

**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 and the Annual Report of Merchant Banking Investments Held for an Extended Period (FR Y-12 and FR Y-12A; OMB No. 7100-0300). The mandatory 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”)<sup>1</sup> on their equity investments in nonfinancial companies. The mandatory FR Y-12A report is filed annually by financial holding companies (FHCs)<sup>2</sup> with merchant banking investments that are approaching the end of the holding periods permissible under the Board’s Regulation Y, as described in the “Respondent Panel” section below.<sup>3</sup>

The Board proposes to revise the FR Y-12 by (1) adding a new column to Schedules A and C to capture unrealized holding gains (losses) on equity securities not held for trading recognized as income in accordance with Accounting Standards Update 2016-01 (ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities”); (2) revising an existing column in Schedules A and C in order to capture unrealized holding gains and losses on equity securities that are not within the scope of ASU 2016-01; (3) adding guidance to the instructions for the reporting of equity securities in accordance with ASU 2016-01; and (4) making other minor clarifications and conforming edits to the form and instructions. The revisions to the FR Y-12 would be applicable as of the December 31, 2020, reporting date. The Board does not propose to revise the FR Y-12A.

The estimated total annual burden for the FR Y-12 is 1,683 hours and the estimated total annual burden for the FR Y-12A is 683 hours. The Board estimates that the total burden would remain unchanged with the proposed revisions. The form and instructions are available on the Board’s public website at <https://www.federalreserve.gov/apps/reportforms/default.aspx>.

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<sup>1</sup> The FR Y-12 must be filed by (i) each top-tier domestic holding company that files a FR Y-9C (Consolidated Financial Statements for Holding Companies) 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 (ii) each top-tier domestic holding company that files a FR Y-9SP (Parent Company Only Financial Statements for Small Holding Companies) and has aggregate nonfinancial equity investments that equal or exceed 10 percent of the holding company’s total capital as of the report date.

<sup>2</sup> As used in this Supporting Statement, the term “FHC” refers both to BHCs that are FHCs and to SLHCs, foreign banks, and IHCs that have made an effective election to be treated as FHCs.

<sup>3</sup> See 12 CFR 225.172(b)(1), (4) and 225.173(c)(1)–(2).

## Background and Justification

### *FR Y-12*

The Bank Holding Company Act (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.<sup>4</sup> Similar activities limitations apply to foreign banking organizations (FBOs), including those with IHCs.<sup>5</sup> In addition, the Home Owners' Loan Act permits a SLHC to engage in many activities the Board has determined to be permissible for a BHC.<sup>6</sup>

Holding company investments in nonfinancial companies grew substantially during the late 1990s and have continued at a significant level. These investments 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.

In September 2001, the Board instituted the FR Y-12 to collect 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 covered investments.

### *FR Y-12A*

A BHC that makes an effective election to become an FHC may invest in a company that engages in activities that are financial in nature<sup>7</sup> and, under merchant banking authority, may make investments of any amount, in any type of nonfinancial company, subject to certain requirements.<sup>8</sup> In addition, SLHCs, foreign banks, and IHCs may elect to be treated as FHCs.

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<sup>4</sup> 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, including an IHC. 12 CFR 225.2(c)(2).

<sup>5</sup> 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).

<sup>6</sup> 12 U.S.C. §§ 1467a(c)(2)(F), (H).

<sup>7</sup> 12 U.S.C. § 1843(k)(1)(A).

<sup>8</sup> 12 U.S.C. § 1843(k)(4)(H).

The investments permissible under FHCs' merchant banking authority are substantially broader in scope than the investment activities otherwise permissible for holding companies. Thus, these investments present the potential for additional volatility and risk in banking organizations' portfolios.

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.

In order to monitor compliance with these holding period restrictions, the FR Y-12A requires FHCs to report annually merchant banking investments that 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 FR Y-12A data is a useful tool for 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.

## **Description of Information Collection**

### *FR Y-12*

The quarterly 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 current FR Y-12 reporting form is comprised of four schedules:

### **Schedule A – Type of Investments**

This schedule collects information on the acquisition cost, net unrealized holding gains not recognized as income, 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, 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 item collects information on unused equity commitments and warrant activity.

## **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 not recognized as income, 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 merchant banking investments it 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 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.

### **Respondent Panel**

The FR Y-12 reporting panel comprises a subset of top-tier domestic holding companies that file the FR Y-9C or the FR Y-9SP.<sup>9</sup> 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.

