

EY regulatory reporting brief

EY's regulatory reporting brief explores Federal Reserve regulatory reporting, highlighting report requirements, recent news and updates, and identifying common reporting challenges.

FR Y-15 Banking Organization Systemic Risk Report

Background and key considerations

In focus:

- On June 1, 2016, the Federal Reserve Board (FRB) published in the Federal Register Notice (FRN) a final rule, providing guidance on the regulatory reporting requirements for US intermediate holding companies (IHCs) of foreign banking organizations (FBOs).
- IHCs are expected to ready their data sourcing and reporting capabilities to file the FR Y-15 on a quarterly basis, effective September 30, 2016, and meet the report's granular transactional data requirements (with additional time given for the first filing).
- This brief explores reporting challenges that the FR Y-15 poses to current Bank Holding Company (BHC) filers and considerations for the new panel of IHC reporters.

Report summary

What is the FR Y-15?

In response to the financial crisis, the Basel Committee on Banking Supervision (BCBS) developed data points to be used to assess the systemic risk of global systemically important banks (G-SIBs). This required that the FRB classify banks based on systemic importance. In connection with the approach set out by the BCBS, the Federal Reserve (Fed) collects FR Y-15 data to assess seven components of a bank's systemic risk profile: size, interconnectedness, substitutability, complexity, cross-jurisdictional activity, ancillary indicators and a new schedule, Schedule G, designed to capture short-term wholesale funding information (effective December 31, 2016).

The Fed uses this data to monitor the systemic risk profile of the institutions that are subject to Enhanced Prudential Standards (EPS) and supports:

- The Basel Committee in identifying G-SIBs and in determining the additional capital surcharge for G-SIBs
- The Fed with the identification of domestic systemically important financial institutions
- The assessment of systemic risk implications of proposed mergers and acquisitions

Filing criteria

- BHCs and IHCs with total consolidated assets of \$50 billion or more
- US-based organizations designated as global systemically important banks

Filing frequency

- The FR Y-15 is to be filed quarterly, as of the last calendar day of the month (March, June, September and December). The quarterly filings are due 50 days (65 days for Q4) after the "as-of" date.



EY

Building a better working world



Report highlights

In 2014, certain organizations were asked to file a quantitative impact study (QIS) version of the FR Y-15 report form. The QIS was intended to support regulators in assessing the viability and timeline for system risk reporting required of G-SIBs.

Since then, the report form has included a number of changes:

- ▶ **Consolidation rules.** Per the QIS, FBOs were asked to report data for all US branches and subsidiaries, distinguishing among balances of US branches, subsidiaries and branch-to-subsidiary transactions. The current report form requires consolidated reporting on the same basis as the FR Y-9C (i.e., at the BHC or IHC level).
- ▶ **Filing frequency.** Reporting was revised to quarterly instead of annually.
- ▶ **Additional requirements.** A new schedule, Schedule G, which captures wholesale funding data, was incorporated into the report; several items were added to other schedules.

The FRB's June 2016 Federal Register Notice provided further guidance on the regulatory reporting requirements for US IHCs. The FRN informed first-time IHC filers of the FR Y-15 that they would be permitted to file their first report by December 5, 2016 (65 days after the September 30, 2016, as-of date). Additionally, IHCs are allowed to file reasonable estimates, consistent with the FR Y-15 report reporting requirements.

The reported information is made public with some exceptions for Schedule G for the first reporting date after the final liquidity coverage ratio disclosure standard has been implemented.

Confidential treatment may be requested on a case-by-case basis.

Overview of schedules

The current FR Y-15 consists of seven schedules, including the new Schedule G (effective December 31, 2016), that collect information on the systemic risk footprint of US-based G-SIBs and holding companies with total consolidated assets of \$50 billion or more. Data is used to determine the degree of risk in bank portfolios and understand the effect on global markets.

Below is an overview of each of the current report schedules.

Schedules

1. Schedule A – Size Indicator
2. Schedule B – Interconnectedness Indicators
3. Schedule C – Substitutability Indicators
4. Schedule D – Complexity Indicators
5. Schedule E – Cross-Jurisdictional Activity Indicators
6. Schedule F – Ancillary Indicators
7. Schedule G – Short-Term Wholesale Funding Indicator
(effective December 31, 2016)

1. Schedule A – Size Indicator

Schedule A collects information on bank exposures to derivatives, securities financial transactions (SFTs), other on-balance sheet assets, and off-balance sheet items by credit conversion factors (CCF). Advanced approach banking organizations must report data using averages; unless otherwise indicated, banking organizations that do not use the advanced approach may report using either averages or point-in-time values. Note that even though the final IHC rule stated that IHCs are not subject to advanced approaches risk-based capital rules, IHCs that meet the threshold for advanced approaches banking organizations are still subject to reporting requirement for advanced approach banking organizations includes averages on Schedule A.

2. Schedule B – Interconnectedness Indicators

Schedule B collects information on bank assets of and liabilities to other financial institutions (based on immediate counterparty).

