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Notice

Supervisory Rating System for Financial Market Infrastructures

A Notice by the **Federal Reserve System** on **11/13/2015**

This document has a comment period that ends in 9 days (01/22/2016) **Submit a formal comment**

Action

Notice And Request For Comment.

Summary

Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") granted the Board of Governors of the Federal Reserve System ("Board") enhanced authority to supervise "financial market utilities" that are designated as systemically important by the Financial Stability Oversight Council (financial market utilities are defined to comprise a subset of the entities that, outside the United States, are generally called "financial market infrastructures" or "FMIs"). In addition, the Board may have direct supervisory authority over other FMIs subject to its jurisdiction. The Board and, under delegated authority, the Federal Reserve Banks (collectively, the "Federal

Reserve") propose to use the ORSOM (*O* rganization; *R* isk Management; *S* ettlement; *O* perational Risk and Information Technology (IT); and *M* arket Support, Access, and Transparency) rating system in reviews of FMIs. The Board is seeking comment on this system for rating FMIs. The Federal Reserve anticipates implementing the ORSOM rating system in 2016.

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DATES:

Comments must be received by January 22, 2016.

ADDRESSES:

When submitting comments, please consider submitting your comments by email or fax because paper mail in the Washington, DC area and at the Board may be subject to delay. You may submit comments, identified by Docket No. OP-1521, by any of the following methods:

- *Agency Web site: http://www.federalreserve.gov*. Follow the instructions for submitting comments at *http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm*.
- *Federal eRulemaking Portal: http://www.regulations.gov*. Follow the instructions for submitting comments.
- *Email: regs.comments@federalreserve.gov*. Include docket number in the subject line of the message.
- *Fax:* (202) 452-3819 or (202) 452-3102.
- *Mail:* Robert deV. Frierson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW., Washington, DC 20551.

All public comments are available from the Board's Web site at *http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm* as submitted, unless modified for technical reasons. Accordingly, comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper form in Room 3515, 1801 K Street NW. (between 18th and 19th Street NW.), Washington, DC 20006 between 9:00 a.m. and 5:00 p.m. on weekdays

FOR FURTHER INFORMATION CONTACT:

Stuart Sperry, Deputy Associate Director (202) 452-2832 or Kristopher Natoli, Sr. Financial Services Analyst (202) 452-3227, Division of Reserve Bank Operations and Payment Systems; Evan H. Winerman, Counsel (202) 872-7578, Legal Division; for users of Telecommunications Device for the Deaf (TDD) only, contact (202) 263-4869.

SUPPLEMENTARY INFORMATION:

Background

FMIs are multilateral systems that transfer, clear, settle, or record payments, securities, derivatives, or other financial transactions among participants or between participants and the FMI operator. FMIs include payment systems, central securities depositories ("CSDs"), securities settlement systems ("SSSs"), central counterparties ("CCPs"), and trade repositories ("TRs"). FMIs can strengthen the markets that they serve and play a critical role in fostering financial stability. If not properly managed, however, they can pose significant risks to the financial system and be a potential source of contagion, particularly in periods of market stress. For example, improperly managed FMIs can be sources of financial shocks or channels through which shocks are transmitted across domestic and international financial markets.

The Federal Reserve supervises certain FMIs that provide payment, clearing, and settlement services for critical U.S. financial markets. Specifically, under Title VIII of the Dodd-Frank Act, the Federal Reserve is the "Supervisory Agency" for certain "designated financial market utilities" ("DFMUs"). [1] These DFMUs are subject to risk-management standards set out in Regulation HH. [2] In addition, the Federal Reserve may have supervisory authority over FMIs that are operated by state member banks, Edge or agreement corporations, or bank holding companies. Furthermore, the Board supervises FMIs that are operated by the Federal Reserve Banks, such as the Fedwire Funds Service. [3] These latter two categories of FMIs are expected to meet the risk-management standards set out in the Board's Payment System Risk ("PSR") policy. [4] The risk management standards set out in both Regulation HH and the PSR policy are based on the Principles for Financial Market Infrastructures ("PFMI"). [5]

