

**Supporting Statement for the  
Financial Statements for Holding Companies  
(FR Y-9; OMB No. 7100-0128)**

**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 Financial Statements for Holding Companies (FR Y-9; OMB No. 7100-0128). The FR Y-9 information collection consists of the Consolidated Financial Statements for Holding Companies (FR Y-9C) and the Supplement to the Consolidated Financial Statements for Holding Companies (FR Y-9CS), which the Board proposes to revise, as well as the following additional reports, for which the Board is not proposing revisions:

- Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP);
- Parent Company Only Financial Statements for Small Holding Companies (FR Y-9SP); and
- Financial Statements for Employee Stock Ownership Plan Holding Companies (FR Y-9ES).

The Board requires bank holding companies, most savings and loan holding companies,<sup>1</sup> any securities holding companies, and U.S. intermediate holding companies (collectively, “HCs”) to provide standardized financial statements through one or more of the FR Y-9 reports. The information collected on the FR Y-9 reports is necessary for the Board to identify emerging financial risks and monitor the safety and soundness of HC operations.

The Board proposes to revise the FR Y-9C to implement various changes to the Board’s capital rule that the Board has recently finalized. Each of the revisions to the FR Y-9C would take effect the same quarter as the effective date of the relevant associated revision to the Board’s capital rule. The Board is also proposing an instructional revision for the reporting of operating leases on the FR Y-9C that would take effect March 31, 2020, as well as a FR Y-9C instructional change for home equity lines of credit that convert from revolving to non-revolving status that would take effect March 31, 2021. Finally, the Board proposes to revise the FR Y-9CS to clarify that response to the report is voluntary.

The current estimated total annual burden for the FR Y-9C is 119,812 hours, and would decrease to 115,480 hours. The proposed revisions would result in a decrease of 4,332 hours. The form and instructions are available on the Board’s public website at <http://www.federalreserve.gov/apps/reportforms/default.aspx>.

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<sup>1</sup> An SLHC must file one or more of the FR Y-9 family of reports unless it is: (1) a grandfathered unitary SLHC with primarily commercial assets and thrifts that make up less than 5 percent of its consolidated assets; or (2) a SLHC that primarily holds insurance-related assets and does not otherwise submit financial reports with the SEC pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934.

## **Background and Justification**

The FR Y-9 reports are the Board's primary source of financial data on HCs. Federal Reserve System examiners rely on the FR Y-9 reports to supervise financial institutions between on-site inspections. The Board uses the collected data to detect emerging financial problems, conduct pre-inspection analysis, monitor and evaluate capital adequacy, evaluate mergers and acquisitions, and analyze a HC's overall financial condition to monitor the safety and soundness of its operations. The information collected by the FR Y-9 reports is not available from other sources.

## **Description of Information Collection**

The FR Y-9C consists of standardized financial statements similar to the Call Reports filed by commercial banks.<sup>2</sup> The FR Y-9C collects consolidated data from HCs and is filed quarterly by top-tier HCs with total consolidated assets of \$3 billion or more.<sup>3</sup>

The FR Y-9LP, which collects parent company only financial data, must be submitted by each HC that files the FR Y-9C, as well as by each of its subsidiary HCs.<sup>4</sup> The report consists of standardized financial statements.

The FR Y-9SP is a parent company only financial statement filed semiannually by HCs with total consolidated assets of less than \$3 billion. In a banking organization with total consolidated assets of less than \$3 billion that has tiered HCs, each HC in the organization must submit, or have the top-tier HC submit on its behalf, a separate FR Y-9SP. This report collects basic balance sheet and income data for the parent company, as well as data on its intangible assets and intercompany transactions.

The FR Y-9ES is filed annually by each employee stock ownership plan (ESOP) that is also an HC. The report collects financial data on the ESOP's benefit plan activities. The FR Y-9ES consists of four schedules: a Statement of Changes in Net Assets Available for Benefits, a Statement of Net Assets Available for Benefits, Memoranda, and Notes to the Financial Statements.

The instructions to each of the FR Y-9C, FR Y-9LP, FR Y-9SP, and FR Y-9ES state that respondent HCs should retain workpapers and other records used in the preparation of the reports.

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<sup>2</sup> The Call Reports (OMB No. 7100-0036) consist of the Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only and Total Assets Less than \$5 Billion (FFIEC 051), the Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only (FFIEC 041), and the Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices (FFIEC 031).

<sup>3</sup> Under certain circumstances described in the FR Y-9C's General Instructions, HCs with assets under \$3 billion may be required to file the FR Y-9C.

<sup>4</sup> A top-tier HC may submit a separate FR Y-9LP on behalf of each of its lower-tier HCs.

The FR Y-9CS is a voluntary, free-form supplemental report that the Board may utilize to collect critical additional data from HCs deemed to be needed in an expedited manner.<sup>5</sup> The FR Y-9CS data collections are used to assess and monitor emerging issues related to HCs, and the report is intended to supplement the other FR Y-9 reports. The data requested by the FR Y-9CS would depend on the Board’s data needs in any given situation. For example, changes made by the Financial Accounting Standards Board (FASB) may introduce into U.S. generally accepted accounting principles (U.S. GAAP) new data items that are not currently collected by the other FR Y-9 reports. The Board could use the FR Y-9CS report to collect these data until the items are implemented into the other FR Y-9 reports.<sup>6</sup>

### **Respondent Panel**

The FR Y-9 reports panel is comprised of HCs. Specifically, the FR Y-9C panel consists of top-tier HCs with total consolidated assets of \$3 billion or more; the FR Y-9LP panel consists of each HC that files the FR Y-9C, as well as by each of its subsidiary HCs; the FR Y-9SP panel consists of HCs with total consolidated assets of less than \$3 billion; the FR Y-9ES panel consists of each employee stock ownership plan (ESOP) that is also an HC; and the FR Y-9CS panel consists of any HC the Board selects.

