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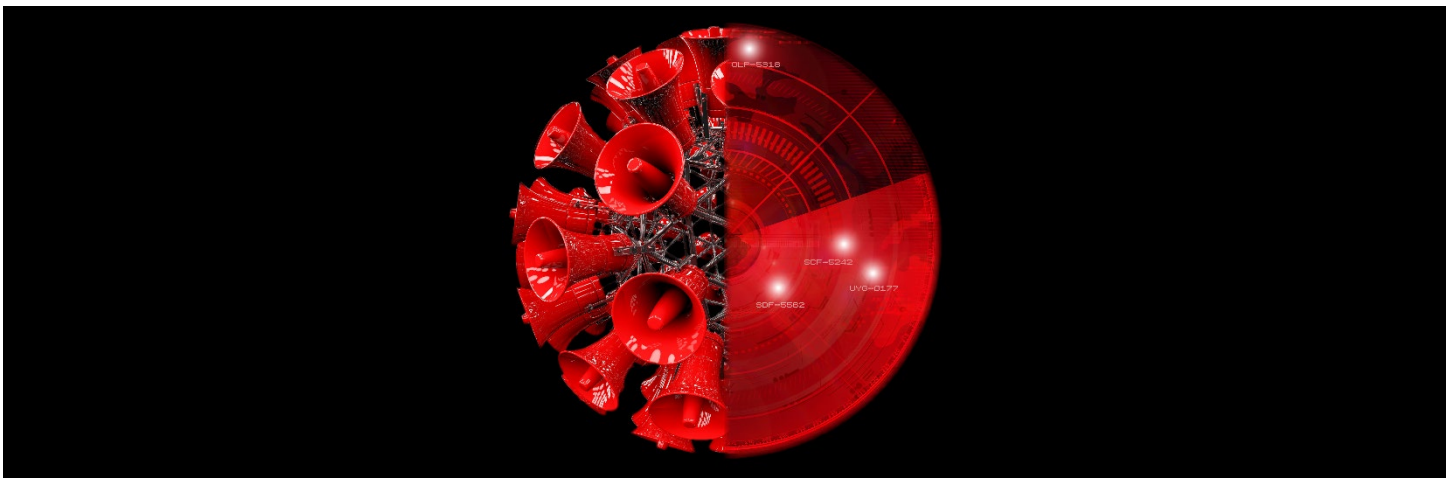

Single counterparty reporting

Overview

On June 14th, 2018, the Federal Reserve Board (FRB) unanimously voted to pass the final rule to establish single-counterparty credit limits ("SCCL") for covered large US bank holding companies (BHCs), foreign banking organizations (FBOs), and Intermediate Holding Companies (IHCs), complementing overall capital requirements, which are generally based on the size and nature of a bank's assets and do not address the risks of concentrated exposures to specific borrowers or counterparties.

In conjunction with the final SCCL rule, the FRB proposed a new report (FR 2590). Comments on the forms and instructions were due by October 5th. For institutions that are covered by the SCCL rule, the new FR 2590 collects data **each quarter** to monitor compliance with the rule. Depending on the size of the reporting institution, the institution may be required to ensure compliance daily. The FR 2590 requires reporters to provide data at a broad, instrument level that is used to calculate the firm's gross credit exposure and net credit exposure to each of the firm's top 50 counterparties. The report requires that each filing contain a **certification from a CFO on the data integrity of the FR 2590**. The FR 2590 is confidential and will not be made available to the public.

This not the first data collection of credit exposure at the counterparty level. Currently, global, systemically important banks (G-SIBs) are reporting a data template with top counterparty data to meet the Financial Stability Board's (FSB) Data Gaps Phase 1 requirements, which collects GSIB's largest counterparties along major risk dimensions. G-SIBs in G-20 countries submit these same data to their home country supervisor. These data, are in turn, sent to the Bank of International Settlements Data Hub which anonymize these reports to identify significant exposures to a counterparty and sector. It is unclear how the FR 2590 will impact the FSB data collection more broadly for the US G-SIBs.

The first data collection is proposed to be March of 2020 for US and foreign G-SIBs. For other reporters, reporting would start with the third quarter of 2020.

Who Reports

Any US BHC with total consolidated assets of $250 billion or more, any US BHC identified as a G-SIB, any entity that is part of the combined US operations of an FBO with total consolidated assets of $250 billion or more, and any US IHC of an FBO with total consolidated assets of $50 billion or more must complete the FR 2590 report.

What's Reported

The FR 2590 requires data to calculate the respondent organization's credit exposures. The report is organized in 12 schedules. There are two general information schedules. The first captures descriptive information (e.g., organization name) and financial data (e.g., capital and assets), and the second provides descriptive information on the reported counterparties.

