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Frequently Asked Questions: Implementation of Regulation YY Enhanced Prudential Standards for Foreign Banking Organizations

Updated: June 26, 2014

The frequently asked questions (FAQs) below are based on questions received by Board staff during an industry outreach call and other questions the Federal Reserve has received from foreign banking organizations (FBOs). For ease of reference, the questions have been grouped into categories: [implementation plan](#), [U.S. structure](#), [regulatory reporting](#), [capital adequacy](#), [capital stress testing](#), [risk management](#), [liquidity](#), and [other](#). Additional categories may be added as these FAQs are updated.

These FAQs are not official interpretations of the Board of Governors. These FAQs illustrate how select provisions of the regulation apply to specific situations. However, they do not necessarily address all provisions that may apply to any given situation. Board staff may supplement or revise these FAQs as necessary or appropriate in light of further questions and experience. These FAQs do not address the applicability of any other Federal or state laws.

General

1. How should FBOs direct questions on the enhanced prudential standards to the Federal Reserve?

FBOs should submit questions on the enhanced prudential standards to the FBO-Enhanced-Prudential-Standards-Implementation@frb.gov mailbox (the "mailbox") for a response. Questions and other materials submitted through the mailbox will be disseminated to the appropriate reviewers within the Federal Reserve System, including the relevant supervisory staff. If needed, meetings may be scheduled to discuss submitted questions and materials in more detail. Staff will respond in writing to the particular institution through the mailbox and may publish questions and responses of a general nature in future FAQ documents.

The mailbox is only for use by supervised financial institutions. It is not for use by external consultants and counsel.

Implementation Plan

2. Does the Federal Reserve intend to issue further guidance on the implementation plan beyond the specifications in the final rule?

Board staff will respond to specific questions submitted by firms and may issue future FAQs. However, Board staff does not anticipate issuing further instructions regarding the content of the plan.

3. What is the recommended scope and level of detail of the implementation plan?

In its implementation plan, an FBO should assess the extent to which it is currently in compliance with the structural, capital, risk management, and liquidity requirements that come into effect on July 1, 2016; describe the actions that the FBO must take to come into compliance and provide a timeline for such actions; identify any obstacles or impediments that may affect the FBO's ability to come into compliance, and discuss how the FBO plans to address those obstacles/impediments. For example, an FBO should:

- discuss plans for the accretion, transfer, or raising of capital, if necessary to come into compliance with the final rule's requirements;
- discuss plans to address any liquidity shortfalls, which may include actions to lengthen the term of third-party funding or of intra-company loans or plans for the FBO to contribute highly liquid assets to its U.S. operations;
- discuss plans for development of management information systems (MIS) that can aggregate risk metrics across the combined U.S. operations, such as liquidity data; and
- describe the projected structure, roles, and responsibilities of the U.S. risk committee, including how that risk committee will interact with the larger global operations and how the firm will avoid potential conflicts of interest.

4. What format should FBOs use to provide pro-forma quarterly financial statements?

The Federal Reserve has not required a specific format for submitting pro-forma financial statements. Board staff would encourage FBOs to use the Consolidated Financial Statements for Holding Companies ([ER Y-9C](#)) regulatory report format and instructions as a guide for preparing the pro-forma financial statements. However, firms may use their own format to submit pro-forma financial statements.

5. For the implementation plan, what length is considered appropriate?

Board staff does not have a view on the appropriate length of a plan other than that the plan should include detail that is sufficient to allow Board staff to assess whether it is reasonable and achievable. The length of the plan will vary among firms, depending on several factors. Those factors include the structural and legal complexity of the FBO's combined U.S. operations, the number of exemption requests, the extent to which the FBO must take actions to come into compliance with the final rule, and the number of obstacles that the FBO faces related to compliance with the final rule.

FBOs should consider providing an executive summary for those areas of the plan that require a lengthy discussion and providing supporting documents and exhibits in order to facilitate review of the plan. Following an FBO's submission of the implementation plan, Board staff will review the FBO's implementation project plans through the normal supervisory process to ensure that FBOs are progressing toward full compliance.

6. What time period should the quarterly pro-forma financial statements cover?

Board staff would prefer for financial data to begin December 31, 2014 and end December 31, 2017.