The ORSOM (*O* rganization; *R* isk Management; *S* ettlement; *O* perational Risk and IT; and *M* arket Support, Access, and Transparency) rating system is a supervisory tool that the Federal Reserve will use to provide a consistent internal framework for discussing FMI assessments across the Federal Reserve's FMI portfolio. The ORSOM rating system will be applied to DFMUs for which the Board is the Supervisory Agency pursuant to Title VIII, other DFMUs over which the Board has supervisory authority because they are members of the Federal Reserve System, and FMIs that are operated by a Federal Reserve Bank. [6] The Federal Reserve will convey the annual rating to a DFMU's management and board of directors. The rating system is designed to link supervisory assessments and messages to the regulations and guidance that form the foundation of the supervisory program, such as Regulation HH and the PSR policy.

The Federal Reserve is requesting public comment on all aspects of the FMI rating system.

Proposed Text of the Supervisory Rating System for FMIs

Introduction

Under the ORSOM rating system for FMIs, the Federal Reserve develops a rating for each of the ORSOM categories and rolls those category ratings into an overall composite rating. The rating system is designed to (1) be clearly tied to relevant Federal Reserve regulations and guidance, (2) facilitate a clear and logical discussion of the FMI's condition with the FMI's management and board of directors, (3) be easily understood and used by both supervisors and FMIs, (4) be flexible, (5) facilitate comprehensive and consistent assessments across the Federal Reserve's FMI portfolio, and (6) promote financial stability by ensuring that systemically important FMIs understand and are held to the Federal Reserve's rigorous risk-management standards. Importantly, the rating system is designed to allow for supervisory judgment and discretion, and should not be viewed as establishing a formula for determining an FMI's rating. Each of the assigned ratings, including the composite rating, should reflect supervisory judgment about the importance of the individual categories and issues as they pertain to the FMI. Relevant provisions of Regulation HH and the PSR policy, which are reflected in each rating category, help to organize and structure ratings for each category. The criticality of categories and issues, however, may differ among FMIs because of factors such as their differing services, risk profiles, and operational and organizational structures. An FMI's rating should also take into account the FMI's responsiveness to supervisory concerns and the sustainability of any measures that the FMI has implemented to address those concerns, both in terms of long-term viability and demonstrated effectiveness.

Categories

The ORSOM rating system consists of the following five categories, which were selected to highlight broadly the risk management issues that FMIs face, to guide supervisory examinations, and to provide a structure for organizing assessment letters:

- Organization
- Risk Management
- Settlement
- Operational Risk and IT
- Market Support, Access, and Transparency

Analysis of the issues considered under each category should be consistent with Regulation HH, the PSR policy, and relevant guidance, such as supervision and regulation (SR) letters and guidance of the Federal Financial Institutions Examination Council (FFIEC). The categories' order is not a reflection of their relative importance. The weight prescribed to either a category or a category's components is a matter of supervisory judgment and expertise, and may differ among FMIs. In addition, supervisory staff's assessment of an FMI should take into account the categories' interrelationships and the FMI's entire risk management framework, and should integrate knowledge derived from all available sources, including examination work, continuous monitoring efforts, and other relevant sources (for example, the Regulation HH advance notice process for designated financial market utilities (“DFMUs”) and lessons learned from market events). Finally, an FMI's category rating should reflect consideration of the sustainability of any remediation measures that the FMI has implemented to address supervisory concerns, both in terms of the measures' demonstrated effectiveness and long-term viability.

Organization

The foundations of an FMI's risk management framework are its management and governance structures, which include the board of directors' and management's authority, responsibilities, and reporting. The Organization category evaluates the FMI's overarching objectives, and the ability of the FMI's board and management to implement them. This category also considers the relationships among the FMI's stakeholders and their influence on the FMI's business strategy. Further, analysis under this category considers the independence and effectiveness of the FMI's internal audit function and its ability to inform the board and management about the robustness of the FMI's risk management and control processes. As a result, the Organization category contains two subcomponents, Board and Management Oversight, and Internal Audit. The FMI's assessment under these subcomponents is reflected in a single category rating.[7]