In addition, four schedules (Schedules G-1 through G-4) collect information related to the gross exposures of the organization to various counterparties. These schedules are separated by general banking assets, secured financing transactions (e.g., repurchase agreements and security lending), and derivative contracts. The final gross exposure schedule (Schedule G-5) captures data of risk shifting from collateral, guarantees, credit derivatives, and hedges.

Two schedules (Schedules M-1 and M-2) report information related to eligible collateral and other eligible risk mitigants, respectively, which reduces the gross exposure.

A summary sheet captures the net credit exposures which uses the data from the supporting schedules described above.

The final two schedules (Schedules A-1 and A-2) capture the "economic interdependence" of counterparties, and determine if a counterparty should be combined with another because of their interconnectedness. The first (Schedule A-1) collects credit exposure on each "economic interdependent" counterparty that relies on significant revenues and funding sources from another counterparty. The second (Schedule A.2) collects data on counterparties that are controlled based on the criteria in the SCCL rule (e.g., percent ownership, influence).

Tables 1 provides a detailed description of each schedule.

Table 1: Description of FR 2590 Schedules

Schedule	Description	Notes
General Information on Respondent Organization	Contains information on the reporter including: Legal Name, Tier 1 Capital, Capital Stock and Surplus, Total Assets, G-SIB status, and, for FBOs, whether the home country supervisor has established framework that is meeting the Basel Committee Banking Supervision large exposure framework	
General Information of Counterparty	This schedule provides information on counterparties including: name of counterparty, counterparty type (sector), classification, and exemption status.	Sector type is provided in the instructions. Classification refers if the counterparty is G-SIB. Exemption type are defined as the counterparties that are exempted from the SCCL rule.
G-1 General Exposures	Contains seven general gross credit exposure categories: (i) Deposits; (ii) Loans and leases; (iii) Debt securities or investments; (iv) Equity securities or investments; (v) Committed credit lines; (vi) Guarantees and letters of credit; and (vii) Securitization arising from the look-through approach	Gross exposures by counterparty

Table 1: Description of FR 2590 Schedules (continued)

Schedule	Description	Notes
G-2 Repurchase Agreement Exposures	Gross credit exposures* arising from repurchase agreements and reverse repurchase agreements by counterparty	- Identify the assets transferred and received in the transaction. Examples include sovereign debt, non-sovereign debt, main index equities, and cash - Identify total gross credit exposure under bilateral netting agreements *Allowed to use Internal Models Methodologies ("IMM"), if authorized to use internal models-based methodologies for capital purposes
G-3 Securities Lending Exposures	Gross credit exposures* arising from securities lending agreements by counterparty	- Identify the assets transferred and received in the transaction. Examples include sovereign debt, non-sovereign debt, main index equities, and cash - Identify total gross credit exposure under bilateral netting agreements *Allowed to use IMM, if authorized to use internal-models-based methodologies for capital purposes
G-4 Derivatives Exposures	Gross credit exposures and gross notional amounts of derivatives transactions by counterparty: (i) Interest rate; (ii) Foreign exchange rate; (iii) Credit; (iv) Equity; (v) Commodity; (vi) Other	- Report gross credit exposures resulting from qualifying master netting agreements - Allowed to use IMM, if authorized to use internal-models-based methodologies for capital purposes
G-5 Risk Shifting Exposures	Gross credit exposures from risk shifting by counterparty	- Five types of credit risk mitigants: (i) Eligible collateral; (ii) Eligible guarantees; (iii) Eligible credit derivatives; (iv) other eligible hedges; (v) Unused portion of certain extensions of credit - Risk shifting may also be required in connection with credit transactions involving excluded and exempt entities

Table 1: Description of FR 2590 Schedules (continued)

Schedule	Description	Notes
M-1 Eligible Collateral	Eligible collateral by counterparty	- The SCCL rule permits reduces the value of any eligible collateral provided by a counterparty from its gross credit exposure - Eligible collateral include, but are not limited to: (i) Sovereign debt; (ii) Non-sovereign debt; (iii) Main index equities; (iv) Other publicly traded equities; (v) Cash
M-2 General Risk Mitigants	Credit risk mitigation techniques other than the receipt of collateral used by the firm to reduce its gross credit exposure in a given transaction by counterparty	- Permitted credit risk mitigation methods: (i) Eligible guarantees; (ii) Eligible credit derivatives; (iii) Other eligible hedges; (iv) Unused portion of certain extensions of credit; (v) Credit transactions involving excluded and exempt entities
Summary Sheet	Calculates the ratio of aggregate net credit exposures to eligible capital base	- Aggregates gross credit exposure from the five G schedules - Calculates the aggregate net credit exposures by reducing aggregate gross credit exposure by the aggregate credit risk mitigants from the two M schedules - Divides the aggregate net credit exposure by the firm's eligible capital base
A-1 Economic Inter-dependence	A covered company, a covered foreign entity, or US IHC with total consolidated assets of $250 billion or more is required to aggregate its net credit exposures to counterparties that are economically interdependent	- 50% or more of one counterparty's gross revenue is derived from the other counterparty - Two or more counterparties that rely on the same source for the majority of their funding - Those counterparties that must be aggregated are required to be treated as a single counterparty for purposes of the aggregate net credit exposure limits - Report aggregate net credit exposure to each member of the interconnected counterparty group

