organization, or request description. Records concerning initial requests under the FOIA and the Privacy Act are maintained by the FOIA Public Liaison in FOIAonline. Inquiries regarding these records should be addressed to the FOIA Public Liaison, Federal Communications Commission (FCC), 445 12th Street SW., Washington, DC 20554.

Records concerning administrative appeals for access requests under the FOIA and records concerning administrative appeals for access requests and accountings of disclosure requests under the Privacy Act are maintained by the FCC's Office of General Counsel and in FOIAonline. Inquiries regarding these records should be addressed to the General Counsel, Office of General Counsel, Federal Communications Commission (FCC), 445 12th Street SW., Washington, DC 20554 or to *FOIA-Appeal@fcc.gov*.

SAFEGUARDS:

Access to the file cabinets containing paper records in this system are maintained in the FOIA Public Liaison's office and in the bureau or office suites accessible through card-coded main doors. The FOIA file cabinets in the office of the FOIA Public Liaison are locked at the end of the business day. Access to these FOIA files is restricted to authorized supervisors and staff who are responsible for responding to the FOIA requests or appeals.

The electronic records, files, and data are housed in FOIAonline and in the FCC's computer network. Access to the electronic files is restricted to staff in the bureaus and offices who are responsible for responding to FOIA requests, and to the Information Technology Center (ITC) staff and contractors who maintain the FCC's computer network. Other FCC employees and contractors may be granted access on a ''need-to-know'' basis. The FCC's computer network databases are protected by the FCC's IT privacy safeguards, a comprehensive and dynamic set of IT safety and security protocols and features that are designed to meet all Federal IT privacy standards, including those required by the National Institute of Standards and Technology (NIST) and the Federal Information Security Management Act (FISMA).

RETENTION AND DISPOSAL:

Records are retained and disposed of in accordance with the National Archives and Records Administration's General Records Schedule 4.2, Items 020, 040, 050, 070, and 090.

SYSTEM MANAGER(S) AND ADDRESS:

FOIA Public Liaison, Office of Managing Director (OMD), Federal Communications Commission (FCC), 445 12th Street SW., Washington, DC 20554.

FOIAonline is managed by the U.S. Environmental Protection Agency, Office of Information Collection, 1200 Pennsylvania Ave. NW., Washington, DC 20460.

NOTIFICATION PROCEDURE:

Individuals wishing to determine whether this system of records contains information about them may do so by writing to FOIA Public Liaison, Office of Managing Director (OMD), Federal Communications Commission (FCC), 445 12th Street SW., Washington, DC 20554, email: *FOIA@fcc.gov*. Individuals must furnish reasonable identification by showing any two of the following: Social security card; driver's license; employee identification card; Medicare card; birth certificate; bank credit card; or other positive means of identification, or by signing an identity statement stipulating that knowingly or willfully seeking or obtaining access to records about another person under false pretenses is punishable by a fine of up to $5,000. Individuals requesting access to records concerning themselves must also comply with the FCC's Privacy Act regulations regarding verification of identity and access to records (5 CFR part 0, subpart E).

RECORD ACCESS PROCEDURES:

Access to information about FOIA requests and appeals is available through FOIAonline, *https://foiaonline.regulations.gov/foia/action/public/home*. Individuals wishing additional information about records in this system should follow the Notification Procedure above.

CONTESTING RECORD PROCEDURES:

Individuals wishing to contest information pertaining to him or her in the system of records should follow the Notification Procedure above.

RECORD SOURCE CATEGORIES:

The sources for the information in this system of records are the individuals making requests under FOIA or the Privacy Act; the individuals who are the subjects of FOIA or Privacy Act requests; the attorneys or representatives of the requesters and the subjects of the requests; communication between FCC organizational units (bureaus and offices), and the investigative materials and related documentation and decisions involved in appeals, amendments, and litigation concerning FOIA responses, etc.

EXEMPTIONS CLAIMED FOR THE SYSTEM:

None.

Federal Communications Commission.

Gloria J. Miles,

Federal Register Liaison Officer, Office of the Secretary.

[FR Doc. 2016–20515 Filed 8–25–16; 8:45 am]

BILLING CODE 6712–01–P

FEDERAL RESERVE SYSTEM

[Docket No. OP–1521]

Supervisory Rating System for Financial Market Infrastructures

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice.

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 has approved the use of 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 by the Board and, under delegated authority, the Federal Reserve Banks (collectively, the Federal Reserve).