### **Proposed Revisions to the FR Y-9C**

#### **Simplifications Rule**

The Board proposes to revise the FR Y-9C to implement the Board’s final rule to simplify certain aspects of the capital rule (simplifications rule), which made a number of changes to the calculation of common equity tier 1 (CET1) capital, additional tier 1 capital, and tier 2 capital for non-advanced approaches holding companies.<sup>7,8</sup> The simplifications rule results

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<sup>5</sup> Certain criteria apply to information collections conducted via the Board’s ad hoc clearance process. Such information collections shall (1) be vetted by the Board’s clearance officer as well as the Division director responsible for the information collection, (2) display the OMB control number and respondents shall be informed that the information collection has been approved, (3) be used only in such cases where response is voluntary, (4) not be used to substantially inform regulatory actions or policy decisions, (5) be conducted only and exactly as described in the OMB submission, (6) involve only noncontroversial subject matter that will not raise concerns for other Federal agencies, (7) include information collection instruments that are each conducted only one time, (8) include a detailed justification of the effective and efficient statistical survey methodology (if applicable), and (9) collect personally identifiable information (PII) only to the extent necessary (if collecting PII, the form must display current privacy act notice). In addition, for each information collection instrument, respondent burden will be tracked and submitted to OMB.

<sup>6</sup> The FR Y-9CS was most recently used by the Board on June 30, 2008. In that collection, data were requested from banking organizations implementing an Advanced Measurement Approach to calculate operational risk capital under the Basel II Risk-Based Capital Framework. The report was used to conduct a voluntary Loss Data Collection Exercise (LDCE) relating to operational risk.

<sup>7</sup> 84 FR 35234 (July 22, 2019).

<sup>8</sup> In general, an advanced approaches HC, as defined in the Board’s Regulation Q, has consolidated total assets of \$250 billion or more, has consolidated total on-balance sheet foreign exposure of \$10 billion or more, has a subsidiary depository institution that uses the advanced approaches to calculate its total risk-weighted assets, or elects to use the advanced approaches to calculate its total risk-weighted assets. See 12 CFR 217.100.

in different calculations for these tiers of regulatory capital for non-advanced approaches holding companies and advanced approaches HCs. To reflect the effects of the simplifications rule for non-advanced approaches HCs, the Board proposes to adjust the existing regulatory capital calculations reported on Schedule HC-R, Part I. Although the report would include two sets of calculations (for non-advanced approaches HCs and advanced approaches HCs), a HC would complete only the set applicable to that holding company.

The simplifications rule generally becomes effective as of April 1, 2020; however, non-advanced approaches banking organizations may elect to adopt simplifying changes to the capital rule as of January 1, 2020.<sup>9</sup> The Board proposes revisions to Schedule HC-R, Regulatory Capital, to implement the associated changes to the capital rule effective as of the March 31, 2020, report date, consistent with the simplifications rule's optional effective date.

Additionally, the Board is proposing a number of revisions that would simplify the capital calculations on Schedule HC-R, Part I and Part II, and thereby reduce burden. As previously mentioned, the FR Y-9C would include two sets of calculations (one that incorporates the effects of the simplifications rule and another that does not); therefore, a holding company would only complete the column for the set of calculations applicable to that holding company. For the March 31, 2020, report date, non-advanced approaches HCs that elect to adopt the simplifications rule on January 1, 2020, would complete the column for the set of calculations that incorporates the effects of the simplifications rule. Non-advanced approaches HCs that elect to wait to adopt the simplifications rules on April 1, 2020, and all advanced approaches holding companies would complete the column for the set of calculations that does not reflect the effects of this rule (i.e., that reflects the capital calculation in effect for all holding companies before this revision). Beginning with the June 30, 2020, report date, all non-advanced approaches holding companies would complete the column for the set of calculations that incorporates the effects of the simplifications. The advanced approaches holding companies would complete the column that does not reflect the effects of the simplifications rule.

Currently, the regulatory capital calculations in FR Y-9C Schedule HC-R require that a holding company's capital cannot include mortgage servicing assets (MSAs), certain temporary difference deferred tax assets (DTAs), and significant investments in the common stock of unconsolidated financial institutions in an amount greater than 10 percent of CET1 capital, on an individual basis, and that those three data items combined cannot comprise more than 15 percent of CET1 capital. The simplifications rule increased the threshold for MSA, DTAs that could not be realized through net operating loss carrybacks (temporary difference DTAs),<sup>10</sup> and investments in the capital of unconsolidated financial institutions for non-advanced approaches HCs. In addition, the simplifications rule revised the capital calculation for minority interest included in the various capital categories for non-advanced approaches HCs and the calculation of the capital conservation buffer. The Board is proposing to revise Schedule HC-R to permit non-advanced approaches HCs to include as capital MSAs and temporary difference DTAs up to

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<sup>9</sup> See Federal Reserve press release, dated October 29, 2019.

[https://www.federalreserve.gov/news\\_events/pressreleases/bcreg20191029a.htm](https://www.federalreserve.gov/news_events/pressreleases/bcreg20191029a.htm).

<sup>10</sup> The Board notes that the Tax Cuts and Jobs Act, Pub. L. No. 115-97, 131 Stat. 2054 (2017), eliminated the concept of net operating loss carrybacks for U.S. federal income tax purposes, although the concept may still exist in particular jurisdictions for state or foreign income tax purposes.

25 percent of CET1 capital, on an individual basis. The 15 percent aggregate limit would be removed.

The simplifications rule also combined the current three categories of investments in financial institutions (non-significant investments in the capital of unconsolidated financial institutions, significant investments in the capital of unconsolidated financial institutions that are in the form of common stock, and significant investments in the capital of unconsolidated financial institutions that are not in the form of common stock) into a single category, investments in the capital of unconsolidated financial institutions, and will apply a limit of 25 percent of CET1 capital on the amount of these investments that can be included in capital. Any investments in excess of the 25 percent limit would be deducted from capital using the corresponding deduction approach. The Board proposes to revise the FR Y-9C to implement this change.

