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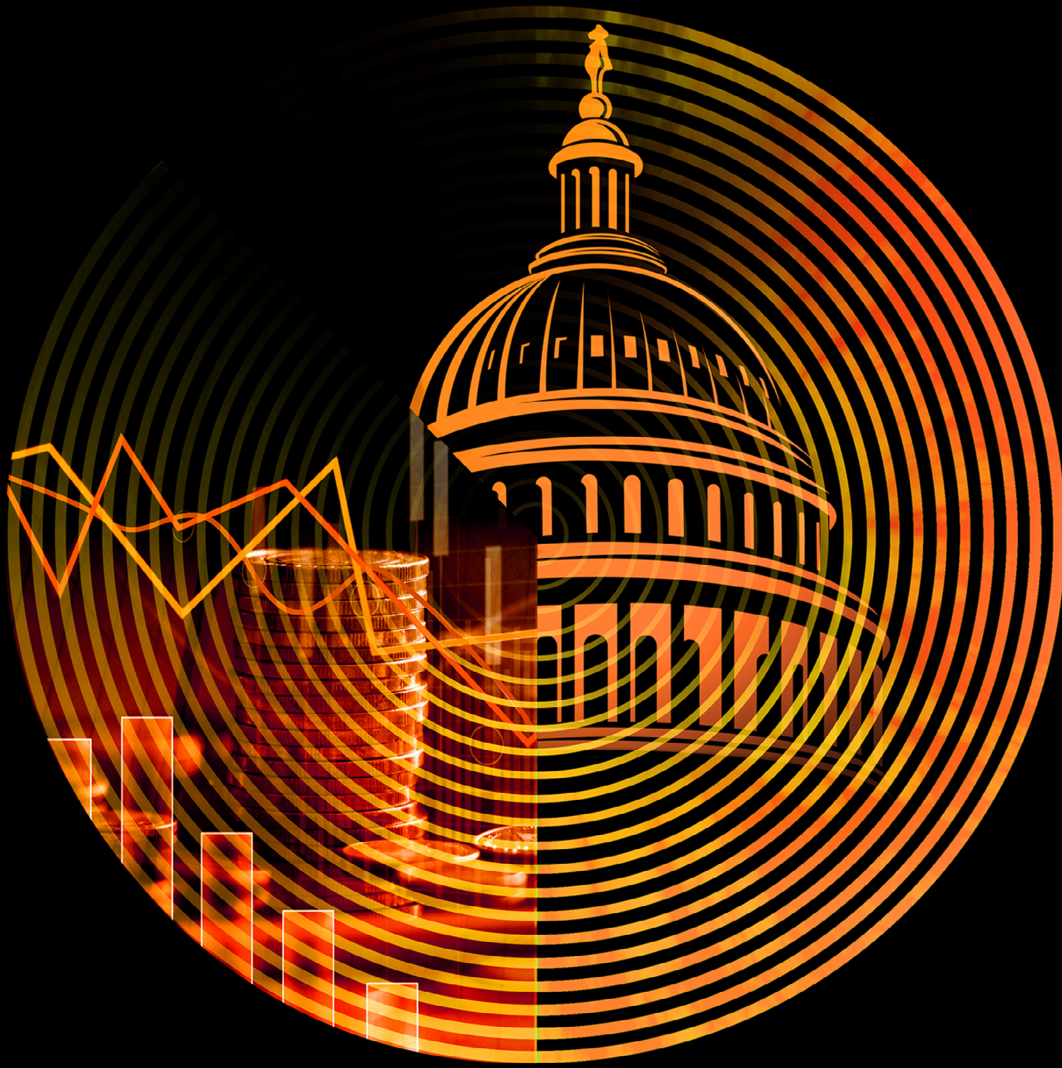

# Federal Reserve Board proposes significant changes to several regulatory reports

**October 2024**

Center *for*
**Regulatory Strategy**
**US**

The Board of Governors of the Federal Reserve System (FRB) recently published proposals to revise the Consolidated Financial Statements for Holding Companies (FR Y-9C), the Capital Assessments and Stress Testing information collection (FR Y-14Q), and the Report of Selected Money Market Rates (FR 2420).[1] The FRB also proposed a change to the Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP) to align the reporting of leases with US generally accepted accounting principles (GAAP).[2] These changes were proposed to better monitor and understand risk in the financial system, clarify reporting guidance, and improve reporting processes.

The most significant of the changes are to the reporting of non-depository financial institutions (NDFIs), structured products, and increasing information on funding types, including brokered deposits.

