

**Supporting Statement for the
Single-Counterparty Credit Limits
(FR 2590; OMB No. 7100-NEW)**

Summary

The Board of Governors of the Federal Reserve System (Board), under delegated authority from the Office of Management and Budget (OMB), proposes to implement the Single-Counterparty Credit Limits (FR 2590; OMB No. 7100-NEW) reporting form and associated notice requirements in connection with single-counterparty credit limits (SCCL) set forth in the Board's Regulation YY (SCCL rule). This proposed information collection is authorized under section 165(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)¹ and section 5(c)(1) of the Bank Holding Company Act of 1956.²

The Single-Counterparty Credit Limits reporting form would provide the Federal Reserve with information to monitor a covered company's or a covered foreign entity's compliance with the SCCL rule. The SCCL rule requires each covered company and covered foreign entity to calculate its aggregate net credit exposure, gross credit exposure, and net credit exposure to a counterparty using the methods in this rule, and sets limits on the aggregate net credit exposure each such company may have to the counterparty. A covered company is any U.S. bank holding company (BHC) with total consolidated assets of \$250 billion or more, and any U.S. BHC identified as a global systemically important bank holding company (GSIB) under the Board's Regulation Q. A covered foreign entity is any entity that is part of the combined U.S. operations of a foreign banking organization (FBO) with total consolidated assets of \$250 billion or more, and any U.S. intermediate holding company (IHC) of an FBO with total consolidated assets of \$50 billion or more. The SCCL rule is expected to be finalized in the second quarter of 2018. In addition, certain provisions in the SCCL rule permit a covered company or covered foreign entity to request temporary relief from specific requirements of the rule. Notice requirements pertaining to such requests are also included in this information collection.

Based on data as of December 31, 2017, the FR 2590 respondent panel would consist of 10 U.S. BHCs, 12 U.S. IHCs, and 82 FBOs. The total annual burden for FR 2590, including one-time implementation costs, is estimated to be 238,086 hours for all respondents. The estimated average hours per response is estimated to be 254 hours per quarterly submission. The proposed reporting form and corresponding instructions are available on the Board's public website at www.federalreserve.gov/apps/reportforms/default.aspx. The potential respondents to the notice requirements pertaining to requests for temporary relief from specific requirements of the SCCL rule are also BHCs, IHCs, and FBOs; however, only firms that seek such requests would need to file any documentation. The total estimated annual burden for the estimated three respondents is 30 hours. These reporting requirements would not have an associated reporting form.

¹ See 12 U.S.C. 5365(e).

² See 12 U.S.C. 1844(c)(1).

Background and Justification

As demonstrated during the 2007-2008 financial crisis, large credit exposures, particularly between financial institutions, can spread financial distress and undermine financial stability. The Board issued a Notice of Proposed Rulemaking in March 2016 to apply single-counterparty credit limits to covered companies and covered entities. The rulemaking is expected to be finalized in the second quarter of 2018. The SCCL rule would implement section 165(e) of the Dodd-Frank Act, which directs the Board to prescribe regulations that prohibit covered companies and covered entities from having a credit exposure to any unaffiliated company that exceeds 25 percent of the capital stock and surplus of the covered company or covered entity, or such lower limit as the Board may determine by regulation to be necessary to mitigate risks to the financial stability of the United States. The Board's SCCL rule would apply SCCL to covered companies and covered foreign entities, generally using a base of tier 1 capital and applies an additional SCCL for exposures between GSIBs and major counterparties.³ The Board has determined that these lower limits are necessary to mitigate risks to the financial stability of the United States. FR 2590 and the notice requirements associated with requests for temporary relief from specific requirements of the SCCL rule are directly connected to the rule in that it would allow the Board to monitor firms' compliance with that rule.

