

**Supporting Statement for the
Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks
(FFIEC 002; OMB No. 7100-0032)**

Summary

The Board of Governors of the Federal Reserve System (Board) requests approval from the Office of Management and Budget (OMB) to revise, without extension, the Federal Financial Institutions Examination Council (FFIEC) Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002; OMB No. 7100-0032). The Board submits this request on behalf of the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC). No separate submission will be made by either of those agencies. This report is required and must be submitted quarterly by U.S. branches and agencies of foreign banks. All U.S. branches and agencies of foreign banks are required to file detailed schedules of assets and liabilities in the form of a condition report and a variety of supporting schedules. This information is used to fulfill the supervisory and regulatory requirements of the International Banking Act of 1978 (IBA). This report is mandated by the FFIEC for collection by the Board, the FDIC, and the OCC (collectively the agencies) in accordance with procedures under Title 10 of the Financial Institutions Regulatory Act.

The agencies propose to implement a number of revisions to modify the existing reporting requirements of the FFIEC 002, consistent with revisions to Schedule RC-O (Other Data for Deposit Insurance and FICO Assessments) on the Reports of Condition and Income (Call Report) (FFIEC 031 and 041; OMB No. 7100-0036) filed by insured commercial banks and state-chartered savings banks. The proposed revisions to the FFIEC 002 would apply only to branches whose deposits are insured by the FDIC.

The agencies propose to implement changes to the FFIEC 002 effective with the September 30, 2006, report date. The annual reporting burden for the current FFIEC 002 is estimated to be 25,025 hours and would remain unchanged. Attached are copies of the proposed reporting forms and instructions.

Background and Justification

The agencies use the FFIEC 002 report for supervisory and regulatory purposes. The Board also uses the data for monetary policy purposes. The report is similar to the Call Report required of all U.S. commercial banks, although the FFIEC 002 collects fewer items of information.

The IBA expresses the intent of the Congress to equalize the supervisory and regulatory treatment between foreign and domestic-owned financial institutions operating in the United States, which specifies that foreign banks' branches and agencies in the United States are to be subject to the supervisory authority of the U.S. federal banking agencies and that responsibility for federal supervision is to be shared among the agencies.

As one step in carrying out the supervisory and regulatory responsibilities imposed by the IBA, the agencies instituted the FFIEC 002 report in June 1980. The FFIEC 002 replaced a Federal

Reserve report, FR 886a that had been collected from U.S. branches and agencies since 1972. The FFIEC 002 report was revised extensively effective December 1985, when several schedules were deleted, items were added to collect separate data on International Banking Facilities (IBFs), and schedules were added covering quarterly averages (Schedule K), commitments and contingencies (Schedule L), and past due loans (Schedule N). The report also was revised to conform as closely as possible to the quarterly Call Report for domestic banks.

Effective with the June 30, 2001, reporting date revisions were made to conform the FFIEC 002 with eliminations and reductions in detail to the Call Report filed by insured commercial banks and FDIC-supervised savings banks. The agencies expanded the information collected in the FFIEC 002 report to facilitate more effective analysis of the impact of securitization and asset sale activities on credit exposures. The agencies introduced a separate new schedule (Schedule S) that comprehensively captures information related to securitization and asset sale activities. In addition, the FFIEC and the agencies had previously granted confidential treatment to the information branches and agencies report in Schedule N of the FFIEC 002 report on the amounts of their loans, leases, and other assets that are past due, in nonaccrual status, or restructured and in compliance with modified terms. In order to give the public, including branches and agencies, more complete information on the level of and trends in asset quality at individual institutions, the agencies eliminated the confidential treatment provided for this information beginning with the amounts reported as of June 30, 2001.

Effective with the December 31, 2001, reporting date the agencies changed the manner in which branches and agencies report information on their trust activities. Branches and agencies that previously filed the Annual Report of Trust Assets (FFIEC 001) instead began to file a new Fiduciary and Related Services Schedule (Fiduciary Schedule) (Schedule T) as part of the FFIEC 002. Branches and agencies that have fiduciary or related activity are required to report certain trust information in Schedule T annually.

Effective with the March 31, 2003, reporting date, the agencies implemented several revisions to improve the agencies' ability to analyze the risks and activities of branches and agencies and to achieve consistency with the Call Reports filed by insured commercial banks and FDIC-supervised savings banks, including certain changes to the Call Report.

Effective with the March 31, 2004, reporting date, the agencies implemented a small number of revisions to the existing reporting requirements of the FFIEC 002. The revisions helped to achieve consistency with the Call Reports filed by insured commercial banks and FDIC-supervised savings banks.