Consistent with the current capital rule, a holding company must risk weight MSAs, temporary difference DTAs, and investments in the capital of unconsolidated financial institutions that are not deducted. As a result of the simplifications rule, non-advanced approaches banking organizations will not be required to differentiate among categories of investments in the capital of unconsolidated financial institutions. The risk weight for such equity exposures generally will be 100 percent, provided the exposures otherwise qualify for this risk weight.<sup>11</sup> For non-advanced approaches banking organizations, the simplifications rule eliminates the exclusion of significant investments in the capital of unconsolidated financial institutions in the form of common stock from being eligible for a 100 percent risk weight.<sup>12</sup> The application of the 100 percent risk weight (i) requires a banking organization to follow an enumerated process for calculating adjusted carrying value and (ii) mandates the inclusion of equity exposures to determine whether the threshold has been reached. Equity exposures that do not qualify for a preferential risk weight will generally receive risk weights of either 300 percent or 400 percent, depending on whether the equity exposures are publicly traded. The Board proposes to revise the FR Y-9C to implement this change.

In order to implement these regulatory capital changes, a number of revisions are proposed to Schedule HC-R, Part I, for non-advanced approaches HCs. Specifically, the Board proposes to create two columns for existing items 11 through 19 on the FR Y-9C. Column A would be reported by non-advanced approaches HCs that elect to adopt the simplifications rule on January 1, 2020, in the March 31, 2020, FR Y-9C report and by all non-advanced approaches HCs beginning in the June 30, 2020 FR Y-9C report using the definitions under the simplifications rule. Column A would not include items 11 or 16, and items 13 through 15 would be designated as items 13.a, column A through item 15.a, column A to reflect the new

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<sup>11</sup> Note that for purposes of calculating the 10 percent nonsignificant equity bucket, the capital rule excludes equity exposures that are assigned a risk weight of zero percent or 20 percent and community development equity exposures and the effective portion of hedge pairs, both of which are assigned a 100 percent risk weight. In addition, the 10 percent non-significant bucket excludes equity exposures to an investment firm that would not meet the definition of traditional securitization were it not for the application of criterion 8 of the definition of traditional securitization, and has greater than immaterial leverage.

<sup>12</sup> Equity exposures that exceed, in the aggregate, 10 percent of a non-advanced approaches banking organization's total capital would then be assigned a risk weight based upon the approaches available in sections 52 and 53 of the capital rule. 12 CFR 217.52 and .53.

calculation methodology. Column B would be reported by advanced approaches HCs and by non-advanced approaches HCs that elect to wait to adopt the simplifications rule on April 1, 2020, in the March 31, 2020, FR Y-9C report and only by advanced approaches HCs beginning in the June 30, 2020, FR Y-9C report using the existing definitions. Existing items 13 through 15 would be designated as items 13.b, column B through item 15.b, column B to reflect continued use of the existing calculation methodology.

With respect to the revisions related to the capital calculation for minority interests, the Board proposes to modify the FR Y-9C instructions to reflect the ability of non-advanced approaches HCs to use the revised method under the simplifications rule to calculate minority interest in existing items 4, 22, and 29 (CET1, additional tier 1, and tier 2 minority interest, respectively).

## **Community Bank Leverage Ratio**

The Board proposes to revise the FR Y-9C to implement a simplified alternative measure of capital adequacy, the community bank leverage ratio (CBLR), for qualifying HCs with less than \$10 billion in total consolidated assets. The proposed revisions would align the FR Y-9C with the CBLR final rule,<sup>13</sup> which implemented the CBLR pursuant to section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRCPA).<sup>14</sup> The proposed revisions to the FR Y-9C would become effective for the March 31, 2020, report date, the first report date in respect of which a HC could elect to opt into the framework established by the community leverage bank ratio final rule (CBLR framework)..

Under the CBLR final rule, HCs that have less than \$10 billion in total consolidated assets, meet risk-based qualifying criteria, and have a leverage ratio of greater than 9 percent will be eligible to opt into the CBLR framework. A HC that opts into the CBLR framework, maintains a leverage ratio of greater than 9 percent, and continues to meet the other qualifying criteria will be considered to have satisfied the generally applicable risk-based and leverage capital requirements and any other capital or leverage requirements to which it is subject. .

Under the CBLR final rule, a holding company that opts into the CBLR framework (CBLR HC) may opt out of the CBLR framework at any time, without restriction, by reverting to the generally applicable capital requirements in the Board's capital rule and reporting its regulatory capital information in the FR Y-9C Schedule HC-R, "Regulatory Capital," Parts I and II, at the time of opting out.

As described in the CBLR final rule, a CBLR HC that no longer meets the qualifying criteria for the CBLR framework will be required within two consecutive calendar quarters (grace period) either to satisfy once again the qualifying criteria or demonstrate compliance with the generally applicable capital requirements. During the grace period, the HC would continue to be treated as a CBLR HC and would be required to report its leverage ratio and related

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<sup>13</sup> 84 FR 61776 (November 13, 2019).

<sup>14</sup> See Pub. L. No. 115-174, 132 Stat. 1296 (2018).

components in FR Y-9C Schedule HC-R, Part I.<sup>15</sup> A CBLR HC that ceases to meet the qualifying criteria as a result of a business combination (e.g., a merger) will receive no grace period, and will immediately become subject to the generally applicable capital requirements. Similarly, a CBLR HC that fails to maintain a leverage ratio greater than 8 percent will not be permitted to use the grace period and would immediately become subject to the generally applicable capital requirements.

The Board proposes to incorporate revisions related to the CBLR framework into Schedule HC-R, Part I. As provided in the CBLR final rule, the numerator of the community bank leverage ratio will be tier 1 capital, which is currently reported on Schedule HC-R, Part I, item 26. Therefore, the Board is not proposing any changes related to the numerator of the CBLR.