Table 1: Description of FR 2590 Schedules (continued)

Schedule	Description	Notes
A-2 Control Relationships	A covered company, a covered foreign entity, or US IHC with total consolidated assets of $250 billion or more is required to aggregate exposures to counterparties due to the presence of certain control relationships	- Counterparties that are connected by certain specified control relationships must be treated as a single counterparty for purposes of the aggregate net credit exposure limits - Report aggregate net credit exposure to each member of the interconnected counterparty group

Data Elements Mapping

Consistent data definition between regulatory reports is an important concept for reducing reporting burden and increasing data quality. The comparison also helps the reporter's regulatory reporting function identify common sources of data and reconciliation points to enhance data reporting quality. The tables below show our analysis of high-level comparison with other regulatory reports to the FR 2590 report.

The first table discusses the cover sheets for General Information on Respondent Organization. This is broken down into three columns, representing three types of respondents to the FR 2590 report. Note some of the line items are not applicable to certain type of respondents, as further explained in the FR 2590 and final SCCL rules.

The second table goes deeper into the data schedules (G-1 through G-5 and M-1 through M-2). Given the requirements of the various schedules, a high-level mapping can be performed to align with the FR Y-9C report. Note that the report requires exposures/collateral/risk mitigants to be reported by counterparty, which can potentially be different from the consolidated amounts reported on the FR Y-9C.

Table 2:Comparisons with other regulatory reports – Cover Sheet General Information for Reporting Organization

Item	US BHC Reg Report Item	US IHC Reg Report Item	FBO Reg Report Item	Notes
Legal Name	FR-Y9C/Text 9100	FR-Y9C/Text 9100	FR Y7Q /RSSD 9017	
Certification	Not applicable	Not applicable	None	If the FBO enters "1" (yes), then the FBO does not complete the rest of the reporting form
Tier 1 Capital	FR-Y9C/HC-R(I)/Line 26	FR-Y9C/HC-R(I)/Line 26	FR-Y7Q/Part1/Line 2.a	
Capital Stock and Surplus	Not applicable	FR-Y9C/HC-R/Sum of Line 26 and 34.a	Not applicable	Only applies to US IHCs with at least $50 million but less than $250 billion in total consolidated assets. Advanced approach banks should use item 34.b instead of 34.a
Total Consolidated Assets	FR-Y9C/HC/Line 11	FR-Y9C/HC/Line 11	FR Y-7Q/Part 1A/Line 5	
Major Status	None	None	None	G-SIBs and IHC greater than $500 billion in consolidated totals are reported as "Major"

Note that the Cover Sheet information for counterparties have no direct comparisons to existing regulatory reports.

Table 3: Comparisons with other regulatory reports – Data Schedules

FR2590 Report Schedule	Column	Item	Corresponding FR Y-9C Report Schedule/Line item	Notes
G-1: General	A	Deposits	HC 1	This item refers to cash balances the respondent has at other depository institutions
G-1: General	B	Loans & Leases	HC 3.a, 4.a, 4.b HC-D Memo 1.a through 1.d	
G-1: General	C & D	Debt & Equity Securities or Investments	HC 2.a through 2.c HC-D 1-5	
G-1: General	E	Committed Credit Lines	HC-L 1.a through 1.e + part of 9	Exclude any guarantees included in line 9
G-1: General	F	Guarantees and Letters of Credit	HC-L 2 through 4	Include any guarantees included in line 9
G-1: General	G	Securitization Arising from Look-Through		Securitization arising from look-through is closely related for both FR Y-9C HC-R, line items 7 & 9 but no direct comparison exists
G-2: Repurchase Agreement	A – BB	Repurchase Agreement Exposures	HC-R, Part II, 16	Repurchase agreements portion
G-3: Securities Lending	A – BB	Securities Lending Exposures	HC-R, Part II, 16	Security lending agreements portion
G-4: Derivatives	A	Gross Notional: Interest Rate	HC-L Column A 11.a through 11.e	
G-4: Derivatives	B	Gross Notional: FX Rate	HC-L Column B 11. through 11.e	
G-4: Derivatives	C	Gross Notional: Credit	HC-L 7a (1) through 7(a) 4	
G-4: Derivatives	D	Gross Notional: Equity	HC-L Column C 11.a through 11.e	
G-4: Derivatives	E	Gross Notional: Commodity	Part of HC-L Column D 11.a through 11.e	
G-4: Derivatives	F	Gross Notional: Other	Part of HC-L Column D 11.a through 11.e	

