Federal Reserve Requests Comment on Liquidity Monitoring Reporting Proposal

Executive Summary

On November 26, 2014, the Federal Reserve Board ("Federal Reserve") issued an information collection proposal to extend for three years, with revision, the Complex Institution Liquidity Monitoring Report ("FR 2052a") and the Liquidity Monitoring Report ("FR 2052b"), which would be effective beginning on March 31, 2015. The FR 2052 reports are used to monitor the overall liquidity profile of institutions supervised by the Federal Reserve.

The Federal Reserve proposes to revise the FR 2052a report ("proposed FR 2052a") by modifying the: (1) respondent panel threshold, (2) frequency of reporting, (3) reporting platform structure, and (4) data item granularity. Key modifications to the FR 2052a would include:

- **Clarification of certain liquidity coverage ratio ("LCR")[1] terms.** For example, "transactional account" would have the same meaning as "transaction account" and "liquidity facilities" would be delineated from "credit facilities."
- **Frequency of reporting revisions**, whereby certain BHCs currently filing the monthly FR 2052b would be required to move to the proposed FR 2052a monthly and daily reporting panel.
- **Increased granularity**, including: (1) counterparty types, along with number of products requiring the counterparty to be reported, (2) daily maturity buckets for the first sixty days, (3) liquidity profile reporting by currency for each material legal entity, and (4) additional details regarding securities financing transactions, wholesale unsecured funding, deposits, loans, unfunded commitments, collateral, derivatives, and foreign exchange transactions.
- **Reporting platform changes**, whereby the structure of the data collection would move from a spreadsheet-based format to an Extensible Markup Language ("XML") format to both accommodate the increased granularity and adhere to leading data industry practices.
- **Defined table revisions**, including the introduction of a new hierarchy that subdivides the three general categories of inflows, outflows, and supplemental items into ten distinct data tables designed to stratify the assets, liabilities, and supplemental components of a firm's liquidity risk profile.

Revisions to the FR 2052b report ("proposed FR 2052b") would include the elimination of the current monthly reporting frequency requirement for U.S. bank holding companies ("BHCs") not designated by the Financial Stability Board ("FSB") as Global Systemically Important Banks ("G-SIBs") with at least $50 billion in total consolidated assets including foreign banking organization ("FBO") subsidiaries. These entities would be required to report monthly and/or daily under the proposed FR 2052a.

Comments on the proposed information collection activities must be submitted to the Federal Reserve by February 2, 2015.

[1] See *KPMG Regulatory Practice Letter 14-13*.

Background

The global financial crisis revealed the need for supervisors to collect timely liquidity data in order to better identify and monitor liquidity risks at both an individual firm and aggregate level across the financial system. The Federal Reserve developed the FR 2052 reports to monitor the overall liquidity profile of the institutions it supervises. These data provide detailed information on the liquidity risks within different business lines (e.g., financing of securities positions and prime brokerage activities).

The FR 2052 reports also serve as part of the Federal Reserve's supervisory surveillance program in its liquidity risk management area and are intended to provide more timely information on firm-specific liquidity risks during periods of stress. In addition, the Federal Reserve uses its analysis of systemic and idiosyncratic liquidity risk issues to inform its supervisory processes, which include preparation of analytical reports that detail funding vulnerabilities.

In August 2014, the Federal Reserve, under delegated authority from the Office of Management and Budget ("OMB"),[2] announced final approval for proposed information collections implementing two mandatory Liquidity Monitoring Reports, the FR 2052a and the FR 2052b, under the authority granted by Section 5 of the *Bank Holding Company Act*, Section 8 of the *International Banking Act*, and Section 165 of the *Dodd-Frank Act*.[3] These reports collect quantitative information on selected assets, liabilities, funding activities, and contingent liabilities on both a consolidated basis and by material entity subsidiary.

Under the final approval, U.S. BHCs designated by the FSB as G-SIBs must report the complete FR 2052a daily. FBOs with U.S. broker-dealer assets greater than $100 billion must report the complete FR 2052a "on occasion" with advanced supervisory notice and the abbreviated FR 2052a twice a month. U.S. BHCs not designated as G-SIBs with at least $50 billion in total consolidated assets (including FBO subsidiaries) and U.S. BHCs not controlled by FBOs with total consolidated assets between $10 billion and $50 billion must report under the FR 2052b monthly and quarterly, respectively.

