

**Supporting Statement for the  
Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulation VV  
(Proprietary Trading and Certain Interests in and Relationships with Covered Funds)  
(Reg VV; OMB No. to be obtained)**

***Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and  
Relationships With, Hedge Funds and Private Equity Funds  
(Docket No. R-1432) (RIN 7100 AD82)***

**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 implement the Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulation VV (Proprietary Trading and Certain Interests in and Relationships with Covered Funds) (Reg VV; OMB No. to be obtained). The Paperwork Reduction Act (PRA) classifies reporting, recordkeeping, or disclosure requirements of a regulation as an “information collection.”<sup>1</sup>

The Federal Reserve, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Commodity Futures Trading Commission (CFTC), and the Securities and Exchange Commission (SEC) (collectively, the agencies) have adopted a final rule that would implement section 13 of the Bank Holding Company Act of 1956 (BHC Act), which was added by section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Section 13 contains certain prohibitions and restrictions on the ability of a banking entity supervised by the agencies to engage in proprietary trading and have certain interests in, or relationships with, a hedge fund or private equity fund. On November 7, 2011, the Federal Reserve, OCC, FDIC, and SEC published a joint notice of proposed rulemaking in the *Federal Register* for public comment (76 FR 68846). The comment period was extended for an additional 30 days until February 13, 2012. On February 14, 2012, the CFTC published a proposal for the same common rule to implement section 13 with respect to those entities for which it is the primary financial regulatory agency in the *Federal Register* (77 FR 8331) and invited the public to comment on its proposed implementing rule through April 16, 2012. On January 31, 2014, the agencies published a joint notice of final rulemaking in the *Federal Register* (79 FR 5535, 5807). The final rule is effective on April 1, 2014.

The reporting requirements are found in sections 248.12(e) and 248.20(d); the recordkeeping requirements are found in sections 248.3(d)(3), 248.4(b)(3)(i)(A), 248.5(c), 248.11(a)(2), and 248.20(b)-(f); and the disclosure requirements are found in section 248.11(a)(8)(i). The recordkeeping burden for sections 248.4(a)(2)(iii), 248.4(b)(2)(iii), 248.5(b)(1), 248.5(b)(2)(i), 248.5(b)(2)(iv), 248.13(a)(2)(i), and 248.13(a)(2)(ii)(A) is accounted for in section 248.20(b); the recordkeeping burden for Appendix B is accounted for in section 248.20(c); the reporting and recordkeeping burden for Appendix A is accounted for in section 248.20(d); and the recordkeeping burden for sections 248.10(c)(12)(i) and 248.10(c)(12)(iii) is accounted for in section 248.20(e). These information collection requirements for the Federal Reserve would implement section 13 of the BHC Act for banking entities for which the Federal

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<sup>1</sup> See 44 U.S.C. § 3501 *et seq.*

Reserve is authorized to issue regulations under section 13(b)(2) of the BHC Act and take actions under section 13(e) of that Act. These include any state bank that is a member of the Federal Reserve System, any company that controls an insured depository institution (including a bank holding company and savings and loan holding company), any company that is treated as a bank holding company for purposes of section 8 of the International Banking Act, and any subsidiary of the foregoing other than a subsidiary for which the OCC, FDIC, CFTC, or SEC is the primary financial regulatory agency. For purposes of the PRA, the Federal Reserve will also take burden for all institutions under a holding company including OCC-supervised institutions, FDIC-supervised institutions, banking entities for which the CFTC is the primary financial regulatory agency, and banking entities for which the SEC is the primary financial regulatory agency. The OCC and the FDIC are also submitting similar requests for OMB review for institutions not under a holding company. The Federal Reserve's total annual burden for this information collection is estimated to be 2,336,190 hours (968,488 hours for initial set-up and 1,367,702 hours for ongoing compliance) for the 5,027 institutions that are deemed respondents for purposes of the PRA. At this time, there are no required reporting forms associated with this information collection.

## **Background and Justification**

The Dodd-Frank Act was enacted on July 21, 2010. Section 619 of the Dodd-Frank Act added a new section 13 to the BHC Act that generally prohibits any banking entity from engaging in proprietary trading or from acquiring or retaining an ownership interest in, sponsoring, or having certain relationships with a hedge fund or private equity fund (covered fund), subject to certain exemptions. New section 13 of the BHC Act also provides that a nonbank financial company designated by the Financial Stability Oversight Council for supervision by the Federal Reserve would be subject to additional capital requirements, quantitative limits, or other restrictions if the company engages in certain proprietary trading or covered fund activities.