7. What forecasting scenarios should FBOs use to prepare the pro-forma financial statements?

The forecast should be a realistic forecast of the balance sheet and income statements under expected conditions, using conservative assumptions. The forecast should not be a post-stress analysis.

8. Do high quality liquid assets under the Board's proposed liquidity coverage ratio (proposed U.S. LCR as will it be finalized) qualify as highly liquid assets for purposes of the liquidity buffer? Will it be sufficient for an FBO to describe the assets it intends to hold in its buffer in the implementation plan (with any relevant haircuts) or is there another process for demonstrating the appropriateness of additional highly liquid assets?

As noted in the preamble, the Board anticipates that high-quality liquid assets under the proposed U.S. LCR would generally be liquid under most scenarios. However, firms are required by the final rule to demonstrate to the Board that inclusion of particular assets in the firm's buffer are:

- o appropriate in light of the liquidity risk profile of the firm;
- o meet the diversification requirement; and
- o have appropriate haircuts.

Assets that are not eligible for inclusion in the numerator of the LCR, but have low market or credit risk may be eligible for inclusion in the liquidity buffer required under Regulation YY. A summary of the firm's analysis of the assets included in its liquidity buffer should be included in the firm's implementation plan.

9. Can the Federal Reserve provide additional guidance on the level of description of risk-management practices that should be included in the implementation plan?

The plan should include a description of the proposed structure of the risk committee for the FBO's combined U.S. operations and the intermediate holding company (IHC) risk committee, a description of the proposed placement and responsibilities of the U.S. chief risk officer (CRO), and a description of how the FBO will come into compliance with the risk management requirements in the final rule.

10. Does the Federal Reserve expect FBOs to discuss contemplated transfers of assets to branches or among subsidiaries in the implementation plan?

Material asset transfers between a U.S. branch and subsidiaries should be included in the plan. All asset transfers would need to be in compliance with sections 23A and 23B of the Federal Reserve Act and the Board's Regulation W.

While the final rule does not prohibit asset transfers between U.S. subsidiaries and U.S. branches, in the open Board meeting, Board staff noted that the Federal Reserve would monitor material shifts of assets from subsidiaries to branches through the supervisory process and would take appropriate supervisory action to address safety and soundness concerns.

11. What level of detail regarding capital stress testing should be included in the implementation plan?

The plan must address any need to develop the MIS, staff, and governance/oversight framework necessary to comply with the capital plan rule and the stress testing rule. Aspects to consider include the IHC's ability to:

- o accurately complete the Capital Assessments and Stress Testing (FR Y-14A, Q, M) regulatory reports;
- o accurately calculate current consolidated capital positions; and
- o forecast losses and revenues under baseline and stress scenarios to produce reliable estimates of future capital needs.

12. Can requests for multiple U.S. IHCs or alternative organizational structures be included in the implementation plan?

No. The implementation plan is not the appropriate vehicle for making formal requests for exemptions from the single IHC requirement. Those requests should be submitted separately to the [mailbox](#). However, the firm should note any exemption request in its implementation plan.

13. Can other requests for exemptions under the rule, such as a request to maintain subsidiaries outside of the U.S. IHC or to establish alternative U.S. CRO reporting lines, be included in the implementation plan?

No, a firm requesting an exemption from the final rule should submit its request to the [mailbox](#) separately from its implementation plan. However, the firm should note any exemption request in its implementation plan.

14. Should the FBO assume that exemptions requested in the implementation plan, such as requests to maintain individual subsidiaries outside of the IHC, are granted when presenting timelines, plans and pro-forma financial statements?

The plan should not assume that exemptions are granted.

15. Should the FBO assume that exemption requests for multiple U.S. IHCs or alternative organizational structures are granted when preparing the implementation plan?

Generally, Board staff expects that an FBO would submit an implementation plan that is consistent with the requirements of the final rule, including the requirement to form a single IHC, unless the FBO receives formal, written approval of an alternative structure from the Board. An FBO that plans to seek approval of an alternative organizational structure that would materially affect its implementation plan should seek guidance from Board staff as to whether the FBO should *also* reflect this alternative organizational structure in its implementation plan.