Description

Proposed Scope of Application

Under the Federal Reserve's proposed information collection activities, "U.S. chartered firms" would collectively include BHCs, savings and loan holding companies subject to the LCR, and nonbank financial companies designated for Federal Reserve supervision by the Financial Stability Oversight Council, where the Federal Reserve has applied the requirements of the LCR.

Respondents meeting certain asset- and foreign exposure-based stratifications would be required to file daily or monthly using the proposed FR 2052a and quarterly using the proposed FR 2052b:

[2] In June 1984, the OMB delegated its approval authority to the Federal Reserve to approve and assign OMB control numbers to the collection of information requests and requirements conducted or sponsored by the Federal Reserve under certain conditions. As such, the Federal Reserve may not conduct or sponsor, and the respondent is not required to respond to, certain information collection requests unless they display a currently valid OMB control number (e.g., OMB No. 7100-0361).
[3] Section 5(c) of the *Bank Holding Company Act* authorizes the Federal Reserve to require BHCs to submit reports to the Federal Reserve regarding their financial condition. Section 8(a) of the *International Banking Act* subjects FBOs to the provisions of the *Bank Holding Company Act*. Section 165 of the *Dodd-Frank Act* requires the Federal Reserve to establish prudential standards for certain BHCs and FBOs, including liquidity requirements (see *KPMG Regulatory Practice Letter 14-07*).

<table>
<tr><th colspan="5">Proposed changes to the FR 2052a and FR 2052b reporting respondents</th></tr>
<tr><th>Report</th><th>Current respondents</th><th>Current submission frequency</th><th>Proposed respondents</th><th>Proposed submission frequency</th></tr>
<tr><td rowspan="3">FR 2052a</td><td>• U.S. BHCs designated as G-SIBs by the FSB</td><td>• Daily</td><td rowspan="2">• U.S. chartered firms with total assets ≥ $700 billion or assets under custody ≥ $10 trillion
• U.S. chartered firms with total assets < $700 billion and assets under custody < $10 trillion, but total assets ≥ $250 billion or foreign exposure ≥ $10 billion
• FBOs with U.S. assets ≥ $50 billion and U.S. broker-dealer assets ≥ $100 billion</td><td rowspan="2">• Monthly
• Daily</td></tr>
<tr><td rowspan="2">• FBOs with U.S. broker-dealer assets > $100 billion</td><td rowspan="2">• Twice a month (FR 2052a abbreviated report)
• On occasion (FR 2052a complete report) with advanced notice from supervisor</td></tr>
<tr><td>• U.S. chartered firms with total assets ≥ $50 billion but total assets < $250 billion and foreign exposure < $10 billion
• FBOs with U.S. assets ≥ $50 billion and U.S. broker-dealer assets < $100 billion</td><td>• Monthly</td></tr>
<tr><td rowspan="2">FR 2052b</td><td>• U.S. BHCs (excluding G–SIBs) with total consolidated assets > $50 billion (including FBO subsidiaries)</td><td>• Monthly</td><td rowspan="2">• U.S. BHCs not controlled by FBOs with total consolidated assets ≥ $10 billion but ≤ $50 billion</td><td rowspan="2">• Quarterly</td></tr>
<tr><td>• U.S. BHCs not controlled by FBOs with total consolidated assets ≥ $10 billion but ≤ $50 billion</td><td>• Quarterly</td></tr>
</table>

Proposed Revisions to the FR 2052a

The Federal Reserve states that its proposed revisions to the FR 2052a are intended to improve the effectiveness of its supervisory surveillance program. The proposed data elements are more detailed and intended to align with the LCR. Liquidity profile reporting by currency for each material entity of the institution would be required for the most internationally active firms. For BHCs, this may include sub-divisions of the global banking entity by geographical region. For FBOs, this would include material entities managed within the United States.

