

**FEDERAL RESERVE BANK
OF NEW YORK**

AT CIR No. 9899
July 25, 1985

**BANK HOLDING COMPANY
REPORTING REQUIREMENTS
Proposals To Revise Certain Reports**

*To All Bank Holding Companies
in the Second Federal Reserve District:*

The Board of Governors of the Federal Reserve System has requested comment on a proposal to revise (1) the Annual Report of Bank Holding Companies (FR Y-6), (2) the Bank Holding Company Financial Supplement (FR Y-9), and (3) the Bank Holding Company Financial Statements (FR 2352). Comments on FR Y-9 and FR 2352 must be received by August 7, 1985; comments on FR Y-6 must be received by September 5, 1985.

Printed on the following pages is the text of the proposals, reprinted from the *Federal Register* of July 9, 1985. Comments or questions may be directed to Donald Schmid, Manager of our Bank Analysis Department (Tel. No. 212-791-6611).

LEON KOROLOW,
Assistant Vice President.

[Docket No. R-0548]

Proposed Bank Holding Company Reporting Requirements

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Agency Forms Under Review.

Background

On June 15, 1984, the Office of Management and Budget (OMB) delegated to the Board of Governors of the Federal Reserve System (Board) its approval authority under the Paperwork Reduction Act of 1980, as per 5 CFR 1320.9, "to approve of and assign OMB control numbers to collection of information requests and requirements conducted or sponsored by the Board under conditions set forth in 5 CFR 1320.9." Board-approved collections of information will be incorporated into the official OMB inventory of currently approved collections of information. A copy of the SF 83 and supporting statement and the approved collection of information instrument(s) will be placed into OMB's public docket files. The following proposal, which is being handled under this delegated authority and in accordance with 5 CFR 1320.12, has received initial Board approval and is hereby published for comment. At the end of the comment period, the proposed information collection, along with an analysis of comments and recommendations received, will be submitted to the Board for final approval under OMB delegated authority.

DATES: Comments on the revisions to the FR Y-9 and the FR 2352 must be received by August 7, 1985. The Board will receive comments on the revisions to the FR Y-6, including the nonbank financial data and the Quarterly Report of Bank Holding Company Changes, and the new Combined Financial Statement of Nonbank Subsidiaries for an additional 30 days, until September 5, 1985.

ADDRESSES: Comments should be sent to Mr. William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW., Washington, D.C. 20551, or delivered to Room B-2223 between 8:45 a.m. and 5:15 p.m., Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW., Washington, D.C. 20551. Comments should reference both the Docket No. R-0548 and the OMB number of the information collection. Comments received may be inspected in room

B-1122 between 8:45 a.m. and 5:15 p.m., except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information, 12 CFR 261.6(a).

A copy of the comments may also be submitted to the OMB Desk Officer for the Board: Robert Neal, Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 3208, Washington, D.C. 20503.

FOR FURTHER INFORMATION CONTACT: Stephen Lovette, Supervisory Financial Analyst, Division of Banking Supervision and Regulation (202/452-3622), Louella Moreno, Supervisory Financial Analyst, Division of Banking Supervision and Regulation (202/452-2723), or Arleen Lustig, Senior Financial Analyst, Division of Banking Supervision and Regulation (202/452-2987).

A copy of the proposed form, the request for clearance (SF83), supporting statement, transmittal letter, and other documents that will be placed into OMB's public docket files once approved may be requested from the Federal Reserve Board Clearance Officer—Cynthia Glassman—Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202-452-3829).

Proposal To Approve Under OMB Delegated Authority the Extension With Revision of the Following Reports:

1. Report title: Bank Holding Company Financial Supplement.
Agency form number: FR Y-9
OMB Docket number: 7100-0128
Frequency: quarterly
Reporters: Bank Holding Companies
Small businesses are not affected.

This information collection is mandatory (12 U.S.C. 1844) and is not given confidential treatment.

2. Report title: Banking Holding Company Financial Statements.
Agency form number: FR 2352
OMB Docket number: 7100-0210
Frequency: semiannually
Reporters: Bank Holding Companies
Small businesses are affected.

This information collection is mandatory (12 U.S.C. 1844) and is not given confidential treatment.

3. Report title: Annual Report of Bank Holding Companies.
Agency form number: FR Y-6
OMB Docket number: 7100-0124
Frequency: quarterly, annually
Reporters: Bank Holding Companies
Small businesses are affected.

