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The background of the top half of the page is a photograph of four people in an office setting. An older man with a long white beard and glasses is leaning over a desk, looking at a document. A woman with glasses is sitting at the desk, looking up at him. Another woman is sitting at the desk, looking at a laptop. A fourth woman is standing and looking at the man. The office has large windows in the background.

Spotlight on FR 2420

The Report of Selected Money Market Rates

The Report of Selected Money Market Rates, the Federal Reserve 2420 Report (FR 2420), is a focus area for regulators as it is a key indicator of money market conditions. Money market conditions facilitate the assessment of market functioning and borrowing costs for money market instruments and regulators currently have a significant focus on reviewing internal controls, data quality, governance and effective challenge.

Specifically, due to the nature of the data requirements, complexity of the reporting process, frequency of reporting and aggregation of values, the FR 2420 report poses two key challenges: report timing and report interpretation.

As regulatory expectations have evolved beyond traditional control assessment and data quality profiling, the industry has been seeing an increased level of review on the FR 2420. **This brief will cover the following key topics:**

- ▶ The importance of the FR 2420
- ▶ The report's impact on reference rates
- ▶ FR 2420 industry challenges
- ▶ Recent report changes

What is FR 2420 and why does it matter?

The FR 2420 report was created in 2014 to augment regulators' monitoring of money markets. This report collects liability data on federal funds, selected borrowings from non-exempt entities, Eurodollars, time deposits and certificates of deposit (CDs). In the current economic environment and upcoming LIBOR transition, interest rates are very critical, which has given an increased regulator focus.

The Federal Reserve Bank of New York (FRBNY), on behalf of the Federal Reserve Board and at the directive of the Federal Open Market Committee (FOMC), implements temporary open-market operations in money markets. The transaction-level data reported on the FR 2420 provide regulators with the following:

01 Insight into market functioning

02 Ability to calculate and publish interest rate statistics for selected money market instruments

03 Support of the monitoring of borrowing costs of individual institutions for purposes of supervisory surveillance

Report highlights

Frequency and timing of report filing: The FR 2420 frequency is broken down by two reporting timelines: (1) FR 2420 FE and IB are reported daily, one day after the calendar as-of date at 7:00 a.m. ET and (2) FR 2420 CD is reported daily, two days after the calendar as-of date at 2:00 p.m. ET.

- ▶ Effective September 1, 2022, FR 2420 CD is to be reported at 2:00 p.m, ET, one day after the calendar as-of date.

Reports:

The FR 2420 report consists of the FR 2420 FE, IB, and CD.

- ▶ FR 2420 FE: Inclusive of Schedule A: Federal funds purchased; Schedule B: Eurodollars and Schedule D: Selected deposits
- ▶ FR 2420 IB: International banking facility data which collects data from Schedule B specifically for international banking facilities
- ▶ FR 2420 CD: Inclusive of Schedule C: Time deposits and CDs

Frequency:

Daily

Reporter base:

- ▶ U.S. commercial banks, thrifts and branches
- ▶ Agencies of foreign banks
- ▶ International banking facilities
- ▶ Significant banking organizations active in federal funds and/or other money markets



Overview of schedules

Schedule A: Federal funds purchased

All federal funds purchased by the institution's US offices denominated in USD of \$1 million or more by close of business on the reporting date. This includes federal funds purchased at arm's length, federal funds with overnight maturities, specified term and those executed under open trades or continuing contracts and federal funds purchased from counterparty types that are exempt entities (i.e., US Government-sponsored enterprises such as Federal Home Loan Banks).

Schedule B: Eurodollars

Reporters must report all Eurodollars denominated in USD issued in amounts of \$1 million or more, including Eurodollars negotiated at arm's length, Eurodollars with interest rate as part of the term (including 0 or negative interest), and Eurodollars with overnight maturity, a specified term, or executed under an open trade/continuing contract. The Eurodollars reported include activity of transactions booked through Nassau and Cayman branches.

Schedule C: Time deposits and certificates of deposits (CDs)

Reporters must report all time deposits denominated in USD issued of \$1 million or more, including time deposits that were executed at arm's length, time deposits that have an interest rate as part of the terms (including those with an interest rate of zero or a negative rate), and time deposits with personal and non-personal counterparties.