16. Does an FBO have to resubmit the implementation plan in the event of a material change?

The implementation plan is designed to permit the Federal Reserve to evaluate whether the FBO is on a path towards compliance with the final rule by July 1, 2016. If there is a material change that would affect the firm's ability to be in compliance by that date, an FBO is expected to revise its plan to reflect the material changes. A "material change" would be an event that would materially affect the path towards compliance, such as a sizeable

merger or acquisition transaction, sale or wind-down of major business lines or assets, or a material restatement of financial reports. Changes made to the plan after the January 1, 2015 deadline should be submitted to the [mailbox](#) with an explanatory note. Board staff will endeavor to incorporate changes in the analysis of the plan made after that date but cannot guarantee that revisions received after the submission deadline will be reflected in our initial feedback on the plans.

17. Under what circumstances would the Federal Reserve entertain requests for extensions of the deadline for filing implementation plans?

All firms are expected to meet the filing timelines set forth in Regulation YY. If a bank is unclear about the requirements for the implementation plan, it should seek clarification via the [mailbox](#).

U.S. Structure

18. How should an FBO calculate total combined U.S. assets?

Total combined U.S. assets should be calculated using the definition for line item 6 of the Capital and Asset Report for Foreign Banking Organizations ([FR Y-7Q](#)) reporting form.

19. What accounting rule does an FBO apply in order to determine what assets should be consolidated?

As instructed in line item 6 of the Capital and Asset Report for Foreign Banking Organizations ([FR Y-7Q](#)) reporting form, the determination of whether an affiliate of an FBO should be consolidated should be made in accordance with instructions for the Consolidated Financial Statements for Bank Holding Companies ([FR Y-9C](#)) reporting form. Further, the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) reporting form requires that the form be prepared in accordance with U.S. generally accepted accounting principles. These principles apply to both operational and non-operational U.S. companies.

20. How should an FBO calculate total U.S. IHC assets (referred to in Regulation YY as "U.S. non-branch assets")?

Total U.S. non-branch assets should be calculated using the definition for line item 7 of the [proposed revised](#) Capital and Asset Report for Foreign Banking Organizations ([FR Y-7Q](#)) reporting form.

21. If an asset-backed commercial paper (ABCP) conduit is incorporated in the U.S. but is 100 percent owned and managed by the parent company, should it be included in total assets even if the FBO does not have to form a U.S. IHC?

As described in the preamble to the final rule, the final rule requires an FBO to hold its ownership interest in ABCP conduits that are "U.S. subsidiaries" under its IHC. The ABCP conduit would be a U.S. subsidiary, regardless of whether it is owned or managed by a branch or a foreign affiliate, and enhanced prudential standards that apply to the FBO's U.S. subsidiaries would apply to such an ABCP conduit. Under Regulation YY, U.S. non-branch assets include the consolidated assets of each top-tier U.S. subsidiary of the foreign banking organization.

22. Do all bank holding company (BHC) requirements immediately apply to the IHC if the FBO designates an existing BHC as the IHC? If an FBO designates an existing BHC as the IHC, can it take advantage of the transition periods set forth in Regulation YY?

If an FBO designates an existing BHC as its U.S. IHC, that U.S. IHC would continue to be subject to the leverage ratio, the capital plan rule, or the Dodd-Frank Act (DFA) stress testing requirements, and would not be able to take advantage of any transition periods under Regulation YY. If and when an FBO moves a subsidiary into the existing BHC, the leverage ratio applied to that BHC would be calculated on the basis of the assets of the BHC, including the assets of the new subsidiary, and stress tests should account for the integration of the new subsidiary's assets into the BHC.

23. If an FBO has U.S. non-branch assets of less than \$50 billion but decides to establish an IHC voluntarily, would the FBO be subject to all of the IHC regulatory requirements?

An FBO that does not meet the asset threshold (as measured under the rule) for establishing a U.S. IHC but elects to form an "intermediate" holding company would not be subject to the regulatory requirements imposed on a "U.S. IHC" under Regulation YY.

If the "intermediate" holding company were also a BHC, it would be subject to any regulatory requirements applicable to a U.S. BHC of that size.