This information collection is mandatory (12 U.S.C. 1844) and is not given confidential treatment.

General description of reports: The Board of Governors of the Federal Reserve System is submitting for public comment a proposed revision of the reporting requirements for bank holding companies. The existing requirements are contained in the Annual Report of Bank Holding Companies, FR Y-6, (OMB No. 7100-0124), the Bank Holding Company Financial Supplement, FR Y-9, (OMB No. 7100-0128), and the Bank Holding Company Financial Statements, FR 2352 (OMB No. 7100-0210). The reports are authorized by section 5(c) of the Bank Holding Company Act of 1956 (12 U.S.C. 1844), and section 225.5(b) of Regulation Y (12 CFR 225.5(b)). The proposed revisions are designed to obtain data crucial for supervisory purposes, to provide the needed information on a more frequent basis and to simplify the reporting structure contained in the existing holding company reports.

SUPPLEMENTARY INFORMATION: Under the Bank Holding Company Act of 1956, as amended, the Federal Reserve is responsible for the supervision and regulation of all bank holding companies. In Regulation Y, the Board has stated that it looks to the holding company to provide financial and managerial strength to its subsidiary bank(s). Bank holding companies are currently required by the Board to submit the Bank Holding Company Financial Supplement (FR Y-9) and the Annual Report for Domestic Bank Holding Companies (FR Y-6) pursuant to Section 5(c) of the Bank Holding Company Act and § 225.5(b) of Regulation Y.

The FR Y-6 is the primary source for much of the financial and structural data on individual bank holding companies, their bank and nonbank subsidiaries, and other regulated investments. The FR Y-6 consists of a number of separate parts satisfying different requirements for financial information on various segments of the bank holding company organization and for other supervisory and regulatory information. The parts of the FR Y-6 include: free-form financial statements for the consolidated company and parent only (Form 10-K filed with the Securities and Exchange Commission satisfies this requirement); free-form financial statements for nonbank subsidiaries; fixed-form data on the structure of the holding companies' investments in bank and

nonbank subsidiaries; fixed-form data on selected financial items of the nonbank subsidiaries; and the reporting of the names of officers, directors, and shareholders, and their percentage ownership of the holding company and its subsidiaries. All bank holding companies are required to submit the FR Y-6 report annually. This information assists the Federal Reserve in monitoring the holding company's operations, ensuring that the operations are conducted in a safe and sound manner that protects the depositors of the subsidiary bank(s), and determining holding company compliance with the prohibitions of the Bank Holding Company Act and Regulation Y (12 CFR Part 225).

The FR Y-9 is the primary source of systematic and consistent financial information both on the consolidated holding company and on the parent only. This information is critical for the Federal Reserve System's bank holding company surveillance program which involves the on-going monitoring of the financial condition of holding companies between on-site inspections. The FR Y-9 data provide standardized information for the purpose of generating periodic bank holding company surveillance screens and Bank Holding Company Performance Reports which are similar to the Uniform Bank Performance Reports for insured commercial banks prepared by the Federal Financial Institutions Examination Council. Bank Holding Company Performance Reports are available to holding companies and should assist them in comparing certain aspects of their performance and operations with those of their peers. Bank Holding Company Performance Reports are also available to the public upon request.

Historically, the FR Y-9 report has provided financial information on the consolidated holding company and the parent only similar to that obtained from the Reports of Condition and Income filed by commercial banks. Currently, holding companies with assets of less than \$50 million are not required to file the FR Y-9; those with assets between \$50 and \$100 million file annually the parent only statement; those with assets of between \$100 and \$300 million file annually both the parent only and the consolidated statements; and those with assets over \$300 million file the parent only and the consolidated statements on a semiannual basis.

The financial information from the FR Y-9, as well as ratios developed from it, is used in the detection of emerging

financial problems, in the analysis of a bank holding company's financial condition and performance, in the performance of pre-inspection analyses, and in the evaluation of bank holding company mergers and acquisitions.