As provided in the CBLR final rule, the denominator of the community bank leverage ratio will be average total consolidated assets. For this purpose, average total consolidated assets would be calculated in accordance with the existing reporting instructions for Schedule HC-R, Part I, items 36 through 39. The Board is not proposing any substantive changes related to the denominator of the community bank leverage ratio. However, the Board is proposing to move existing items 36 through 39 of Schedule HC-R, Part I, and renumber them as items 27 through 30 of Schedule HC-R, Part I, to consolidate all of the CBLR-related capital items earlier in Schedule HC-R, Part I.

As provided in the CBLR final rule, a CBLR HC will calculate its community bank leverage ratio by dividing tier 1 capital by average total consolidated assets (as adjusted), and the community bank leverage ratio would be reported as a percentage, rounded to four decimal places. Since this calculation is essentially identical to the existing calculation of the tier 1 leverage ratio in Schedule HC-R, Part I, item 44, the Board is not proposing a separate item for the community bank leverage ratio in Schedule HC-R, Part I. Instead, the Board proposes to move the tier 1 leverage ratio from item 44 of Part I and renumber it as item 31, and rename the item to the Leverage Ratio, as this ratio would apply to all HCs (as the community bank leverage ratio for qualifying HCs or the tier 1 Leverage Ratio for all other HCs).

As provided in the CBLR final rule, an HC will need to satisfy certain qualifying criteria in order to be eligible to opt into the CBLR framework. The proposed items identified below would collect information necessary to ensure that an HC continuously meets the qualifying criteria for using the CBLR framework.

#### *Qualifying Criteria for Using the CBLR Framework*

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<sup>15</sup> For example, if the CBLR HC no longer meets one of the qualifying criteria as of February 15, and still does not meet the criteria as of the end of that quarter, the grace period for such an HC will begin as of the end of the quarter ending March 31. The banking organization may continue to use the CBLR framework as of June 30, but will need to comply fully with the generally applicable rule (including the associated reporting requirements) as of September 30, unless the HC once again meets all qualifying criteria of the CBLR framework, including a leverage ratio of greater than 9 percent, by that date.

A HC would need to satisfy certain qualifying criteria to be eligible to opt into the CBLR framework. The proposed items below would collect the information necessary to ensure that an HC continuously meets the qualifying criteria for using the CBLR framework. Specifically, a qualifying HC must not be an advanced approaches (AA) HC and must meet the following criteria:

- A leverage ratio of greater than 9 percent;
- Total consolidated assets of less than \$10 billion;
- Total trading assets and trading liabilities of 5 percent or less of total consolidated assets; and
- Total off-balance sheet exposures (excluding derivatives other than sold credit derivatives and unconditionally cancelable commitments) of 25 percent or less of total consolidated assets.<sup>16</sup>

Accordingly, the Board proposes to collect the items described below from CBLR HCs only:

- Total consolidated assets. In proposed item 32 of Schedule HC-R, Part I, a CBLR HC would report total assets, as reported in Schedule HC, item 12.
- Total trading assets and trading liabilities. In proposed item 33, a CBLR HC would report the sum of trading assets from Schedule HC, item 5, and trading liabilities from Schedule HC, item 15, in Column A. The HC would also report that sum divided by total assets from Schedule HC, item 12, and expressed as a percentage in Column B. As provided in the CBLR final rule, trading assets and trading liabilities would be added together, not netted, for purposes of this calculation. Also as discussed in the CBLR final rule, a HC would not meet the definition of a qualifying community banking organization for purposes of the CBLR framework if the percentage reported in Column B is greater than 5 percent.
- Total off-balance sheet exposures. In proposed items 34.a through 34.d, a CBLR HC would report information related to commitments, other off-balance sheet exposures, and sold credit derivatives.
  - In proposed item 34.a, a CBLR HC would report the unused portion of conditionally cancellable commitments. This amount would be the amount of all unused commitments less the amount of unconditionally cancellable commitments, as discussed in the CBLR final rule and defined in the agencies' capital rule.<sup>17</sup> This item would be calculated consistent with the sum of Schedule HC-R, Part II, items 18.a and 18.b, Column A.
  - In proposed item 34.b, a CBLR HC would report total securities lent and borrowed, which would be the sum of Schedule HC-L, items 6.a and 6.b.
  - In proposed item 34.c, a CBLR HC would report the sum of certain other off-balance sheet exposures and sold credit derivatives. Specifically, a CBLR HC would report the sum of self-liquidating, trade-related contingent items that arise from the movement of goods; transaction-related contingent items (performance bonds, bid bonds, warranties, and performance standby letters of credit); sold credit protection in

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<sup>16</sup> As provided in the CBLR final rule, the Board would reserve the authority to disallow the use of the CBLR framework by an HC based on the risk profile of the HC. This authority derives from the general reservation of authority included in the Board's Regulation Q, in which the CBLR framework is be codified. See 12 CFR 217.1(d).

<sup>18</sup> See definition of "unconditionally cancellable" in 12 CFR 217.2.

the form of guarantees and credit derivatives; credit-enhancing representations and warranties; financial standby letters of credit; forward agreements that are not derivative contracts; and off-balance sheet securitizations. A CBLR HC would not include derivatives that are not sold credit derivatives, such as foreign exchange swaps and interest rate swaps, in proposed item 34.c.