The FR 2420 comment period ends on November 29, 2024, with an implementation date of 12 months after the final notice (estimated to be January 2026). The FR Y-9C and FR Y-14Q comment period ends on December 2, 2024. These proposed changes would take effect as of the December 31, 2024, report date.

In this publication, we provide a summary of the changes and an analysis of their impact.

# Revisions related to NDFIs

Loan classifications are an area commonly prone to error. Nuances in the reporting requirements and difficulty in analyzing the underlying business of a counterparty and the purpose of the loan are often the cause. The revised definition should resolve some of this uncertainty. With the growth in bank exposure to NDFIs, the FRB along with other banking agencies are revising the definition of a NDFI and increasing the level of disclosure for these loans on regulatory reports.

NDFIs encompass a wide range of financial entities that provide services similar to those of traditional banks, without accepting deposits. NDFIs include mortgage companies; insurance companies; investment funds (such as mutual funds, money market funds, hedge funds, and private capital funds); pension funds; broker-dealers; securitization vehicles; and other financial entities engaged in credit intermediation, asset management, and market-making. The new definition includes a quantitative test of the nature of the assets of the borrower to determine if an entity is financial in nature.

**The proposed revisions to the FR Y-9C and FR Y-14Q affect the reporting of NDFIs by:**

- Revising the instructions to include additional detail on the types of loans that should be reported as loans to NDFIs and loans for purchasing and carrying securities.
- Adding new line items for loans to NDFIs to several schedules.
- Aligning the FR Y-14Q with the changes to the FR Y-9C.

Firms may find that the revised instructions will result in classifications from other loan categories. These proposals are consistent with the previously proposed revisions to the Call Reports (FFIEC 031/FFIEC 041).[3]

# Types of NDFIs

**Mortgage credit intermediaries**

These are mortgage companies that specialize in mortgage loan origination or servicing activities. This includes loans to special purpose entities (SPEs) designed to facilitate mortgage-related securitization activities, such as mortgage warehousing facilities, real estate investment trusts (REITs), collateralized debt obligations (CDOs), collateralized loan obligations (CLOs), private debt funds, asset-backed commercial paper (ABCP) conduits, or other financial intermediaries in which the underlying assets are predominantly (greater than 50% of assets or lending activities) composed of mortgages. CLO tranche holdings that are reported as "loans" in accordance with US GAAP are also included.

**Business credit intermediaries**

These are SPEs, finance companies, CDOs, CLOs, private debt funds, leasing companies, ABCP conduits, Small Business Investment Companies (SBICs), or other financial intermediaries in which the underlying assets are predominantly (greater than 50% of assets or lending activities) loans to businesses. CLO tranche holdings that are reported as "loans" in accordance with US GAAP are also included in this category.

**Private equity funds**

Private equity funds include capital call commitment and other subscription-based facilities to private equity and venture capital funds, or any other general partnership funds that raise capital through limited partnership arrangements in which the underlying investment assets are predominantly (greater than 50% of assets) composed of equity investments in private, non-listed assets or companies.

**Consumer credit intermediaries**

These are SPEs, finance companies, private debt funds, leasing companies, ABCP conduits, or other financial intermediaries in which the underlying assets are predominantly (greater than 50% of assets or lending activities) composed of loans to consumers, including loans designed to facilitate asset-backed securitization (ABS) activities for consumer credit products (e.g., auto ABS, credit card ABS, student loan ABS).

**Other NDFIs**

Other NDFIs include:

- Unrelated holding companies;
- Insurance companies;
- Federally sponsored lending agencies;
- Loans to publicly listed investment funds (e.g., money market funds, mutual funds index funds, and exchange-traded funds);
- Loans to private capital funds;
- Loans to hedge funds;
- Pension funds, endowments, and sovereign wealth funds; and
- Securitization vehicles.

For firms with $10 billion or more, these categories have been added to the loan schedule (Schedule C) as memorandum items. These categories have also been added to Schedule L (Off-Balance Items) to reflect unused commitments for each of these categories as well as a separate item for unused commitments to depository institutions. In addition, a new memo item has been added to Schedule N (Past Due and Nonaccrual Assets) to disclose the amount of past due and nonaccrual NDFI loans.

# Loans for purchasing and carrying securities

Loans for purchasing securities are disclosed separately from the NDFI category. Loans for purchasing and carrying securities is defined as:

- Loans made to pay for the purchase of securities at settlement date.
- Loans made to repay indebtedness incurred in purchasing securities.
- Loans to employee stock ownership plans (ESOPs).
- Loans to investment banks, brokers, and dealers.
- Purpose **and** non-purpose[4] securities-based margin loans (a loan provided to an investor that is secured by the borrower's investment portfolio greater than 50%), regardless of borrower type.

