



# INSTITUTE OF INTERNATIONAL BANKERS

299 Park Avenue, 17th Floor  
New York, N.Y. 10171  
Direct: (646) 213-1149  
Facsimile: (212) 421-1119  
Main: (212) 421-1611  
www.iib.org

**RICHARD W. COFFMAN**  
General Counsel  
E-mail: rcoffman@iib.org

October 19, 2015

[regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

Mr. Robert deV. Frierson  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street & Constitution Avenue N.W.  
Washington, D.C. 20551

Re: Comments on Proposed Agency Information Collection Activities – Revisions To The  
Banking Organization Systemic Risk Report (Form FR Y-15)  
OMB Control Number 7100—0352

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Dear Mr. Frierson:

The Institute of International Bankers (“IIB”) appreciates the opportunity to comment on revisions to “The Banking Organization Systemic Risk Report” (Form FR Y-15) proposed by the Board of Governors of the Federal Reserve System (the “Board”).<sup>1</sup> FR Y-15 reporting requirements apply to U.S. top-tier bank holding companies (“BHCs”), including those that are subsidiaries of foreign banking organizations (“FBOs”), with total consolidated assets of \$50 billion or more. According to the Proposal, 33 BHCs are subject to FR Y-15 reporting requirements. In the case of each of those that is a subsidiary of an FBO (an “FBO Large BHC Reporting Subsidiary”), the parent FBO is a member of the IIB.

According to the Proposal, the Federal Reserve uses the FR Y-15 data primarily to monitor, on an ongoing basis, the systemic risk profile of the institutions which are subject to enhanced prudential standards under Section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Section 165”). The data reported on Form FR Y-15 also is integrally related to implementation of the Board’s risk-based capital surcharge requirements for the largest, most interconnected U.S.-based bank holding companies.<sup>2</sup>

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<sup>1</sup> 80 Fed. Reg. 39433 (July 9, 2015) and 80 Fed. Reg. 50623 (Aug 20, 2015) (together, the “Proposal”).

<sup>2</sup> 80 Fed. Reg. 49082 (Aug. 14, 2015). The addition of proposed Schedule G (“Short-Term Wholesale Funding Indicator”) appears to be intended in particular to facilitate implementation of the capital surcharge requirements by providing the information necessary for those BHCs that are determined to be “global systemically important BHCs” to apply the “method 2 score” in connection with calculating their surcharge. However, the threshold “global systemically important BHC” determination is made only on an annual basis and without reference to a



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In the discussion below, we highlight concerns we have with the Proposal in general and offer recommendations on how those concerns should be addressed. We then turn our attention to considerations raised by the Proposal that are unique to FBOs and FBO Large BHC Reporting Subsidiaries. Specifically, we request clarification of the manner in which implementation of the revised and expanded FR Y-15 reporting requirements will be coordinated with the implementation of the Board's requirement under Section 165 that each FBO with U.S. non-branch assets equal of \$50 billion or more designate or establish a U.S. intermediate holding company ("IHC") under which the entirety of the FBO's U.S. non-branch operations (with limited exceptions) will be operated and managed. In our view, it is appropriate to adjust the implementation timeframe for FR Y-15 reporting by IHCs that themselves will be FBO Large BHC Reporting Subsidiaries to take into account their unique circumstances, and we offer suggestions on how this can be accomplished.

### **Effective and Implementation Dates Should Be Delayed**

In considering the implications of the Proposal for reporting FR Y-15 BHCs in general (whether or not a subsidiary of an FBO), two aspects of the Proposal are especially noteworthy: (i) the shift from annual to quarterly reporting, commencing with the report as of March 31, 2016; and (ii) the addition of an entirely new reporting requirement relating to short-term wholesale funding (proposed new Schedule G), commencing with the report as of June 30, 2016. Both requirements present significant challenges to all FR Y-15 reporting BHCs in terms of identifying and deploying the budgetary and manpower resources required to develop and validate the systems changes and controls necessary to comply with the revised and expanding reporting requirements.<sup>3</sup> These resources are finite and subject to competing, internal claims arising from other, ongoing regulatory reporting initiatives (for example, liquidity monitoring reports on Form FR 2052a).

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BHC's short-term wholesale funding; instead, it is based on the "method 1 score" methodology, which in turn is based on the Basel Committee's indicator-based methodology as transposed into Form FR Y-15, Schedules A through E.

We note that FBO Large BHC Reporting Subsidiaries appropriately are not subject to the Board's capital surcharge requirement (12. C.F.R. 217.400(b)(1)). Instead, as consolidated subsidiaries of FBOs, these BHCs are included in the determination of whether their FBO parent is considered a global systemically-important bank (a "G-SIB") under the Basel Committee's indicator-based methodology and, as such, subject to whatever risk-based capital surcharge might be prescribed by the appropriate home country authority. Given these considerations, we believe further attention should be given to the necessity of obtaining from FBO Large BHC Reporting Subsidiaries the information required on Schedule G on a quarterly basis and on the proposed timeframe (if at all). In addition, as discussed below in note 5 we think that the quarterly requirement in general raises cost-benefit considerations, and we note here that short-term wholesale funding is not included in the Basel Committee's indicator-based methodology. Thus, FBOs do not otherwise compile such information in connection with the G-SIB designation process, which entails annual reporting by the FBO to its appropriate home country authority.