Schedule D: Selected deposits

Selected deposits are collected to capture short-term wholesale unsecured deposits that are economically equivalent to federal funds purchased or Eurodollars. Reporters must report all selected deposits denominated in USD of \$1 million or more that are executed by the institution's US offices.

Overlap with existing reports

The FR 2420 overlaps and builds off existing US regulatory reports, such as FR Y-9C, FR 2052a, FFIEC 002, FFIEC 031 and FFIEC 041. Some of the overlap can be seen below:

FR 2420 products	Report overlap
Federal funds	<ul style="list-style-type: none"> ▶ FFIEC 031 ▶ FFIEC 041 ▶ Call Report ▶ FFIEC 002
Eurodollars	<ul style="list-style-type: none"> ▶ Call Report ▶ FR 2900





Report updates

Effective September 1, 2022, the following updates will be introduced:

1. Day-count convention will be required as part of FR 2420 reporting. The day-count convention describes how the interest rate is calculated for the reported interest rate of the transaction.
 - ▶ **Key risks:** this data item provides multiple day-count convention options such as Actual/360, Actual/365, 30/360, 30/365, actual/actual and others.
 - ▶ **Considerations:** with the day-count convention in circulation, reporters should review their process and documentation to ensure they are up-to-date and in alignment with current requirements.
2. For the FR 2420 CD report, transactions are to be reported separately for each Certificate of Deposit Account Registry Service (CDARS). Additionally, supplementary reference rates will be included to which floating-rate time deposits and CDs are tied. The additional rates include the Secured Overnight Financing Rate (SOFR), other SOFR-based rates and the overnight bank funding rate (OBFR), all of which are published daily by FRBNY. The purpose of this revision is to improve the FRBNY's ability to monitor the progress of the transition from LIBOR to SOFR with respect to floating-rate money market instruments.
 - ▶ **Key risks:** further other SOFR-based rates include the SOFR Index and the SOFR averages over 30, 90 and 180 days.
 - ▶ **Considerations:** With CDARS reported separately, reporters should review their process and documentation to ensure they are up-to-date and in alignment with current requirements.

Overview of common and operational challenges

There are several existing challenges in reporting the FR 2420. Industry challenges consist of issues across classifications of several report attributes due to the lack of consistency, issues with the timing of the report and report changes. The following are the two main challenges for FR 2420 reporting:

1. **Report interpretation:** firms have challenges in consistently classifying various elements within the reports. Common items that are misreported are the interest rate, maturity value, maturity date and counterparty reporting. When firms classify an element incorrectly, it could impact numerous as-of dates as well as the reference rates.
2. **Report timing:** The FR 2420 FE and IB report submissions are on a t +1 basis at 7:00 a.m. ET. The timing of the report displays many challenges including staffing and technical issues such as an invalid token preventing access to the Federal Reserve Reporting Central. It is important to have sufficient coverage during reporting hours and subject-matter knowledge to ensure proper submission. In addition, industry feedback has generally stated that the FR 2420 does not support automated or advance submissions, even with zero reporting volume.

Linkage to the effective federal funds (EFFR) rate and the OBFR

The FRB NY utilizes reference rates to provide insight into money market dynamics to evaluate monetary policy implementation effectiveness. The FR 2420 report captures significant data on money markets and the FRB NY publishes two reference rates which are derived from the FR 2420: **EFFR and OBFR.**

Industry initiative

Although the FR2420 is not significant in size, the current economic environment we are in has heightened the focus on interest rates, therefore making the report critical. From an industry perspective, due to increased regulator focus on the FR 2420, firms have been working to eliminate risks within their reporting processes. Examples include: reviewing report interpretations against source documentation and determining if the right procedures are in place to support timely and accurately reporting. Regulators continue to spend time reviewing these firms' FR2420 interpretations, governance and report logic.

Key Ernst & Young LLP contacts

To learn more about how the changing regulatory reporting environment might affect your organization and how Ernst & Young LLP can help, please contact one of our professionals:



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