Board and Management Oversight

The Board and Management Oversight subcomponent addresses the organization and conduct of the FMI's board of directors and senior management. It assesses the structure and effectiveness of the FMI's legal and compliance risk monitoring and management framework. This rating evaluates how effectively the board of directors and senior management guide and manage the FMI, and ensure that the FMI operates in a safe and sound manner; specific considerations in this regard include management's responsiveness to supervisory concerns. This rating component also evaluates the board's effectiveness at establishing the FMI's objectives, strategy, and risk tolerances, and management's effectiveness at ensuring that the FMI's activities are consistent with them. Specific considerations in this regard include the board's effectiveness in setting strategic objectives, developing a risk-management framework, creating clear and responsive corporate governance structures, and establishing corporate risk tolerances. This rating also evaluates the effectiveness of the FMI's governance program for risk models and its use of independent validation mechanisms to validate the FMI's model methodologies and output.

Relevant statutes, regulations and guidance include—

- Regulation HH § 234.3(a)(1)-(3) (excluding (a)(2)(iv)(I))
- Regulations implementing the Bank Secrecy Act (BSA)[8]
- PSR policy: Legal Basis (PFMI 1), Governance (PFMI 2, excluding references to internal audit), Framework for Comprehensive Management of Risks (PFMI 3, excluding references to internal audit)

Internal Audit

The Internal Audit subcomponent reflects the ability and independence of the FMI's internal audit function to assess risk and to inform the board and management. An FMI should have an effective internal audit function with sufficient resources and independence from management to provide a rigorous and unbiased assessment of the FMI's risk appetite and risk exposure, including financial and operational risk, as well as the effectiveness of risk management and controls. The Internal Audit subcomponent assesses the internal audit function's day-to-day management, including its annual risk assessment, audit program, quality of work papers, quality assurance, planning and reporting, and training.[9]

Relevant regulations and guidance include—

- Regulation HH § 234.3(a)(2)(iv)(I)
- Audit guidance (for example, Institute of Internal Auditors, FFIEC, SR Letters, Bank for International Settlements, and ISACA)
- PSR policy: Governance (PFMI 2, as it pertains to internal audit), Framework for Comprehensive Management of Risks (PFMI 3, as it pertains to internal audit), Operational Risk (PFMI 17, as it pertains to internal audit)

Risk Management

The Risk Management category evaluates the effectiveness of the FMI's risk management, including the availability to the FMI of acceptable financial resources to contain and manage losses and liquidity pressures, and the FMI's ability to meet its obligations in the event of a participant's default. Further, the rating assesses the FMI's ability to implement a recovery or orderly wind-down of its operations and the viability of its capital plan. The rating also considers the FMI's ability and practices in safeguarding its own assets and those of its participants, and the FMI's ability to ensure those assets are accessible at all times with minimum losses. In addition, the Risk Management rating assesses the FMI's awareness of, and control over, the risk that its participants' customers and other FMIs indirectly introduce.

Relevant regulations and guidance include—

- Regulation HH § 234.3(a)(4)-(7), (14)-(16), (19)-(20)
- PSR policy: Credit risk (PFMI 4), Collateral (PFMI 5), Margin (PFMI 6), Liquidity risk (PFMI 7), Segregation and Portability (PFMI 14), General Business Risk (PFMI 15), Custody and Investment Risks (PFMI 16), Tiered Participation Arrangements (PFMI 19), and FMI Links (PFMI 20)

Settlement

Final settlement is the irrevocable and unconditional transfer of an asset or financial instrument, or the discharge of an obligation by an FMI or its participants in accordance with the underlying contract's terms. Settlement risk, which is the risk that settlement will not take place as expected, is a key risk that FMIs and their participants face. Failure to settle a transaction on time and in full can create liquidity and credit problems for an FMI or its participants, with potential systemic implications. This is especially true during a participant default event. Well-designed, clearly articulated, and effectively disclosed default management rules are imperative to maintaining market confidence in the event of a participant default.

