

Client Alert

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Federal Reserve Proposes Revisions to Form FR Y-7Q to Incorporate Capital Adequacy Standard Reporting Requirements for Foreign Banking Organizations with More than \$50 Billion in Total Consolidated Assets

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On Monday, April 4, 2016, the Board of Governors of the Federal Reserve System (“Federal Reserve”) proposed a revision to Form FR Y-7Q to incorporate the capital adequacy standard reporting requirements for foreign banking organizations (“FBOs”) in Subparts N and O of Regulation YY. Some new reporting items will be effective when FBOs file their September 30 FR Y-7Q later this year.

Section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 established new requirements for all large global banks that operate in the United States. On February 18, 2014, the Federal Reserve approved amendments to Regulation YY to implement certain enhanced prudential standards for FBOs and impose new reporting requirements. Some of the new reporting requirements, including the risk committee and stress testing certification requirements, were addressed in a recent proposal to revise Form FR Y-7.¹

Regulation YY requires FBOs with total consolidated assets of more than \$50 billion to certify that they meet capital adequacy standards on a consolidated basis consistent with the regulatory capital framework published by the Basel Committee on Banking Supervision, as amended from time to time (the “**Basel Capital Framework**”).² Such FBOs must provide reports to the Federal Reserve, concurrent with filing Form FR Y-7Q, relating to their compliance with these standards and the Federal Reserve will use the information from the report to determine whether the standards have been met. FBOs subject to these rules must comply beginning on July 1, 2016.³

The proposed revisions to Form FR Y-7Q⁴ would provide a means for FBOs to comply with the capital reporting requirements under Regulation YY. The proposal would add Part 1B to Form FR Y-7Q which would contain

¹ 80 Fed. Reg. 75457, available at <https://www.gpo.gov/fdsys/pkg/FR-2015-12-02/pdf/2015-30538.pdf>. Form FR Y-7 differs from Form FR Y-7Q in that it collects financial statements, organizational structure information, shares and shareholding information, and data on the eligibility of the FBO to be a qualified FBO under Regulation K.

² 12 C.F.R. §§ 252.143, 252.154.

³ If an FBO does not comply with these requirements, the Federal Reserve may impose restrictions on its U.S. activities or business operations, including risk-based or leverage capital requirements, even if the FBO is not already subject to such requirements. 12 C.F.R. § 252.143(c); see also 12 C.F.R. §§ 252.154(c).

⁴ Form FR Y-7Q is a quarterly or annual report that collects consolidated regulatory capital information. All FBOs engaged in banking in the United States through a subsidiary bank, Edge or agreement corporation, subsidiary commercial lending company, or a branch or agency must file Form FR Y-7Q.

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fourteen new data items.⁵ Eleven of the proposed data items would be effective on September 30, 2016. Three additional proposed data items would be effective on March 31, 2018.

Proposed Data Items Effective September 30, 2016:

1. Common equity tier 1 capital
2. Additional tier 1 capital
3. Tier 1 capital (sum of items 1 and 2)
4. Tier 2 capital
5. Total risk-based capital (sum of items 3 and 4)
6. Capital conservation buffer
7. Countercyclical capital buffer
8. Other applicable capital buffer(s)
 - a. GSIB/DSIB buffer⁶
 - b. Pillar II buffer
 - c. "Other" buffer
9. Compliance with restrictions on capital distributions and discretionary bonus payments associated with a capital buffer

Proposed Data Items Effective March 31, 2018:

10. Home-country capital measure used in the numerator of the leverage ratio as set forth in the Basel Capital Framework
11. Home-country exposure measure used in the denominator of the leverage ratio as set forth in the Basel Capital Framework
12. Minimum home country leverage ratio (if different from the leverage ratio in the Basel Capital Framework, as applicable)

The value of these data items will be calculated according to methodologies established by the FBO's home-country supervisor that are consistent with the Basel Capital Framework. If the FBO's home-country supervisor has not established capital adequacy standards consistent with the Basel Capital Framework, the value of these data items will be calculated on a pro-forma basis as if the FBO were subject to such standards.

Part 1 of the current Form FR Y-7Q collects the following information: tier 1 capital; total risk-based capital; risk-weighted assets; total consolidated assets; total combined assets of U.S. operations net of intercompany balances and transactions between U.S. domiciled affiliates, branches and agencies; and total non-branch assets. The proposal will not change Part 1, except to rename it "Part 1A" and to amend the instructions to clarify

⁵ For a description of the proposed data items (listed below), see Basel III: A global regulatory framework for more resilient banks and banking systems, available at: <http://www.bis.org/publ/bcbs189.pdf>.

⁶ A "GSIB" is a company that has been designated as a global systemically important banking organization. A "DSIB" is a company that has been designated as a domestic systemically important banking organization.

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that an FBO would be required to report tier 1 capital and total risk-based capital only on Part 1B if the FBO's home-country methodologies are consistent with the Basel Capital Framework.

The instructions would also be amended to clarify the reporting frequency. FBOs that have less than \$50 billion in total consolidated assets and have not elected to become financial holding companies ("FHCs") will only file Part 1A on an annual basis. Such FBOs that have elected to become FHCs will file Part 1A on a quarterly basis. All FBOs with total consolidated assets of \$50 billion or more would complete both Parts 1A and 1B on a quarterly basis.

Comments on the proposal are due on June 3, 2016. The OMB Supporting Statement and *Federal Register* notice are available here: <http://www.federalreserve.gov/apps/reportforms/review.aspx>. There is no draft of the proposed form or instructions immediately available on the Federal Reserve website.

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