Regulatory Reporting

24. Is the IHC (after formation) subject to U.S. BHC regulatory reporting requirements?

It is expected that the IHC generally will be subject to the same regulatory reports as a BHC. These reporting forms are available on our public [website](#).

25. Will the FRB clarify when IHCs will be required to submit the FR Y-14M and FR Y-14Q reports when it publishes the final rule in the Federal Register?

Board staff is in the process of developing a notice that would set forth the initial reporting period for all IHC required regulatory reports, including the Capital Assessments and Stress Testing (FR Y-14) reporting form series.

26. What is the timing of future proposed revisions to the regulatory reports to implement the changes required by the rule such as certification of a U.S. risk management committee and components of home country capital adequacy measures?

Board staff is in the process of developing changes to regulatory reports for proposal which would include new line items in reporting forms such as the Capital and Asset Report for Foreign Banking Organizations (FR Y-7Q) and the Annual Report of Foreign Banking Organizations (FR Y-7) reporting forms to collect information required in the rule.

Capital Adequacy

27. Certain foreign-owned U.S. BHCs are currently complying with mandatory advanced approaches risk-based capital requirements and are on parallel run. Does the final rule exempt those U.S. BHCs from

the advanced approaches risk-based capital requirements as of July 1, 2016 or as of January 1, 2018?

Section 252.153(e)(2)(i)(C) of Regulation YY provides that a BHC that is subject to the advanced approaches risk-based capital rules and that is a subsidiary of an FBO that is subject to the requirement to form a U.S. IHC may, with the prior written approval of the Board, elect not to comply with the advanced approaches risk-based capital rules. A BHC may make this election at any time.

28. What is the process for a firm to request to opt out of the advanced approaches risk-based capital rules? What type of information would be required to assist the Federal Reserve in assessing such a request and reaching a determination?

Firms should submit a written request to the [mailbox](#) that provides a rationale as to why they are requesting to opt out of the advanced approaches risk-based capital rules. Useful information would include a description of the burdens attendant for such firms in complying with the advanced approaches risk-based capital rules, such as the development and maintenance of multiple models, if applicable.

29. What leverage capital requirements apply to the IHC and when are they effective?

Under sections 252.153(e)(1)(ii)(B) and 252.153(e)(2)(i) of Regulation YY, beginning January 1, 2018, all IHCs will be subject to the generally-applicable minimum leverage ratio of 4 percent. In addition, IHCs with total consolidated assets of \$250 billion or more or on-balance sheet foreign exposure equal to \$10 billion or more will be required to meet a minimum supplementary leverage ratio of 3 percent.

30. If an FBO expects that its IHC would be required to seek approval from the Federal Reserve for a model used to calculate its regulatory capital requirements, how should it request such approval?

Models required under subpart F (Risk-Weighted Assets – Market Risk) of Regulation Q must be approved by the Federal Reserve prior to use in calculating market-risk-weighted capital. Because an IHC must come into compliance with Regulation Q, models should be submitted as soon as possible in order to receive approval. If an IHC opts into the advanced approaches risk-based capital rules, the IHC should contact the Federal Reserve early in order to address expectations for the parallel run process. Requests should be submitted to the on-site supervisory team.

Capital Stress Testing

31. When are the first capital plan and DFA stress testing requirements applicable?

Under the Board's capital plan rule, the IHC will be required to file its first capital plan in January 2017. Under section 252.153(e)(1)(ii)(C) of Regulation YY, in January 2018, the IHC will be subject to the DFA stress testing rule, the supervisory stress testing requirement, and an additional mid-cycle company-run stress testing requirement.

32. How does the 2017 capital plan and stress testing requirement differ from those applicable in 2018 and onward?

Under the Board's capital plan rule, an IHC required to be formed by July 1, 2016, will submit its first capital plan in January 2017. Under the capital plan rule, it will be required to conduct stress tests under any scenarios provided by the Federal Reserve and under at least one stress scenario developed by the company.

In that initial year, the IHC will not be subject to the Board's DFA stress testing rule and will not be subject to the Federal Reserve's supervisory stress test and will not have to disclose the results of any company-run stress test. Under section 252.153(e)(1)(ii)(C) of Regulation YY, in October 2017, the IHC will be subject to the DFA stress testing rule, including supervisory stress tests and the annual and mid-cycle company run stress testing requirement under the DFA stress test rules.

