

# Spotlight on banking structure reporting

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow chevron shape is positioned above the 'Y'.

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## What are **banking structure reports** and why do they matter?

Banking structure reports (FR Y-10, FR Y-6 and FR Y-7) capture detailed information on changes to the structure of banking organizations, including the characteristics, ownership, activities and legal authority of subsidiaries, affiliates and investments, as well as information on branches and representative offices. Banking structure reports create a foundation for all regulatory reports and provide the Federal Reserve Bank (FRB) with data needed to ensure that banks carry out operations in a safe and sound manner and demonstrate compliance with various laws and regulations, including, but not limited to, the Bank Holding Company Act; the Home Owners' Loan Act; and Regulations Y, K and LL.

### **This brief will cover the following key topics:**

- ▶ Overview of structure reports
- ▶ Importance of accurate and timely structure reporting
- ▶ Observed regulator focus areas
- ▶ Industry challenges around structure reporting responsibilities

## Banking structure reports overview and highlights

Structure reports have been collected since the implementation of the Bank Holding Company Act of 1956 and have evolved to meet changing regulatory needs. Currently, there are two structure reports filed by banking organizations on an annual basis (FR Y-6 and FR Y-7) and one on a transactional basis (FR Y-10).

### FR Y-6: Annual Report of Holding Companies

**What is reported:** A holding company's organizational chart and domestic branches, as well as the identity, percentage ownership and business interests of principal shareholders, directors and executive officers of the banking organization

**Filing frequency:** Annual

**Purpose:** Provides information on compliance with the Bank Holding Company Act, Regulation Y and the Home Owners' Loan Act as well as information on possible conflicts of interest of shareholders, directors and executive officers

### FR Y-7: Annual Report of Foreign Banking Organizations

**What is reported:** A foreign banking organization's financial statements, organizational structure, shares and shareholder information, and information on the size of banking and nonbanking operations worldwide

**Filing frequency:** Annual

**Purpose:** The Federal Reserve uses information provided in the FR Y-7 report to assess the foreign banking organization's continuing eligibility as a qualified foreign banking organization and to determine compliance with US laws and regulations

### FR Y-10: Report of Changes in Organizational Structure

**What is reported:** Detailed information on characteristics, ownership and activities of legal entities within the reporter's organizational structure and any associated changes, including:

- Acquisition, transfer, sale or liquidation of ownership interest
- Mergers and internal reorganizations
- Commencement of new activities
- Openings, closings and relocations of branches and representative offices

**Filing frequency:** Event-based, within 30 calendar days of the transaction date

**Purpose:** Provides banking organization's structure and monitors the activities of reportable companies to ensure compliance with various FRB regulations

Transactions reported on the FR Y-10 report throughout the fiscal year help the Federal Reserve Bank build the holding company's hierarchy of reportable legal entities. This hierarchy is verified annually by a comparison to the organizational charts submitted on the FR Y-6 and FR Y-7 reports.

## Relationship between timely and accurate structure reporting to financial regulatory reports

Financial regulatory reports, schedules and line items filed by a banking organization depend on the characteristics and activities of legal entities within its hierarchy and the organization's ability to control the day-to-day operations of these legal entities. This information is reported on the FR Y-10 report, and the associated financials of the legal entity are then filed on the respective financial reports.

FR Y-9C Report Schedule HC-M, line 11: "Have all changes in investments and activities been reported to the Federal Reserve on the Report of Changes in Organizational Structure (FR Y-10)?"

Complete and accurate reporting of structure reports creates the foundation for complete and accurate filings of other regulatory reports. Acquisition of controlling interest in new companies, changes in ownership, and opening or closing of branches can result in requirements to file a new regulatory report or in changes to balance sheet information in reports already being filed.

For example, a banking organization's purchase of 25% of voting shares in a company renders the company controlled. The acquisition is reportable on the Nonbanking Schedule of the FR Y-10 report. Because the new company is a subsidiary, the banking organization has to report this company on the FR Y-11 (Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies) or the FR 2314 (Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations), depending on whether the company is foreign or domestic.

The table below illustrates a few examples of events that are reported on the FR Y-10 report that also impact the banking organization's FR Y-9C, FFIEC 030, FR Y-11 and other regulatory report filings.

