 60 days on the proposal to extend, with revision, the

FR 2420. The comment period expires on July 17, 2018.

Estimate of Respondent Burden

As presented in the table below, the current annual reporting burden for the FR 2420 is estimated to be 103,300 hours and would remain unchanged with the proposed revisions. These reporting requirements represent less than 1 percent of the total Federal Reserve System paperwork burden.

FR 2420	<i>Number of respondents⁴</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Commercial banks and savings associations	99	250	1.8	44,550
U.S. branches and agencies of foreign banks	84	250	1.8	37,800
International Banking Facilities	82	250	1.0	20,500
Significant banking organizations	1	250	1.8	<u>450</u>
<i>Total</i>				103,300

The total cost to the public for the revised FR 2420 is estimated to remain unchanged from the current cost of \$5,789,965.⁵

Sensitive Questions

This information collection contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The proposed cost to the Federal Reserve System for collecting and processing the FR 2420 is estimated to be \$661,100 per year, or no change from the current cost. The one-time cost to implement the revised report is estimated to be \$316,000.

⁴ Of these respondents, none are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) www.sba.gov/document/support--table-size-standards.

⁵ 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. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.