Section 13 of the BHC Act generally prohibits banking entities from engaging as principal in proprietary trading for the purpose of selling financial instruments in the near term or otherwise with the intent to resell in order to profit from short-term price movements. Section 13(d)(1) expressly exempts from this prohibition, subject to conditions, certain activities, including (1) trading in U.S. government, agency and municipal obligations, (2) underwriting and market making-related activities, (3) risk-mitigating hedging activities, (4) trading on behalf of customers, (5) trading for the general account of insurance companies, and (6) foreign trading by non-U.S. banking entities.

Section 13 of the BHC Act also generally prohibits banking entities from acquiring or retaining an ownership interest in, or sponsoring, a covered fund. Section 13 contains several exemptions that permit banking entities to make limited investments in covered funds, subject to a number of restrictions designed to ensure that banking entities do not rescue investors in these funds from loss and are not themselves exposed to significant losses from investments or other relationships with these funds.

Section 13 of the BHC Act does not prohibit a nonbank financial company supervised by the Federal Reserve from engaging in proprietary trading, or from having the types of ownership interests in or relationships with a covered fund that a banking entity is prohibited or restricted from having under section 13 of the BHC Act. However, section 13 of the BHC Act provides that these activities be subject to additional capital charges, quantitative limits, or other restrictions.

The agencies believe that the reporting, recordkeeping, and disclosure requirements associated with the rule will permit banking entities and the agencies to enforce compliance with section 13 of the BHC Act and the final rule and to identify, monitor and limit risks of activities permitted under section 13, particularly involving banking entities posing the greatest risk to financial stability. No other federal law mandates these reporting, recordkeeping, and disclosure requirements.

### **Description of Information Collection**

The reporting requirements are found in sections 248.12(e) and 248.20(d); the recordkeeping requirements are found in sections 248.3(d)(3), 248.4(b)(3)(i)(A), 248.5(c), 248.11(a)(2), and 248.20(b)-(f); and the disclosure requirements are found in section 248.11(a)(8)(i). The recordkeeping burden for sections 248.4(a)(2)(iii), 248.4(b)(2)(iii), 248.5(b)(1), 248.5(b)(2)(i), 248.5(b)(2)(iv), 248.13(a)(2)(i), and 248.13(a)(2)(ii)(A) is accounted for in section 248.20(b); the recordkeeping burden for Appendix B is accounted for in section 248.20(c); the reporting and recordkeeping burden for Appendix A is accounted for in section 248.20(d); and the recordkeeping burden for sections 248.10(c)(12)(i) and 248.10(c)(12)(iii) is accounted for in section 248.20(e). These information collection requirements for the Federal Reserve would implement section 13 of the BHC Act for banking entities for which the Federal Reserve is authorized to issue regulations under section 13(b)(2) of the BHC Act and take actions under section 13(e) of that Act. These include any state bank that is a member of the Federal Reserve System, any company that controls an insured depository institution (including a bank holding company and savings and loan holding company), any company that is treated as a bank holding company for purposes of section 8 of the International Banking Act, and any subsidiary of the foregoing other than a subsidiary for which the OCC, FDIC, CFTC, or SEC is the primary financial regulatory agency. For purposes of the PRA, the Federal Reserve will also take burden for all institutions under a holding company including OCC-supervised institutions, FDIC-supervised institutions, banking entities for which the CFTC is the primary financial regulatory agency, and banking entities for which the SEC is the primary financial regulatory agency. Compliance with the information collection is required for covered entities to obtain the benefit of engaging in certain types of proprietary trading or investing in, sponsoring, or having certain relationships with a hedge fund or private equity fund. No other federal law mandates these reporting, recordkeeping, and disclosure requirements. At this time, there are no required reporting forms associated with this information collection.

### **Reporting Requirements**

Section 248.12(e) states that, upon application by a banking entity, the Federal Reserve may extend the period of time to meet the requirements on ownership limitations in this section

for up to two additional years, if the Federal Reserve finds that an extension would be consistent with safety and soundness and not detrimental to the public interest. An application for extension must (1) be submitted to the Federal Reserve at least 90 days prior to expiration of the applicable time period, (2) provide the reasons for application including information that addresses the factors in paragraph (e)(2) of section 248.12, and (3) explain the banking entity's plan for reducing the permitted investment in a covered fund through redemption, sale, dilution or other methods.