<sup>3</sup> See, for example, the comments on the Proposal by the American Bankers Association and The Clearing House Association L.L.C.



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The implementation challenges are compounded by the extremely short time period contemplated under the Proposal – the revisions would be effective December 31, 2015 – to complete these tasks and be able to submit the revised reports on a quarterly, fully-attested basis as of March 31, 2016 (all proposed changes, excluding Schedule G) and June 30, 2016 (the fully-implemented Proposal, including Schedule G). Moreover, reporting on Schedule A would change from an annual, point-in-time basis to a quarterly daily or monthly average basis (in the case of on-balance sheet and off-balance sheet items, respectively).<sup>4</sup>

To the extent that quarterly reporting, including with respect to short-term wholesale funding, is needed to facilitate the Board’s oversight of the systemic risk profile of BHCs that are subject to Section 165 (a matter on which we reserve judgment<sup>5</sup>), we question whether this enhancement to the Board’s Section 165 “toolbox” is sufficiently urgent to merit the very tight proposed timeframes. We believe instead that the considerations discussed above merit delaying both the effective date and implementation dates as follows:<sup>6</sup>

- the effective date would be extended to June 30, 2016;
- reporting during 2016 would be only on a semi-annual basis (*i.e.*, reporting as of June 30, 2016 and December 31, 2016);
- quarterly reporting would not commence until 2017;
- the semi-annual report as of June 30, 2016 and quarterly reports as of March 31, June 30 and September 30 for all years thereafter would be due 65 days after the as-of date; and
- the reports filed during 2016 would be provided on a “reasonable estimates” basis.

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<sup>4</sup> Implementation costs and burdens to reporting BHCs would be diminished to the extent FR Y-15 data items can be automatically retrieved from other reports filed by the BHC. We strongly favor this approach and urge the Board to adopt it to the greatest extent possible, including with respect to retrieval of liquidity-related items that are required to be reported on Form 2052a.

<sup>5</sup> We do not consider it likely that a material change to the systemic risk profile of a BHC that is subject to Section 165 would occur during a quarter in a manner that otherwise would not come to the Board’s attention by virtue of its close oversight of these BHCs and/or other applicable regulatory requirements and therefore question the benefit of requiring quarterly reporting relative to the additional costs and burdens imposed on reporting institutions.

<sup>6</sup> In addition to these considerations regarding timing, the information reported in Schedule G and in Schedule D, lines 7 and 8, should be treated as confidential and not made public. Both of these are sourced from Form FR 2052a, which itself is confidential. In addition, any information reported other than on a year-end basis should be treated as confidential since BHCs that are not subject to FR-Y-15 reporting requirements do not disclose such information, and public disclosure of such information could place reporting BHCs at a competitive disadvantage vis-à-vis non-reporting BHCs.



## **Application of FR Y-15 Reporting Requirements to IHCs**

The foregoing recommendations should be adjusted to take into account the unique circumstances of FBOs' IHCs. By virtue of the \$50 billion total consolidated asset threshold, which is common to both FR Y-15 and IHC requirements, each FBO with an FBO Large BHC Reporting Subsidiary is required to designate or establish an IHC by July 1, 2016, and, going forward from that date, the operations of each FBO Large BHC Reporting Subsidiary will be conducted within the regulatory framework applicable to IHCs under Regulation YY, Subpart O.

For FBOs that currently have a Large BHC Reporting Subsidiary (such subsidiary, a "Current FR Y-15 Reporting BHC"), there are a number of ways to restructure their U.S. non-branch operations to create a top-tier IHC. For instance, an FBO may choose to designate the Current FR Y-15 Reporting BHC as its IHC (a "Designated IHC/BHC") and transfer to it ownership of the FBO's U.S. nonbank subsidiaries that currently are held outside the Current FR Y-15 Reporting BHC. In other instances, an FBO may choose to create a new holding company, which may be newly created or an already-existing U.S. nonbank subsidiary outside the Current FR Y-15 Reporting BHC (in either case, a "De Novo IHC/BHC"), which would become the top-tier U.S. parent of not only the Current FR Y-15 Reporting BHC, but also the FBO's other U.S. nonbank subsidiaries that previously operated outside of the Current FR Y-15 Reporting BHC's ownership chain. Within this category, there are a number of alternative corporate steps that may be taken to create a structure that involves a De Novo IHC/BHC owning a Current FR Y-15 Reporting BHC; and within these (and other) options, there are a range of additional measures relating to how the FBO could choose to combine its U.S. intermediate holding companies, transfer ownership interests in subsidiaries, merge legal entities, etc.