DATES: The Board will begin using the FMI rating system on October 27, 2016.

FOR FURTHER INFORMATION CONTACT: Stuart Sperry, Deputy Associate Director (202) 452–2832 or Kristopher Natoli, Manager (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, securities settlement systems, central counterparties, and trade repositories. 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 performing FMI assessments across the Federal Reserve's FMI portfolio.[6] The ORSOM rating system will be applied to DFMUs for which the Board is the Supervisory Agency pursuant to Title VIII, other FMIs over which the Board has supervisory authority because they are members of the Federal Reserve System, and FMIs that are operated by the Federal Reserve Banks.[7] 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 Board issued a notice requesting comments on all aspects of the rating system.[8]

Summary of Public Comments and Analysis

The Board received two public comment letters on the notice and request for comment. The Board considered these comments in developing its final FMI rating system. Except as noted herein, the Board is adopting the rating system's text as proposed.[9]

Overall Approach

The Board proposed to use the ORSOM rating system as a supervisory tool for providing a consistent internal framework for performing annual FMI assessments across the Federal Reserve's FMI portfolio, which includes DFMUs for which the Board is the Supervisory Agency pursuant to Title VIII, other FMIs over which the Board has supervisory authority because they are members of the Federal Reserve System, and FMIs that are operated by the Federal Reserve Banks. Commenters were generally supportive of the Board's effort to establish a consistent approach to rating FMIs. Both commenters, however, raised two general concerns about the Board's overall approach: (1) That the rating system would create new obligations beyond those that already exist in Regulation HH and (2) that an FMI's rating would depend excessively on supervisory judgment.

The Board's FMI rating system is an internal supervisory tool that is intended to assist supervisors in assessing FMIs against regulatory requirements, but it does not create any new obligations or requirements for FMIs. In establishing a consistent internal framework for discussing FMI assessments, the FMI rating system instructs supervisory staff to consider relevant regulations and related guidance. The explanatory language provided for each of the rating system's categories is intended to describe generally the range of issues covered in each category's relevant regulations and guidance. The Board has revised the ratings system to address concerns that it expands on already-applicable requirements. For example, the Board has added clarifying language to the rating system's Introduction section and made technical edits throughout to align each category's explanatory language more closely with Regulation HH's text.

With regard to the role that supervisory judgment plays in determining an FMI's rating, the Board believes that the rating system must provide examiners with the ability to use their expertise and judgment when determining an FMI's rating. An FMI's category and composite ratings reflect many factors that may vary in importance for each FMI. Supervisory staff's judgment will be guided by the relevant regulations and guidance, as well as by the Board's internal processes for ensuring consistent treatment of similarly situated FMIs.

The Board agrees with commenters that supervisory staff should explain the supervisory judgment underlying an FMI's rating. The rating system is

---

[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 an 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).

[2] 12 CFR 234.3.

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

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

[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.

[6] The ORSOM rating system replaces the Federal Reserve's existing rating system, which is referred to as SCIISO. SCIISO stands for *S*upervision and organization; *C*ompliance, *I*nternal controls and audit; *I*nformation technology/electronic data processing; *S*ettlements and liquidity; and General *O*rganization. SCIISO was originally developed to facilitate the Federal Reserve's supervision of the Depository Trust Company, but subsequently was adapted and applied to The Clearing House Payments Company LLC as operator of the CHIPS payment system, CLS Bank International, and the Warehouse Trust Company LLC. The Federal Reserve did not seek public comment when SCIISO was introduced.

[7] 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.

[8] 80 FR 70211 (Nov. 13, 2015).

[9] The Board is also making several technical edits, which are not specifically addressed in the discussion below.

designed to facilitate a clear and logical discussion of the FMI's condition with the FMI's management and board of directors. Supervisory staff will continue its current practice of explaining the factors that determine an FMI's rating.

Alignment With Regulation HH

Commenters requested that the Board make multiple changes to the rating system that would align the rating system more closely with the text of Regulation HH. The rating system is fundamentally derived from, and should reflect, the requirements of Regulation HH and the PSR policy. Therefore, the Board made technical clarifications throughout the rating system to align explanatory language more closely with Regulation HH's text. Examples include changing the explanatory language in the Board and Management Oversight subcomponent of the Organization category to specify that the requirement for independent validation focuses on risk-management models; the Risk Management category to reflect verbatim Regulation HH's requirement pertaining to recovery and orderly wind-down plans; and the Settlement category to reflect verbatim Regulation HH's requirement that FMIs provide clear and certain final settlement.