Section 248.20(d) provides that a banking entity engaged in proprietary trading activity must comply with the reporting requirements described in Appendix A, if (1) the banking entity has, together with its affiliates and subsidiaries, trading assets and liabilities (excluding trading assets and liabilities involving obligations of or guaranteed by the United States or any agency of the United States) the average gross sum of which over the previous consecutive four quarters, as measured as of the last day of each of the four prior calendar quarters, equals or exceeds the established threshold; (2) in the case of a foreign banking entity, the average gross sum of the trading assets and liabilities of the combined U.S. operations of the foreign banking entity (including all subsidiaries, affiliates, branches and agencies of the foreign banking entity operating, located or organized in the United States and excluding trading assets and liabilities involving obligations of or guaranteed by the United States or any agency of the United States) over the previous consecutive four quarters, as measured as of the last day of each of the four prior calendar quarters, equals or exceeds the established threshold; or (3) the appropriate agency notifies the banking entity in writing that it must satisfy the reporting requirements contained in Appendix A. The threshold for reporting is \$50 billion beginning on June 30, 2014; \$25 billion beginning on April 30, 2016; and \$10 billion beginning on December 31, 2016. Unless the appropriate agency notifies the banking entity in writing that it must report on a different basis, a banking entity with \$50 billion or more in trading assets and liabilities must report the information required by Appendix A for each calendar month within 30 days of the end of the relevant calendar month; beginning with information for the month of January 2015, such information must be reported within 10 days of the end of that calendar month. Any other banking entity subject to Appendix A must report the information required by Appendix A for each calendar quarter within 30 days of the end of that calendar quarter unless the appropriate agency notifies the banking entity in writing that it must report on a different basis. Appendix A requires banking entities to furnish the following quantitative measurements for each trading desk of the banking entity: (1) risk and position limits and usage; (2) risk factor sensitivities; (3) Value-at-Risk and stress Value-at-Risk; (4) comprehensive profit and loss attribution; (5) inventory turnover; (6) inventory aging; and (7) customer facing trade ratio.

Risk and position limits are the constraints that define the amount of risk that a trading desk is permitted to take at a point in time, as defined by the banking entity for a specific trading desk. Usage represents the portion of the trading desk's limits that are accounted for by the current activity of the desk. Risk and position limits must be reported in the format used by the banking entity for the purposes of risk management of each trading desk. Risk and position limits are often expressed in terms of risk measures, such as Value-at-Risk (VaR) and risk factor sensitivities, but may also be expressed in terms of other observable criteria, such as net open positions. When criteria other than VaR or risk factor sensitivities are used to define the risk and position limits, both the value of the risk and position limits and the value of the variables used

to assess whether these limits have been reached must be reported. The calculation period is one trading day and the measurement frequency is daily.

Risk factor sensitivities are changes in a trading desk's comprehensive profit and loss that are expected to occur in the event of a change in one or more underlying variables that are significant sources of the trading desk's profitability and risk. A banking entity must report the risk factor sensitivities that are monitored and managed as part of the trading desk's overall risk management policy. The underlying data and methods used to compute a trading desk's risk factor sensitivities will depend on the specific function of the trading desk and the internal risk management models employed. The number and type of risk factor sensitivities that are monitored and managed by a trading desk, and furnished to agency, will depend on the explicit risks assumed by the trading desk. In general, however, reported risk factor sensitivities must be sufficiently granular to account for a preponderance of the expected price variation in the trading desk's holdings. Trading desks must take into account any relevant factors in calculating risk factor sensitivities, including, for example, the following with respect to particular asset classes: commodity derivative positions, credit positions, credit-related derivative positions, equity derivative positions, equity positions, foreign exchange derivative positions, and interest rate positions, including interest rate derivative positions. The methods used by a banking entity to calculate sensitivities to a common factor shared by multiple trading desks, such as an equity price factor, must be applied consistently across its trading desks so that the sensitivities can be compared from one trading desk to another. The calculation period is one trading day and the measurement frequency is daily.

VaR is the commonly used percentile measurement of the risk of future financial loss in the value of a given set of aggregated positions over a specified period of time, based on current market conditions. Stress VaR is the percentile measurement of the risk of future financial loss in the value of a given set of aggregated positions over a specified period of time, based on market conditions during a period of significant financial stress. Banking entities must compute and report VaR and stress VaR by employing generally accepted standards and methods of calculation. VaR should reflect a loss in a trading desk that is expected to be exceeded less than one percent of the time over a one-day period. For those banking entities that are subject to regulatory capital requirements imposed by a Federal banking agency, VaR and stress VaR must be computed and reported in a manner that is consistent with such regulatory capital requirements. In cases where a trading desk does not have a standalone VaR or stress VaR calculation but is part of a larger aggregation of positions for which a VaR or stress VaR calculation is performed, a VaR or stress VaR calculation that includes only the trading desk's holdings must be performed consistent with the VaR or stress VaR model and methodology used for the larger aggregation of positions. The calculation period is one trading day and the measurement frequency is daily.