Description of Information Collection

FR 2590 is designed to comprehensively capture the credit exposures of a respondent organization to its counterparties in accordance with the SCCL rule. The rule would prohibit any covered company that is not a GSIB from having an aggregate net credit exposure to an unaffiliated counterparty in excess of 25 percent of its tier 1 capital. A major covered company—that is, a GSIB—is prohibited from having aggregate net credit exposure to any major counterparty in excess of 15 percent of its tier 1 capital and would face a 25 percent of tier 1 capital limit for other counterparties. The SCCL rule would apply similar SCCL to FBOs with respect to their combined U.S. operations. However, the SCCL rule would allow an FBO to comply with the rule for its combined U.S. operations by certifying to the Board that it meets, on a consolidated basis, an SCCL established by its home country supervisor that is consistent with the Basel Committee on Banking Supervision (BCBS) large exposure standard.

The SCCL rule would also apply SCCL to U.S. IHCs of FBOs according to three tailored tiers. A U.S. IHC with total consolidated assets of at least \$50 billion but less than \$250 billion would be prohibited from having aggregate net credit exposure to a single counterparty in excess of 25 percent of the company's total regulatory capital plus the balance of its allowance for loan and lease losses not included in tier 2 capital (capital stock and surplus). A U.S. IHC with total consolidated assets of \$250 billion or more but less than \$500 billion would be prohibited from having aggregate net credit exposure to a single counterparty in excess of 25 percent of the U.S. IHC's tier 1 capital. A U.S. IHC with \$500 billion or more in total consolidated assets would be prohibited from having aggregate net credit exposure to (2) a major counterparty in excess of 15 percent of the U.S. IHC's tier 1 capital and (2) any other counterparty in excess of 25 percent

³ Under the SCCL rule, a "major counterparty" would be defined as a major covered company, any FBO that is a GSIB, and any nonbank financial company supervised by the Board.

of the U.S. IHC's tier 1 capital.

The reporting form first asks for general information about the respondent organization (e.g., the respondent organization's full legal name, the amount of its capital stock and surplus, and whether the respondent would be considered a major covered company or major covered foreign entity under the rule). The form also asks any respondent that is an FBO whether that FBO has certified to the Board that it is subject to and complies with an established by its home country supervisor that is consistent with the BCBS large exposure standard. The form then requests data required to calculate the respondent organization's credit exposures, which are reported on nine schedules. Five of these schedules (Schedules G-1 through G-5) collect information related to the gross exposures of the respondent organization to various counterparties. The form requires identification of counterparties by name and by entity type (e.g., sovereigns, securitizations). A respondent organization must add the exposure amounts in the five G schedules to calculate its aggregate gross credit exposure. A respondent organization would then calculate its net credit exposure by adjusting its gross credit exposures using Schedules M-1 and M-2, which collect information related to eligible collateral and other eligible risk mitigants (e.g., eligible guarantees), respectively. The respondent organization must take into account special provisions in the SCCL rule that require aggregation of certain connected counterparties due to economic interdependence—meaning the underlying risk of one counterparty's financial distress or failure would cause the financial distress or failure of another counterparty, as indicated by the presence of certain enumerated factors in the SCCL rule—or due to the presence of certain control relationships described in the rule.⁴ Data relevant to understanding the presence of any relationships that require such aggregation are reported in Schedules A-1 and A-2. In filling out the schedules described above, the respondent organization must report exposures by counterparty, with a single counterparty in each row. The form requires each respondent organization to report its top 50 counterparties.

Schedule G-1: General Exposures. This schedule contains seven general gross credit exposure categories that are described in sections 252.73, 252.75, 252.173, and 252.175 of the SCCL rule: (1) deposits, (2) loans and leases, (3) debt securities or investments, (4) equity securities or investments, (5) committed credit lines, (6) guarantees and letters of credit, and (7) securitization arising from the look-through approach.⁵ These gross exposures are summed together, by counterparty, in the final column of Schedule G-1.

Schedule G-2: Repurchase Agreement Exposures. This schedule collects gross credit exposures arising from repurchase agreements and reverse repurchase agreements as provided in sections 252.73 and 252.173 of the SCCL rule. It requires the respondent organization to identify the assets transferred and received in the transaction. Examples include sovereign debt, non-sovereign debt, main index equities, and cash. The penultimate column asks for the total gross credit exposure under bilateral netting agreements. The final column tallies the total gross

⁴ The requirement to aggregate counterparties based on these relationships can be found in sections 252.76 and 252.176 of the SCCL rule.