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<sup>9</sup> In 2012, the Board indicated that it would require supervised securities holding companies ("SHCs") to file the FR Y-12 and FR Y-12A reports. 77 Fed. Reg. 32881, 32883 (June 4, 2012). However, no such revisions were ever made to include SHCs as respondents on either report. Upon reflection, the Board has determined that it would not be appropriate at this time to add supervised SHCs to the respondent panel for the FR Y-12 or FR Y-12A reports. A supervised SHC would not be subject to the restrictions on nonbanking activities that limit the investments of other holding companies. Therefore, any information gathered about SHCs' investments on the FR Y-12 would be of limited use, and would not be comparable to data gathered from other holding companies. Moreover, adding supervised SHCs to the FR Y-12 reporting panel would require significant revisions to the FR Y-12 instructions in order to account for the differences in legal treatment between supervised SHCs and the other respondents. Such revisions could lead to confusion among current FR Y-12 reporters.

With respect to the FR Y-12A, the Board is not proposing to add supervised SHCs to the respondent panel because supervised SHCs are not restricted in their ability to make investments in nonfinancial companies, and their investments are not subject to the merchant bank holding periods that apply to FHC investments.

## **Proposed Revisions to the FR Y-12**

In January 2016, the Financial Accounting Standards Board issued an updated accounting standard (ASU 2016-01) to address certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. In order to make the FR Y-12 report consistent with ASU 2016-01, the proposal would revise Schedules A and C by creating a new Column B titled, “Unrealized Holding Gains (Losses) on Equity Securities not Held for Trading.” The new Column B would capture the unrealized gains and losses on equity securities not held for trading that are reported in net income on the FR Y-9C or FR Y-9SP. New column B would only be completed by holding companies that have adopted ASU 2016-01.

The current Column B in Schedules A and C would be changed to Column C with the title, “All Other Unrealized Holding Gains (Losses) on Equity Securities,” in order to capture unrealized holding gains and losses on equity securities that are not within the scope of ASU 2016-01, and thus are reported in accumulated other comprehensive income on the FR Y-9C or FR Y-9SP. Current Column C (“Carrying Value”) in Schedules A and C would become Column D, and current Column D (“Publicly Quoted Value”) in Schedule A would become Column E.

In addition, the proposal would revise the FR Y-12 instructions in accordance with the above changes and correct typographical and other minor errors in the FR Y-12. The proposed changes to the FR Y-12 are consistent with changes previously made to the FR Y-9 family of reports (OMB No. 7100-0128).

## **Time Schedule for Information Collection**

The FR Y-12 is to be prepared quarterly, as of the end of March, June, September, and December, for holding companies that file the FR Y-9C, and semi-annually for those holding companies that file the FR Y-9SP, as of the end of June and December. The FR Y-12 reports are submitted through the Federal Reserve System’s Reporting Central electronic submission application or by mail to the appropriate Reserve Bank within 45 calendar days after the as-of date for all FR Y-9C and FR Y-9SP respondents.

The FR Y-12A report 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, 2019, an FHC owns a covered investment, the FHC must submit an FR Y-12A for the investment by February 15, 2020. Reporting FHCs should submit by mail or hand deliver an original and one copy of the report to the appropriate Federal Reserve Bank.

## 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 reports from BHCs (including BHCs that are FHCs) pursuant to section 5(c) of the Bank Holding Company Act (BHC Act), 12 U.S.C. § 1844(c)(1)(A); from SLHCs pursuant to section 10(b)(2) of the Home Owners' Loan Act, 12 U.S.C. § 1467a(b)(2), as amended by sections 369(8) and 604(h)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act); and from IHCs pursuant to section 5(c) of the BHC Act, 12 U.S.C. § 1844(c)(1)(A), as well as pursuant to sections 102(a)(1) and 165 of the Dodd-Frank Act, 12 U.S.C. §§ 5311(a)(1) and 5365,<sup>10</sup> and Regulation YY, 12 CFR 252.153(b)(2).

In addition, with respect to the FR Y-12A report, section 4(k)(7)(A) of the BHC Act, 12 U.S.C. § 1843(k)(7)(A), authorizes the Board and the Treasury Department to jointly develop implementing regulations governing merchant banking activities for purposes of section 4(k)(4)(H) of the BHC Act. Section 4(k)(4)(H) of the BHC Act, 12 U.S.C. § 1843(k)(4)(H), and subpart J of the Board's Regulation Y, 12 CFR 225.170 et seq., authorize a BHC that has made an effective FHC election to acquire merchant banking investments that are not otherwise permissible for an FHC. Section 10(c)(2)(H) of HOLA, as amended by section 606(b) of the Dodd-Frank Act, 12 U.S.C. § 1467a(c)(2)(H), and section 8(a) of the International Bank Act, 12 U.S.C. § 3106(a), extend certain authorities and requirements of the BHC Act to SLHCs and to foreign banks, respectively.