Both commenters raised concerns regarding the explanatory language in the Market Support, Access and Transparency category, which states that ''the analysis under this category considers . . . the efficiency with which [the FMI] consumes resources in providing its services.'' Commenters believed that this language was vague. The Board is retaining this language in the ratings system guidance because Regulation HH requires that a DFMU operate efficiently.[10] The Board explained this concept in preamble text to the notice of proposed rulemaking with respect to these provisions of Regulation HH, stating that ''efficiency generally encompasses what a DFMU chooses to do, how it does it, and the resources required by the DFMU to perform its functions.'' [11] As the Board explained further, ''there is an inherent tradeoff between safety (that is, risk management) and efficiency (that is, direct and indirect costs) in the design and management of a designated FMU.'' [12] The Board noted that ''[a] designated FMU's design; operating structure; scope of payment, clearing, and settlement activities; and use of technology can influence its efficiency and can ultimately provide incentives for market participants to use, or not use, the designated FMU's services. In certain cases, inefficiently designed systems may increase operational costs to the point that it would be cost prohibitive for participants to use the designated FMU. As a result, the inefficiency could drive market participants toward less-safe alternatives, such as bilateral clearing or settlement on the books of the participants.'' [13]

References to Relevant Statutes, Regulations and Guidance

One commenter requested that the Board provide more specific examples of the relevant guidance to which examiners would refer when determining an FMI's rating. For each category, the Board has, to the extent possible, specified the relevant statutes, regulations, and guidance that factor into that category's rating. In the case of the Operational Risk and IT category, the Board refers to ''FFIEC and relevant industry guidance.'' In assessing an FMI's performance under Regulation HH's requirements with respect to operational risk and cybersecurity policies and procedures,[14] the Board will be guided by leading information, communication and technology (ICT) and information and cyber security standards and guidelines. Some of these standards and guidelines are reflected in Federal Reserve and FFIEC guidance, as well as guidance supporting the PFMI (such as CPMI–IOSCO's forthcoming Guidance on Cyber Resilience for Financial Market Infrastructures). The Board believes that in light of the rapidly evolving IT and cyber risk landscapes, further specification of relevant industry guidance would date itself quickly. Further, as the Board has stated, the rating system is an internal supervisory tool that does not create new regulatory requirements. DFMUs subject to the jurisdiction of the Federal Reserve as the Supervisory Agency under Title VIII of the Dodd-Frank Act should adhere to, and will be assessed against, Regulation HH's provisions, and examiners will clearly communicate with the FMIs the standards against which they are being rated.

Board and Management Responsiveness

The proposed text of the Board and Management Oversight stated that ''[t]his 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.'' One commenter requested the Board confirm its understanding that this language refers to issues that the Board identifies and that the FMI agrees to address and not to issues that are subject to a formal appeals process. FMI ratings are an internal tool for Federal Reserve supervisors, and, unlike ratings of insured depository institutions and their holding companies, do not carry any automatic implications with respect to supervisory or regulatory interventions or requirements. Therefore, the Board does not have a formal appeals process for its supervisory ratings at this time.

The Board expects FMI management to respond appropriately to supervisory concerns. Title VIII requires the Board to prescribe risk management standards governing DFMUs' operations related to payment, clearing, and settlement activities, and to conduct annual examinations of relevant DFMUs for which it is the Supervisory Agency to determine, among other things, their safety and soundness, as well as their compliance with Title VIII and any rules and orders prescribed thereunder. If supervisory staff believes that a DFMU's board and management are failing to respond to supervisory concerns and thereby undermining the DFMU's safety and soundness or threatening financial stability, supervisory staff will incorporate that determination into its assessment of board and management oversight, regardless of whether the board and management disagree with supervisory staff's conclusions.

Text of the Supervisory Rating System for FMIs

Introduction

Under the ORSOM rating system for financial market infrastructures (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

[10] *See* 12 CFR 234.3(a)(21).

[11] 79 FR 3666, 3685 (Jan. 22, 2014).

[12] *Id.* at 3685–86.

[13] *Id.*

[14] 12 CFR 234.3(a)(17).

rating system is an internal supervisory tool that does not create new regulatory requirements; the explanatory language provided for each of the ratings system's categories is intended to describe generally the range of issues covered in each category's relevant regulations and guidance.

Additionally, 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 Payment System Risk (PSR) policy, which are reflected in each rating category, help to organize and structure each category's rating. 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 will also take into account the FMI's responsiveness to supervisory concerns and the demonstrated effectiveness of any measures that the FMI has implemented to address the root cause of those concerns.