In addition to the current regular collection of the FR Y-9 data, the Board, on April 26, 1985, approved two bank holding company reports for a onetime collection of information as of June 30, 1985. One of these reports is a supplemental "slip-sheet" to the existing consolidated statements in the FR Y-9 to obtain information required to help assess capital adequacy and provide data on past due, nonaccrual, and renegotiated loans and leases. The other, FR 2352 (OMB No. 7100-0210), Bank Holding Company Financial Statements, Collects parent company only data from bank holding companies that have total consolidated assets of less than \$150 million. Previously, these data have not been collected on the FR Y-9 from bank holding companies with less than \$50 million in assets.

Proposal

Revision of the FR Y-9

Under the proposal issued for comment by the Board, bank holding companies with total consolidated assets of \$150 million or more would file, on a quarterly basis, revised fixed-format reports, presently entitled the FR Y-9, on both a consolidated and parent company only basis. All multibank holding companies (i.e., those owning or controlling more than one bank) regardless of size would also file the FR Y-9 quarterly on a consolidated and parent company only basis. The FR Y-9 would be required to be completed as of the end of March, June, September, and December and the reports would be submitted to the appropriate Federal Reserve Bank within 45 days after the date of the report. It is proposed that the FR Y-9 reports be implemented beginning with the December 31, 1985 report date.

Under the present reporting requirements, three types of bank holding companies are exempted from filing the FR Y-9. These are bank holding companies that are subsidiaries of another bank holding company; bank holding companies which have been granted a hardship exemption by the Board under section 4(d) of the Bank Holding Company Act; and foreign banking organizations as defined by § 211.23(b) of Regulation K, (12 CFR 211.23(b)), for example, foreign banks that own U.S. banks.

Under the proposal, the Board would require all bank holding companies that are subsidiaries of another bank holding company to file the *parent only portion* of the FR Y-9 or the FR 2352, as appropriate. This is proposed because the number of these companies is increasing, and many of these so-called "multitiered" bank holding companies often have significant debt at the various holding company levels or tiers. In addition, many bank holding companies that have made interstate acquisitions have maintained the acquired bank holding company (and its liabilities) as a separate legal entity. Also, in connection with a change in ownership of small bank holding companies, new holding companies often acquire an existing holding company. The bank holding company that acquires the existing institution often maintains this institution as a separate corporate entity. These transactions can result in acquisition debt outstanding in both the acquiring and acquired holding company. The parent company only statement for all bank holding companies has been modified to obtain specific memoranda items from these "tiered" companies.

The Board proposes that one-bank holding companies with total consolidated assets of less than \$150 million would file a fixed-format abbreviated parent company only balance sheet and income statement. This report would use the same report form, FR 2352, as that approved for June 30, 1985 with the exception of the addition of certain memoranda items applicable only to tiered bank holding companies. This report would be required on a *semiannual* basis as of the end of June and December, and would be filed with the appropriate Federal Reserve Bank within 45 days after the date of the report. Bank holding companies with less than \$150 million in consolidated assets that own more than one bank would be required, under the proposal, to file quarterly the more comprehensive FR Y-9 report that is filed by companies with assets in excess of \$150 million. This latter report contains both consolidated and parent company only financial statements.

In summary, the proposal would revise the existing reporting requirements for the FR Y-9 and the FR 2352 in the following ways:

(1) All bank holding companies, regardless of size, with two or more banks would file quarterly a FR Y-9 including both a consolidated statement and a parent only statement.

(2) One-bank bank holding companies

with total assets under \$50 million would begin reporting semiannually on an abbreviated parent only basis (the same as the report filed for June 30, 1985).

(3) One-bank bank holding companies with total assets between \$50 and \$100 million would continue reporting on a parent only basis but semiannually, rather than annually, and on an abbreviated form as compared to their current more extensive form.

(4) One-bank bank holding companies with total assets between \$100 and \$150 million would continue filing on a parent only basis, but semiannually, rather than annually, and on an abbreviated basis as compared to their current more extensive form. These bank holding companies would be relieved from filing the consolidated statements.

(5) For tiered bank holding companies, each bank holding company that is a subsidiary of another would be required to submit the appropriate *parent company only* statement, either the FR Y-9 or the FR 2352, with additional memoranda items. The present requirement for submission of consolidated data by *only the top tier* would be unchanged.