Comprehensive profit and loss attribution is an analysis that attributes the daily fluctuation in the value of a trading desk's positions to various sources. First, the daily profit and loss of the aggregated positions is divided into three categories: (1) profit and loss attributable to a trading desk's existing positions that were also positions held by the trading desk as of the end of the prior day (existing positions); (2) profit and loss attributable to new positions resulting from the current day's trading activity (new positions); and (3) residual profit and loss that

cannot be specifically attributed to existing positions or new positions. The sum of (1), (2), and (3) must equal the trading desk's comprehensive profit and loss at each point in time. In addition, profit and loss measurements must calculate volatility of comprehensive profit and loss (i.e., the standard deviation of the trading desk's one-day profit and loss, in dollar terms) for the reporting period for at least a 30-, 60- and 90-day lag period, from the end of the reporting period, and any other period that the banking entity deems necessary to meet the requirements of the rule. The specific categories used by a trading desk in the comprehensive profit and loss attribution analysis and amount of detail for the analysis should be tailored to the type and amount of trading activities undertaken by the trading desk. The new position attribution must be computed by calculating the difference between the prices at which instruments were bought and/or sold and the prices at which those instruments are marked to market at the close of business on that day multiplied by the notional or principal amount of each purchase or sale. Any fees, commissions, or other payments received (paid) that are associated with transactions executed on that day must be added (subtracted) from such difference. These factors must be measured consistently over time to facilitate historical comparisons. The calculation period is one trading day and the measurement frequency is daily.

Inventory turnover is a ratio that measures the turnover of a trading desk's inventory. The numerator of the ratio is the absolute value of all transactions over the reporting period. The denominator of the ratio is the value of the trading desk's inventory at the beginning of the reporting period. For derivatives, other than options and interest rate derivatives, value means gross notional value, for options, value means delta adjusted notional value, and for interest rate derivatives, value means 10-year bond equivalent value. The calculation period is 30 days, 60 days, and 90 days and the measurement frequency is daily.

Inventory aging generally describes a schedule of the trading desk's aggregate assets and liabilities and the amount of time that those assets and liabilities have been held. Inventory aging should measure the age profile of the trading desk's assets and liabilities. In general, inventory aging must be computed using a trading desk's trading activity data and must identify the value of a trading desk's aggregate assets and liabilities. Inventory Aging must include two schedules, an asset-aging schedule and a liability-aging schedule. Each schedule must record the value of assets or liabilities held over all holding periods. For derivatives, other than options, and interest rate derivatives, value means gross notional value, for options, value means delta adjusted notional value and, for interest rate derivatives, value means 10-year bond equivalent value. The calculation period is one trading day and the measurement frequency is daily.

The customer-facing trade ratio is a ratio comparing (1) the transactions involving a counterparty that is a customer of the trading desk to (2) the transactions involving a counterparty that is not a customer of the trading desk. A trade count based ratio must be computed that records the number of transactions involving a counterparty that is a customer of the trading desk and the number of transactions involving a counterparty that is not a customer of the trading desk. A value based ratio must be computed that records the value of transactions involving a counterparty that is a customer of the trading desk and the value of transactions involving a counterparty that is not a customer of the trading desk. For purposes of calculating the customer-facing trade ratio, a counterparty is considered to be a customer of the trading desk if the counterparty is a market participant that makes use of the banking entity's market making-

related services by obtaining such services, responding to quotations, or entering into a continuing relationship with respect to such services. However, a trading desk or other organizational unit of another banking entity would not be a client, customer, or counterparty of the trading desk if the other entity has trading assets and liabilities of \$50 billion or more as measured in accordance with section 248.20(d)(1) unless the trading desk documents how and why a particular trading desk or other organizational unit of the entity should be treated as a client, customer, or counterparty of the trading desk. Transactions conducted anonymously on an exchange or similar trading facility that permits trading on behalf of a broad range of market participants would be considered transactions with customers of the trading desk. For derivatives, other than options, and interest rate derivatives, value means gross notional value, for options, value means delta adjusted notional value, and for interest rate derivatives, value means 10-year bond equivalent value. The calculation period is 30 days, 60 days, and 90 days and the measurement frequency is daily.