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 processes set forth in Regulation HH and Board policy regarding advance notice of material changes proposed by designated financial market utilities (DFMUs) and the Federal Reserve Banks' Fedwire services, respectively, and lessons learned from market events). Finally, an FMI's category rating should reflect consideration of the demonstrated effectiveness of any remediation measures that the FMI has implemented to address the root cause of supervisory concerns.

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 relevant 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.[1]

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 risk-management 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)[2] and sanctions programs administered by the Office of Foreign Assets Control (OFAC)
- PSR policy: Legal Basis (Principles for Financial Market Infrastructures (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 profile 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.[3]

[1] 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.

[2] The BSA is codified at 31 U.S.C. 5311 *et seq.,* 12 U.S.C. 1829b, 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 208), bank holding companies (Regulation Y, 12 CFR 225), Edge and agreement corporations, and foreign banking organizations operating in the United States (Regulation K, 12 CFR 211). The U.S. Department of the Treasury's Financial Crimes Enforcement Network has published regulations implementing the BSA at 31 CFR Part X.

[3] The Internal Audit subcomponent does not assess the board's effectiveness at establishing and overseeing an internal audit function at the FMI;

Continued

Relevant regulations and guidance include—

- Regulation HH § 234.3(a)(2)(iv)(I)
- Audit guidance applicable to the FMI (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 whether the FMI has developed a risk-management framework that includes integrated plans for the FMI's recovery and orderly wind-down, 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 readily available and convertible into cash with minimum losses. In addition, the Risk Management rating assesses the FMI's awareness, mitigation, or management of the material risks 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 provide clear and certain final settlement, and its ability to manage the risks related to money settlements and the delivery of physical assets. The rating also includes central securities depositories' 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, 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, relevant industry IT & cybersecurity guidance, and CPMI–IOSCO guidance supporting the PFMI.

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 it serves, to ensure fair and open access to its services (while balancing the FMI's safety and efficiency), 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 considers, among other things, the FMI's implementation of risk-based, objective 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, its key procedures, and its legal, governance, risk management, and operating framework.

Relevant regulations and guidance include—

- Regulation HH § 234.3(a)(18), (21)–(23)

that is assessed in the *Board and Management Oversight* subcomponent.

- 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, other DFMUs over which the Board has supervisory authority because they are members of the Federal Reserve System, and FMIs that are operated by the Federal Reserve Banks—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 relevant supervisory guidance, such as SR letters and FFIEC guidance.[4] 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.[5]

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 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, is needed.[6]

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.[7]
- The FMI can correct any issues identified in the normal course of business and focused 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, focused 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 of concern identified within a defined period, focused 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 of concern identified immediately, focused 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 of concern 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. An FMI's

[4] DFMUs 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 and any other regulation directly applicable to that DFMU, and any supervisory guidance would be applicable only insofar as it is consistent with Regulation HH and other directly applicable regulations.

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

[6] 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 or matter requiring immediate attention; entering into a memorandum of understanding with the FMI; or more severe enforcement action measures as authorized under Title VIII of the Dodd-Frank Act or other relevant laws.

[7] 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.

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 relevant regulations and 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 focused 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, focused 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 focused 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 is 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 focused 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 a final regulatory flexibility analysis with a final rule or to certify that the final rule will not have a significant economic impact on a substantial number of small entities.

The Board received no comments on its initial regulatory flexibility analysis regarding the supervisory rating system for FMIs. The rating system will apply to FMUs that are designated by the Financial Stability Oversight 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 DFMUs over which the Board has supervisory authority because they are members of the Federal Reserve System, and FMIs that are operated by the Federal Reserve Banks, pursuant to the PSR policy. Based on current information, none of the FMIs are ''small entities'' for purposes of the RFA, and so, the rating system likely will not have a significant economic impact on a substantial number of small entities (5 U.S.C. 605(b)). The following final regulatory flexibility analysis, however, has been prepared in accordance with 5 U.S.C. 604, based on current information.

1. Statement of the need for, and objectives of, the rule. The Board is implementing 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 performing FMI assessments across the Federal Reserve's FMI portfolio, including DFMUs for which the Board is the Supervisory Agency pursuant to Title VIII, other FMIs that are members of the Federal Reserve System, and FMIs that are operated by the Federal Reserve Banks. 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. Significant issues raised by comments in response to the initial regulatory flexibility analysis. The Board received no public comments in response to the initial regulatory flexibility act analysis, nor did it receive comments from the Chief Counsel for Advocacy of the Small Business Administration.