Reportable event	FR Y-10 report schedule	Related financial regulatory report	Relationship
A financial holding company (FHC) acquires a broker-dealer subsidiary engaged in securities underwriting	Nonbanking Schedule and 4(k) Schedule	<b>FR Y-9C:</b> Consolidated Financial Statements for Holding Companies, Schedule HC-M (Memoranda)	An acquisition of controlling interest in a broker-dealer subsidiary that is engaged in securities underwriting is reportable on the FR Y-10 report on the nonbanking company and 4(k) Schedules within 30 days of the event. Balances of this subsidiary would then be included in the FHC's FR Y-9C, Schedule HC-M report.
An FHC makes large merchant banking investments	4(k) Schedule	<b>FR Y-12:</b> Consolidated Holding Company Report of Equity Investments in Nonfinancial Companies Report Schedule A	Merchant banking investments that meet the FR Y-10 definition of large are reported on the FR Y-10 report 4(k) Schedule and should also be included on Schedule A of the FHC's FR Y-12 report.
Formation of an edge or agreement corporation	Nonbanking Schedule and 4(k) Schedule	<b>FR 2886b:</b> Consolidated Report of Condition and Income for Edge and Agreement Corporations	A formation of an edge or agreement corporation is reportable on the Nonbanking Schedule of the FR Y-10 report. The banking organization would then have to file the FR 2886b report.



Reportable event	FR Y-10 report schedule	Related financial regulatory report	Relationship
A US banking organization opens a branch in the Cayman Islands	Foreign Branch of U.S. Banking Organizations	<b>FFIEC 030:</b> Foreign Branch Report of Condition	A US banking organization has to report the opening of a foreign branch on the Foreign Branch of U.S. Banking Organizations schedule of the FR Y-10. The branch would then be included in the organization's FFIEC 030 report.
A US banking organization acquires a domestic nonbank subsidiary	Nonbanking Schedule and 4(k) Schedule	<b>FR Y-11:</b> Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies	Acquisition or formation of a nonbank subsidiary in the US is reportable on the Nonbanking Schedule of the FR Y-10 report. The financials of the subsidiary have to be reported on the FR Y-11 report.
A US banking organization forms a subsidiary in the Cayman Islands	Nonbanking Schedule and 4(k) Schedule	<b>FR 2314:</b> Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations	Acquisition or formation of a foreign subsidiary by a US banking organization is reportable on the Nonbanking Schedule of the FR Y-10 report. The financials of this subsidiary have to be included in the banking organization's FR 2314 filing.
A foreign banking organization (FBO) closes a branch in the US	BARO Schedule	<b>FFIEC 002:</b> Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks	Closure of a US branch by an FBO has to be reported on the BARO Schedule of the FR Y-10 report. The closure also has to be reflected in the balances of the banking organization's FFIEC 002 filing.

## Observed regulator focus areas and industry challenges

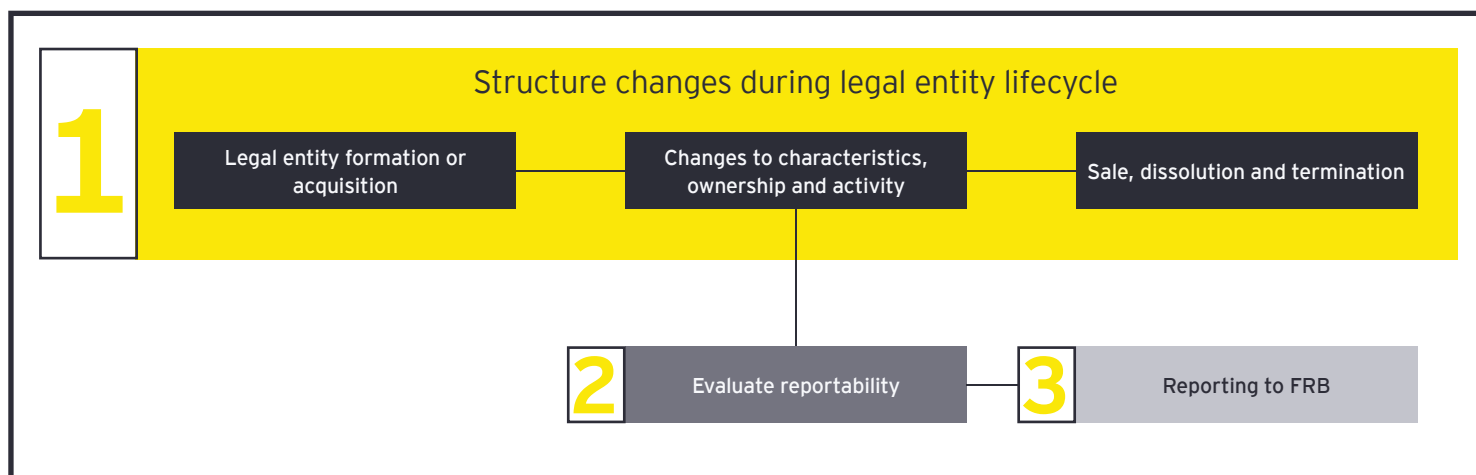
Due to the foundational importance of banking structure, the FR Y-10, FR Y-6 and FR Y-7 reports are a continuing focus of regulator reviews. Firms should be able to demonstrate the following:

- ▶ Sufficiency of governance and control over the report production process
- ▶ Adequacy of accountability and oversight over structure reporting, including identifying reporting companies controlled under Regulation Y

Some firms continue to face issues around governance, controls and accountability, often caused by persisting challenges associated with the need for cross-functional collaboration and the manual nature of legal entity data management.

## Challenge 1: Lack of collaboration and expertise across multiple functions and jurisdictions creates issues with timely identification and accurate reporting of organizational structure changes

Cross-functional collaboration and communication is integral to identifying and tracking changes throughout the legal entity lifecycle, determining reportability and correctly filing structure reports. Below is an illustrative summary of the process.



1

### Lines of business or corporate secretary identify changes made to the reporter's organizational structure.

Examples of changes include:

- ▶ Acquisition or formation of new legal entities
- ▶ Acquisition of additional ownership interest in existing entities
- ▶ Internal transfers of ownership interest
- ▶ Changes to the entity's legal name or location
- ▶ Commencement of new activities, mergers, sales or dissolutions
- ▶ Appointment of new directors

Changes are typically driven by business strategy, objectives and corporate governance requirements, and are typically identified within lines of business or by corporate secretaries.



2

**Legal or compliance departments determine reportability on the FR Y-10, FR Y-6 and FR Y-7 reports.**

Once a change is identified, a determination is made whether the event triggers an FR Y-10 filing and/or should be included on the FR Y-6 or FR Y-7 reports. Depending on the type of transaction, this includes determination of control and can require understanding and interpretation of Regulation Y, requiring input from the legal or compliance team. The following are examples of key decisions in determination of reportability:

- ▶ If the event results in a new legal entity, is the entity controlled under the Regulation Y definition of control?
- ▶ If the event is for a previously reported legal entity, does it change previously reported information?
- ▶ If the event is for an existing legal entity that was not previously reported, does the change make the entity reportable?
- ▶ If the entity is not reportable on the FR Y-10, does it meet FR Y-6 or FR Y-7 reportability thresholds?

3

**Report owner submits reports according to instructions.**

FR Y-10 reportable events must be filed on the appropriate FR Y-10 schedule with the all required information within 30 calendar days of the transaction and reflected on the annual FR Y-6 or FR Y-7 reports. Events that are not reportable on the FR Y-10 but meet the reporting requirements of FR Y-6 or FR Y-7 should be included in the organizational chart and labeled appropriately.

While lines of business or corporate secretary drive legal entity changes and have factual knowledge of the transaction, determination of reportability requires legal expertise. However, the legal and compliance departments often have limited awareness of changes until informed by the line of business. Furthermore, key structure reporting stakeholders typically have different levels of seniority and competing priorities across the organization.

### Impact

As a result, stakeholders have uneven awareness of structure reporting requirements and responsibilities, often resulting in breakdowns in cross-functional communication. This extends the amount of time between change identification, determination of reportability and filing of the appropriate report. Consequently, filings are frequently late, missed or incorrectly reported, leading to regulator feedback on lacking accountability.

### Industry response

Banks are enforcing accountability over structure reporting by implementing formalized roles and responsibilities across lines of business, corporate secretaries, legal or compliance departments, and report owners.

## Challenge 2: Lack of systematic legal entity databases

Many firms lack a legal entity database, with collection and tracking of legal entity data being largely manual and frequently maintained and updated in Excel spreadsheets. As a result, the change monitoring and reporting process is largely manual and time consuming, with exchanges of required information occurring via email.