(6) For bank holding companies with total consolidated assets of \$150 million or more, the consolidated reporting requirements would be revised to incorporate new information (some of which was collected in June on the "slip sheet" to the FR Y-9) on past due nonaccrual and renegotiated loans, on the components of primary and secondary capital, on off-balance sheet activities, on customer domicile (i.e., foreign or U.S.), and on average balances. The reporting frequency would also be increased to quarterly under the proposal. The reporting requirements for holding companies in excess of \$150 million in consolidated assets would also be applied to *multibank* holding companies of all sizes. Currently, bank holding companies with total assets over \$300 million file both consolidated and parent only statements semiannually, while bank holding companies with total consolidated assets of between \$100 and \$300 million file on an annual basis. In addition to these changes, both the reporting format and the instructions for the FR Y-9 consolidated statements would be revised to conform, in general, to those of the new commercial bank call report. In particular, it should be noted that, while bank holding companies are generally required to submit financial statements to the Board in accordance with generally accepted

accounting principles (GAAP), in a few specific instances the required reporting treatment for certain transactions would differ from GAAP.

Key points and issues relating to these revised requirements are discussed in more detail in the following sections.

New Data From Large Bank Holding Companies

The revised FR Y-9 consolidated report would require new data from banking holding companies that have consolidated assets of \$150 million or more and from all multibank holding companies. These requirements include information on primary and secondary capital; past due, nonaccrual and renegotiated loans; off-balance sheet activities; average balances for certain account categories; interest sensitivity of certain assets and liabilities; certain foreign activities broken down primarily by the domicile of the borrower; and the reconciliation of equity capital accounts. Some of these data are being collected on a slip-sheet to the FR Y-9 for June. All of the new data are consistent with information that is being collected for banks. The proposal does not, however, attempt to collect for holding companies all of the information and detail required of commercial banks such as, for example, Schedule RC-J of the bank call report on interest rate sensitivity.

Information on Capital

The added data on primary and secondary capital, and the information relating to mandatory convertible securities, are essential for permitting the Federal Reserve to monitor the compliance of bank holding companies with its Capital Adequacy Guidelines program set forth in Appendix A to Regulation Y (12 CFR Part 225). The provisions, structure and content of the Board's guidelines program establish the content and format of this information requirement. Recent revisions to the Board's capital guidelines program have considerably reduced the amount of information that would have otherwise have been required in connection with secondary capital components.

Nonperforming Loans

The proposed data on so-called nonperforming loans by type of loan are requested on a consolidated basis. This information is already being collected for banks and is an essential element in determining the condition of the consolidated bank holding company. Collection of this information from bank holding companies will reduce the likelihood that the volume of past due,

nonaccrual, and negotiated loans in holding company affiliates other than the bank will escape supervisory review and evaluation.

Off-Balance Sheet Items

There has been an increasing tendency among some bank holding companies, as well as banks, to remove risk-taking activities off the balance sheet. For this reason, the Board is requesting from bank holding companies data on off-balance sheet items that are identical to what is currently being reported by commercial banks. These data are necessary to monitor the consolidated holding company's off-balance sheet activities which can have a significant effect on the organization's performance and overall safety and soundness. While the Board believes information on off-balance sheet activities is critical, it requests specific comments on this aspect of the proposal; in particular, on how best to obtain adequate and timely information on and assess the risks of off-balance sheet activities.

Average Balances

The proposal includes the requirement of the submission of certain average balances. These average balance data would be used in the calculation of financial ratios for the purpose of measuring yields on assets and investments and the cost of liabilities. Such ratios are essential elements in the evaluation of the operations of bank holding companies. The calculation of these ratios based solely on period-end balances could be distorted due to seasonality, normal growth or shrinkage, or temporary adjustments of "window dressing" of financial statements. By utilizing average balances, financial ratios will be significantly more accurate and analytically meaningful. The Securities and Exchange Commission, under Guide 3, requires bank holding companies to submit average balance sheet data in significant detail, and the commercial bank call report requires average balance sheet data from banks. Only a small number of averages are included in the proposal but there is some interest in expanding the list. With respect to the request for average balance sheet data from bank holding companies, the Board requests comments on the burden of providing the averages, particularly from bank holding companies that are not registered with the Securities and Exchange Commission and those with

significant foreign and nonbanking activities.

