

**Supporting Statement for the  
Reporting Requirements Associated with Regulation Y  
(Extension of Time to Conform to the Volcker Rule)  
(Reg Y-1; OMB No. 7100-0333)**

## **Summary**

The Board of Governors of the Federal Reserve System (Federal Reserve Board), under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, without revision, the Reporting Requirements Associated with Regulation Y (Extension of Time to Conform to the Volcker Rule) (Reg Y-1; OMB No. 7100-0333). The Paperwork Reduction Act (PRA) classifies reporting, recordkeeping, or disclosure requirements of a regulation, including Regulation Y-1, as an “information collection.”<sup>1</sup>

The total annual burden for this information collection is estimated to be 774 hours for the 258 institutions. There are no required reporting forms associated with these information collections.

## **Background and Justification**

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) was enacted on July 21, 2010.<sup>2</sup> Section 619 of the Dodd-Frank Act, also known as the Volcker Rule, adds a new section 13 to the Bank Holding Company Act of 1956 (the “BHC Act”)<sup>3</sup> that generally prohibits any banking entity<sup>4</sup> from engaging in proprietary trading or from investing in, sponsoring, or having certain relationships with a hedge fund or private equity fund (together, a covered fund). Section 13 of the BHC Act also provides that nonbank financial companies designated by the Financial Stability Oversight Council (the “Council”) that engage in proprietary trading activities or make investments in covered funds may be made subject by rule to additional capital requirements or quantitative limits.<sup>5</sup> In December 2013, the Federal Reserve Board, OCC, FDIC, SEC and CFTC (the “Agencies”) approved final regulations implementing the provisions of section 13 of the BHC Act (the “final rule”).<sup>6</sup>

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

<sup>2</sup> Public Law 111-203, 124 Stat. 1376 (2010).

<sup>3</sup> 12 U.S.C. § 1851.

<sup>4</sup> The term “banking entity” is defined in section 13(h)(1) of the BHC Act. See 12 U.S.C. § 1851(h)(1). The term means any insured depository institution (other than certain limited-purpose trust institutions), any company that controls an insured depository institution, any company that is treated as a bank holding company for purposes of section 8 of the International Banking Act of 1978 (12 U.S.C. § 3106), and any affiliate or subsidiary of any of the foregoing.

<sup>5</sup> See 12 U.S.C. § 1851(a)(2) and (f)(4).

<sup>6</sup> See Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Fund and Private Equity Funds, 79 FR 5536 (Jan. 31, 2014); 79 FR 5808 (Jan. 31, 2014). At the time of the final rule, the Agencies explained they would explore whether a nonbank financial company designated by the Council that was not also a banking entity engages in any activity subject to section 13 of the BHC Act and what, if any, requirements to apply under section 13.

The restrictions and prohibitions of section 13 of the BHC Act became effective on July 21, 2012,<sup>7</sup> however, the statute provided banking entities a grace period until July 21, 2014, to conform their activities and investments to the requirements of the statute and any rule issued by the Agencies. The statute also granted exclusively to the Federal Reserve Board authority to provide banking entities additional time to conform or divest their investments and activities covered by section 13. The statute provides that the Federal Reserve Board may, by rule or order, extend the conformance period “for not more than one year at a time,” up to three times, if in the judgment of the Federal Reserve Board, an extension is consistent with the purposes of section 13 and would not be detrimental to the public interest.<sup>8</sup> This would allow extensions of the conformance period until July 21, 2017.<sup>9</sup> Section 13 also permits the Federal Reserve Board, upon application by a banking entity, to provide up to an additional five-year transition period to conform certain illiquid funds.<sup>10</sup>

Section 13 also gives nonbank financial companies supervised by the Federal Reserve Board the same general two-year conformance period with the potential of up to three, one-year extensions to bring their activities into compliance with any requirements or limits established. Consistent with the conformance period available to banking entities, the Federal Reserve Board has the ability to extend this two-year period by up to three additional one-year periods, if the Federal Reserve Board determines that such an extension is consistent with the purpose of the Volcker Rule and would not be detrimental to the public interest.<sup>11</sup>

In February 2011, the Federal Reserve Board adopted a final rule to implement the conformance period provisions of section 13 (“Conformance Rule”) during which banking entities and nonbank financial companies supervised by the Federal Reserve Board must bring their activities and investments into compliance with the Volcker Rule and implementing regulations. The information collections associated with the Conformance Rule are located in sections 225.181(c) and 225.182(c) of Regulation Y. Sections 225.181(c) and 225.182(c) permit a banking entity and nonbank financial company, respectively, to request an extension of time to conform their activities to the Volcker Rule. The Conformance Rule became effective April 1, 2011.

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<sup>7</sup> See 12 U.S.C. § 1851(c)(1).

<sup>8</sup> See 12 U.S.C. § 1851(c)(2).

<sup>9</sup> At the time of issuance of the final rule in December 2013, the Federal Reserve Board exercised authority under the statute to extend this period for one year, until July 21, 2015. See Federal Reserve Board Order Approving Extension of Conformance Period (Dec. 10, 2013), available at <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20131210b1.pdf>. In addition, in December 2014, the Federal Reserve Board extended the conformance period until July 21, 2016 for banking entities to conform investments in and relationships with covered funds and foreign funds that were in place prior to December 31, 2013 (“legacy covered funds”) and stated its intention to act next year to give banking entities until July 21, 2017 to conform legacy covered funds. See Federal Reserve Board Order Approving Extension of Conformance Period under Section 13 of the Bank Holding Company Act (December 18, 2014), available at <http://www.federalreserve.gov/newsevents/press/bcreg/20141218a.htm>.