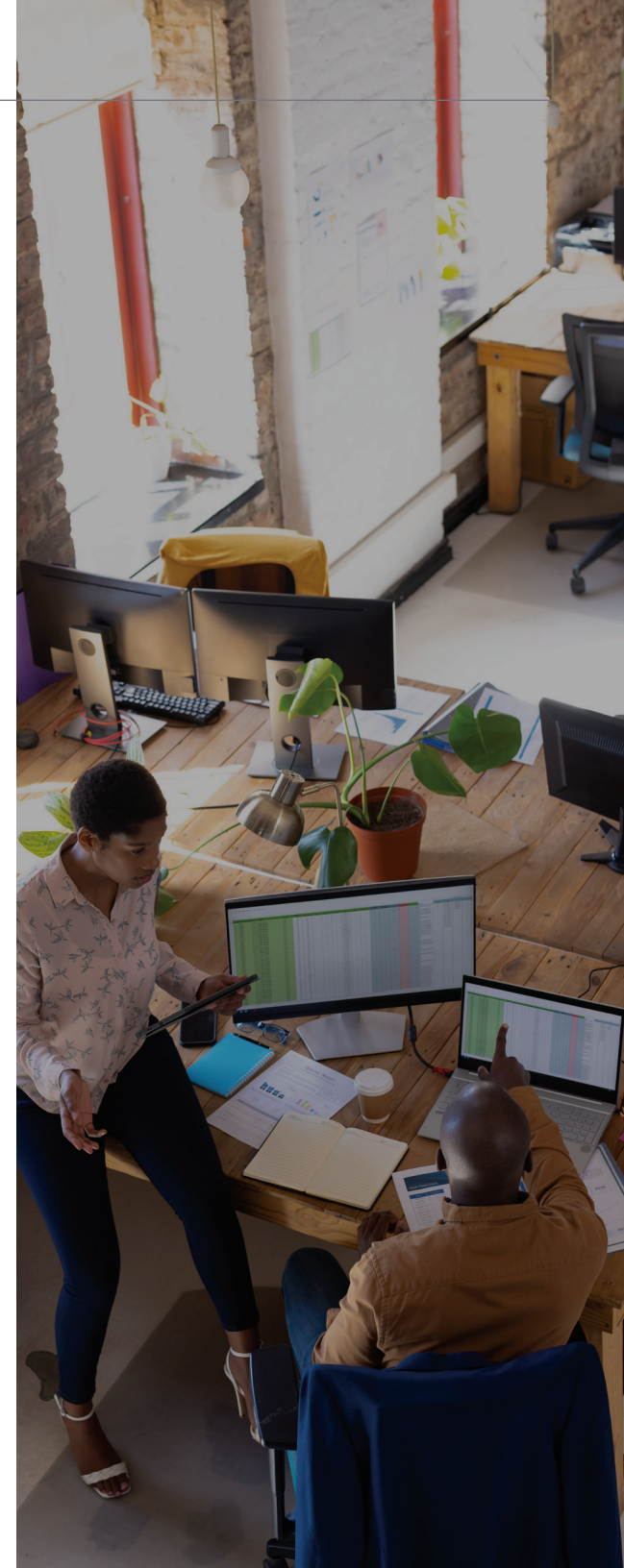
### Impact

Manual tracking and monitoring are inefficient and prevent implementation of data standards and controls. This causes data quality and timeliness issues resulting in late, missed and incorrect filings. Ultimately, this leads to regulator feedback on poor data quality and effectiveness of end-to-end controls.

### Industry response

Firms are exploring implementation of legal entity database and integration of other systems, including vendors tools, to create a single source of truth that could provide access to detailed information of the reporter's entire organizational structure.

This approach enables implementation of data requirements, quality rules, controls and operationalization of the change monitoring and tracking process. Some firms have dedicated teams that monitor and process structure changes. Centralized tracking of legal entity data paves the way for improvement in data quality and reporting and allows firms to establish a robust system with regular audit and legal entity data maintenance capabilities.







## Conclusion

Due to the importance and significance of structure data, banking structure reports continue to be a focus for regulator reviews, with emerging themes around governance and controls over report production processes, and accountability and oversight over structure reporting.

Common obstacles resulting in insufficient controls accountability over structure reporting are cross-functional involvement and the manual nature of legal entity data monitoring and maintenance. To resolve these challenges, the industry is moving toward creating formalized roles and responsibilities across key stakeholders (lines of business, corporate secretary, legal, compliance, etc.) and implementing a legal-entity-wide database (i.e., single source of truth) that can streamline the report production process and enable data quality via established quality rules, controls and change management.

## Key contacts

To learn more about how the banking structure regulatory reporting environment and heightened regulator expectations might affect your organization and how the EY US team can help, please contact one of our professionals:



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