Information on Customer Domicile (Foreign vs. Domestic)

The revised FR Y-9 would require certain aggregate customer balance information to be broken down by foreign versus domestic domicile in order to determine the extent of foreign activity on a consolidated basis. Because some banking organizations are shifting some of their foreign activities from the bank to the holding company and because of the additional need to measure aggregate foreign exposure of the holding company, it is necessary to collect at least a minimum amount of consolidated and nonbank information on foreign-domiciled customers. The foreign information that is being requested is generally consistent with the domicile information requested in the call report for banks with foreign operations and with SEC reporting requirements.

Information on Interest Sensitivity

The proposal also incorporates requirements for certain limited data on the maturity of variable rate and fixed rate assets and liabilities in order to assess the interest rate sensitivity of the bank holding company. The proposed information of this type is not as detailed as that required from commercial banks. The Board requests comment on this aspect of the proposal.

Deposit Detail

The proposal seeks to obtain deposit liability data from all of the bank holding company's depository subsidiaries. As the types of deposit accounts that these institutions can offer are changing, the Board seeks specific comments on this aspect of the proposal.

Nonbank Activities

The proposed consolidated balance sheet and income statements do not require separate reporting of certain specific asset or liability accounts associated with various types of nonbanking activities, such as account receivables and payable customers of discount brokerage services and other activities that have not been traditionally associated with commercial banking. However, as described below, information on nonbank activities is proposed for separate reports. The Board requests comment on whether any specific nonbank detail should be incorporated into the consolidated financial report of bank holding companies or whether it

should be collected in an alternative form.

Departures From GAAP

In general, it is the policy of the Federal Reserve in specifying the details of instructions for reporting requirements to follow generally accepted accounting principles (GAAP) whenever possible and provided there do not exist specific regulatory needs for particular pieces of information on another basis. However, because of the special supervisory, regulatory, and economic policy needs served by these bank holding company reports, the Board is proposing that the reporting treatment to be specified in the instructions depart from GAAP with respect to a very limited number of items. Among such items are the sale of loans with recourse, in-substance defeasance, and risk participations in bankers acceptance.

The Board believes that the manner in which these particular items are reported in the FR Y-9 should be consistent with the risks associated with the underlying transactions and with the essential regulatory and supervisory purposes to be served by the reports. In particular, the reporting treatment of these transactions, and the effect of their treatment on total assets, will have significant implications for the calculations of capital ratios and for monitoring the compliance of bank holding companies with the Federal Reserve's Capital Adequacy Guidelines. The Board believes that these considerations require some specific limited departures from GAAP—departures that parallel the reporting treatment specified by the bank call reports—in order to ensure that the financial statements submitted to the Federal Reserve properly reflect the risk characteristics inherent in a bank holding company's operations. In addition, certain departures from GAAP that some bank holding company submissions to SEC are incorporating (in particular, the netting of cash items in process of collection or of deposit "float") would be explicitly prohibited in the FR Y-9 report.

The changes proposed in the FR Y-9 will conform accounts of the bank holding company's consolidated financial statements and their definitions to those of the consolidated reports (call reports) filed by the subsidiary commercial banks with the bank supervisory agencies. Making the reporting requirements for the consolidated FR Y-9 and for subsidiary banks consistent in this way will obviate the need for holding companies

to report subsidiary banks' data on one basis in the commercial bank call report and on another basis in the consolidated FR Y-9.

Abbreviated Parent Company Only Statement for Small Bank Holding Companies

Numerous developments over the last several years have combined to create a need for periodic standardized data on small bank holding companies (i.e., those under \$50 million in total consolidated assets), which heretofore have been exempt from filing the FR Y-9 type information (except for the one-time collection of data in June 1985 on Form FR 2352). Many of these holding companies are characterized by high levels of debt that have had, in numerous instances, a significant impact on the condition of their subsidiary banks. The leverage in these companies results, in part, from bank acquisition debt assumed in the formation of the bank holding company. This leverage and the resulting debt service requirements, in combination with the deterioration in the asset quality and earnings of some bank subsidiaries, underscore the necessity of obtaining additional information from small bank holding companies.

The Board believes that the current absence of standardized data on the financial condition of these companies creates an information gap in the conduct of its supervisory responsibilities. Similarly, the other federal banking regulators have expressed their need for minimal standardized information on these small institutions. The proposed establishment of a minimum level of standardized reporting requirements for bank holding companies with consolidated assets below \$50 million would greatly enhance the effectiveness of the Federal Reserve's bank holding company supervision.