The proposed FR 2052a includes a new hierarchy that would subdivide the three general categories of inflows, outflows, and supplemental items into ten distinct data tables designed to stratify the assets, liabilities, and supplemental components of a firm's liquidity risk profile based on products that can be described with common data structures:

Proposed revisions to the FR 2052a reporting hierarchy			
Category	Category description	Section	Section description
Inflows	Inflows would represent cash that the reporting entity is contractually owed and expects to receive from fully performing transactions, as well as the reporting entity's ability to generate cash from assets through repurchase agreements, sale, or exercising other contractual rights.	Assets	Entities would report assets such as unencumbered assets, borrowing capacity from central banks or Federal Home Loan Banks ("FHLBs,") unrestricted and restricted reserve balances at central banks, unsettled asset purchases, and forward asset purchases.
		Unsecured	Entities would report unsecured inflow transactions such as onshore placements, offshore placements, required nostro balances, excess nostro balances, outstanding draws on revolving facilities, and other unsecured loans.
		Secured	Entities would report secured inflow transactions such as reverse repurchase agreements, securities borrowing transactions, dollar rolls, collateral swaps, margin loans, and other secured loans where the collateral is or is not rehypothecatable.
		Other	Entities would report other inflow transactions such as derivatives receivables, collateral called for receipt, sales in the to-be-announced ("TBA") market, undrawn committed facilities purchased, lock-up balances, interest and dividend payments receivable on assets owned by the entity, net 30-day derivatives receivable, principal payments receivable on unencumbered investment securities, and other cash inflow transactions.
Outflows	Outflows would represent cash obligations that the reporting entity contractually owes, as well as behavioral-based obligations that may give rise to additional cash obligations or increases in required funding, such as unanticipated draws on committed facilities or loss of funding from customer short positions.	Wholesale	Entities would report wholesale outflow transactions such as asset-backed commercial paper single-seller and multi-seller outflows, collateralized commercial paper, asset-backed securities, covered bonds, tender option bonds, other asset-backed financing, commercial paper, onshore and offshore borrowing, unstructured and structured long-term debt, government supported debt, unsecured notes, structured notes, wholesale certificates of deposit, draws on committed facilities, free credits, and other unsecured financing transactions.
		Secured	Entities would report secured outflow transactions such as repurchase agreements, securities lending transactions, dollar rolls, collateral swaps, FHLB advances, outstanding secured funding from facilities at central banks, customer and firm short transactions, and other secured financing transactions.
		Deposits	Entities would report deposit outflow transactions such as transactional accounts, non-transactional relationship and non-relationship accounts, operational accounts, non-operational accounts, operational escrow accounts, non-reciprocal brokered accounts, affiliated sweep accounts, non-affiliated sweeps accounts, other product sweep accounts, reciprocal accounts, other third-party deposits, and other deposit accounts.

Proposed revisions to the FR 2052a reporting hierarchy			
Category	Category description	Section	Section description
		Other	Entities would report other outflow transactions such as derivatives payable, collateral called for delivery, purchases in the TBA market, credit and liquidity facilities, retail mortgage commitments, trade finance instruments, certain derivative transaction valuation changes, loss of rehypothecation rights and collateral required due to certain changes in financial condition, excess customer margin, unfunded commitments to lend on margin to customers, interest and dividends payable on the entity's liabilities and equity, net 30-day derivatives payable, other outflows related to structured transactions, and other cash outflow transactions.
Supplemental	Supplemental would refer to additional data elements that support the assessment of the reporting entity's funding and liquidity profile, but do not otherwise meet the definition of inflows or outflows.	Informational	Entities would report supplemental information such as initial margin posted and received, variation margin posted and received, collateral dispute receivables and deliverables, collateral that may need to be delivered, collateral that the institution could request to be received, collateral that could be substituted by the institution or a counterparty, long and short market value of client assets, gross client wires received and paid, subsidiary liquidity that cannot be transferred, Section 23A capacity,[4] outflows or inflows from closing out hedges early, and potential outflows from non-structured or structured debt maturing beyond thirty days where the institution is the primary market maker in that debt.
		Foreign exchange	Entities would report foreign exchange information such as foreign exchange spot, forwards and futures, and swap transactions.

Data granularity and distinctions between certain types of securities financing transactions within this hierarchy would increase along numerous items to include the following:

- Maturity buckets would increase for the first sixty days to daily to eliminate potential contractual maturity mismatches in the near-term.
- Additional categories of assets, largely delineated by the type of security or loan, the structuring of cash flows, and risk-based capital weightings.
- Additional counterparty types, along with the number of products requiring the counterparty to be reported, including loan cash flows, deposits, committed facilities, and certain unsecured borrowings.
- More distinction between types of securities financing transactions such as collateral swaps, to-be-announced contracts, and the various methods of covering firm or customer short sales, including additional fields that would provide a more complete view of a firm's activities and liquidity risk characteristics such as:
  - The amount of collateral rehypothecation, collateralization, encumbrance, and methods of settlement.
  - Information on the stock and flow of collateral received and posted for derivative transactions, as well as values of prime brokerage client assets and associated wire transfers.