The Settlement category focuses on the risk-management tools that an FMI uses to ensure settlement takes place as expected, and the default management procedures the FMI follows in the event of a participant default. The rating assesses the FMI's ability to ensure settlement finality, and its ability to manage the risks related to money settlements and the delivery of physical assets. The rating also includes CSDs' abilities to safeguard the rights of securities issuers and holders, and to ensure the integrity of the securities issues that they hold in custody. Finally, this category includes assessing the adequacy of the FMI's participant default rules and procedures, and the steps that the FMI takes to ensure that it is prepared to execute them.

Relevant regulations and guidance include—

- Regulation HH § 234.3(a)(8)-(13)
- PSR Policy: Settlement Finality (PFMI 8), Money Settlements (PFMI 9), Physical Deliveries (PFMI 10), Central Securities Depositories (PFMI 11), Exchange-of-Value Settlement Systems (PFMI 12), and Participant Default Rules and Procedures (PFMI 13)

Operational Risk and IT

FMIs face significant operational and IT risks in their provision of post-trade services. Operational risk entails deficiencies in information systems, internal processes, and personnel, or disruptions from external events that may result in the reduction, deterioration, or breakdown of services provided by an FMI. FMIs are expected to ensure that, through the development of appropriate systems, controls, and procedures, their operations and IT infrastructure are reliable, secure, and have adequately scalable capacity. FMIs' information security practices and controls are expected to be strong and effective. FMIs should protect and secure the systems, media, and facilities that process and maintain information vital to their operations in the context of a continually changing threat landscape. Further, FMIs are expected to have robust business continuity plans that allow for the rapid recovery and timely resumption of critical operations. FMIs are expected to test and update these plans regularly.

The Operational Risk and IT category focuses on the FMI's operational reliability and its ability to support the safe and continuous functioning of the markets that it serves. This category considers the FMI's operational risk management framework and IT infrastructure, including the adequacy of the FMI's operational risk management governance, internal controls, physical and information security, data management, capacity management, interdependency monitoring programs, and business continuity plan.

Relevant regulations and guidance include—

- Regulation HH § 234.3(a)(17)
- PSR Policy: Operational Risk (PFMI 17, excluding references to internal audit)
- Interagency Paper on Sound Practices to Strengthen Resilience of the U.S. Financial System
- FFIEC and relevant industry guidance

Market Support, Access, and Transparency

FMIs should be designed and operated to meet the needs of their participants and the markets that they serve. Access to FMIs' services is often necessary for meaningful participation in the markets that they serve, and FMIs' efficiency and effectiveness can influence financial activity and market structure. Also, access to, and understanding of, relevant information about an FMI fosters confidence among participants and the public.

The Market Support, Access, and Transparency category focuses on the FMI's efforts to support the markets they serve, to ensure fair and open access to, and use of, its services, and to provide participants with the information necessary to understand the risks and responsibilities attendant with their participation in the FMI. Analysis under this category should consider, among other things, an FMI's participation requirements; its member monitoring framework; the efficiency with which it consumes resources in providing its services; and the adequacy of its disclosure of its rules, procedures, and relevant information about its operations.

Relevant regulations and guidance include—

- Regulation HH § 234.3(a)(18), (21)-(23)
- PSR policy: Access and Participation Requirements (PFMI 18), Efficiency and Effectiveness (PFMI 21), Communication Procedures and Standards (PFMI 22), Disclosure of Rules, Key Procedures, and Market Data (PFMI 23), Disclosure of Market Data by Trade Repositories (PFMI 24)

Category Ratings

FMIs receive a rating for each ORSOM category based on an evaluation of the FMI against that category's key attributes as described herein. Regulation HH prescribes risk-management standards for DFMUs for which the Board or another federal banking agency is the Supervisory Agency under Title VIII of the Dodd-Frank Act. Other FMIs subject to Federal Reserve supervision—for example, FMIs that are members of the Federal Reserve System—are subject to the Federal Reserve Act and the expectations set out in the Federal Reserve's PSR policy. An FMI's rating should be consistent with the expectations set forth in Regulation HH, the PSR policy, and supervisory guidance, such as SR letters and FFIEC guidance.[10] The rating scale ranges from 1 to 5, with a rating of 1 indicating the strongest performance and, therefore, the level of least supervisory concern. A rating of 5 indicates the most critically deficient level of performance and, therefore, the greatest level of supervisory concern. Importantly, an FMI's category rating should reflect supervisory judgment and expertise as to the materiality of any issues identified based on the resulting effect those issues have on the safety and soundness of the FMI, the growth of systemic risks, or the stability of the broader financial system.[11]