⁵ Calculation of gross credit exposure as a result of item (vii) (securitization arising from the look-through approach) is described in sections 252.75 and 252.175 of the SCCL rule. Gross credit exposure to a securitization that does not require application of the look-through approach would be reported as either item (iii) (debt securities or investments) or item (iv) (equity securities or investments), as applicable.

credit exposure resulting from these transactions by counterparty.

Schedule G-3: Securities Lending Exposures. This schedule collects similar information to that collected in Schedule G-2 with respect to securities lending and securities borrowing transactions. Again, the final column tallies the total gross credit exposure resulting from these transactions by counterparty.

Schedule G-4: Derivatives Exposures. Schedule G-4 requires the respondent organization to report the gross notional of its derivatives transactions—interest rate, foreign exchange rate, credit, equity, commodity, or other—by counterparty, consistent with sections 252.73 and 252.173 of the SCCL rule. If the respondent organization has been authorized by the Board to use internal-models-based methodologies, then it can report its exposures using the “Internal Model Method” columns.⁶ Another column in Schedule G-4 is available for a respondent organization to report gross credit exposures resulting from qualifying master netting agreements.⁷ All respondent organizations are required to complete the total gross credit exposure column.

Schedule G-5: Risk Shifting Exposures. Schedule G-5 collects information related to gross credit exposures that have been affected by the risk shifting requirements of sections 252.74 and 252.174 of the SCCL rule. Risk shifting is required when a respondent organization employs five types of credit risk mitigants: (1) eligible collateral, (2) eligible guarantees, (3) eligible credit derivatives, (4) other eligible hedges, and (5) unused portion of certain extensions of credit. Risk shifting may also be required in connection with credit transactions involving excluded and exempt entities. The final column aggregates the total gross exposure, by counterparty, due to risk shifting.

Schedule M-1: Eligible Collateral. Sections 252.74 and 252.174 of the SCCL rule permits a respondent organization to subtract the value of any eligible collateral provided by a counterparty in connection with a particular transaction from its gross credit exposure for that transaction. The value of all such eligible collateral is reported in Schedule M-1. Eligible collateral include, but are not limited to, sovereign debt, non-sovereign debt, main index equities, other publicly traded equities, and cash. The final column sums the total credit risk mitigation impact due to eligible collateral, by counterparty.

Schedule M-2: General Risk Mitigants. Schedule M-2 collects information related to credit risk mitigation techniques other than the receipt of collateral used by the firm to reduce its gross credit exposure in a given transaction. Permitted credit risk mitigation methods, described in sections 252.74 and 252.174 of the SCCL rule, are (1) eligible guarantees, (2) eligible credit derivatives, (3) other eligible hedges, (4) unused portion of certain extensions of credit, and (5) credit transactions involving excluded and exempt entities. The final column sums the total credit risk mitigation effected by use of these techniques, by counterparty.

Summary Sheet. The reporting form contains a summary sheet that sums the respondent

⁶ If the respondent organization has not been authorized by the Board to use internal-models-based methodologies, these columns would remain blank.

⁷ “Qualifying master netting agreement” is defined in sections 252.71(cc) and 252.171(ee) of the SCCL rule.

organization's aggregate gross credit exposure (as reported in the final columns of each of the five G schedules); calculates the respondent organization's aggregate net credit exposures by reducing its aggregate gross credit exposure by its aggregate credit risk mitigants (calculated by taking the sum of the final columns of the two M schedules); and divides the respondent organization's aggregate net credit exposure by its eligible capital base.⁸ The resulting ratio shows whether the respondent organization's aggregate net credit exposures comply with the limits of the SCCL rule.