### **Recordkeeping Requirements**

Section 248.3(d)(3) specifies that proprietary trading does not include any purchase or sale of a security by a banking entity for the purpose of liquidity management in accordance with a documented liquidity management plan of the banking entity that (1) specifically contemplates and authorizes the particular securities to be used for liquidity management purposes, the amount, types, and risks of these securities that are consistent with liquidity management, and the liquidity circumstances in which the particular securities may or must be used; (2) requires that any purchase or sale of securities contemplated and authorized by the plan be principally for the purpose of managing the liquidity of the banking entity, and not for the purpose of short-term resale, benefitting from actual or expected short-term price movements, realizing short-term arbitrage profits, or hedging a position taken for such short-term purposes; (3) requires that any securities purchased or sold for liquidity management purposes be highly liquid and limited to securities the market, credit and other risks of which the banking entity does not reasonably expect to give rise to appreciable profits or losses as a result of short-term price movements; (4) limits any securities purchased or sold for liquidity management purposes, together with any other instruments purchased or sold for such purposes, to an amount that is consistent with the banking entity's near-term funding needs, including deviations from normal operations of the banking entity or any affiliate thereof, as estimated and documented pursuant to methods specified in the plan; (5) includes written policies and procedures, internal controls, analysis and independent testing to ensure that the purchase and sale of securities that are not permitted under section 248.6(a) or (b) are for the purpose of liquidity management and in accordance with the liquidity management plan described in this paragraph; and (6) is consistent with the appropriate agency's supervisory requirements, guidance and expectations regarding liquidity management.

Section 248.4(b)(3)(i)(A) provides that a trading desk or other organizational unit of another banking entity with more than \$50 billion in trading assets and liabilities is not a client, customer, or counterparty unless the trading desk documents how and why a particular trading desk or other organizational unit of the entity should be treated as a client, customer, or counterparty of the trading desk for purposes of section 248.4(b).

Section 248.5(c) requires documentation for certain purchases or sales of a financial instrument for risk-mitigating hedging purposes that is: (1) not established by the specific trading desk establishing the underlying positions, contracts, or other holdings the risks of which the hedging activity is designed to reduce; (2) established by the specific trading desk establishing or responsible for the underlying positions, contracts, or other holdings but that is not specifically identified in the trading desk's written policies and procedures; or (3) established to hedge aggregated positions across two or more trading desks. In connection with any purchase or sale that meets these specified circumstances, a banking entity must, at a minimum and contemporaneously with the purchase or sale, document (1) the specific, identifiable risk(s) of the identified positions, contracts, or other holdings of the banking entity that the purchase or sale is designed to reduce; (2) the specific risk-mitigating strategy that the purchase or sale is designed to fulfill; and (3) the trading desk or other business unit that is establishing and responsible for the hedge. The banking entity must also create and retain records sufficient to demonstrate compliance with this section for at least five years in a form that allows the banking entity to promptly produce such records to the appropriate agency on request, or such longer period as required under other law or this part.

Section 248.11(a)(2) requires that, in order to acquire or retain an ownership interest in a covered fund that is organized and offered by the banking entity pursuant to that exemption, the covered fund must be organized and offered only in connection with the provision of bona fide trust, fiduciary, investment advisory, or commodity trading advisory services and only to persons that are customers of such services of the banking entity, pursuant to a written plan or similar documentation outlining how the banking entity intends to provide advisory or other similar services to its customers through organizing and offering the covered fund.

Section 248.20(b) specifies the required contents of the compliance program for a banking entity with total consolidated assets of \$10 billion or more. A program required under this section must include: (1) written policies and procedures reasonably designed to document, describe, monitor and limit trading activities, including setting and monitoring required limits set out in section 248.4 and section 248.5 and activities and investments with respect to a covered fund (including those permitted under sections 248.3 through 248.6 or sections 248.11 through 248.14 to ensure that all activities and investments conducted by the banking entity that are subject to section 13 of the BHC Act and this part comply with section 13 of the BHC Act and applicable regulations; (2) a system of internal controls reasonably designed to monitor compliance with section 13 of the BHC Act and this part and to prevent the occurrence of activities or investments that are prohibited by section 13 of the BHC Act and applicable regulations; (3) a management framework that clearly delineates responsibility and accountability for compliance with section 13 of the BHC Act and this part and includes appropriate management review of trading limits, strategies, hedging activities, investments, incentive compensation and other matters identified in this part or by management as requiring attention; (4) independent testing and audit of the effectiveness of the compliance program conducted periodically by qualified personnel of the banking entity or by a qualified outside party; (5) training for trading personnel and managers, as well as other appropriate personnel, to effectively implement and enforce the compliance program; and (6) records sufficient to demonstrate compliance with section 13 of the BHC Act and applicable regulations, which a

banking entity must promptly provide to the Federal Reserve upon request and retain for a period of no less than five years or such longer period as required by the Federal Reserve.

