

**Supporting Statement for the
Reporting and Disclosure Requirements
Associated with the Policy on Payment System Risk (PSR Policy)
(FR 4102; OMB No. 7100-0315)**

Summary

The Board of Governors of the Federal Reserve System (Federal Reserve), under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, without revision, the mandatory reporting and disclosure requirements associated with the Policy on Payment System Risk (PSR policy) (FR 4102). The Paperwork Reduction Act (PRA) classifies reporting, recordkeeping, or disclosure requirements of agency guidance as an “information collection.”¹ The Federal Reserve is required to renew the reporting and disclosure requirements of the FR 4102 every three years pursuant to the PRA.

The FR 4102 was implemented in January 2007 as a result of revisions to the Federal Reserve's PSR policy.² Under the revised policy, systemically important payment and settlement systems as determined by the Board at that time and subject to the Federal Reserve's authority are expected to complete and disclose publicly self-assessments against the principles and minimum standards in the policy.³ The self-assessment should be reviewed and approved by the system's senior management and board of directors upon completion and made readily available to the public. In addition, a self-assessment should be updated following material changes to the system or its environment and, at a minimum, reviewed by the system every two years. The respondents are systemically important systems, as defined by the PSR policy. The total annual burden for this information collection is estimated to be 210 hours.

Background and Justification

Since the early 1980s, the Federal Reserve has published and periodically revised a series of policies encouraging the reduction and management of risks in payments and securities settlement systems.⁴ In 1992, the Federal Reserve issued its PSR policy which provided a comprehensive statement of its previously adopted policies regarding payments system risk reduction, including risk management in private large-dollar funds transfer networks, private delivery-against-payment securities systems, offshore dollar clearing and netting systems, and private small-dollar clearing and settlement systems.⁵

¹ 44 U.S.C. § 3501 *et seq.*

² The reporting and disclosure requirement under FR 4102 was extended for three years, without revision, in July 2010.

³ Under Part I of the PSR policy, which predates the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Board may consider a system under its jurisdiction to be a “systemically important system” based on factors set forth in the PSR Policy. Separately, under section 804 of the Dodd-Frank Act, the Financial Stability Oversight Council designates financial market utilities that are, or are likely to become, systemically important under a separate set of factors. 12 U.S.C. § 5463.

⁴ See 50 FR 21120, May 22, 1985; 52 FR 29255, August 6, 1987; and 54 FR 26104 and 26092, June 21, 1989.

⁵ 57 FR 40455, September 3, 1992.

Simultaneously, the Federal Reserve worked with other central banks and securities regulators to develop standards to strengthen payment and securities settlement infrastructures and to promote financial stability. These efforts initially produced the Lamfalussy Minimum Standards, which were incorporated into the Federal Reserve's PSR policy in 1994.⁶ Subsequently, this work resulted in the publication of the Core Principles for Systemically Important Payment Systems (Core Principles) and the Recommendations for Securities Settlement Systems (Recommendations for SSS) in 2001, which were incorporated into the Federal Reserve's PSR policy in 2004.⁷ The Core Principles extended and replaced the Lamfalussy Minimum Standards, while the Recommendations for SSS provided, for the first time, explicit standards for securities settlement systems.

In addition to establishing specific principles and standards, the Core Principles and Recommendations for SSS call for central banks to state clearly their roles and policies regarding payments and securities settlement systems, assessing compliance with the Core Principles and Recommendations for SSS when overseeing relevant systems, and coordinate with other authorities in overseeing systems. Moreover, the Core Principles and Recommendations for SSS are intended to apply to systems operated by both central banks and the private sector.