33. When will the supplementary leverage ratio be treated as a minimum capital requirement in the context of CCAR?

The supplementary leverage ratio goes into effect on January 1, 2018. The capital plan rule requires a company to project its capital levels using the capital rules that would be in effect during each quarter of the planning horizon. Thus, where applicable, IHCs should expect that they will have to meet a 3 percent supplementary leverage ratio on a post-stress basis during the later quarters of the planning horizon covered by their first capital plan in 2017.

34. What are the stress-testing requirements for U.S. branches and agencies?

Capital stress-testing requirements for the U.S. branch and agency network apply at the consolidated level. Under Regulation YY, by July 1, 2016, an FBO with a U.S. branch or agency with \$10 billion or more in global consolidated assets must be subject to an annual consolidated capital stress testing regime administered by the FBO's home-country supervisor and meet the home-country supervisor's minimum standards. (12 C.F.R. §§ 252.122; 252.146; 252.158) In addition, an FBO with combined U.S. assets of \$50 billion or more must report certain information to the Board regarding the results of that stress test. (12 C.F.R. § 252.158)

FBOs that do not meet these stress testing requirements are subject to an asset maintenance requirement and must conduct an annual stress test of any U.S. subsidiaries and report the results to the Board. (12 C.F.R. §§ 252.122; 252.146; 252.158) Additionally, the Board may subject FBOs with \$50 billion or more in combined U.S. assets that do not meet these stress requirements to intragroup funding restrictions and liquidity requirements. (12 C.F.R. § 252.158)

35. If the FBO's home country does not have a stress testing regime, the stress testing regime does not meet U.S. minimum standards, or the FBO does not comply with applicable home country's stress test requirements, does the FBO have the flexibility to conduct the required stress test of all U.S. subsidiaries not held under the IHC from the head office or a U.S. branch or subsidiary?

An FBO that is not required to establish an IHC and does not meet the minimum stress test requirements in its home country may be required to conduct a stress test of its U.S. subsidiaries. Stress tests of U.S. subsidiaries may be conducted from the head office or any U.S. entity. (12 C.F.R. §§ 252.122; 252.146; 252.158)

36. According to the instruction for form FR Y-14Q, new reporters must submit historical data for the pre-provision net revenue (PPNR) report template as well as the retail schedules. Is this applicable to IHCs given that retrieving historical data may be difficult?

The Federal Reserve has not finalized reporting requirements for IHCs to support the supervisory stress test. However, IHCs should consider preserving information required to be reported on the Capital Assessments and Stress Testing (FR Y-14) reporting form with a data history, such as PPNR report, to the extent that preserving

this information may reduce the burden of providing such information in the future.

Risk Management

37. **Can the U.S. CRO of an FBO oversee non-U.S. entities such as the Americas region?**
Although the final rule does not prevent a U.S. CRO from overseeing non-U.S. entities, the U.S. CRO is expected to be primarily focused on the risk-management oversight of the FBO's combined U.S. operations. Risk-management oversight obligations that would prevent the U.S. CRO from devoting adequate attention to the combined U.S. operations or would present conflicts of interest would not be consistent with the final rule.
38. **How does an FBO certify that it has established a U.S. risk committee?**
The certification must be filed on an annual basis concurrently with the Annual Report of Foreign Banking Organizations reporting form (FR Y-7).
39. **Is there an expectation that the CRO will have the authority to direct remediation of risk-management deficiencies or can there be a structure in which the risk management deficiencies are addressed through the entity's risk structure with oversight and concurrence by the U.S. CRO?**
The CRO for combined U.S. operations has responsibility for remediating risk management issues in the United States and that responsibility should not be delegated to or dependent on others in the global organization. However, the CRO may consult with or receive assistance from others in the global organization in carrying out such remediation.
40. **How does an FBO comply with section 252.155(a)(2)(ii)(B) of Regulation YY, which requires an FBO to develop "[p]rocesses and systems for establishing managerial and employee responsibility for risk management of the combined U.S. operations"?**
For management and employees with risk-management responsibility, the types of actions required under this provision include, establishing clear roles and responsibilities, setting up appropriate incentive structures, and ensuring proper accountability. These processes and systems must be commensurate with the size, structure, business, and risks of the entity.
41. **In section 252.155(b)(2)(A through C) of Regulation YY, how is the U.S. CRO expected to execute the responsibilities of oversight? Specifically in part (C), how is "testing of such risk controls" defined?**
Effective risk management includes confirming that control measures are functioning as intended, for instance, periodic review and testing. Such review and testing should confirm that control measures are aligned with the risk and materiality of practices, portfolios, and exposures they are intended to address.