- In proposed item 34.d, a CBLR HC would report the sum of proposed items 34.a through 34.c in Column A. The HC would also report that sum divided by total assets from Schedule HC, item 12, and expressed as a percentage in Column B. As discussed in the CBLR final rule, a HC would not be eligible to opt into the CBLR framework if this percentage is greater than 25 percent.
- In proposed item 35, a CBLR HC would report the total of unconditionally cancellable commitments, which would be calculated consistent with the instructions for existing Schedule HC-R, Part II, item 19. This item is not used specifically to calculate a HC's eligibility for the CBLR framework. However, the Board proposes to collect this information in order to monitor balance sheet exposures that are not reflected in the CBLR framework and to identify any CBLR HCs with elevated concentrations in unconditionally cancellable commitments.
- In proposed item 36, a CBLR HC would report the amount of investments in the capital instruments of an unconsolidated financial institution that would qualify as tier 2 capital. Since the CBLR framework does not have a total capital requirement, a CBLR HC is neither required to calculate tier 2 capital nor make any deductions that would be taken from tier 2 capital. Therefore, if a CBLR HC has investments in the capital instruments of an unconsolidated financial institution that would qualify as tier 2 capital of the CBLR HC under the generally applicable capital requirements (tier 2 qualifying instruments), and the CBLR HC's total investments in the capital of unconsolidated financial institutions exceed 25 percent of its CET1 capital, the CBLR HC is not required to deduct the tier 2 qualifying instruments. A CBLR HC is required to make a deduction from CET1 capital or T1 capital only if the sum of its investments in the capital of an unconsolidated financial institution is in a form that would qualify as CET1 capital or T1 capital instruments of the CBLR HC and the sum exceeds the 25 percent CET1 threshold. The Board believes it is important to continue collecting information on the amount of investments in these capital instruments in order to identify any instances where such activity potentially creates an unsafe or unsound practice or condition.

Because a CBLR HC would not be subject to the generally applicable capital requirements, a CBLR HC would not need to complete any of the items in Schedule HC-R, Part I, after proposed item 36, nor would the holding company need to complete Schedule HC-R, Part II, Risk-Weighted Assets.

In connection with moving the leverage ratio calculations and inserting items for the CBLR qualifying criteria in Schedule HC-R, Part I, existing items 27 through 35 of Schedule HC-R, Part I, will be renumbered as items 37 through 45. Existing items 40 through 43 will be renumbered as items 46 through 49, while existing items 46 through 48 will be renumbered as items 50 through 52. For advanced approaches HCs, existing items 45 for total leverage exposure and the supplementary leverage ratio, will be renumbered as item 53.

A CBLR HC would indicate that it has elected to apply the CBLR framework by completing Schedule HC-R, Part I, items 32 through 36. HCs not subject to the CBLR framework would be required to report all data items in Schedule HC-R, Part I, except for items 32 through 36.

## **Standardized Approach for Counterparty Credit Risk on Derivatives**

The Board proposes to revise the FR Y-9C instructions to implement changes to the capital rule regarding how to calculate the exposure amount of derivative contracts (the standardized approach for counterparty credit risk, or “SA-CCR”) that were implemented by final rule (the “SA-CCR final rule”).<sup>18</sup>

The SA-CCR final rule amends the capital rule by replacing the current exposure methodology (CEM) with SA-CCR for advanced approaches HCs. Under the SA-CCR final rule, an advanced approaches HC will have to choose either SA-CCR or the internal models methodology to calculate the exposure amount of any noncleared and cleared derivative contracts and use SA-CCR to determine the risk-weighted asset amount of any default fund contributions. In addition, an advanced approaches HC will be required to use SA-CCR (instead of CEM) to calculate the exposure amount of noncleared and cleared derivative contracts and to determine the risk-weighted asset amount of default fund contributions under the standardized approach, as well as to determine the exposure amount of derivative contracts for purposes of the supplementary leverage ratio.

Under the SA-CCR final rule, a non-advanced approaches HC will be able to use either CEM or SA-CCR to calculate the exposure amount of any noncleared and cleared derivative contracts and to determine the risk-weighted asset amount of any default fund contributions under the standardized approach. A HC that meets the criteria for a banking organization subject to Category III standards<sup>19</sup> will also use SA-CCR for calculating its supplementary leverage ratio if it chooses to use SA-CCR to calculate its derivative and default fund exposures.

Accordingly, the Board proposes to revise the instructions for HC-R Part II, consistent with the SA-CCR final rule. Generally, the proposed revisions to the reporting of derivatives elements in Schedule HC-R, Part II, are driven by differences in the methodology for determining the exposure amount of a derivative contract under SA-CCR relative to CEM. These proposed revisions would be effective for the June 30, 2020, report date, the same quarter as the effective date of the SA-CCR final rule, with a mandatory compliance date of January 1, 2022.

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<sup>18</sup> See Federal Reserve press release, dated November 19, 2019.

<https://www.federalreserve.gov/newsreleases/bcreg20191119c.htm>.

<sup>19</sup> The Board’s final tailoring rule, approved on October 10, 2019, describes a Category III banking organization generally as a banking organization with \$250 billion or more in total consolidated assets that is not a globally systemically important bank (GSIB) nor has significant international activity, or a banking organization with total consolidated assets of \$100 billion or more, but less than \$250 billion, that meets or exceeds other specified risk-based indicators. See “Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Organizations,” 84 FR 59032 (November 1, 2019).

## High Volatility Commercial Real Estate (HVCRE)

The Board proposes to revise the FR Y-9C instructions to implement changes to the HVCRE exposure definition in section 2 of the capital rule<sup>20</sup> to conform to the statutory definition of an HVCRE Acquisition, Development, or Construction (ADC) loan (HVCRE final rule<sup>21</sup>). The revisions align the capital rule with section 214 of the EGRRCPA to exclude from the definition of HVCRE exposure credit facilities that finance the acquisition, development, or construction of one- to four-family residential properties.<sup>22</sup>

The HVCRE final rule also clarifies the definition of HVCRE exposure in the capital rule by adding a new paragraph that provides that the exclusion for one- to four-family residential properties would not include credit facilities that solely finance land development activities, such as the laying of sewers, water pipes, and similar improvements to land, without any construction of one- to four-family residential structures. In order for a loan to be eligible for this exclusion, the credit facility would be required to include financing for construction of one- to four-family residential structures.

The Board proposes to make conforming revisions to the instructions for Schedule HC-R, Part II, items 4.b and 5.b in order to implement the HVCRE final rule for all reporting HCs, and would become effective June 30, 2020.

## Operating Lease Liabilities

In February 2016, the FASB issued ASU No. 2016-02, “Leases,” which added Topic 842, Leases, to the Accounting Standards Codification (ASC). Once ASU 2016-02 is effective for a holding company, the ASU’s accounting requirements, as amended by certain subsequent ASUs, supersede ASC Topic 840, Leases.