A common set of definitions for each rating level is applied across all of the ORSOM categories. These general definitions focus on broad supervisory interests, which are—

- The extent to which any issues identified, either individually or cumulatively, are issues of concern for the safety and soundness of the FMI, the growth of systemic risks, or the stability of the broader financial system.
- the immediacy with which the FMI is expected to remedy the issues, and the extent to which close supervisory monitoring of the FMI's remediation efforts, or supervisory action,[12] is needed.

Supervisors may identify multiple issues with differing degrees of concern. In such cases, supervisors typically should assign the category a rating that reflects their judgment of the severity of the most serious concerns identified. For example, if a payment system meets the majority of supervisory standards for the Settlement category, but only partly observes the risk management standard pertaining to settlement finality, then, because of that issue's criticality to a payment system, the payment system's rating for the Settlement category should reflect its weaknesses with regard to that key risk management standard.

1: Strong

- Any issues identified, either individually or cumulatively, are not issues of concern with respect to the category's supervisory guidance. For example, the FMI observes all of the key risk management standards in Regulation HH or the PSR policy, as applicable.[13]

- The FMI can correct any issues identified in the normal course of business and dedicated supervisory monitoring of the FMI's remediation efforts is not needed.

2: Satisfactory

- Any issues identified, either individually or cumulatively, are not presently issues of concern with respect to the category's supervisory guidance, but may become so if left uncorrected. For example, the FMI either observes or broadly observes the key risk management standards in Regulation HH or the PSR policy, as applicable.
- The FMI can correct any issues identified in the normal course of business, but limited, dedicated supervisory monitoring of the FMI's remediation efforts may be needed.

3: Fair

- One or more issues identified, either individually or cumulatively, are issues of concern with respect to the category's supervisory guidance. For example, the FMI, at a minimum, broadly observes most of the key risk management standards in Regulation HH or the PSR policy, as applicable, but may partly observe some of them.
- The FMI should correct one or more of the issues identified within a defined period, dedicated supervisory monitoring of the FMI's remediation efforts is likely needed, and supervisory action may be needed.

4: Marginal

- One or more issues identified, either individually or cumulatively, are substantial issues of concern with respect to the category's supervisory guidance. For example, the FMI only partly observes many key risk management standards in Regulation HH or the PSR policy, as applicable, and may not observe some of them.
- The FMI should correct one or more of the issues identified immediately, dedicated supervisory monitoring of the FMI's remediation efforts is needed, and supervisory action is likely.

5: Unsatisfactory

- One or more issues identified, either individually or cumulatively, are critical and immediate issues of concern with respect to the category's supervisory guidance. For example, the FMI does not observe key risk management standards in Regulation HH or the PSR policy, as applicable.
- The FMI must correct one or more of the issues identified immediately, and immediate supervisory action and monitoring of the FMI's remediation efforts are needed.

Composite Ratings

An FMI's composite rating indicates whether and to what extent the issues identified, in the aggregate, give cause for supervisory concern. Like the category ratings, an FMI's composite rating ranges from 1 to 5. A rating of 1 indicates the strongest performance and, therefore, the level of least supervisory concern, and a rating of 5 indicates a critically deficient level of performance and, therefore, the greatest level of supervisory concern. Importantly, an FMI's composite rating should not represent a formulaic combination of its category ratings, such as an arithmetic average. Rather, the ratings definitions provide factors that supervisory staff should consider when viewing an FMI's performance against the totality of supervisory guidance.

1: Strong

- As reflected in its category ratings, an FMI with a composite rating of 1 is substantially sound in every respect and does not give cause for supervisory concern.
- Any issues identified do not reflect a pattern of risk management or governance failures and, either individually or cumulatively, are not issues of concern for the safety and efficiency of either the FMI or the markets that it supports.
- The FMI can correct any issues identified in the normal course of business and dedicated supervisory monitoring of the FMI's remediation efforts is not needed.