The information proposed for semiannual collection is identical to that to be reported for June (FR 2352) except for the addition of certain items to be required of bank holding companies in tiered holding company structures.

Revision to the Existing Requirements Currently Contained in the FR Y-6

The current FR Y-6 is filed annually by most bank holding companies.¹ The

¹ Certain foreign-domiciled bank holding companies and foreign banking organizations that are "qualified foreign banking organization," as defined in § 211.23(b) of Regulation K, file the Annual Report of Foreign Banking Organization, FR Y-7, and the Confidential Report of Operations, Form FR 2068, instead of the FR Y-6.

FR Y-6 encompasses a combination of many different requirements taking different forms, requiring different processing procedures, and satisfying differing supervisory and regulatory needs. The current FR F-6 requires bank holding companies to submit:

(1) Free-form consolidated and parent only financial statements for the bank holding company. (The required submission in the FR Y-6 of a copy of Form 10-K prepared for the Securities and Exchange Commission satisfies this requirement.) One-bank holding companies that have less than \$100 million in assets do not have to submit the consolidated statements.

(2) Free-form financial statements for nonbank subsidiaries. (These statements may consolidate indirect subsidiaries.)

(3) Fixed-loan structural and financial data on the reporting company's investments in bank and nonbank subsidiaries and other regulated investments (on Schedules A, B, C, and D of the current FR Y-6).

(4) The names and percentage ownership of the shareholders, officers, and directors of the bank holding company and the nonbank subsidiaries; and the outside business interests of these individuals.

(5) Details on insider lending by the bank holding company.

Finally under the current requirements, bank holding companies that have consolidated banking assets of \$100 million or more are required to have their consolidated financial statements, as submitted in response to item (1) above in the FR Y-6, certified by an independent public accountant.

The revisions to the FR Y-6 proposed by the Board are designed to rationalize the reporting and processing of this information by breaking the combined report down into its separate components. In particular, the proposed revisions to the requirements contained in the current FR Y-6 would divide the existing report into separate reports. These revisions simplify, reduce the burden associated with, and speed the collection of fixed form financial information on nonbank subsidiaries and of data on holding company structure that are presently collected in the FR Y-6.

It is proposed to make the following changes in the current FR Y-6:

(1) Separate into another report, for processing purposes, the *standardized* nonbank financial and structure data from the nonstandardized FR Y-6 information. Under the proposal, bank holding companies would continue to submit selected financial information on

each individual nonbank subsidiary that is currently collected on page 3 of Schedule A in the FR Y-6. However, these data would be submitted as a separate report under the proposal. The fixed-form selected financial data on nonbanking subsidiaries would be collected annually as of December 31 and would be submitted to the appropriate Reserve Bank within 45 days after the date of the report. (In addition, the Board proposes to collect combined financial statements on aggregate nonbanking subsidiaries from certain bank holding companies. This proposal is discussed below.)

(2) The current reporting of *complete* structure information for all of the bank holding companies's subsidiaries and other regulated investments each year would be replaced by a separate report to be filed only for those quarterly periods in which the holding company acquired sold, or liquidated its investments or commenced or terminated the conduct of a nonbank activity. Under the proposal, therefore, bank holding companies would submit data quarterly on only those changes in investments or ownership that represent a modification of structure information previously submitted to the Federal Reserve rather than, as at present, reporting the entire holding company structure annually. This information would be collected on a new Bank Holding Company Quarterly Report of Changes. As indicated, this report on changes in the bank holding company's investments and activities would be event-generated—bank holding companies would submit the report to the appropriate Federal Reserve Bank within 30 days after the end of any quarter in which a change occurred. This would significantly reduce the amount of detailed information that is required of all bank holding companies annually in the FR Y-6 concerning the structure of the holding company and its investments in subsidiaries, both bank and nonbank. This change would also represent a significant reduction in burden for those holding companies that own or control a large number of nonbank subsidiaries and/or investments.

(3) The proposed revision would also raise the asset threshold above which holding companies are required by the FR Y-6 to submit financial statements that are certified by an independent public accountant. In addition, the assets criteria would be changed from total banking assets of the subsidiary banks to total consolidated bank

holding company assets. Currently, holding companies with consolidated *banking* assets over \$100 million must comply with this certification requirement. Under the proposal, however, all bank holding companies having total *bank holding company* consolidated assets exceeding \$150 million would be required to submit certified financial statements. This revision would eliminate the certification requirement and reduce the burden on bank holding companies that have consolidated assets of between \$100 and \$150 million. Currently, companies having banking assets of less than \$100 million are not required to submit certified statements and, under the proposal, these small companies would continue to be exempted from the certification requirement.