3. Small entities affected by the 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 $38.5 million or less (NAICS code 522320); (ii) securities and/or commodity exchange activities with an average annual revenue of $38.5 million or less (NAICS code 523210); and (iii) trust, fiduciary, and/or custody activities with an average annual revenue of $38.5 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.

4. Projected reporting, recordkeeping, and other compliance requirements. The 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.

5. Steps to minimize significant economic impact on small entities consistent with the stated objectives of applicable statutes/discussion of significant alternatives. The rating system will not have an economic impact on small entities. The Board is not aware of any significant alternatives to the rating system that accomplish the objectives of reflecting the relevant risk management standards in the supervisory rating system.

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 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.

DFMUs are subject to the supervisory framework established under Title VIII of the Dodd-Frank Act. At least one DFMU 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 DFMUs. 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 ORSOM rating system will be applied equally to both DFMUs 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 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 and determined that it contains no collections of information.

By order of the Board of Governors of the Federal Reserve System, August 23, 2016.

Robert deV. Frierson,

Secretary of the Board.

[FR Doc. 2016–20517 Filed 8–25–16; 8:45 am]

BILLING CODE 6210–01–P

FEDERAL RESERVE SYSTEM

Change in Bank Control Notices; Acquisitions of Shares of a Bank or Bank Holding Company

The notificants listed below have applied under the Change in Bank Control Act (12 U.S.C. 1817(j)) and § 225.41 of the Board's Regulation Y (12 CFR 225.41) to acquire shares of a bank or bank holding company. The factors that are considered in acting on the notices are set forth in paragraph 7 of the Act (12 U.S.C. 1817(j)(7)).

The notices are available for immediate inspection at the Federal Reserve Bank indicated. The notices also will be available for inspection at the offices of the Board of Governors. Interested persons may express their views in writing to the Reserve Bank indicated for that notice or to the offices of the Board of Governors. Comments must be received not later than September 12, 2016.

A. Federal Reserve Bank of St. Louis (David L. Hubbard, Senior Manager) P.O. Box 442, St. Louis, Missouri 63166–2034. Comments can also be sent electronically to *Comments.applications@stls.frb.org:*

1. *Gaylon M. Lawrence, Jr., Memphis, Tennessee,* to retain shares of Piggott Bankstock, Inc., and thereby indirectly retain control of Piggott State Bank, both in Piggott, Arkansas.

Board of Governors of the Federal Reserve System, August 23, 2016.

Michele T. Fennell,

Assistant Secretary of the Board.

[FR Doc. 2016–20531 Filed 8–25–16; 8:45 am]

BILLING CODE 6210–01–P

FEDERAL RESERVE SYSTEM

Formations of, Acquisitions by, and Mergers of Bank Holding Companies

The companies listed in this notice have applied to the Board for approval, pursuant to the Bank Holding Company Act of 1956 (12 U.S.C. 1841 *et seq.*) (BHC Act), Regulation Y (12 CFR part 225), and all other applicable statutes and regulations to become a bank holding company and/or to acquire the assets or the ownership of, control of, or the power to vote shares of a bank or bank holding company and all of the banks and nonbanking companies owned by the bank holding company, including the companies listed below.

The applications listed below, as well as other related filings required by the Board, are available for immediate inspection at the Federal Reserve Bank indicated. The applications will also be available for inspection at the offices of the Board of Governors. Interested persons may express their views in writing on the standards enumerated in the BHC Act (12 U.S.C. 1842(c)). If the proposal also involves the acquisition of a nonbanking company, the review also includes whether the acquisition of the nonbanking company complies with the standards in section 4 of the BHC Act (12 U.S.C. 1843). Unless otherwise noted, nonbanking activities will be conducted throughout the United States.

Unless otherwise noted, comments regarding each of these applications must be received at the Reserve Bank indicated or the offices of the Board of Governors not later than September 22, 2016.

A. Federal Reserve Bank of St. Louis (David L. Hubbard, Senior Manager) P.O. Box 442, St. Louis, Missouri 63166–2034. Comments can also be sent electronically to *Comments.applications@stls.frb.org:*

1. *M&P Community Bancshares, Inc., 401(k) Employee Stock Ownership Plan;* to acquire additional shares of M&P Community Bancshares, Inc., for a total of ownership of up to 38 percent, and