Liquidity

42. **The rule states that, for calculation of the net external stressed cash-flow need, the FBO can calculate its stressed-cash flow based on the result of stress testing with an appropriate assumption of run-off and haircuts. What is the appropriate treatment of a U.S. branch that procures funds by repo transactions from external parties that mature within a 14 day period? May the branch assume the roll-over of repo transactions with stress assumptions (i.e. larger haircut, partial roll-over, etc.) or must the branch assume 100 percent outflow of cash (i.e. no roll-over), but count returned (i.e. released or unencumbered) collateral as liquid assets?**
If firms are able to rehypothecate collateral they hold that has been pledged to them to secure a loan (but have not done so), and if the collateral meets the definition of a highly liquid asset, the collateral may qualify as a highly liquid asset with appropriate haircuts. Appropriate haircuts and calculations of inflows and outflows would depend on the specific terms of the reverse repo transaction. Inflows related to secured loans can be considered in the measurement of net cash need, but the firm should also consider the stress scenario and reputational factors to determine if it would continue to renew and make new loans.

The rule does not specifically prescribe an outflow rate for secured transactions. It is acceptable for firms to assume differentiated outflows dependent on the underlying collateral supporting the secured borrow.
43. **Can the IHC liquidity buffer be held on the balance sheet of the IHC or any subsidiary, so long as the liquidity stress testing process takes into account restrictions on transfers of liquidity within the IHC's consolidated organization?**
Within the IHC structure, the liquidity buffer requirement is consolidated, so qualifying buffer assets at any entity within the IHC structure could count toward the consolidated requirement.

A firm's comprehensive internal liquidity stress testing should take into account restrictions relating to the movement of liquidity across legal entities or jurisdictions that may occur within a stress scenario. In general, sound liquidity risk management relies on liquidity that is readily available to meet outflows in a time of stress. To the extent a firm intends to hold a material amount of buffer assets in a U.S. legal entity that creates impediments to covering expected outflows from other U.S. legal entities in a stress event, the firm should be able to articulate why such an arrangement is appropriate from a liquidity risk management standpoint, and should include a description of their reasoning in their implementation plan.
44. **The preamble to the rule indicates that the Board is likely to implement the LCR framework for FBOs via future rulemaking. Are any requirements imposed on either the IHC or the branches of FBOs?**
Board staff does not have additional information regarding possible future rulemakings. The Board has not issued a proposal for the implementation of the Basel LCR liquidity standard for IHCs.
45. **In producing the comprehensive cash flow projections for its U.S. operations, will an FBO be required to consolidate cash flows of entities subject to Regulation W, such as banks, with cash flows of entities not subject to Regulation W?**
Yes. As set forth in section 252.156(d) of Regulation YY, an FBO must produce comprehensive cash-flow projections for its combined U.S. operations. The comprehensive cash flow projections must include the cash flows of all entities included in the combined U.S. operations, regardless of whether the entities are subject to Regulation W.
46. **What is the meaning of independent when requiring an independent review of the liquidity stress-**

testing process?

The independent review must be independent from the business line executing the funding for the combined U.S. operations of the FBO. Depending on the complexity of the organization, it may be possible for the independent review to be conducted by an independent audit function, an independent function within the bank that does not report to the treasury function, or an independent third party.