The proposed changes are expected to improve transparency in lending to this sector, improve data quality, and reduce interpretation risk. Firms will need to review customer information, loan agreements, loan decision trees, and current interpretations to ensure they will comply with the revised reporting definitions and make changes if necessary.

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| **FR Y-14Q** | The FRB proposed changes to revise the FR Y-14Q to align Schedule H.1 (Corporate Loan Data), item 26, with the FR Y-9C proposed line items related to NDFIs. There is a separate notice from the FR Y-14 that was published on June 21, 2024.[5] | |
| **FR Y-9C** | **Structured products on the FR Y-9C** | **Electronic signatures on the FR Y-9C** |
| | On Schedule B (Securities), the FRB proposed to add a new memorandum item "Structured financial products guaranteed by US government agencies or sponsored agencies." In this item, the reported item would be the amortized cost and fair value of the maximum amount recoverable from the US government, including its agencies and its government-sponsored agencies, under the guarantee to the structured securities. The FRB also provided several clarifications for the reporting of structed products. | The FRB proposed changes (like the Call Report) to allow the use of electronic signatures. The instructions set out what processes need to be in place to use electronic use of signatures. This includes the form of signature (e.g., use of PINs), intent to sign (e.g., electronic version of the attestation), association of signature to the filing, and integrity of the signed record (e.g., access controls). |
| **FR 2420** | The FRB proposed changes to the FR 2420 to add data elements for information on brokered deposits, short-term Federal Home Loan Bank (FHLB) advances, and interest-bearing non-maturity deposits placed by FHLBs. These changes were proposed to monitor the volume and terms of these types of funding. | |

### FHLB Funding

Two new sections were added to the FR 2420 for FHLB funding. Section E collects data on FHLB advances and Section F collects data on interest-bearing deposits by FHLBs. These sections will be due at 2:00 p.m. each day.

### Advances

This section will cover all FHLB advances (including forward start contracts) in amounts of $1 million or more that have an original maturity of one year or less. For each advance, the following attributes are reported:

- Dollar amount
- Dates (e.g., trade date, settlement date, maturity date)
- Interest rate
- Interest rate net of FHLB dividends
- Rate type (e.g., fixed, floating)
- Reset period
- Reference rate
- Spread
- Amortizations
- Embedded options

### Interest-bearing demand deposits

This section will cover interest-bearing demand deposits placed by FHLBs in amounts of $1 million or more. Excluded from this section are loans with specified maturity or non-interest-bearing deposits. For each deposit, the following attributes are reported:

- Dollar amount
- Trade date (date of deposit placement)
- Interest rate

### Brokered deposits

On Section C (Time Deposits and Certificates of Deposits), a new field has been added to indicate if a deposit is a brokered deposit.

The proposed changes are consequential. Implementation time for the reporting of NDFI is short and will require a significant amount of effort to ensure on the loan level that the data is complying with the new definitions. While the FR 2420 has a longer implementation timeline, banks should take action to create the sustainable processes needed to report the new sections and fields.

For the FR 2420, brokered deposits:

"...represent funds which the reporting bank obtains, directly or indirectly, by or through any deposit broker for deposit into one or more deposit accounts. Brokered deposits include both those in which the entire beneficial interest in a given bank deposit account or instrument is held by a single depositor and those in which the deposit broker sells participations in a given bank deposit account or instrument to one or more investors."

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# Endnotes

1 Board of Governors of the Federal Reserve System (FRB), "Proposed Agency Information Collection Activities; Comment Request," 89 FR 80244, October 2, 2024; FRB, "Proposed Agency Information Collection Activities; Comment Request," 89 FR 79592, September 30, 2024.

2 FRB, "Proposed Agency Information Collection Activities; Comment Request," 89 FR 80244.

3 US Department of the Treasury, FRB, Office of the Comptroller of the Currency (OCC), and Federal Deposit Insurance Corporation (FDIC), "Agency Information Collection Activities; Submission for OMB Review; Comment Request," 89 FR 45046, May 22, 2024.

4 Non-purpose loans are one of the areas that have required significant analysis to determine the correct classification.

5 FRB, "Proposed Agency Information Collection Activities; Comment Request," 89 FR 52042, June 21, 2024. See Deloitte, "Proposed FR Y-14 changes, new data requirements and reporting guidance," July 2024.

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