3. Schedule C – Substitutability Indicators

Schedule C collects information on payments sent by the banking organization, assets held under custody and data on underwriting activity.

4. Schedule D – Complexity Indicators

Schedule D collects information on the over-the-counter (OTC) derivatives, available-for-sale and trading securities.

5. Schedule E – Cross-Jurisdictional Activity Indicators

Schedule E collects information on cross-border claims (on an ultimate risk basis) and liabilities.

6. Schedule F – Ancillary Indicators

Schedule F collects information on select balance sheet and income statement items.

7. Schedule G – Short-Term Wholesale Funding Indicator (effective December 31, 2016)

Schedule G collects information on the average wholesale funding position of the bank, by tier, and select maturity intervals.

Overview of common challenges

The FR Y-15 requires the reporting of finance, risk and operations data that is often found in disparate sources. Common challenges encountered by filers include sourcing and validating payments data, overall data sourcing and data availability at the required level of granularity, and interpreting reporting requirements.

Payments

From identifying data sources to mapping these data based on reporting requirements, reporters have encountered numerous challenges with respect to the reporting of outgoing payments activity on Schedule C. Generally, organizations are required to report outgoing payments made over the prior four quarters.

Organizations have faced difficulties in defining the scope of reportable payments. Oftentimes, reporters must liaise with operations or treasury functions to identify applicable payment systems and payments within scope of the reporting requirements. Key terms such as *large-value payment systems*,¹ *agent banks* and *intragroup* transactions should all be clarified to data providers when developing requirements. This is especially critical as the functional areas that traditionally own these payments data may not be well versed in regulatory reporting requirements and often require training.

Other challenges arise with achieving the necessary level of data granularity. For example, payments are generally reported on a gross basis with limited exceptions. However, organizations typically maintain this information net. Organizations must also identify the payments associated with different types of settlement activity, including those related to securities, derivatives and foreign exchange transactions.

As challenges with data sourcing and granularity are addressed, regulatory reporting teams may find it difficult to assess data based on the volume of these transactions. Payments data often amounts to trillions of dollars, which may not be easily available for review at a transaction level. Furthermore, it can be especially difficult to validate the data as there is typically no reconciliation point as part of traditional financial and regulatory reporting.

How we see it

Driving accountability for regulatory reporting throughout the organization has been a challenge for many organizations. Ownership and sourcing for this type of data may not be well defined; therefore, organizations should consider extending the overall governance framework, including the accountability policy, to include those involved in preparing the report, and submitting and sourcing data. Organizations should also consider extending the use of attestations as an accountability tool for data providers.

Lastly, training for data providers is crucial in supporting timely and accurate reporting. This is especially true for the FR Y-15, which in many cases requires data sourcing outside of traditional financial and regulatory reporting functions.

Short-term wholesale funding indicator

Effective December 31, 2016, Schedule G will be required as part of FR Y-15 reporting. This schedule incorporates components of 4G and 5G liquidity reporting frameworks. Organizations that have filed the Complex Institution Liquidity Monitoring Report (FR 2052a) daily for the past year are required to report the average value using daily data; all other reporters must use monthly data.

Organizations will need to be mindful of existing and upcoming regulatory reporting initiatives related to the supplementary leverage ratio (SLR) and 5G reporting to maintain consistency across reporting regimes. The timing of the SLR and overlap with the FR Y-15 must be considered in developing the regulatory reporting operating model, and should be integrated with future or planned initiatives. Parts of the SLR have already gone into effect, though it will not be fully phased in until January 1, 2018.

¹ "Payment, clearing and settlement systems in the CPSS countries," *Bank for International Settlements website*, <http://www.bis.org/cpmi/publ/d97.htm>, accessed 11 October 2016.

G-SIB surcharge

Advanced approach institutions are required to annually perform a calculation that is used to assess the global systematically important bank (G-SIB) surcharge amount. The FRB requires that G-SIBs use the higher result of two methods for calculating the surcharge: method 1 utilizes a G-SIB surcharge framework based on size, interconnectedness, complexity, cross-jurisdictional activity and substitutability indicators; method 2, is based on the same methodology except that the substitutability indicator is replaced by the wholesale funding indicator, Schedule G, and is generally expected by the Board to yield a higher surcharge rate.²

Relationships to other reports

In addition to Schedule G, the FR Y-15 report includes multiple overlapping data points with other regulatory reports. It is important that organizations implement mechanisms for reconciling data across reports as regulators often perform this analysis, identifying reporting inconsistencies.



Some examples include overlaps with liquidity reporting (mentioned in the previous section) and other explicit and direct ties to the FR Y-9C, TIC B reports and FFIEC 009. Given these overlaps, organizations should be keen on identifying key data attributes to support reporting. This includes more granular data elements for which many institutions encounter challenges in reporting accurately (e.g., counterparty, borrower, collateral, guarantor, issuer type, domicile).