Section 248.20(c) specifies that the compliance program of a banking entity must satisfy the requirements and other standards contained in Appendix B, if (1) the banking entity engages in proprietary trading permitted under subpart B and is required to comply with the reporting requirements of section 248.20(d); (2) the banking entity has reported total consolidated assets as of the previous calendar year end of \$50 billion or more or, in the case of a foreign banking entity, has total U.S. assets as of the previous calendar year end of \$50 billion or more (including all subsidiaries, affiliates, branches and agencies of the foreign banking entity operating, located or organized in the United States); or (3) the Federal Reserve notifies the banking entity in writing that it must satisfy the requirements and other standards contained in Appendix B. Appendix B provides enhanced minimum standards for compliance programs for banking entities that meet the thresholds in section 248.20(c) as described above. These include the establishment, maintenance, and enforcement of the enhanced compliance program and meeting the minimum written policies and procedures, internal controls, management framework, independent testing, training, and recordkeeping. The program must: (1) be reasonably designed to identify, document, monitor and report the permitted trading and covered fund activities and investments; identify, monitor and promptly address the risk of these covered activities and investments and potential areas of noncompliance; and prevent activities or investments prohibited by, or that do not comply with, section 13 of the BHC Act and this part; (2) establish and enforce appropriate limits on covered activities and investments, including limits on size, scope, complexity, and risks of individual activities or investments consistent with the requirements of section 13 of the BHC Act and this part; (3) subject the effectiveness of the compliance program to periodic independent review and testing, and ensure that internal audit, corporate compliance and internal control functions involved in review and testing are effective and independent; (4) make senior management and others accountable for effective implementation of compliance program and ensure that board of directors and chief executive officer (or equivalent) of the banking entity review effectiveness of the compliance program; and (5) facilitate supervision and examination by the relevant agencies of permitted trading and covered fund activities and investments.

Section 248.20(d) provides that certain banking entities engaged in certain proprietary trading activities must comply with the reporting requirements described in Appendix A. A banking entity subject to these requirements must also, for any quantitative measurement furnished to the appropriate agency pursuant to section 248.20(d) and Appendix A, create and maintain records documenting the preparation and content of these reports, as well as such information as is necessary to permit the appropriate agency to verify the accuracy of such reports, for a period of five years from the end of the calendar year for which the measurement was taken.

Section 248.20(e) specifies additional documentation required for covered funds. Any banking entity that has more than \$10 billion in total consolidated assets as reported on December 31 of the previous two calendar years must maintain records that include: (1) documentation of the exclusions or exemptions other than sections 3(c)(1) and 3(c)(7) of the Investment Company Act of 1940 relied on by each fund sponsored by the banking entity

(including all subsidiaries and affiliates) in determining that such fund is not a covered fund; (2) for each fund sponsored by the banking entity (including all subsidiaries and affiliates) for which the banking entity relies on one or more of the exclusions from the definition of covered fund provided by sections 248.10(c)(1), 248.10(c)(5), 248.10(c)(8), 248.10(c)(9), or 248.10(c)(10) of subpart C of the final rule, documentation supporting the banking entity's determination that the fund is not a covered fund pursuant to one or more of those exclusions; (3) for each seeding vehicle described in sections 248.10(c)(12)(i) or 248.10(c)(12)(iii) of subpart C that will become a registered investment company or SEC-regulated business development company, a written plan documenting the banking entity's determination that the seeding vehicle will become a registered investment company or SEC-regulated business development company; the period of time during which the vehicle will operate as a seeding vehicle; and the banking entity's plan to market the vehicle to third-party investors and convert it into a registered investment company or SEC-regulated business development company within the time period specified in section 248.12(a)(2)(i)(B) of subpart C; and (4) for any banking entity that is, or is controlled directly or indirectly by a banking entity that is, located in or organized under the laws of the United States or of any State, if the aggregate amount of ownership interests in foreign public funds that are described in section 248.10(c)(1) of subpart C owned by such banking entity (including ownership interests owned by any affiliate that is controlled directly or indirectly by a banking entity that is located in or organized under the laws of the United States or of any State) exceeds \$50 million at the end of two or more consecutive calendar quarters, beginning with the next succeeding calendar quarter, documentation of the value of the ownership interests owned by the banking entity (and such affiliates) in each foreign public fund and each jurisdiction in which any such foreign public fund is organized, calculated as of the end of each calendar quarter, which documentation must continue until the banking entity's aggregate amount of ownership interests in foreign public funds is below \$50 million for two consecutive calendar quarters.

Section 248.20(f)(1) applies to banking entities with no covered activities. A banking entity that does not engage in activities or investments pursuant to subpart B or subpart C (other than trading activities permitted pursuant to section 248.6(a) of subpart B) may satisfy the requirements of section 248.20 by establishing the required compliance program prior to becoming engaged in such activities or making such investments (other than trading activities permitted pursuant to section 248.6(a) of subpart B).

