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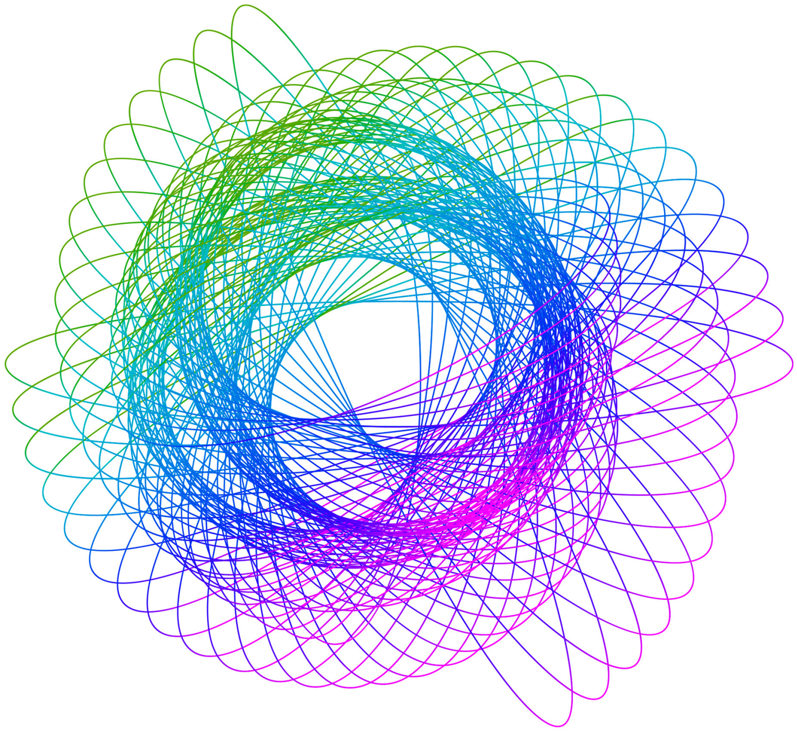

Federal Reserve proposes extensive updates to its Complex Liquidity Monitoring Report (FR 2052a)

April 22, 2021

Overview

On March 29, 2021, the Federal Reserve Board (FRB) issued a proposal to update the Complex Liquidity Monitoring Report (FR 2052a).[1] The FRB uses the 2052a to monitor banking organizations' liquidity profiles over $100 billion by collecting quantitative information on selected assets, liabilities, funding activities, and contingent liabilities. The proposed revisions include reporting instructions for the recently finalized Net Stable Funding Ratio[2] (NSFR) rule, modifications for the calculation of the Liquidity Coverage Ratio[3] (LCR) as well as updates for data requirements needed to comply with Liquidity Risk Measurement (LRM) Standards[4] by:

- Adding certain new data field definitions,(e.g., counterparty collateral);
- Adding new data categories and tables;
- Reclassifying existing data categories.

The proposal also includes changes for the:

- Revised definition of transaction accounts to align with the recent changes to Federal Reserve Regulation D; and
- Clarifications to instructions to address questions and issues raised by firms.

Of note is the explicit statement that the FRB could require that the data frequency increase for monthly filers.

The proposed implementation date is July 2021, and the comment period ends on May 28, 2021.

Expanded Scope & Product Detail

The proposed FR 2052a changes, if adopted, impose a significantly expanded reporting obligation for covered institutions in the following areas:

Area	Description	Impact
Balance Sheet	The proposed FR 2052a would require firms to report balance sheet data for the express purpose of supporting the construction of an accounting balance sheet from FR 2052a data. This development will require firms to report balance sheet items such as intangible assets, tax-deferred tax assets, carrying value adjustments, regulatory capital, and total loss absorbing capital (TLAC), among other balance sheet items.	Including balance sheet information requires connecting existing FR 2052a processes to ledger data as well as sources for regulatory capital and TLAC. Additional controls will be required to ensure alignment with values reported across reports (e.g., FR Y-14). These changes will require increased involvement from Finance, Compliance, and Technology divisions within the firm.
Derivatives and Collateral	The proposed change includes the addition of a table for reporting derivative and collateral information. The proposed table, "Supplemental-Derivatives & Collateral", will expand derivative and collateral reporting to include gross asset and liability values, cumulative payments delivered and received. The fair value of assets pledged concerning mutualized loss sharing commitments to central counterparties (CCPs). Existing derivative-related data will move from the current Supplemental Information table to this new table.	Firms will need to evaluate and identify data gaps relative to the proposed derivative and collateral reporting requirement. Data supply chains may need to expand or be enhanced to produce cumulative payments or identify and value assets encumbered by CCP commitments.
LCR and NSFR Reporting	The proposed addition of the "Supplemental-Liquidity Risk Measurement" table introduces requirements for firms subject to LCR and NSFR to report those ratios. All firms are required to report subsidiary liquidity and stable funding available and unavailable for transfer. This new table also requires reporting on liquidity outflow from early terminations of High-Quality Liquid Asset hedges, maturing structured debt, and stable funding for off-balance sheet rehypothecated assets. US firms and foreign banking organizations classified as Category IV with average weighted short-term wholesale funding of less than $50 billion have the option of not submitting products in the Supplemental-Liquidity Risk Measurement table.	The direct connection between the data in the FR 2052a and the LCR and NSFR ratios is a significant change. This development is intended to drive firms toward adopting a single process and common data sources as a more sustainable alternative to maintaining and controlling separate LCR, NSFR, and FR 2052a processes.