The FR Y-6 as modified would continue to be collected annually as of the end of the bank holding company's fiscal year. This report would be submitted to the appropriate Reserve Bank within 3 months after the date of the report.

Combined Nonbank Subsidiary Financial Statements

The Federal Reserve, as the primary supervisor of bank holding companies and their nonbanking subsidiaries, has important responsibilities to monitor the risks of nonbanking activities and the potential effect of new nonbanking activities on the safety and soundness of the financial system. The Board has long held that the condition of bank subsidiaries cannot be totally insulated from the fate of their nonbank affiliates. Moreover, experience has shown that significant funding, earnings or asset problems in the nonbank subsidiaries can adversely affect the consolidated holding company and the affiliated bank(s). Consequently, a principal focus of the holding company supervisory effort is to determine the volume, nature and condition of nonbank activities and their potential impact on affiliated commercial banks. Nonbank activities have grown rapidly over the years, and as banking organizations become involved in a broader range of activities, it is essential that sufficient information be collected to monitor the potential impact of the nonbank activities on the affiliated banks.

In light of these considerations, the Board is proposing to collect from certain bank holding companies a new report in which the bank holding company would report financial information for its nonbank subsidiaries

on a combined basis. At the present time, the Board collects a few items on a fixed-format basis from each individual nonbank subsidiary of bank holding companies in the FR Y-6. As discussed in the previous section, the Board proposes to continue to collect this information, although in a report separate from the FR Y-6.

The proposed new nonbank information is needed in order to monitor more effectively the risk assets and profitability of the nonbank subsidiaries and the capitalization and leverage of the nonbank subsidiaries in comparison to industry norms, prudential guidelines or regulatory standards. Data derived exclusively from consolidated and parent holding company financial statements are not sufficient to monitor the nonbank affiliates since the consolidated statements do not address the nonbank affiliates explicitly, and the relative size of the banking assets could obscure the operating results of nonbank subsidiaries in the consolidated statements until the problems of the nonbank activities have reached a critical level. The proposed additional information on nonbank affiliates would assist the Federal Reserve in identifying early any problems in the nonbank area before the problems are so large as to have significantly adverse affect on the consolidated organization and the bank affiliate(s). The proposal issued for public comment by the Board, therefore, seeks to collect essential and more timely data on combined nonbank activities to monitor potential risks and their effects on the consolidated holding company.

The Board is proposing to collect quarterly financial data on combined nonbank subsidiaries from bank holding companies with total consolidated assets of \$1 billion or more and from those holding companies between \$150 million and \$1 billion that have material nonbanking activities. All smaller bank holding companies (i.e., those with total consolidated assets of less than \$150 million) would be exempted from reporting such information.

The proposal issued for comment by the Board would collect the following financial information on nonbank subsidiaries from bank holding companies:

(1) A quarterly report on the aggregation of nonbank activities within the bank holding company. This report, entitled the Combined Financial Statement of Nonbank Subsidiaries of Bank Holding Companies, would be

submitted: (a) by bank holding companies with total consolidated assets of \$1 billion or more; (b) by bank holding companies with total consolidated assets of between \$150 million and \$1 billion that meet one or more of the following conditions: (i) The assets of the holding company's nonbank subsidiaries make up 5 percent or more of total consolidated assets, (ii) net income of the holding company's nonbank subsidiaries make up 5 percent or more of the holding company's total consolidated net income, (iii) the holding company's investments in and/or loans and advances to nonbank subsidiaries exceed 5 percent of the holding company's total consolidated equity capital. The 5 percent materiality criteria are proposed as a level at which the nonbank subsidiaries' operations could have a significant impact on the consolidated holding company's operations.

(2) An annual supplement to the quarterly report, which would break down the aggregate nonbank information by type of nonbank activity. This report would be submitted each December by the same bank holding companies submitting the quarterly report discussed in the previous paragraph. It is proposed that the detail by type of nonbank activity be reported on a functional basis, where the holding company would be required to allocate, for reporting purposes, the nonbank assets, liabilities, income and expenses by certain specified lines of business (e.g., securities brokerage, underwriting and dealing in government obligations and money market instruments, or futures commission merchant) regardless of the corporate structure of the nonbank activities. Alternatively, the detail could be based on the combining of individual nonbank companies classified by the primary business activity of the legal entity. The Board specifically requests public comment on the relative burdens imposed by each of these approaches.