The obligation to respond to the FR Y-12 and FR Y-12A reports is mandatory. The Board does not consider information collected on the FR Y-12 report to be confidential, and the completed version of this report generally is made available to the public upon request. However, in certain instances, specific information collected on an individual institution's FR Y-12 report may be exempt from disclosure pursuant to exemption 4 of the Freedom of Information Act (FOIA), which protects from public disclosure "trade secrets and commercial or financial information obtained from a person [that is] privileged or confidential." 5 U.S.C. § 552(b)(4). A

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<sup>10</sup> Section 165(b)(2) of Title I 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 BHCs under section 8(a) of the International Banking Act, 12 U.S.C. § 3106(a). The 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 and FR Y-12A reports.

reporting holding company may request confidential treatment for the specific data items the company believes should be withheld pursuant to exemption 4 of the FOIA, as provided in the Board's Rules Regarding Availability of Information (12 CFR part 261.15). A request for confidential treatment should be submitted in writing concurrently with the submission of the FR Y-12 report. This written request must identify the specific data for which confidential treatment is sought and must provide the legal justification for which confidentiality is requested. The Federal Reserve will review any such request on a case-by-case basis to determine if confidential treatment is appropriate. The Federal Reserve may subsequently release information for which confidential treatment is requested, if (1) disclosure of such information is required by law (other than 5 U.S.C. § 552); (2) the reporting holding company requested confidential treatment pursuant to 5 U.S.C. 552(b)(4) and more than 10 years have passed since the date of the submission unless the reporting company has requested and provided justification for a longer designation period; or (3) less than 10 years have passed since the request, but the Board believes that the information cannot be withheld from disclosure under 5 U.S.C. § 552(b)(4), and the reporting holding company is provided with written notice of the Board's views and with an opportunity to object to the Board's disclosure.

### **Consultation Outside the Agency**

There has been no consultation outside the Federal Reserve System.

### **Public Comments**

On August 21, 2020, the Board published an initial notice in the Federal Register (85 FR 51719) requesting public comment for 60 days on the extension, with revision, of the FR Y-12 and the extension, without revision, of the FR Y-12A. The comment period for this notice expires on October 10, 2020.

### **Estimate of Respondent Burden**

As shown in the table below, the estimated total annual burden for the FR Y-12 is 1,683 hours and the estimated total annual burden for the FR Y-12A is 683 hours. Board staff estimate the total burden would remain unchanged with the proposed revisions due to firms currently reporting net unrealized gains (losses) on equity investments similarly on the FR Y-9C and FR Y-9SP reports. The number of FR Y-12 (quarterly and semi-annual) respondents is based on the amount of respondents that submitted data for the June 30, 2019, as-of date, and the number of FR Y-12A respondents is based on the amount of respondents that submitted data for the December 31, 2018, as-of date. These reporting requirements represent less than 1 percent of the Board's total paperwork burden.



<b>FR Y-12</b>	<i>Estimated number of respondents</i> <sup>11</sup>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR Y-12 (Quarterly)	22	4	16.5	1,452
FR Y-12 (Semi-annually)	7	2	16.5	231
FR Y-12A	91	1	7.5	<u>683</u>
	<i>Total</i>			2,366

The estimated total annual cost to the public for these collections of information is \$136,637.<sup>12</sup>

### **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 this report will be obtained.

<sup>11</sup> Of these respondents, 0 FR Y-12 (Quarterly), 3 FR Y-12 (Semi-annual), and 10 FR Y-12A are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$600 million in total assets), <https://www.sba.gov/document/support--table-size-standards>. Currently, there is no method used to minimize burden for small entities with less than \$600 million in total assets.

<sup>12</sup> 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 \$20, 45% Financial Managers at \$71, 15% Lawyers at \$70, and 10% Chief Executives at \$93). 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 2019, published March 31, 2020 [www.bls.gov/news.release/ocwage.t01.htm](http://www.bls.gov/news.release/ocwage.t01.htm). Occupations are defined using the BLS Occupational Classification System, [www.bls.gov/soc/](http://www.bls.gov/soc/)