47. **How would the liquidity stress testing and monitoring apply to Cayman branches?**
The final rule's liquidity stress testing and monitoring apply only to the combined U.S. operations of an FBO. The Cayman branch is not considered part of the combined U.S. operations of an FBO. However, that stress test should be reflective of any inflows or outflows the combined U.S. operations have from or to the Cayman branch.
48. **Can a branch use foreign government debt held in a custody account at the foreign branch of a U.S. bank in its liquidity buffer? For instance, can a branch count non-U.S. government bonds that are held in the branch's name for its liquidity buffer?**
Yes, a U.S. branch may use foreign government debt held at a U.S. bank custody account at one of the custody bank's foreign branches in its liquidity buffer, assuming the bonds meet the highly liquid asset definition and the branch has the ability to liquidate that debt in a stress scenario. To the extent a firm intends to hold a material amount of buffer assets in an account subject to restrictions relating to the movement of liquidity across legal entities or jurisdictions, the firm should discuss in its implementation plan its ability to monetize the assets during a stress scenario. The preamble also notes that currency risk is one of the factors that should be considered when assessing haircuts associated with foreign bonds.
49. **Under section 252.156(g)(1) of Regulation YY, the FBO must report its pledged collateral positions. Can the Federal Reserve clarify what level of detail is required, in particular whether the report must be done on gross pledged collateral, net pledged collateral, or both?**
The report of pledged collateral positions should show the overall collateral position and provide management a good understanding of the position. If a firm can adequately demonstrate that it can satisfy this expectation by reporting net pledged collateral positions, then it may be able to satisfy the requirements of the rule.
50. **What are the reporting requirements for intraday liquidity and collateral management?**
An FBO with combined U.S. assets of \$50 billion or more must establish and maintain procedures for monitoring liquidity risk, including: calculation of all of the collateral positions for its combined U.S. operations on a weekly basis; monitoring the levels of unencumbered assets available to be pledged by legal entity, jurisdiction, and currency exposure; and monitoring and measuring expected daily inflows and outflows. The types of systems that are developed will be dependent on the size and complexity of the institution as well as on the size of the institution's intraday funding requirements.
51. **What considerations should an FBO take into account in designing the three liquidity scenarios?**
The FBO must comprehensively consider funding and off-balance sheet exposures that could create funding needs in a stressed environment. The FBO should have three distinct stress tests: a scenario reflecting adverse market conditions, a scenario reflecting an idiosyncratic stress event for the bank, and combined scenario reflecting both an idiosyncratic market stress event. The stress needs to be sufficiently dynamic to incorporate changes in the covered company's on balance sheet and off-balance sheet activities, funding profile, portfolio composition, asset quality, operating environment, and business strategy. The stress tests should look beyond assumptions based only on historic data, and incorporate new events and potential stressed scenarios.
52. **What are the Board's expectations regarding the requirement in section 252.156(f)(2) of Regulation YY to set liquidity risk limits? Is there an expectation that the limits used to manage liquidity are established by risk management?**
The expectation is that firms will set liquidity risk limits that are consistent with the established liquidity risk tolerance for the combined U.S. operations and reflect the capital structure, risk profile, complexity, activities, and size of the combined U.S. operations. The risk management function is not required to set those limits; however, the risk management and the independent review function must, at a minimum, review and assess compliance with such limits.
53. **If the CRO is a member of a group that reviews internal liquidity stress testing and assumptions, such as senior management or the asset-liability committee (ALCO), does this meet the rule requirement for CRO review? Or is the requirement for stand-alone review by the CRO?**
The rule requires that assumptions be approved by the CRO, who may be a member of senior management. However, the assumptions must be approved by the CRO in his or her capacity as CRO and not in any other capacity. While the CRO can be part of the ALCO, the CRO must approve of the assumptions in the liquidity stress testing, with such approval documented. Membership on a group that approves the assumptions does not meet the requirement.
54. **For the many points of oversight assigned to the CRO for liquidity risk management, is it sufficient to have the CRO fulfill the obligation of approval of stress test parameters, risk limits, new products, etc. through a governance committee, such as ALCO?**
Although the CRO may be part of the ALCO, the CRO's approval of the risk management policies required by Regulation YY must be documented. This obligation cannot be fulfilled by the approval of a senior management group that does not include a documented approval of the CRO.

Other

55. **Is there any guidance on resolution planning and the IHC timing rules?**
The resolution plan filings for FBOs that are required to establish an IHC are not affected by Regulation YY and remain governed by Regulation QQ.

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