However formed, beginning on July 1, 2016 the IHC/BHC will be the FBO's top-tier U.S. holding company and, for those that have a direct or indirect U.S. bank subsidiary, the FBO's top-tier Large BHC Reporting Subsidiary.<sup>7</sup> For both Designated and De Novo IHC/BHCs, their consolidated operations for the first time will include those of the FBO's U.S. nonbank subsidiaries that, prior to formation of the IHC, have not been included in the FR Y-15 reports submitted by their Current FR Y-15 Reporting BHC Subsidiaries. In the case of Designated IHC/BHCs, integrating these previously unreported operations into their existing FR Y-15 reporting framework requires the development, testing and validation of new systems, processes and controls. De Novo IHC/BHCs will encounter similar challenges, compounded by the fact that the onset of FR Y-15 reporting will require them to create a new FR Y-15 reporting architecture.

The magnitude of these challenges should not be underestimated. FBOs' U.S. non-branch operations that are subject to the IHC requirement will be undergoing a significant transformation in their business mix, asset base, operations, management information systems,

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<sup>7</sup> An IHC that does not own a U.S. bank subsidiary is not itself a BHC under the FR Y-15 reporting criteria and therefore would not be subject to the FR Y-15 reporting regime.



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etc. and will become subject to new and demanding regulatory mandates, including undertaking liquidity stress testing and maintaining liquidity buffers. Implementing these mandates requires that the IHC have in place extensive systems, processes and controls to ensure compliance. IHCs concurrently will be undertaking extensive efforts to comply with other regulatory reporting requirements, including preparing for CCAR reporting (in the case of De Novo IHC/BHCs) or modifying their existing CCAR reporting to take into account the organization of the IHC (in the case of Designated IHC/BHCs), and liquidity monitoring reporting on FR 2052a.

This Board-mandated transformation of currently existing FBO Large BHC Reporting Subsidiaries into IHC/BHCs is a unique event not experienced by U.S.-headquartered FR Y-15 reporting institutions. Yet it appears that under the Proposal IHC/BHCs will be subject to FR Y-15 reporting requirements from the outset without any transition or phase-in period and regardless of whether they previously have been subject to these requirements. The General Instructions to Form FR Y-15 address circumstances in which a top-tier BHC experiences a shift in its reporting status – specifically, it crosses the \$50 billion threshold as of June 30 or as a result of a business combination, reorganization or a branch acquisition that is not a business combination. These provisions, however, offer only limited transitional relief and contemplate that a BHC becomes subject to FR Y-15 reporting requirements as a consequence of actions voluntarily undertaken by the BHC. Where, as is the case with respect to IHC/BHCs, the reporting entity becomes subject to these requirements as a result of a regulatory mandate that is beyond its control, we respectfully submit that these transition provisions are inadequate and a separate transitional period should be provided.

We understand the importance of ensuring there are no gaps in FR Y-15 reporting, and we would not intend that the formation of IHC/BHCs would provide any type of “reprieve” from such reporting. At the same time, we believe that the unique circumstances of IHC/BHCs should be taken into account in a manner that mitigates the impact of imposing these requirements and facilitates their implementation of FR Y-15 reporting on a reasonably timely basis.

Balancing these considerations, and taking into account the recommendations discussed above with respect to the general timeframes for implementing the Proposal, we suggest the following approach for implementing FR Y-15 reporting requirements specifically with respect to IHC/BHCs that are designated or established by July 1, 2016<sup>8</sup>:

- Designated IHC/BHCs, each of which is a Current FR Y-15 Reporting BHC, would adhere to the revised reporting timeframe described above. Specifically, FR Y-15 reports would be submitted (i) on a semi-annual, “reasonable estimates” basis for 2016, with the first report made with respect to the operations of the Current FR Y-15 Reporting BHC as of June 30, 2016 and the second report with respect to the operations of the Designated

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<sup>8</sup> Similar transitional provisions – semi-annual/reasonable efforts reporting at the outset, transitioning to quarterly/fully-attested reporting thereafter – should apply to IHC/BHCs that may be established subsequent to July 1, 2016, with commencement of the requirements dependent on the timing of the establishment of the IHC/BHC.



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IHC/BHC as of December 31, 2016, and (ii) on a quarterly, fully-attested basis for 2017 and thereafter with respect to the operations of the Designated IHC/BHC.

- De Novo IHC/BHCs, none of which are Current FR Y-15 Reporting BHCs, would commence semi-annual reporting in 2017 (as of June 30 and December 31) on a “reasonable estimates” basis and commence reporting on a quarterly, fully-attested basis in 2018 (starting with the report as of March 31).
- Any Current FR Y-15 Reporting BHC that operates as a subsidiary of a De Novo IHC/BHC subsequent to the establishment of the De Novo IHC/BHC would report in 2016 on a semi-annual, “reasonable efforts” with respect to its operations and thereafter would cease any FR Y-15 reporting, reflecting its inclusion in the FR Y-15 reports submitted by the De Novo BHC/IHC commencing in 2017.

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We appreciate the Board’s consideration of our comments on the Proposal. Please contact the undersigned if we can be of further assistance.

Sincerely,

A handwritten signature in black ink, appearing to read 'Richard Coffman', written over a horizontal line.

Richard Coffman  
General Counsel

cc: Office of Information and Regulatory Affairs  
Office of Management and Budget  
New Executive Office Building, Room 10235  
725 17<sup>th</sup> Street N.W.  
Washington D.C. 20503  
Attn: Shagufta Ahmed