Schedule A-1: Economic Interdependence. Sections 252.76(b) and 252.176(b) of the SCCL rule would require a covered company, FBO that is a covered foreign entity, or U.S. IHC with total consolidated assets of \$250 billion or more to aggregate its net credit exposures to counterparties that are economically interdependent—meaning that the underlying risk of one counterparty's financial distress or failure would cause the financial distress or failure of another counterparty.⁹ Those sections enumerate specific factors that those covered companies or covered entities must consider in order to assess whether counterparties are economically interdependent. Such factors include whether 50 percent or more of one counterparty's gross revenue is derived from the other counterparty, or whether two or more counterparties rely on the same source for the majority of their funding.¹⁰ The SCCL rule would require that counterparties that must be aggregated be treated as a single counterparty (reported in Schedule A-1 as an "interconnected counterparty group") for purposes of the aggregate net credit exposure limits of the SCCL rule. Schedule A-1 requires the respondent organization to provide its aggregate net credit exposure to each member of the interconnected counterparty group (one per column). The final column of Schedule A-1 sums the total net credit exposure of the respondent organization to each connected counterparty group.

Schedule A-2: Control Relationships. Sections 252.76(c) and 252.176(c) of the SCCL rule would require a covered company, FBO that is a covered foreign entity, or U.S. IHC with total consolidated assets of \$250 billion or more to aggregate exposures to counterparties due to the presence of certain control relationships.¹¹ These sections require that counterparties that are

⁸ As noted above, a respondent organization's aggregate net credit exposure limits under the SCCL rule are based on a percentage of either its capital stock and surplus or its tier 1 capital, depending on the size of the respondent organization. "Eligible capital base," as reported on this form, refers to either the respondent organization's capital stock and surplus or its tier 1 capital, as applicable.

⁹ This requirement does not apply to U.S. IHCs with total consolidated assets of less than \$250 billion, unless the Board determines in writing after notice and opportunity for hearing that the covered entity must aggregate its exposures to two or more counterparties to prevent evasions of the purposes of subpart Q of Regulation YY (12 CFR part 252, subpart Q). See section 252.176 of the SCCL rule.

¹⁰ A covered company, foreign banking organization that is a covered entity, or U.S. IHC with total consolidated assets of \$250 billion or more is required to conduct an assessment for economic interdependence only if its aggregate net credit exposure to a counterparty exceeds 5 percent of its tier 1 capital. See sections 252.76(b) and 252.176(b) of the SCCL rule. If none of the enumerated factors are met, then the covered company or covered entity need not aggregate exposures to those counterparties unless the Board determines that one or more other counterparties of the covered company or covered entity are economically interdependent. *Id.*

¹¹ This requirement does not apply to U.S. IHCs with total consolidated assets of less than \$250 billion, unless the Board determines in writing after notice and opportunity for hearing that a covered company must aggregate its exposures to two or more counterparties to prevent evasions of the purposes of subpart Q of Regulation YY (12 CFR part 252, subpart Q). See section 252.176 of the SCCL rule.

connected by certain specified control relationships must be treated as a single counterparty (reported in Schedule A-2 as a “control counterparty group”) for purposes of the aggregate net credit exposure limits of the SCCL rule. Schedule A-2 requires the respondent organization to provide its aggregate net credit exposure to each member of the interconnected counterparty group (one per column). The final column of Schedule A-2 sums the total net credit exposure of the respondent organization to each control counterparty group.

In addition, certain provisions in the SCCL rule permit a covered company or covered foreign entity to request temporary relief from specific requirements of the rule. Specifically, the SCCL rule permits a covered company or covered foreign entity to request temporary relief from requirements to aggregate one or more counterparties even if one or more factors indicating economic interdependence or control relationships are met, subject to certain conditions, including that such relief be in the public interest and consistent with the purpose of the rule.¹² The SCCL rule also permits a covered company or covered foreign entity that is not in compliance with the requirements of the rule to request a special temporary credit exposure limit exemption from the Board to permit continued credit transactions with that counterparty, based upon a finding that those transactions are necessary or appropriate to preserve the safety and soundness of the covered company or U.S. financial stability.¹³

Respondent Panel

The FR 2590 respondent panel comprises U.S. GSIBs and other U.S. BHCs with \$250 billion or more in total consolidated assets, FBOs with U.S. banking operations and \$250 billion or more in total consolidated assets, and the U.S. IHCs of FBOs with total consolidated assets of \$50 billion or more. As of December 31, 2017, this respondent panel includes 10 U.S. BHCs, 12 U.S. IHCs, and 82 FBOs. The potential respondents to the notice requirements pertaining to requests for temporary relief from specific requirements of the SCCL rule are also BHCs, IHCs, and FBOs; however, only firms that seek such requests would need to file any documentation.