<sup>10</sup> See 12 U.S.C. § 1851(c)(3)-(4).

<sup>11</sup> See 12 U.S.C. § 1851(c)(2).

## **Description of Information Collection**

The information collection in sections 225.181(c) would only be required for banking entities supervised by the Federal Reserve Board that decide to seek an extension of time to conform their activities to the Volcker Rule or divest their interest in an illiquid fund. The information collection in section 225.182(c) would only be required for nonbank financial companies that request additional time to comply with any capital requirements and quantitative limits adopted under section 13. The final rule implements this conformance period and, as provided by section 13 of the BHC Act, permits a banking entity or nonbank financial company supervised by the Federal Reserve Board to request an extension of time to conform its activities to the Volcker Rule. A request by a banking entity or nonbank financial company supervised by the Federal Reserve Board also must address the relevant factors set out in sections 225.181(d) and 225.182(d).

### **Conformance Period for Banking Entities Engaged in Prohibited Proprietary Trading or Private Fund Activities - Approval Required to Hold Interests in Excess of Time Limit (Section 225.181(c))**

Section 225.181(c) requires an application for an extension by a banking entity to be (1) submitted in writing to the Federal Reserve Board at least 180 days prior to the expiration of the applicable time period, (2) provide the reasons why the banking entity believes the extension should be granted, and (3) provide a detailed explanation of the banking entity's plan for divesting or conforming the activity or investment(s).

### **Conformance Period for Nonbank Financial Companies Supervised by the Federal Reserve Engaged in Proprietary Trading or Private Fund Activities - Approval Required to Hold Interests in Excess of Time Limit. (Section 225.182(c))**

Section 225.182(c) requires an application for an extension by a nonbank financial company supervised by the Federal Reserve to be (1) submitted in writing to the Federal Reserve Board at least 180 days prior to the expiration of the applicable time period, (2) provide the reasons why the nonbank financial company supervised by the Federal Reserve Board believes the extension should be granted, and (3) provide a detailed explanation of the company's plan for coming into compliance with the requirements of the Volcker Rule.

## **Time Schedule for Information Collection**

This information collection contains reporting requirements provided on an event-generated basis, which must be provided to the Federal Reserve Board within the time period established by the regulation as discussed above.

## **Legal Status**

The Federal Reserve Board's Legal Division has determined that section 13 of the BHC Act

specifically authorizes the Federal Reserve Board to issue rules to permit entities covered by the Volcker Rule to seek extensions of time of the conformance period.<sup>12</sup> The information collections in sections 225.181(c) and 225.182(c) of Regulation Y are required for covered entities that decide to seek an extension of time to conform their activities to the Volcker Rule or divest their interest in an illiquid fund. The obligation to respond, therefore, is required to obtain a benefit. As noted above, the information collected under the provisions of section 13 of the BHC Act and Subpart K of Regulation Y is required to be submitted in order to obtain an extension of time to conform a covered entity’s investments and activities to the Volcker Rule. As provided in sections 221.181(d) and 221.182(d) of Subpart K, such information includes:

- The terms of private contractual obligations;
- The liquid or illiquid nature of assets proposed to be divested by the regulated entity;
- The total exposure of the covered entity to the activity or investment;
- The risks and costs of disposing of, or maintaining, the activity or investment;
- Whether the divestiture or conformance of the activity or investment would involve or result in a material conflict of interest with a client, customer, or counterparty; and
- The institution’s prior efforts to divest or conform.

This information is the type of confidential commercial and financial information that may be withheld under Exemption 4 of the Freedom of Information Act, 5 U.S.C. 552(b)(4). As required information, it may be withheld under Exemption 4 only if public disclosure could result in substantial competitive harm to the submitting institution.

### Consultation Outside the Agency

On February 19, 2016, the Federal Reserve published a notice in the *Federal Register* (81 FR 8494) requesting public comment for 60 days on the extension, without revision, of this information collection. The comment period for this notice expired on April 19, 2016.

### Estimate of Respondent Burden

The total annual burden for Reg Y-1 is estimated to be 774 hours. The Federal Reserve Board estimates that 258 respondents would take an average of three hours to prepare and submit an application for extension. The Reg Y-1 reporting requirements represent less than 1 percent of the total Federal Reserve System paperwork burden.

	<i>Estimated number of respondents<sup>13</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Reg Y-1	258	1	3	774

<sup>12</sup> 12 U.S.C. 1851(c)(6).

<sup>13</sup> Of these respondents, 121 are small banking entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets), [available at www.sba.gov/contractingopportunities/officials/size/table/index.html](http://www.sba.gov/contractingopportunities/officials/size/table/index.html).

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The total cost to the public for this information collection is estimated to be \$40,055.<sup>14</sup>

### **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.

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<sup>14</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 \$17, 45% Financial Managers at \$63, 15% Lawyers at \$64, and 10% Chief Executives at \$87). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2014, published March 25, 2015, [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/).