The most significant change that ASC Topic 842 makes to the previous lease accounting requirements is to lessee accounting. Under the lease accounting standards in ASC Topic 840, lessees recognize lease assets and lease liabilities on the balance sheet for capital leases, but do not recognize operating leases on the balance sheet. The lessee accounting model under Topic 842 retains the distinction between operating leases and capital leases, which the new standard labels finance leases. However, the new standard requires lessees to record a right-of-

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<sup>20</sup> 12 CFR part 217.2.

<sup>21</sup> See Federal Reserve press release, dated November 19, 2019, <https://www.federalreserve.gov/newsreleases/bcreg20191119b.htm>.

<sup>22</sup> Section 214 became effective upon enactment of the EGRRCPA. Accordingly, on July 6, 2018, the Board, along with the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC), issued a statement advising institutions that, when determining which loans should be subject to a heightened risk weight, they may choose to continue to apply the current regulatory definition of HVCRE exposure, or they may choose to apply the heightened risk weight only to those loans they reasonably believe meet the definition of “HVCRE ADC loan” set forth in section 214 of the EGRRCPA. See Board, FDIC, and OCC, *Interagency statement regarding the impact of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA)*. <https://www.federalreserve.gov/newsreleases/files/bcreg20180706a1.pdf>.

The Board temporarily implemented this revision to the FR Y-9C through an emergency PRA clearance that permitted, but did not require, a HC to use the definition of HVCRE ADC loan in place of the existing definition of HVCRE loan.

use (ROU) asset and a lease liability on the balance sheet for operating leases. (For finance leases, a lessee's lease asset also is designated an ROU asset.) In general, the new standard permits a lessee to make an accounting policy election to exempt leases with a term of one year or less at their commencement date from on-balance sheet recognition.

The Board proposes to revise the FR Y-9C instructions to implement changes for operating leases to be reported as "other liabilities" instead of "other borrowings" for regulatory reporting purposes. The proposed change would better align the reporting of the single noninterest expense item for operating leases in the income statement (which is the presentation required by ASC Topic 842) with their balance sheet classification.

For HCs that are public business entities, as defined under U.S. GAAP, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. For HCs that are not public business entities, at present, the new standard is effective for fiscal years beginning after December 15, 2019, and interim reporting periods within fiscal years beginning after December 15, 2020. Early application of the new standard is permitted for all HCs.

The FR Y-9C Report Supplemental Instructions for March 2019<sup>23</sup> stated that a lessee should report lease liabilities for operating leases and finance leases, including lease liabilities recorded upon adoption of the ASU, in Schedule HC-M, item 14, "Other borrowings," which is consistent with the current FR Y-9C instructions for reporting a lessee's obligations under capital leases under ASC Topic 840. In response to this instructional guidance, the Board received questions from HCs concerning the reporting of a bank lessee's lease liabilities for operating leases. These HCs indicated that reporting operating lease liabilities as other liabilities instead of other borrowings would better align the reporting of the single noninterest expense item for operating leases in the income statement (which is the presentation required by ASC Topic 842) with their balance sheet classification and would be consistent with how these HCs report operating lease liabilities internally.

The Board agrees with the views expressed by these HCs and proposes to require that operating lease liabilities be reported on the FR Y-9C balance sheet in Schedule HC, item 20, "Other liabilities." In Schedule HC-G, Other Liabilities, operating lease liabilities would be reported in item 4, "Other" effective March 31, 2020.

### **Reporting Home Equity Lines of Credit That Convert From Revolving to Non-revolving Status**

HCs report the amount outstanding under revolving, open-end lines of credit secured by 1-4 family residential properties (commonly known as home equity lines of credit or HELOCs) in item 1.c.(1) of Schedule HC-C, Part I, Loans and Lease Financing Receivables. The amounts

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<sup>23</sup> [https://www.federalreserve.gov/reportforms/supplemental/SI\\_FRY9\\_201903.pdf](https://www.federalreserve.gov/reportforms/supplemental/SI_FRY9_201903.pdf).

of closed-end loans secured by 1-4 family residential properties are reported in Schedule HC-C, item 1.c.(2)(a) or (b), depending on whether the loan is a first or a junior lien.<sup>24</sup>

A HELOC is a line of credit secured by a lien on a 1-4 family residential property that generally provides a draw period followed by a repayment period. During the draw period, a borrower has revolving access to unused amounts under a specified line of credit. During the repayment period, the borrower can no longer draw on the line of credit, and the outstanding principal is either due immediately in a balloon payment or repaid over the remaining loan term through monthly payments. Because the FR Y-9C instructions do not address the reporting treatment for a home equity line of credit when it reaches its end-of-draw period and converts from revolving to nonrevolving status, leading to inconsistency in how these credits are reported in Schedule HC-C, items 1.c.(1), 1.c.(2)(a), and 1.c.(2)(b), and in other holding company items that use the definitions of these three loan categories.

To address this absence of instructional guidance and promote consistency in reporting, the Board proposes to clarify the instructions for reporting loans secured by 1-4 family residential properties by specifying that after a revolving open-end line of credit has converted to non-revolving closed-end status, the loan should be reported as closed-end in Schedule HC-C, item 1.c.(2)(a) or (b), as appropriate.