Time Schedule for Information Collection and Publication

The SCCL rule would require U.S. and foreign GSIBs to comply by January 1, 2020, and all other covered companies and covered foreign entities to comply by July 1, 2020. As a result, the first data collection is expected to occur as of the end of the first quarter of 2020 for respondents that are U.S. and foreign GSIBs, and as of the end of the third quarter of 2020 for all other respondents. Firms included in the respondent panel have requested that the reporting form be released well ahead of the first collection in order to allow adequate time for them to prepare for compliance and submission of the requested information. After the initial compliance date, respondent organizations would be expected to file this form on a quarterly basis, consistent with the SCCL rule’s compliance requirements.¹⁴

¹² See sections 252.76(b)(3), 252.76(c)(2), 252.176(b)(3), and 252.176(c)(2) of the SCCL rule.

¹³ See sections 252.78(c)(2) and 252.178(c)(2) of the SCCL rule.

¹⁴ A respondent organization would report compliance on a quarterly basis, unless the Board determines and notifies the covered company or covered entity in writing that more frequent compliance is required. See sections 252.78(a)(2) and 252.178(a)(3) of the SCCL rule.

Notices associated with requests for temporary relief from specific requirements of the SCCL rule must be provided to the Board when a firm seeks such a request.

Legal Status

Section 165(e) of the Dodd-Frank Act (12 U.S.C. 5365(e)) and section 5(c)(1) of the Bank Holding Company Act of 1956 (12 U.S.C. 1844(c)(1)) authorize the Board to require these BHCs, FBOs, and IHCs to file a reporting form such as the proposed FR 2590 with the Board. The proposed FR 2590 would be mandatory for U.S. BHCs with \$250 billion or more in total consolidated assets, FBOs with U.S. banking operations and \$250 billion or more in total consolidated assets, and U.S. IHCs of such FBOs with at least \$50 billion in total consolidated assets.

The data collected on this proposed form includes financial information that is not normally disclosed by the respondent organizations, the release of which would likely cause substantial harm to the competitive position of the respondent organization if made publicly available. Therefore, the data collected on this form would be kept confidential under exemption 4 of the Freedom of Information Act, which protects from disclosure trade secrets and commercial or financial information (5 U.S.C. 552(b)(4)).

Regarding notices associated with requests for temporary relief from specific requirements of the SCCL rule, a firm that wishes information in these notices to be kept confidential in accordance with exemption 4 of the Freedom of Information Act (5 U.S.C. 552(b)(4)) may request confidential treatment under the Board's rules regarding confidential treatment of information at 12 CFR 261.15. The Board's Legal Division will be asked to review the confidentiality status of such notices.

Consultation Outside the Agency

On August 6, 2018, the Board published an initial notice in the *Federal Register* (83 FR 38303) requesting public comment for 60 days on the FR 2590. The comment period for this notice expires on October 5, 2018.

Estimate of Respondent Burden

As shown in the table below, the total annual burden for FR 2590, including one-time implementation costs, is estimated to be 238,086 hours for all respondent organizations. The ongoing estimated average hours per response is estimated to be 254 hours per quarterly submission. Concerning the notice requirements pertaining to requests for temporary relief from specific requirements of the SCCL rule are also BHCs, IHCs, and FBOs; however, only firms that seek such requests would need to file any documentation. The total estimated annual burden for the estimated three respondents is 30 hours. These reporting requirements represent 2.2 percent of the Board's total paperwork burden.

FR 2590	<i>Number of respondents¹⁵</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
One-Time Implementation	104	1	1,273	132,392
Ongoing	104	4	254	105,664
Requests for Temporary Relief	3	1	10	<u>30</u>
<i>Total</i>				238,086

The estimated total annual cost to the public for this collection of information is \$13,344,720.¹⁶

Sensitive Questions

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

Estimate of Cost to the Federal Reserve System

The cost to the Federal Reserve System will be obtained.

¹⁵ 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.

¹⁶ 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.