Section 248.20(f)(2) applies to banking entities with modest activities. A banking entity with total consolidated assets of \$10 billion or less as reported on December 31 of the previous two calendar years that engages in activities or investments pursuant to subpart B or subpart C (other than trading activities permitted under section 248.6(a)) may satisfy the requirements of section 248.20 by including in its existing compliance policies and procedures appropriate references to the requirements of section 13 and this part and adjustments as appropriate given the activities, size, scope and complexity of the banking entity.

### **Disclosure Requirements**

Section 248.11(a)(8)(i) requires that a banking entity must clearly and conspicuously disclose, in writing, to any prospective and actual investor in the covered fund (such as through disclosure in the covered fund's offering documents) (1) that "any losses in [such covered fund]

will be borne solely by investors in [the covered fund] and not by [the banking entity]; therefore, [the banking entity's] losses in [such covered fund] will be limited to losses attributable to the ownership interests in the covered fund held by [the banking entity] in its capacity as investor in the [covered fund] or as beneficiary of a carried interest held by [the banking entity]"; (2) that such investor should read the fund offering documents before investing in the covered fund; (3) that the "ownership interests in the covered fund are not insured by the FDIC, and are not deposits, obligations of, or endorsed or guaranteed in any way, by any banking entity" (unless that happens to be the case); and (4) the role of the banking entity and its affiliates and employees in sponsoring or providing any services to the covered fund.

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

The information collection requirements in sections 248.3(d)(3), 248.4(b)(3)(i)(A), 248.11(a)(2), 248.20(c), 248.20(e), 248.20(f), and 248.11(a)(8)(i) are event-generated and do not follow a specific time schedule.

Under section 248.12(e), an application for extension of the period of time to meet the requirements on ownership limitations in a covered fund must be submitted to the Federal Reserve at least 90 days prior to expiration of the applicable time period.

Under section 248.20(d), unless the appropriate agency notifies the banking entity in writing that it must report on a different basis, a banking entity with \$50 billion or more in trading assets and liabilities must report the information required by Appendix A for each calendar month within 30 days of the end of the relevant calendar month; beginning with information for the month of January 2015, such information must be reported within 10 days of the end of that calendar month. Any other banking entity subject to Appendix A must report the information required by Appendix A for each calendar quarter within 30 days of the end of that calendar quarter unless the appropriate agency notifies the banking entity in writing that it must report on a different basis.

Under section 248.5(c), for certain purchases or sales of financial instruments for risk-mitigating hedging purposes, the banking entity must create and retain records sufficient to demonstrate compliance for at least five years in a form that allows the banking entity to promptly produce such records to the appropriate agency on request, or such longer period as required under other law or this part.

Under section 248.20(b), a banking entity with total consolidated assets of \$10 billion or more must maintain records of the compliance program sufficient to demonstrate compliance with section 13 of the BHC Act and applicable regulations, which a banking entity must promptly provide to the Federal Reserve upon request and retain for a period of no less than five years or such longer period as required by the Federal Reserve.

Under section 248.20(d), certain banking entities engaged in certain proprietary trading activities must, for any quantitative measurement furnished to the appropriate agency(ies) pursuant to 248.20(d) and Appendix A, create and maintain records documenting the preparation and content of these reports, as well as such information as is necessary to permit the appropriate

agency to verify the accuracy of such reports, for a period of five years from the end of the calendar year for which the measurement was taken.

## **Legal Status**

The Board's Legal Division has determined that this information collection is required for covered entities to obtain the benefit of engaging in certain types of proprietary trading or investing in, sponsoring, or having certain relationships with a covered fund by section 13 of the Bank Holding Company Act (12 U.S.C. §§ 1851(b)(2) and 1851(e)(1)) and Regulation VV (12 C.F.R. § 248). The reported data are regarded as confidential under the Freedom of Information Act (5 U.S.C. §§ 552(b)(4) and (b)(8)).

## **Consultation Outside the Agency and Discussion of Public Comment**

On November 7, 2011, the Federal Reserve, FDIC, OCC, and SEC published a joint notice of proposed rulemaking in the *Federal Register* for public comment (76 FR 68846). The comment period was extended for an additional 30 days until February 13, 2012. On February 14, 2012, the CFTC published a proposal for the same common rule to implement section 13 with respect to those entities for which it is the primary financial regulatory agency in the *Federal Register* (77 FR 8331) and invited the public to comment on its proposed implementing rule through April 16, 2012. Of the comments received in response to the proposed rule, three specifically referenced the PRA. These comments were received from five industry trade groups and focused on the analysis of the regulatory burden imposed by regulation. They referenced the PRA burden as an example of the significance of the burden imposed by the regulation but did not address burden in the context of the PRA. A number of other comments addressed reporting and recordkeeping requirements and the utility of the information to be collected outside the context of the PRA. As a result of these and other comments, the agencies made changes to the rule. These comments are discussed in detail in the *Federal Register* notice accompanying the final rule. On January 31, 2014, the agencies published a notice of final rulemaking in the *Federal Register* (79 FR 5535, 5807). The final rule is effective on April 1, 2014.