The Board believes that it is important to collect accurate data on loans secured by 1-4 family residential properties in the FR Y-9C report. Consistent classification of HELOCs based on the status of the draw period is particularly important for the Board's safety and soundness monitoring. Due to the structure of HELOCs discussed above, borrowers generally are not required to make principal repayments during the draw period, which may create a financial shock for borrowers when they must make a balloon payment or begin regular monthly repayments after the draw period. Some HCs report HELOCs past the draw period as revolving, and this practice increases the amounts outstanding, charge-offs, recoveries, past dues, and nonaccruals reported in the open-end category relative to the amounts reported by HCs that treat HELOCs past the draw period as closed-end, which makes the data less useful for analysis and safety and soundness monitoring. In addition, in Accounting Standards Update No. 2019-04,<sup>25</sup> the FASB amended ASC Subtopic 326-20 on credit losses to require that, when presenting credit quality disclosures in notes to financial statements prepared in accordance with U.S. GAAP, an entity must separately disclose line-of-credit arrangements that are converted to term loans from line-of-credit arrangements that remain in revolving status. The Board has determined that there would be little or no impact to the regulatory capital calculations or other regulatory reporting requirements as a result of this clarification. Therefore, the Board is proposing to clarify the FR Y-9C instructions for Schedule HC-C, items 1.c.(1), 1.c.(2)(a), and 1.c.(2)(b), to state that revolving open-end lines of credit that have converted to non-revolving closed-end status should be reported as closed-end loans. The effect of this clarification would extend to the instructions

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<sup>24</sup> Holding companies report additional information on open-end and closed-end loans secured by 1-4 family residential properties in certain other FR Y-9C schedules in accordance with the loan category definitions in Schedule HC-C, items 1.c.(1), 1.c.(2)(a), and 1.c.(2)(b).

<sup>25</sup> Accounting Standards Update No. 2019-04, "Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments," issued in April 2019.

for the following data items that reference the Schedule HC-C loan category definitions for open-end and closed-end loans secured by 1-4 family residential properties:

- Schedule HI-B, Part I, items 1.c.(1), 1.c.(2)(a), and 1.c.(2)(b);
- Schedule HC-C, Memoranda item 1.b;
- Schedule HC-C, Memoranda items 6.a, 6.b, 6.c;
- Schedule HC-M, items 6.a.(1)(c)(1), 6.a.(1)(c)(2)(a), and 6.a.(1)(c)(2)(b)
- Schedule HC-N, items 1.c.(1), 1.c.(2)(a), and 1.c.(2)(b);
- Schedule HC-N, items 12.a.(3)(a), 12.a.(3)(b)(1), and 12.a.(3)(b)(2)
- Schedule HC-N, Memoranda item 1.b; and
- Schedule HC-S, Memorandum items 2.a, 2.b, and 2.c

This instructional clarification would not apply to the reporting of asset-backed securities collateralized by HELOCs in Schedule HC-B, Memorandum item 5.b, and Schedule HC-D, Memorandum item 5.b and securitizations of closed-end 1-4 family residential loans and home equity lines in Schedule HC-S, columns A and B.

To provide time needed for any systems changes, the Board proposes that compliance with the clarified instructions would not be required until the March 31, 2021, report date. HCs not currently reporting in accordance with the clarified instructions would be permitted, but not required, to report in accordance with the clarified instructions before that date.

### **Proposed Revisions to the FR Y-9CS**

The Board proposes to revise the FR Y-9CS to clarify that response to the report is voluntary.

### **Time Schedule for Information Collection**

The FR Y-9C and FR Y-9LP are filed quarterly as of the last calendar day of March, June, September, and December. The filing deadline for the FR Y-9C is 40 calendar days after the March 31, June 30, and September 30 as-of dates and 45 calendar days after the December 31 as-of date. The filing deadline for the FR Y-9LP is 45 calendar days after the quarter-end as-of date. The FR Y-9SP is filed semiannually as of the last calendar day of June and December, and the filing deadline is 45 calendar days after the as-of date. The annual FR Y-9ES is collected as of December 31, and the filing deadline is July 31 of the following year, unless an extension to file by October 15 is granted. If the voluntary FR Y-9CS is utilized by the Board, respondents will be notified of the date by which it prefers that responses are submitted.

### **Public Availability of Data**

Data from the FR Y-9 reports that are not granted confidential treatment are publicly available on the Federal Financial Institutions Examination Council website: <http://www.ffiec.gov/nicpubweb/nicweb/NicHome>. Data that are granted confidential treatment are discussed in the Legal Status section of this Supporting Statement.

## Legal Status

The Board has the authority to impose the reporting and recordkeeping requirements associated with the Y-9 series of reports on bank holding companies (“BHCs”) pursuant to section 5 of the Bank Holding Company Act (“BHC Act”) (12 U.S.C. § 1844); on savings and loan holding companies pursuant to section 10(b)(2) and (3) of the Home Owners’ Loan Act, (12 U.S.C. § 1467a(b)(2) and (3)), as amended by sections 369(8) and 604(h)(2) of the Dodd-Frank Wall Street and Consumer Protection Act (“Dodd-Frank Act”); on U.S. intermediate holding companies (“U.S. IHCs”) pursuant to section 5 of the BHC Act (12 U.S.C. 1844), as well as pursuant to sections 102(a)(1) and 165 of the Dodd-Frank Act (12 U.S.C. §§ 511(a)(1) and 5365)<sup>26</sup>; and on securities holding companies pursuant to section 618 of the Dodd-Frank Act (12 U.S.C. § 1850a(c)(1)(A)). The FR Y-9C, FR Y-9LP, FR Y-9SP, and FR Y-9ES reports, and the recordkeeping requirements set forth in the respective instructions to those reports, are mandatory. The FR Y-9CS supplemental report is voluntary.

With respect to the FR Y-9C report, Schedule HI’s Memoranda item 7(g) “FDIC deposit insurance assessments,” Schedule HC-P’s item 7(a) “Representation and warranty reserves for 1-4 family residential mortgage loans sold to U.S. government agencies and government sponsored agencies,” and Schedule HC-P’s item 7(b) “Representation and warranty reserves for 1-4 family residential mortgage loans sold to other parties” are considered confidential commercial and financial information. Such treatment is appropriate under exemption 4 of the Freedom of Information Act (“FOIA”) (5 U.S.C. § 552(b)(4)), because these data items reflect commercial and financial information that is both customarily and actually treated as private by the submitter, and which the Board has previously assured submitters will be treated as confidential. It also appears that disclosing these data items may reveal confidential examination and supervisory information, and in such instances, this information would also be withheld pursuant to exemption 8 of the FOIA (5 U.S.C. § 552(b)(8)), which protects information related to the supervision or examination of a regulated financial institution.