Taken together, the proposed changes in the current FR Y-6 and the FR Y-9 report systems are designed to:

(1) Simplify and reduce, where appropriate, the burden associated with completing the FR Y-6 holding company annual report;

(2) make the FR Y-9 holding company reports conform to the line items of the revised Report of Condition and Income filed by commercial banks, and incorporate the information on capital and nonperforming loans requested on the June slip-sheet into the revised FR

Y-9 report;

(3) obtain from bank holding companies that have consolidated assets of \$150 million or more certain new information—including data on average balances, customer domicile, off-balance sheet activity, and interest sensitivity—that is essential for supervisory purposes and that has recently been required of commercial banks by the Federal Financial Institutions Examination Council;

(4) increase to quarterly the frequency of reporting on the fixed-format FR Y-9 financial statements for bank holding companies with consolidated assets over \$150 million;

(5) institute the semiannual collection of the FR 2352 report for bank holding companies that have total consolidated assets of less than \$150 million;

(6) obtain adequate nonbank data from holding companies; and

(7) increase the asset cut-off pertaining to the requirement for the submission of certified financial statements by bank holding companies to \$150 million in consolidated holding company assets from \$100 million in total banking assets.

Implementation Dates

The Board believes that the implementation of the complete proposal is crucial to strengthening the supervision and regulation of bank holding companies. However, the revisions to the FR Y-9 and the implementation of the FR 2352 on a regular basis have the highest priority and are proposed for implementation as of December 1985. The simplification of the FR Y-6 would also be implemented for the December 1985 report. The remaining portions of the proposal—the new quarterly structure report and the new combined nonbank financial reports—would be implemented for reporting as of March 1986. Since this latter report constitutes a new reporting requirement, the later implementation date is intended to provide greater lead time to prospective filers and to avoid undue burden for the December reporting period.

Commenters are asked to address not only the general characteristics of the proposed reports, but also the specific items requested, the treatment of the items, and any reasonable alternatives for obtaining the information in a less burdensome fashion.

Other Issues

In addition, the Board requests comments on the treatment of the

reports with respect to requests for confidentiality. Under existing procedures, all the information in the FR Y-6 and the FR Y-9 submitted to the Board is available to the public on request unless the bank holding company has requested confidential treatment and has demonstrated to the Board that disclosure of certain commercial or financial information would likely result in substantial harm to its competitive position or to the competitive position of its subsidiaries, or that disclosure of submitted information is of a personal nature that would result in a clearly unwarranted invasion of personal privacy. The Board has under consideration a proposal to make available to the public, upon request, all submissions of the FR Y-9 consolidated statements. The Board would propose to continue the current procedure with respect to the confidentiality of the parent company only and the nonbank financial statements.

The Board also seeks comments on a

proposed new requirement to have three directors of the bank holding company attest to the correctness of the proposed reports as submitted to the Board. Currently, the reports require only the signature of a single official of the bank holding company. The Board believes that the proposed new requirement is consistent with the responsibilities of the directors to ensure that supervisory reports are accurate and is consistent with the responsibilities of the directors to be fully informed of the company's financial condition.

Regulatory Flexibility Act

The Board certifies that the proposed revision of the FR Y-6 reporting requirements is not expected to have a significant economic impact on a substantial number of small entities within the meaning of the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*). The proposed revision of the FR Y-9 reporting requirements, including the FR 2352, will require small bank holding

companies, those with assets of less than \$50 million, to provide certain parent company only information on a semiannual basis that was not previously required to be provided. The information that would be collected in the FR Y-9 is essential for the detection of emerging financial problems, the analysis of a bank holding company's financial condition and performance, the performance of pre-inspection analyses and the evaluation of bank holding company mergers and acquisitions. The imposition of these new standardized requirements is essential for the Board to supervise adequately the safety and soundness of small bank holding companies as required by the Bank Holding Company Act.

Board of Governors of the Federal Reserve System, July 3, 1985.

William W. Wiles,
Secretary of the Board.
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