2: Satisfactory

- As reflected in its category ratings, an FMI with a composite rating of 2 is sound in most respects and does not presently give cause for supervisory concern.
- Any issues identified do not reflect a pattern of risk management or governance failures and, either individually or cumulatively, are not presently issues of concern for the safety and efficiency of either the FMI or the markets that it supports, but may become so if left uncorrected.
- The FMI can correct any issues identified in the normal course of business, but limited, dedicated supervisory monitoring of the FMI's remediation efforts may be needed.

3: Fair

- As reflected in its category ratings, an FMI with a composite rating of 3 is sound in many respects, but gives cause for some supervisory concern, and supervisory action may be necessary.
- Any issues identified, either individually or cumulatively, are issues of concern for the safety and efficiency of either the FMI or the markets that it supports.
- The FMI should correct one or more of the issues of concern identified within a defined period and dedicated monitoring of the FMI's remediation efforts is likely needed.

4: Marginal

- As reflected in its category ratings, an FMI with a composite rating of 4 may be unsound in one or more respects and gives cause for substantial supervisory concern, which will likely lead to supervisory action.
- Any issues identified, either individually or cumulatively, are substantial issues of concern for the safety and efficiency of either the FMI or the markets that it supports.
- The FMI should correct one or more of the issues of concern identified immediately and dedicated supervisory monitoring of the FMI's remediation efforts is needed.

5: Unsatisfactory

- As reflected in its category ratings, an FMI with a composite rating of 5 is considered critically unsound and gives cause for substantial and immediate supervisory concern and action.
- Any issues identified, either individually or cumulatively, are critical and immediate issues of concern for the safety and efficiency of either the FMI or the markets that it supports.
- The FMI must correct one or more of the issues of concern identified immediately, and immediate supervisory action and monitoring of the FMI's remediation efforts are needed.

Administrative Law Matters

Regulatory Flexibility Act Analysis

Congress enacted the Regulatory Flexibility Act (RFA) (**5 U.S.C. 601** *et seq.*) to address concerns related to the effects of agency rules on small entities, and the Board is sensitive to the impact its rules may impose on small entities. The RFA requires agencies either to provide an initial regulatory flexibility analysis with a proposed rule or to certify that the proposed rule will not have a significant economic impact on a substantial number of small entities. The Board has reviewed the proposed text of the ORSOM rating system. In this case, the rating system would apply to FMUs that are designated by the Council under Title VIII of the Dodd-Frank Act as systemically important, for which the Board is the Supervisory Agency, and which are subject to Regulation HH. In addition, the supervisory rating system for FMIs will apply to other FMIs over which the Board has supervisory authority, including FMIs operated by the Federal Reserve Banks, pursuant to the PSR policy. Based on current information, none of the designated FMIs are “small entities” for purposes of the RFA, and so, the proposed rating system likely would not have a significant economic impact on a substantial number of small entities (**5 U.S.C. 605**(b)). The following Initial Regulatory Flexibility Analysis, however, has been prepared in accordance with **5 U.S.C. 603**, based on current information. The Board will, if necessary, conduct a final regulatory flexibility analysis after consideration of comments received during the public comment period. The Board requests public comments on all aspects of this analysis.

1. *Statement of the need for, objectives of, and legal basis for, the proposed rule. The* Board is proposing the ORSOM rating system in order to carry out its supervisory responsibilities regarding FMIs under Title VIII of the Dodd-Frank Act and other applicable law, as discussed above. As noted above, the ORSOM rating system is a supervisory tool that the Federal Reserve will use to provide a consistent internal framework for discussing FMI assessments across the Federal Reserve's FMI portfolio, including DFMUs for which the Board is the Supervisory Agency pursuant to Title VIII, other DFMUs that are members of the Federal Reserve System, and FMIs that are operated by a Federal Reserve Bank. The Federal Reserve will convey the annual ORSOM rating to a DFMU's management and board of directors. The rating system is designed to link supervisory assessments and messages to the regulations and guidance that form the foundation of the supervisory program, such as Regulation HH and the PSR policy.