Concurrent with the drafting and adoption of the 2004 policy revisions, the Federal Reserve worked with the Committee on Payment and Settlement Systems (CPSS) of the Central Banks of the Group of Ten countries and the Technical Committee of the International Organization of Securities Commissions (IOSCO) to finalize the Recommendations for Central Counterparties (Recommendations for CCP).⁸ These recommendations established minimum standards for central counterparty risk management, operational reliability, efficiency, governance, transparency, and regulation and oversight. The Recommendations for CCP build upon the Recommendations for SSS and supersede those recommendations where central counterparties are concerned (these two sets of recommendations are collectively referred to as the CPSS-IOSCO Recommendations). At the time it incorporated the Core Principles and Recommendations for SSS into the PSR policy, the Federal Reserve noted that the CPSS and IOSCO were developing the Recommendations for CCP and that it would review the Recommendations for CCP at a later time and determine whether it would be appropriate to incorporate them into the PSR policy.

In January 2007, the Federal Reserve adopted several revisions to Part I of its PSR policy addressing risk management in payments and settlement systems. Specifically, the Federal Reserve: incorporated into the PSR policy the

⁶ 59 FR 67534, December 29, 1994. For a full report of these standards see: <http://www.bis.org/publ/cpss04.pdf>

⁷ The Core Principles were developed by the Committee on Payment and Settlement Systems (CPSS) of the Central Banks of the Group of Ten countries, and Recommendations for SSS were developed by the CPSS in conjunction with the Technical Committee of the International Organization of Securities Commissions (IOSCO). In addition to the Federal Reserve, the Securities and Exchange Commission (SEC) and the Commodity and Futures Trading Commission (CFTC) participated in the development of the Recommendations for SSS.

⁸ Final recommendations were issued in November 2004. In addition to the Federal Reserve, the SEC, and the CFTC participated in the development of the Recommendations for CCP.

Recommendations for CCP as the Federal Reserve's minimum standards for central counterparties, clarified the purpose of Part I of the policy and revised its scope with regard to central counterparties, and established an expectation that systemically important systems (subject to the Federal Reserve Board's authority) disclose publicly self-assessments against the Core Principles, Recommendations for SSS, or Recommendations for CCP, as appropriate, demonstrating the extent to which these systems meet the principles or minimum standards.

Description of Information Collection

The Federal Reserve expects systemically important systems subject to its authority to complete self-assessments based on the following guidelines.

Self-Assessment Review, Approval, and Disclosure: Systemically important systems are expected to document the basis for their self-assessment and support any conclusions regarding the extent to which they meet a particular principle or minimum standard.⁹ The Federal Reserve notes that the CPSS and CPSS-IOSCO have developed implementation measures and assessment methodologies that can assist system operators in structuring their self-assessments.¹⁰ Accordingly, payment system operators are encouraged to consult Section 7 of the Core Principles for guidance when developing their self-assessments and in measuring the extent to which the system meets each principle. Likewise system operators for securities settlement systems and central counterparties are encouraged to consult the assessment methodologies for the relevant minimum standards for further guidance on each minimum standard and are encouraged to respond to the key questions included therein.¹¹

To further ensure system accountability for accuracy and completeness, the system's senior management and board of directors are expected to review and approve self-assessments upon completion. To achieve broad disclosure, the system is expected to make its self-assessments readily available to the public, such as by posting the self-assessment on the system's public website. In order for self-assessments to reflect correctly the system's current rules, procedures, and operations, a systemically important system is expected to update statements in the self-assessment following material changes to the system or its environment. At minimum, a systemically important system should review its self-assessment every two years to ensure continued accuracy.

⁹ System operators should use one of the following assessment categories to describe the extent to which the system meets a particular principle or minimum standard: observed, broadly observed, partly observed, or non-observed. The assessment should contain information robust enough to enable users and other interested persons to independently assess the risks associated with the system. The Federal Reserve, however, does not expect payments and settlement systems to disclose publicly sensitive information that would expose system vulnerabilities or otherwise put the system at risk (e.g., specific business continuity plans).