Synergies from other regulatory reports include:

- ▶ The calculation of daily average balances, required on the FR Y-9C, FFIEC 031 and the FR Y-15 (Schedule A) for advanced approach institutions is included.
- ▶ The calculation of derivative and other exposures is also included. Intermediary calculations are performed by capital or risk-weighted assets (RWA) teams for the FR Y-9C and CCAR reporting.
- ▶ The reporting of leveling information for securities on Schedule D. It should be noted that the requirement includes a combination of both fair value leveling, typically available from traditional financial reporting, and liquidity leveling, which may be available from liquidity reporting teams.
- ▶ The reporting of Intra-Financial System assets and liabilities on Schedule B. Reporters must identify counterparties that are financial institutions. The definition of a financial institution on the FR Y-15, however, differs with the definition on the FR Y-9C and FFIEC 002. This FR Y-15 definition was revised by the Fed in December 2013 to be consistent with the definition utilized in the BCBS G-SIB methodology, which includes non-bank financial institutions. As a result, the FR Y-15 definition was expanded to include both depository institutions and non-bank financial institutions.

² "Draft Final Rule – Risk-based Capital Surcharges for Systemically Important U.S. Bank Holding Companies," Federal Reserve website, <https://federalreserve.gov/aboutthefed/boardmeetings/board-memo-gsib-20150720.pdf>, accessed 11 October 2016.

Conclusion

The FR Y-15 includes a number of requirements that organizations have struggled to address. Firms should focus efforts on identifying overlaps with other regulatory reports and establishing an overall reporting framework that provides for accountability throughout the reporting process. For the FR Y-15 in particular, given the multiple and disparate data sourcing that is required, many organizations have incorporated manual sourcing methods into the production process. However, these should be coupled with a stringent control framework.

The FR Y-15 report continues to evolve with the start of more frequent reporting required this year and the implementation of a new schedule.

What's next?

Intermediate holding companies should have begun preparing their first filing as of September 30, 2016, conducting production readiness tests and resolving any outstanding gaps and issues. Plans should be in place to address technology and data challenges through scalable and sustainable data sourcing solutions that include training and accountability throughout the organization.

How EY can help

EY has developed services and go-to-market solutions that address the governance framework, business processes, data quality, data governance and technology architecture to support the regulatory reporting processes. We understand both short- and long-term priorities and have proven methodologies to address the regulatory reporting requirements for these needs. Short-term priorities include the centralization of regulatory reporting data, centralization and standardization of mappings/business rules to improve traceability and change control, establishment of reporting integrity controls, auditability and transactional testing to verify data integrity. Long-term priorities include the migration to strategic data sourcing, minimization of adjustments performed within the regulatory reporting application, standardization of regulatory reporting workflows and automation of reconciliations within regulatory.

Ernst & Young LLP contacts

To learn more about how the changing regulatory reporting environment might affect your organization and how EY can help, please contact one of our professionals.



Anita Bafna
Partner, Ernst & Young LLP
+1 212 773 3938
anita.bafna@ey.com



Steven Thiakodemitris
Partner, Ernst & Young LLP
+1 212 773 0903
steven.thiakodemitris@ey.com



Vadim Tovshteyn
Executive Director, Ernst & Young LLP
+1 212 773 3801
vadim.tovshteyn@ey.com



Patricia Maone
Senior Advisor, Ernst & Young LLP
+1 212 773 5675
patricia.maone@ey.com



Christine Burke
Senior Manager, Ernst & Young LLP
+1 212 773 5607
christine.burke@ey.com



Bilal Haque
Senior Manager, Ernst & Young LLP
+1 212 773 1432
bilal.haque@ey.com



Alex Karas
Manager, Ernst & Young LLP
+1 212 773 5561
alex.karas@ey.com

We appreciate contributions from the following individuals
who assisted in the development of this report:

Gregory Cannella, Yuki Luo and Michelle Mammen



About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

EY is a leader in serving the global financial services marketplace

Nearly 43,000 EY financial services professionals around the world provide integrated assurance, tax, transaction and advisory services to our asset management, banking, capital markets and insurance clients. In the Americas, EY is the only public accounting organization with a separate business unit dedicated to the financial services marketplace. Created in 2000, the Americas Financial Services Organization today includes more than 6,900 professionals at member firms in more than 50 locations throughout the US, the Caribbean and Latin America.

EY professionals in our financial services practices worldwide align with key global industry groups, including EY's Global Wealth & Asset Management Center, Global Banking & Capital Markets Center, Global Insurance Center and Global Private Equity Center, which act as hubs for sharing industry-focused knowledge on current and emerging trends and regulations in order to help our clients address key issues. Our practitioners span many disciplines and provide a well-rounded understanding of business issues and challenges, as well as integrated services to our clients.

With a global presence and industry-focused advice, EY's financial services professionals provide high-quality assurance, tax, transaction and advisory services, including operations, process improvement, risk and technology, to financial services companies worldwide.

© 2016 Ernst & Young LLP.
All Rights Reserved.

SCORE no. 03895-161US
BSC no. 1611-2110755
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com