Operational Impact - Different Reporting Cadences for Balance Sheet and Liquidity

The proposed change introduces for the first-time additional reporting cycles and deadlines for specific tables. Category I, II, and III institutions and Category IV institutions with average weighted short-term wholesale funding (STWF)=> $50B would report the Supplemental- Balance Sheet and Supplemental-Liquidity Risk Management tables as of the last business date of the month on T+15 after the "as of date". Category IV institutions under the STWF limit would report as of the calendar quarter's last business date on T+15 post the "as-of" date.

These reporting cadences mean changes will be needed to execute additional reporting and control processes depending on the inclusion of balance and liquidity tables at month-/quarter-end. Firms using third-party reporting packages will need to know how their package will address the two cadences, and institutions with less automated processes will likely face challenges managing the individual entity's variation and consolidated submissions.

New and Revised Data Requirements

The proposal introduces new data elements related to the expanded scope and revises some existing features to refine or expand the data definitions.
The new elements discussed here will require sources that are unlikely to be part of current FR 2052a processes, necessitating revised data supply chains, enrichment processes, and controls.

The proposal significantly expands and clarifies fields definitions. This includes:

Area	Description	Impact
Business Line	The proposal requires all Category I banking organizations to identify the associated business line for all inflow and outflow tables. The instructions suggest coordinating with supervisory teams to determine representative values, so it is unclear what level of granularity will be required or how this requirement will work in practice.	Correctly slicing business lines for assets/liabilities in report production presents complex data challenges to manage daily. Firms will need to enhance data lineage or develop processes that help link aggregation points back to business lines.
Accounting Treatment	Firms must report whether an Unencumbered Asset is designated as available for sale, held-to-maturity, or trading.	Accounting treatment will require incorporating ledger/chart of account designations into the FR 2052a data supply.
Encumbrance Type	"Encumbrance Type" expands on the existing "Unencumbered" element by requiring firms to report the type of contract that the collateral is securing. This value will convey that the collateral is encumbered as part of a securities financing transaction, derivative variation margin, derivative initial margin and derivative-specific default fund contributions at CCPs and non-derivative initial margin and non-derivative default contributions.	Processes and applications supporting collateral management and/or stock records will need to be integrated into the FR 2052a process and will need to deliver specifics linking the encumbrance to the type of contract. Custodial data may be needed to support this reporting, introducing challenges related to third-party dependencies.

Area	Description	Impact
Maturity Optionality	This field conveys that the contract term sheet includes an option to extend the maturity beyond the original type. The prescribed values denote which party holds the option (reporting entity or counterparty) and whether it is to accelerate or extend.	The FR 2052a process will need to integrate term sheet data and enrich/map data to the FRB classifications. Term sheet attributes will have to be digitized for consumption by FR 2052a processes. Controls will be needed to ensure that the term sheet data is correctly captured and mapped to the reported transactions.
Counterparty	The update creates more granularity to counterparty types and exposures. The FRB clarified that firms must identify values that align to the specific legal entity for a given exposure instead of the ultimate global parent for most products. The exceptions noted were debt issuing special purpose entities (SPEs) and counterparties providing Liquidity Facilities, for whom filers will have to determine the ultimate global parent. Additional counterparty types and/or refined definitions have been added to more specifically define exposures for the following types of entities: • Pension Funds • Broker-Dealer • Investment Company or Advisor • Financial Market Utility • Other Supervised Non-Bank Entity • Non-Regulated Fund • Debt Issuing SPE (Global ultimate parent)	Similar to the challenges of complying with Single Counterparty Credit Limits (SCCL) and FR 2590, firms will need to marry multiple data sources and potentially establish new processes to ensure clean reference data for compiling counterparty exposures.

Industry Readiness and Challenges

Implementing the varied and voluminous number of changes proposed will likely be a significant effort for FR 2052a filers, regardless of whether they are daily or monthly filers. The immediate concern is the implementation date of July 2021. With the comment period not ending until late May, final requirements may not be available in time for firms to do the necessary analysis and make requisite technology changes to meet the deadline. Regardless of the implementation date, firms will need conduct a detailed analysis of their current FR 2052a mapping and associated processes to insure they conform with the new reporting requirements. Firms will also have to identify new data sources to meet the FR 2052a requirements. The expansion of data to a complete balance sheet view, calculating NSFR and LCR from FR 2052a data, will require firms to implement more controls, quality assurance, and reconciliation across data sets, reports, and business lines.

Conclusion

The breadth of the changes will require collaboration between the industry and regulators. It will be important for these stakeholders to conduct careful analysis to understand the impact of the revisions, including clarifications of existing items. The public comment period should be used identify gaps or need clarification for the Federal Reserve. Financial firms will need to integrate project management and data management capabilities to meet the short time window to implement these expected changes.

This point-of-view is part of an ongoing series to closely monitor how the regulators are responding to risks in financial markets. Like you, we will continue to follow developments in this area and issue additional updates and analyses on their potential implications.

End notes

1. 1Federal Register, Board of Governors of the Federal Reserve system propose updated 2052a
2. [2]Press Release, Final NSFR Rule
3. [3]Press Release, Final LCR Rule
4. [4]LRM standards are defined in the proposal as 12 CFR part 50 for national banks and Federal savings associations, Regulation WW or 12 CFR part 249 for Board regulated institutions and 12 CFR part 329 for FDIC supervised institutions.

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