¹⁰ The World Bank and International Monetary Fund have published a handbook of guidance for completing assessments against various international standards, including the Core Principles. See <http://www.imf.org/external/pubs/ft/fsa/eng/index.htm>. In November 2002, CPSS-IOSCO published an Assessment Methodology for the Recommendations for SSS available at <http://www.bis.org/publ/cpss51.htm>. In November 2004, CPSS-IOSCO published the CCP Recommendations and an Assessment Methodology available at <http://www.bis.org/publ/cpss64.htm>

¹¹ The assessment methodologies for the CPSS-IOSCO Recommendations include key questions to assist an assessor in determining to what extent a system meets a particular minimum standard.

Time Schedule for Information Collection

A systemically important system should have completed and published its initial self-assessment as of December 31, 2007. Thereafter, review and update the self-assessment biennially or as otherwise provided in the PSR policy. The assessment must also be reviewed and approved by the system's senior management and board of directors. Upon approval, the self-assessment should be published on the system's public website.

Sensitive Questions

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

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System. On April 18, 2013, the Federal Reserve published a notice in the *Federal Register* (78 FR 23253) requesting public comment for 60 days on the FR 4102 information collection. The comment period for this notice expired on June 17, 2013. The Federal Reserve did not receive any comments. On July 16, 2013, the Federal Reserve published a final notice in the *Federal Register* (78 FR 42521).

Legal Status

The Board's Legal Division has determined that sections 11(i) & (j), 13, 16, and 19(f) of the Federal Reserve Act authorize the Board to exercise general supervision of the Reserve Banks, to make rules and regulations to perform effectively its duties and functions, and to determine and regulate fees charged by member or nonmember banks for the collection or payment of checks, among other things (12 U.S.C. §§ 248(i) & (j), 248-1, 342, 360, and 464).

Additionally, depending upon the individual institution, the information collection may be authorized under a more specific statute. Specifically, the Board is authorized to collect information from state member banks under section 9 of the Federal Reserve Act (12 U.S.C. § 324); from bank holding companies (and their subsidiaries) under section 5(c) of the Bank Holding Company Act (12 U.S.C. § 1844(c)); from savings and loan holding companies under 12 U.S.C. §§ 1467a(b)(3) and 5412; from Edge and agreement corporations under sections 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 602 and 625); and from U.S. branches and agencies of foreign banks under section 7(c)(2) of the International Banking Act of 1978 (12 U.S.C. § 3105(c)(2)), and under section 7(a) of the Federal Deposit Insurance Act (12 U.S.C. § 1817(a)). Together, these statutory provisions provide the legal authorization for the reporting and disclosure requirements associated with the FR 4102. The reporting and disclosure requirements of the FR 4102 are mandatory.

Estimate of Respondent Burden

Currently there are 3 private-sector systems subject to the Board’s authority that have been identified as systemically important for purposes of the PSR policy. The burden includes: 25 hours for staff to review the self-assessment and update relevant sections; 15 hours for senior management to review the self-assessment; 25 hours for the board of directors to review and approve the self-assessment; and 5 hours for technical editing and website activities. The Federal Reserve estimates burden for the biennial reviews and updates associated with this policy to be 70 hours per system (ranging from 50-100 hours). The total annual burden for the biennial review and report is estimated to be 210 hours. This represents less than 1 percent of the total Federal Reserve System paperwork burden.

| | <i>Number of respondents</i> ¹² | <i>Estimated annual frequency</i> | <i>Estimated response time</i> | <i>Estimated annual burden hours</i> |
|----------------------------|--|---|--|--|
| Biennial review and report | 3 | 1 | 70 hours | 210 |

The total cost to the public is estimated to be \$12,411 for the requirements associated with the PSR policy.¹³

Estimate of Cost to the Federal Reserve System

Since the Federal Reserve does not collect any information, the cost to the Federal Reserve System is negligible.

¹² Of the three respondents required to comply with this information collection, none are small entities as defined by the Small Business Administration (i.e., entities with less than \$175 million in total assets).

¹³ Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rate (10% Office & Administrative Support at \$18, 40% Financial Managers at \$59, 40% Lawyers at \$63, and 10% Chief Executives at \$85). Hourly rate for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2012, www.bls.gov/news.release/ocwage.nr0.htm Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/