Table 3: Comparisons with other regulatory reports – Data Schedules (continued)

FR2590 Report Schedule	Column	Item	Corresponding FR Y-9C Report Schedule/Line item	Notes
G-5: Risk Shifting	A – G	Eligible Collateral, Guarantees, Credit Derivatives, Other Eligible Hedges, Unused Portion of Certain Extensions of Credit, Credit Transactions Involving Excluded and Exempt Entities		- For eligible collateral, consider simple approach and collateral haircut approach within FR Y-9C - Consider the processes that exist for RWA calculation
M-1: Eligible Collateral	A – J	Eligible Collateral		Consider simple approach and collateral haircut approach (for repo-style transactions, eligible margin loans, collateralized derivative contracts, and single-product netting sets of such transactions) within FR Y-9C
M-2: General Risk Mitigants	A	Eligible Collateral, Guarantees, Credit Derivatives, Other Eligible Hedges, Unused Portion of Certain Extensions of Credit, Credit Transactions Involving Excluded and Exempt Entities		- For eligible collateral, consider simple approach and collateral haircut approach within FR Y-9C - Consider existing RWA calculation processes and FFIEC 009 reporting data elements

Data Challenges

Our experience with other regulatory reports indicate that significant interpretative and implementation issues will likely exist. This is where firms will need to carefully analyze the requirements, products, and relationships with counterparties:

- Valuation of reportable products and instruments
- Risk shifting
- Independence and control reporting

Valuation Challenges

As outlined in Table 2, product's and instrument's reporting values may follow existing regulatory reporting definitions (that often align with US GAAP), regulatory capital definitions, or a combination of existing regulatory capital definitions and SCCL rules. When definitions are rooted in common industry definitions, the data quality and understanding of the reporting requirements are high. If all the attributes can be sourced from the point of origin, as is the case with matured data collections, data quality should be high and the implementation costs reduced. Likewise, if the data that relies on capital guidelines are directly related how they reported on a regulatory report (e.g., FR Y-9C), the result should be the same as using common data definition, high-quality data with low implementations costs. However, to the extent the FR 2590 requirements ask for or allows the applying capital interpretations to the valuations of products or collateral, a careful process must be implemented to validate any interpretative guidance. The most challenging valuation process is when a mix of concepts are used. Take, for example, the reporting of securitizations. Here again it is important to have an approval and review process when determining the valuation methodology. Particularly in these cases, an institution should have active dialogue with FRB to validate the interpretations and assumption for reporting these items.

Risk shifting

Risk shifting exposures can be a difficult task and subject to misstatement. As discussed in Table 1, Schedule G-5 captures that on collateral, guarantees, credit derivatives, hedges, and unused portions of extension of credit. To properly reflect risk shifting, any transaction that has one of the credit mitigants should be carefully analyzed to determine whether the transaction meets the eligibility for FR 2590 reporting and the SCCL rule. An institution's regulatory reporting function should pay attention to issues like legally binding agreements and the application of hedging rules.

Independence reporting

Schedules A-1 and A-2 require reporters to assess several factors to determine if a counterparty is either controlled by another counterparty or is reliant on another counterparty for funding. These criteria may create challenges for firms. The first challenge is understanding and connecting relationships to determine if two companies are deriving income from another counterparty. This is even more complicated when more than one counterparty is involved and analysis if the same source is relied on for the majority of funding this counterparty. The second challenge is determining if a counterparty is controlled by another counterparty. Since the definition of control is beyond the control criteria for financial accounting, firms must be able to assess if a company is either 25% controlled through voting stock and has a majority of the board of directors. Both of these criteria will require firms to gather data and develop new processes to collect these data and assess counterparties' independence.

Summary and Conclusion

The FR 2590 is a complex report with multiple schedules and intricate data definitions that include accounting and regulatory capital concepts. To meet the report's requirements, a detailed knowledge of the SCCL rule along with current understanding of the institution's ability to report counterparty aggregated data is required. Firms should begin to develop their project plans on the implementation of the FR 2590, keeping in mind that more specific instructions or the results of industry comments may change the reporting requirements.

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