## **Estimate of Respondent Burden**

The Federal Reserve's total annual burden for Reg VV is estimated to be 2,336,190 hours (968,488 hours for initial set-up and 1,367,702 hours for ongoing compliance). For purposes of the PRA, the Federal Reserve will also take burden for all institutions under a holding company including OCC-supervised institutions, FDIC-supervised institutions, banking entities for which the CFTC is the primary financial regulatory agency, and banking entities for which the SEC is the primary financial regulatory agency. The Reg VV reporting, recordkeeping, and disclosure requirements represent 16.8 percent of the total Federal Reserve System paperwork burden.

<b>Reg VV</b>	<i>Number of respondents<sup>2</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<b>Initial Set-up</b>				
<b>Reporting Burden</b>				
Section 248.12(e)	5,027	1	50	251,350
Section 248.20(d) (\$50 billion)	9	12	6	648
Section 248.20(d) (\$10-\$50 billion)	15	4	6	360
<i>Total Reporting Burden</i>				<u>252,358</u>
<b>Recordkeeping Burden</b>				
Section 248.3(d)(3)	5,027	1	3	15,081
Section 248.4(b)(3)(i)(A)	5,027	4	2	40,216
Section 248.5(c)	24	1	50	1,200
Section 248.11(a)(2)	5,027	1	10	50,270
Section 248.20(b)	125	1	795	99,375
Section 248.20(c)	55	1	3,600	198,000
Section 248.20(d) (\$50 billion)	9	1	440	3,960
Section 248.20(d) (\$10-\$50 billion)	15	1	350	5,250
Section 248.20(e)	125	1	200	25,000
Section 248.20(f)(1)	2,451	1	8	19,608
Section 248.20(f)(2)	2,451	1	100	245,100
<i>Total Recordkeeping Burden</i>				<u>703,060</u>
<b>Disclosure Burden</b>				
Section 248.11(a)(8)(i)	5,027	26	0.1	13,070
<i>Total Disclosure Burden</i>				<u>13,070</u>
<i>Total Initial Set-Up</i>				<u>968,488</u>

<sup>2</sup> Of these respondents, 3,894 are small entities as defined by the Small Business Administration (i.e., entities with less than \$500 million in total assets) [www.sba.gov/contractingopportunities/officials/size/table/index.html](http://www.sba.gov/contractingopportunities/officials/size/table/index.html).

<b>Reg VV</b>	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<b>Ongoing Compliance</b>				
<b>Reporting Burden</b>				
Section 248.12(e)	5,027	10	20	1,005,400
Section 248.20(d) (\$50 billion)	9	12	2	216
Section 248.20(d) (\$10-\$50 billion)	15	4	2	120
<i>Total Reporting Burden</i>				<u>1,005,736</u>
<b>Recordkeeping Burden</b>				
Section 248.3(d)(3)	5,027	1	1	5,027
Section 248.4(b)(3)(i)(A)	5,027	4	2	40,216
Section 248.5(c)	24	1	100	2,400
Section 248.11(a)(2)	5,027	1	10	50,270
Section 248.20(b)	125	1	265	33,125
Section 248.20(c)	55	1	1,200	66,000
Section 248.20(d) (\$50 billion)	9	1	440	3,960
Section 248.20(d) (\$10-\$50 billion)	15	1	350	5,250
Section 248.20(e)	125	1	200	25,000
Section 248.20(f)(1)	2,451	1	8	19,608
Section 248.20(f)(2)	2,451	1	40	98,040
<i>Total Recordkeeping Burden</i>				<u>348,896</u>
<b>Disclosure Burden</b>				
Section 248.11(a)(8)(i)	5,027	26	0.1	13,070
<i>Total Disclosure Burden</i>				<u>13,070</u>
<i>Total Ongoing Compliance</i>				1,367,702
<i>Grand Total</i>				<u>2,336,190</u>

The total cost to the public for this information collection is estimated to be \$118,912,071.<sup>3</sup>

<sup>3</sup> Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rate (30% Office & Administrative Support @ \$18, 45% Financial Managers @ \$61, 15% Legal Counsel @ \$63, and 10% Chief Executives @ \$86). Hourly rate for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages 2013*, [www.bls.gov/news.release/ocwage.nr0.htm](http://www.bls.gov/news.release/ocwage.nr0.htm). Occupations are defined using the BLS Occupational Classification System, [www.bls.gov/soc/](http://www.bls.gov/soc/).

**Sensitive Questions**

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

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

The cost to the Federal Reserve System is negligible.