2. *Small entities affected by the proposed rule.* Pursuant to regulations issued by the Small Business Administration (SBA) (**13 CFR 121.201**), a "small entity" includes an establishment engaged in (i) financial transaction processing, reserve and liquidity services, and/or clearinghouse services with an average annual revenue of $35.5 million or less (NAICS code 522320); (ii) securities and/or commodity exchange activities with an average annual revenue of $35.5 million or less (NAICS code 523210); and (iii) trust, fiduciary, and/or custody activities with an average annual revenue of $35.5 million or less (NAICS code 523991). Based on current information, the Board does not believe that any of the FMIs that would be subject to the ORSOM rating system would be "small entities" pursuant to the SBA regulation.

3. *Projected reporting, recordkeeping, and other compliance requirements.* The proposed ORSOM rating system does not impose any reporting or recordkeeping requirements on the relevant FMIs. Although the rating system reflects risk management standards set out in Regulation HH, the PSR policy, and other applicable rules and guidance, the ORSOM rating system itself does not impose any compliance requirements.

4. *Identification of duplicative, overlapping, or conflicting Federal rules.* The Board does not believe that any Federal rules duplicate, overlap with, or conflict with the proposed rating system.

5. *Significant alternatives.* The Board is not aware of any significant alternatives to the proposed rating system that accomplish the objectives of reflecting the relevant risk management standards in the supervisory rating system and that minimize any significant economic impact on small entities.

Competitive Impact Analysis

As a matter of policy, the Board subjects all operational and legal changes that could have a substantial effect on payment system participants to a competitive impact analysis, even if competitive effects are not apparent on the face of the proposal. Pursuant to this policy, the Board assesses whether the proposed changes "would have a direct and material adverse effect on the ability of other service providers to compete effectively with the Federal Reserve in providing similar services" and whether any such adverse effect "was due to legal differences or due to a dominant market position deriving from such legal differences." If, as a result of this analysis, the Board identifies an adverse effect on the ability to compete, the Board then assesses whether the associated benefits—such as improvements to payment system efficiency or integrity—can be achieved while minimizing the adverse effect on competition.

Designated FMUs are subject to the supervisory framework established under Title VIII of the Dodd-Frank Act. At least one currently designated FMU that is subject to Regulation HH competes with a similar service provided by the Reserve Banks. Under the Federal Reserve Act, the Board has general supervisory authority over the Reserve Banks, including the Reserve Banks' provision of payment and settlement services ("Federal Reserve priced services"). This general supervisory authority is much more extensive in scope than the authority provided under Title VIII over designated FMUs. In practice, Board oversight of the Reserve Banks goes well beyond the typical supervisory framework for private-sector entities, including the framework provided by Title VIII.

The Board is committed to applying risk-management standards to the Reserve Banks' Fedwire Funds Service and Fedwire Securities Service that are at least as stringent as the applicable Regulation HH standards applied to DFMUs that provide similar services. The risk management and transparency expectations in part I of the PSR policy, which applies to the Federal Reserve priced services, are consistent with those in Regulation HH. The proposed ORSOM rating system will be applied equally to both designated FMUs subject to Regulation HH and to the other FMIs subject to the Board's authority, including the Federal Reserve priced services, subject to the PSR policy. Therefore, the Board does not believe the proposed rating system will have any direct and material adverse effect on the ability of other service providers to compete with the Reserve Banks.

Paperwork Reduction Act Analysis

In accordance with the Paperwork Reduction Act of 1995 (**44 U.S.C. 3506**; **5 CFR part 1320**, appendix A.1), the Board may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a valid Office of Management and Budget (OMB) control number. The Board has reviewed this rating system proposal and determined that it contains no collections of information. As the Board considers the public comments received and finalizes the proposal, the Board will reevaluate this PRA determination.

By order of the Board of Governors of the Federal Reserve System, November 9, 2015.

Robert deV. Frierson,

Secretary of the Board.