[4] Section 23A of the *Federal Reserve Act* limits the aggregate amount of covered transactions between an insured depository institution ("IDI") and any single affiliate to no more than 10 percent of the IDI's capital stock and surplus, and the aggregate amount of covered transactions with all affiliates to no more than 20 percent of the IDI's capital stock and surplus.

- Additional types of deposit accounts, such as escrow accounts and various categories of brokered deposits and sweeps. Balances that are ''fully insured'' would be identified, as well as balances that are subject to withdrawal in the event of a specific change or trigger.
- Additional elements intended to capture risk associated with collateral, such as:
  - Potential requirements to post collateral in the event of an adverse move in the mark-to-market value of a firm's derivative portfolio or a change in a firm's financial condition is reported.
  - Collateral balances that are contractually owed to a counterparty, but not yet called.
- Additional fields capturing the settlement date cash flows in forward starting transactions to accommodate ''trade date'' reporting that is intended to allow for a more accurate representation of forward looking cash flows.
- Modifications to the reporting instructions for a transaction's maturity date for short term (less than one year) liabilities with call options, as well as certain transactions reported in the proposal's Secured Inflows table where the collateral received was rehypothecated.
- Required reporting of foreign exchange transactions, such as foreign exchange spot, forwards and futures, and swap transactions, in order to complement the currency level reporting of cash flows.

The proposed revisions to the FR 2052a report also include sections covering broad funding classifications by product, outstanding balance and purpose, segmented by maturity date.

Proposed Revisions to the FR 2052b

The Federal Reserve proposes to revise the FR 2052b reporting panel by eliminating the current monthly reporting frequency requirement. As proposed, U.S. BHCs not designated as G-SIBs by the FSB with at least $50 billion in total consolidated assets (including FBO subsidiaries) that currently file the monthly FR 2052b report would be required to move to the proposed FR 2052a monthly and daily reporting panel.

The FR 2052b would not change for non-FBO controlled U.S. BHCs with total consolidated assets between $10 billion and $50 billion, therefore the submission frequency, as-of date, and submission date would be the same as they are currently.

Proposed Reporting Panel and Submission Frequency

The following table contrasts the Federal Reserve's proposed scope of application, submission frequency, and submission dates with the current reporting requirements:

<table>
<tr><th colspan="7">Proposed changes to the scope of application, frequency, and submission dates</th></tr>
<tr><th>Report</th><th>Current respondents</th><th>Current submission frequency and data as-of date</th><th>Current submission date</th><th>Proposed respondents</th><th>Proposed submission frequency and first data as-of date</th><th>Proposed first submission date</th></tr>
<tr><td rowspan="7">**FR 2052a**</td><td>• U.S. BHCs designated as G-SIBs by the FSB</td><td>• Daily beginning September 11, 2014</td><td>• September 15, 2014</td><td rowspan="2">• U.S. chartered firms with total assets ≥ $700 billion or assets under custody ≥ $10 trillion
• FBOs with U.S. assets ≥ $50 billion and U.S. broker-dealer assets ≥ $100 billion</td><td>• Monthly beginning March 31, 2015</td><td>• April 2, 2015</td></tr>
<tr><td rowspan="6">• FBOs with U.S. broker-dealer assets > $100 billion</td><td rowspan="6">• Twice a month (FR 2052a abbreviated report) beginning September 11, 2014</td><td rowspan="6">• September 15, 2014</td><td>• Daily beginning July 1, 2015</td><td>• July 3, 2015</td></tr>
<tr><td rowspan="2">• U.S. chartered firms with total assets < $700 billion and with assets under custody < $10 trillion but, total assets ≥ $250 billion or foreign exposure ≥ $10 billion</td><td>• Monthly beginning July 31, 2015</td><td>• August 2, 2015</td></tr>
<tr><td>• Daily beginning July 1, 2016</td><td>• July 3, 2016</td></tr>
<tr><td>• U.S. chartered firms with total assets ≥ $50 billion but, total assets < $250 billion and foreign exposure < $10 billion</td><td>• Monthly beginning January 31, 2016[5]</td><td>• February 2, 2016</td></tr>
<tr><td rowspan="2">• FBOs with U.S. assets ≥ $50 billion and U.S. broker-dealer assets < $100 billion</td><td>• Monthly beginning January 31, 2016</td><td>• February 2, 2016</td></tr>
<tr><td>• Monthly beginning July 31, 2016[6]</td><td>• August 2, 2016[7]</td></tr>
</table>