In addition, for both the FR Y-9C report and the FR Y-9SP report, Schedule HC’s Memoranda item 2.b., the name and email address of the external auditing firm’s engagement partner, is considered confidential commercial information and protected by exemption 4 of the FOIA (5 U.S.C. § 552(b)(4)), if the identity of the engagement partner is treated as private information by HCs. The Board has assured respondents that this information will be treated as confidential since the collection of this data item was proposed in 2004.

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<sup>26</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 bank holding companies 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 foreign banking organizations 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-9 series of reports.

Aside from the data items described above, the remaining data items on the FR Y-9C report and the FR Y-9SP report are generally not accorded confidential treatment. The data items collected on FR Y-9LP, FR Y-9ES, and FR Y-9CS<sup>27</sup> reports, are also generally not accorded confidential treatment. As provided in the Board's Rules Regarding Availability of Information (12 CFR part 261), however, a respondent may request confidential treatment for any data items the respondent believes should be withheld pursuant to a FOIA exemption. The Board will review any such request to determine if confidential treatment is appropriate, and will inform the respondent if the request for confidential treatment has been denied.

To the extent the instructions to the FR Y-9C, FR Y-9LP, FR Y-9SP, and FR Y-9ES reports each respectively direct the financial institution to retain the workpapers and related materials used in preparation of each report, such material would only be obtained by the Board as part of the examination or supervision of the financial institution. Accordingly, such information is considered confidential pursuant to exemption 8 of the FOIA (5 U.S.C. § 552(b)(8)). In addition, these workpapers and related materials may also be protected by exemption 4 of the FOIA, to the extent such financial information is treated as confidential by the respondent (5 U.S.C. § 552(b)(4)).

## **Consultation Outside the Agency**

The Board consulted with the FDIC and the OCC in regard to these proposed revisions.

## **Public Comments**

On December 27, 2019, the Board published a notice in the *Federal Register* (84 FR 71414) requesting comment for 60 days on the proposal to extend, with revision, the FR Y-9 series reports. The comment period expires on February 25, 2020.

## **Estimate of Respondent Burden**

As shown in the table below, the estimated total annual burden for the FR Y-9C is 119,812 hours and would decrease to 115,480 hours with the proposed revisions resulting in a decrease of 4,332 hours. FR Y-9C non-advanced approaches HCs (non-AA HCs) estimated average hours per response of 43.18 is calculated by a weighted average approach.<sup>28</sup> The average

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<sup>27</sup> The FR Y-9CS is a supplemental report that may be utilized by the Board to collect additional information that is needed in an expedited manner from HCs. The information collected on this supplemental report is subject to change as needed. Generally, the FR Y-9CS report is treated as public. However, where appropriate, data items on the FR Y-9CS report may be withheld under exemptions 4 and/or 8 of the FOIA (5 U.S.C. §§ 552(b)(4) and (8)).

<sup>28</sup> The number of qualifying non-AA HCs for the CBLR framework (FR Y-9C CBLR) is 176 respondents. Of the qualifying HCs, the Board estimates an initial adoption rate of 60 percent, or 106 respondents. The estimated hours per response for FR Y-9C CBLR respondents is 35.0 hours, a decrease of 11.34 hours. The FR Y-9C (CBLR) estimated number of respondents was multiplied by estimated average hours per response (106\*35=3,710) and FR Y-9C (Non-CBLR) estimated number of respondents multiplied by estimated average hours per response (237\*46.84=11,101). Both of these figures for CBLR and Non-CBLR were added together creating the weighted summation (3,710+11,101=14,811), which was then divided by the total number of non-AA HCs in the current burden table, resulting in an estimated average hours per response of 43.18 (14,811/343=43.18), reflecting a

estimated hours per response for advanced approaches FR Y-9C filers and for the FR Y-9LP/SP/ES/CS filers would remain unchanged. These reporting requirements represent 1.68 percent of the total Federal Reserve System paperwork burden.

FR Y-9	Estimated number of respondents <sup>29</sup>	Annual frequency	Estimated average hours per response	Estimated annual burden hours
<b>Current</b>				
FR Y-9C (non-AA HCs)	344	4	46.34	63,764
FR Y-9C (AA HCs)	19	4	47.59	3,617
FR Y-9LP	434	4	5.27	9,149
FR Y-9SP	3,960	2	5.40	42,768
FR Y-9ES	83	1	0.50	42
FR Y-9CS	236	4	0.50	<u>472</u>
<i>Total</i>				119,812
<b>Proposed</b>				
FR Y-9C (non-AA HCs CBLR)	106	4	35.00	14,840
FR Y-9C (non-AA HCs non-CBLR)	238	4	46.84	44,592
FR Y-9C (AA HCs)	19	4	47.59	3,617
FR Y-9LP	434	4	5.27	9,149
FR Y-9SP	3,960	2	5.40	42,768
FR Y-9ES	83	1	0.50	42
FR Y-9CS	236	4	0.50	472
<i>Total</i>				<u>115,480</u>
<i>Difference</i>				-4,332

The total cost to respondents is estimated to be \$6,901,171 and would decrease to \$6,672,384 with the proposed revisions.<sup>30</sup>

## Sensitive Questions

These collections of information contain no questions of a sensitive nature, as defined by OMB guidelines.

decrease for all non-AA HCs of (46.34-43.18) 3.16 hours. The number of respondents is calculated using March 31, 2019, data or the most recent data available for the series.

<sup>29</sup> Of these respondents, 3,397 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>.

<sup>30</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 \$19, 45% Financial Managers at \$71, 15% Lawyers at \$69, and 10% Chief Executives at \$96). 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 2018*, published March 29, 2019, <https://www.bls.gov/news.release/ocwage.t01.htm>. Occupations are defined using the BLS Standard Occupational Classification System, <https://www.bls.gov/soc/>.

### **Estimate of Cost to the Federal Reserve System**

The estimated cost to the Federal Reserve System for collecting and processing these information collections will be obtained.