[FR Doc. **2015-28821** Filed 11-12-15; 8:45 am]

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Footnotes

1. The term “financial market utility” (“FMU”) is defined in Title VIII as “any person that manages or operates a multilateral system for the purpose of transferring, clearing, or settling payments, securities, or other financial transactions among financial institutions or between financial institutions and the person” (**12 U.S.C. 5462**(6)). FMUs are a subset of FMIs; for example, trade repositories are excluded from the definition of a FMU. Pursuant to section 804 of the Dodd-Frank Act, the Financial Stability Oversight Council (“Council”) is required to designate those FMUs that the Council determines are, or are likely to become, systemically important. Such a designation by the Council makes an FMU subject to the supervisory framework set out in Title VIII of the Dodd-Frank Act.

The term “Supervisory Agency” is defined in Title VIII as the “Federal agency that has primary jurisdiction over a designated financial market utility under Federal banking, securities, or commodity futures laws” (**12 U.S.C. 5462**(8)). Currently, the Board is the Supervisory Agency for two DFMUs: (i) The Clearing House Payments Company, L.L.C., on the basis of its role as operator of the Clearing House Interbank Payments System (CHIPS), and (ii) CLS Bank International (CLS).

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2. **12 CFR 234.3** (2014).

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3. *See* Sections 11(a)(1) and 11(j) of the Federal Reserve Act, **12 U.S.C. 248**(a)(1) and 248(j).

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4. The Board's PSR policy is available at *http://www.federalreserve.gov/paymentsystems/files/psr_policy.pdf*.

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5. The PFMI, published by the Committee on Payment and Settlement Systems (now the Committee on Payments and Market Infrastructures) and the Technical Committee of the International Organization of Securities Commissions in April 2012, is widely recognized as the most relevant set of international risk-management standards for payment, clearing, and settlement systems.

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6. At present, the first group includes CLS and CHIPS, the second group includes the Depository Trust Company, and the third group includes Fedwire Funds Service and Fedwire Securities Service.

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7. The *Board and Management Oversight* and the *Internal Audit* subcomponents are not individually rated; they represent matters examiners should consider when assigning the *Organization* category rating. Depending on the issues at the FMI, examiners should use their judgment in weighting each of these subcomponents in their assessment of the *Organization* category overall.

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8. The BSA is codified at **31 U.S.C. 5311** *et seq.,* **12 U.S.C. 1829**b, and **12 U.S.C. 1951**-1959. Federal Reserve supervised institutions that are subject to the BSA include state member banks (Regulation H, **12 CFR part 208**), bank holding companies (Regulation Y, **12 CFR part 225**), Edge and agreement corporations, and foreign banking organizations operating in the United States (Regulation K, **12 CFR part 211**). The U.S. Department of the Treasury's Financial Crimes Enforcement Network has published regulations implementing the BSA at 31 CFR chapter X.

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9. The Internal Audit subcomponent does not assess the board's effectiveness at establishing and overseeing an internal audit function at the FMI; that is assessed in the *Board and Management Oversight* subcomponent.

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10. In any event where Regulation HH's provisions establish standards different from those articulated in supervisory guidance, designated FMUs subject to the jurisdiction of the Federal Reserve under Title VIII of the Dodd-Frank Act should adhere to, and will be assessed against, Regulation HH's provisions.

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11. *See* Dodd-Frank Act Section 805, **12 U.S.C. 5464**(b).

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12. FMIs are responsible for remedying supervisory concerns. “Supervisory action” in this context refers to the range of supervisory measures that relevant laws authorize the Federal Reserve to take. These include issuing a Matter Requiring Attention (MRA) or Matter Requiring Immediate Attention (MRIA); entering into a Memorandum of Understanding (MOU) with the FMI; or more severe enforcement action measures as authorized under Title VIII of the Dodd-Frank Act or other relevant laws.

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13. The applicable standards are based on the Federal Reserve's source of authority. DFMUs for which the Federal Reserve acts as the Supervisory Agency under Title VIII of the Dodd-Frank Act are subject to Regulation HH. Other FMIs subject to Federal Reserve supervision, for example, by virtue of being members of the Federal Reserve System, are subject to the Federal Reserve Act and the expectations set out in the Federal Reserve's PSR policy. The applicable standards in both Regulation HH and the PSR policy are based on the PFMI. The Board has stated that it does not intend for differences in language in the two documents to lead to inconsistent policy results.

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