[5] The Federal Reserve states that the frequency of the FR 2052a monthly report may be temporarily adjusted to daily on a case-by-case basis as market conditions and supervisory needs change to carry out effective continuous liquidity monitoring, although the Federal Reserve anticipates these adjustments to be rare occurrences.
[6] The Federal Reserve states that these FBOs would be required to have the ability to report on each business day. If the FBO consolidates a U.S. chartered firm that would independently have to report daily, then the FBO would be required to report daily. The Federal Reserve also states that it would test these FBOs for their ability to report daily.
[7] Ibid.

Proposed changes to the scope of application, frequency, and submission dates						
Report	Current respondents	Current submission frequency and data as-of date	Current submission date	Proposed respondents	Proposed submission frequency and first data as-of date	Proposed first submission date
FR 2052b	• U.S. BHCs (excluding G–SIBs) with total consolidated assets > $50 billion (including FBO subsidiaries	• Monthly beginning November 30, 2014	• December 15, 2014	• U.S. BHCs not controlled by FBOs with total consolidated assets ≥ $10 billion but ≤ $50 billion	• Quarterly beginning December 31, 2014	• January 15, 2015
	• U.S. BHCs not controlled by FBOs with total consolidated assets ≥ $10 billion but ≤ $50 billion	• Quarterly beginning December 31, 2014	• January 15, 2015			

Confidential Treatment of Information and Interagency Consultation

Under Exemption 8 of the Freedom of Information Act, the individual financial institution information provided by each respondent would be accorded confidential treatment. In addition, the Federal Reserve states that it consulted with other U.S. regulatory authorities, including the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, in the development of the FR 2052a.

Commentary

The proposed FR 2052a will likely become the de facto reporting template for the LCR, as the planned changes would both align the panel's definitions with those of the LCR and provide some clarification on certain key terms that will be used to calculate the ratio, such as the distinction between credit- and liquidity-based facilities. As proposed, credit facilities would refer to contractual agreements to extend funds that are requested at a future date and would include general working capital facilities such as revolving credit facilities for general corporate or working capital purposes. Liquidity facilities would refer to contractual agreements to extend funds to a counterparty made for the purposes of refinancing the counterparty's debt when it is otherwise unable to obtain funding. However, reporting entities would need to classify a facility that has both credit and liquidity characteristics as a liquidity facility.

Facilities that provide funding to certain counterparties, such as, for instance, hedge funds, money market funds, special purpose funding vehicles, or other vehicles used to finance the banks' own assets where the vehicles' assets and liabilities are not otherwise consolidated and independently represented with the reporting entity, would also need to be captured in their entirety as a liquidity facility to other legal entities.

It is estimated that as many as fifteen BHCs currently required to report monthly under the FR 2052b panel would likely become monthly and daily reporters under the proposed FR 2052a by the end of 2015. Their reporting under this panel would also need to be submitted to the Federal Reserve no later than 12:00pm Eastern Standard Time each business day using an as-of date that is no more than two business days prior to the submission date. In addition to addressing operational challenges related to this increased reporting frequency and the significantly expanded data capture requirements of the proposed FR 2052a panel, many of these entities will likely need to enhance their platforms and programming capabilities to accommodate the infrastructure needed for the data collection's proposed move from a spreadsheet-based submission to XML.

Certain open questions still remain that will likely need clarification under the Federal Reserve's issuance of the final FR 2052 information collection activities. For instance, clarification on the treatment of municipal bonds under the LCR will need to be provided to reporters in the near term. In addition, as the proposal does not provide direction on how the Federal Reserve will be mapping the FR 2052a data fields to the LCR for its calculation, it appears that banks will be expected to undertake this exercise on their own. Since this will likely require some interpretation, there is a risk that a bank's calculation of the LCR could vary from the Federal Reserve's calculation. Lastly, future proposed rulemakings related to public disclosure of the LCR, the U.S. implementation of the Net Stable Funding Ratio international standard (see *KPMG Regulatory Practice Letter 14-20*), and intraday liquidity monitoring will also need to be addressed at later date.

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