In addition to its supervisory and regulatory uses, the FFIEC 002 report provides information needed for monetary and financial analysis essential for the conduct of monetary policy. The branches and agencies of foreign banks are a large and growing part of the U.S. banking system, with assets exceeding \$1 trillion as of March 31, 2006. The FFIEC 002 provides the benchmark data needed to derive adequate weekly estimates from the sample report titled Weekly Report of Assets and Liabilities for Large U.S. Branches and Agencies of Foreign Banks (FR 2069; OMB No. 7100-0030). The weekly estimates are used to analyze credit developments and sources and uses of funds for the banking sector and to assess current financial developments within the entire U.S.

banking system. They help to interpret the bank credit and deposit information needed for both monetary policy decisions and for gauging the response to those decisions.

Description of Information Collection

The reporting panel for the FFIEC 002 includes all U.S. branches and agencies (including their IBFs) of foreign banks, whether federally licensed or state chartered, insured or uninsured. Each branch or agency of a particular foreign bank must submit a separate quarterly report, with one exception. A foreign bank may submit a request to the appropriate Federal Reserve Bank to consolidate reporting for two or more offices, provided that (1) the offices are located in the same city or metropolitan area, the same state, and the same Federal Reserve District, and (2) the consolidated report does not consolidate branches with agencies or insured branches with uninsured branches.

As of June 30, 2006, the reporting panel consisted of 275 U.S. branches and agencies. As new U.S. branches and agencies of foreign banks come into existence, they are added to the reporting panel. Respondents are required to submit the report quarterly to the appropriate Federal Reserve Bank. The Federal Reserve System collects, processes, and edits the data on behalf of all three federal bank regulatory agencies.

While conforming generally to the U.S. commercial bank Call Report, the format of the FFIEC 002 has been designed to reflect the portfolio patterns of branches and agencies of foreign banks and their institutional character. There is more disaggregated reporting of foreign and domestic customers than is required in the Call Report for domestic banks, and Schedule M of the FFIEC 002 provides information on claims on, and liabilities to, the foreign bank head office and other related institutions of the U.S. branches and agencies.

The FFIEC 002 consists of a summary schedule of assets and liabilities (Schedule RAL) and several supporting schedules. Information is required in each schedule on balances of the entire reporting branch or agency. On the schedules for cash (Schedule A), loans (Schedule C), and deposits (Schedule E), separate detail is reported on balances of IBFs. Unlike the Call Report for domestic banks, the FFIEC 002 collects no income data.

The Federal Reserve offers an electronic data transmission facility through which respondents to various reports collected by the Federal Reserve may submit information. The facility was offered to U.S. branches and agencies of foreign banks for electronic entry of the FFIEC 002 beginning in the second quarter of 1990 and continues to be available.

Proposed Revisions effective September 30, 2006

Changes to Schedule O – Other Data for Deposit Insurance Assessments

The Federal Deposit Insurance Reform Act of 2005 (Reform Act) (Pub. L. 109–171), enacted in February 2006, increased the deposit insurance limit for certain retirement plan deposit accounts from \$100,000 to \$250,000. The basic insurance limit for other depositors - individuals, joint accountholders, businesses, government entities, and trusts - remains at \$100,000. The FDIC issued an interim rule to implement this increase in coverage and other provisions of the Reform Act pertaining to deposit insurance coverage effective April 1, 2006.¹

1. As a result of this legislation and rulemaking, Memorandum items 1.a.(1) through 1.b.(2) of Schedule O would be redefined to exclude retirement accounts, which would be reported in four new Memorandum items 1.c.(1) through 1.d.(2).²

For purposes of reporting in the revised Schedule O Memorandum items, FDIC-insured branches should determine whether they have retirement deposit accounts eligible for the \$250,000 insurance coverage and should apply the following transition guidance. Such branches may provide reasonable estimates for the information to be reported in the revised Schedule O Memorandum items in their FFIEC 002 for September 30, 2006. If a branch's existing deposit records and systems for these retirement deposit accounts provide insufficient information to allow the branch to make a reasonable estimate, the branch may treat all of these deposit accounts as eligible for the \$100,000 insurance coverage in the September 30 FFIEC 002.

For the FFIEC 002 for December 31, 2006, branches would be expected to have made appropriate systems changes to enable them to report reasonably accurate data on all types of retirement deposit accounts eligible for the \$250,000 insurance coverage. Therefore, branches would no longer be permitted to elect to treat all retirement deposit accounts as eligible for the \$100,000 insurance coverage in the revised Schedule O Memorandum items in their December 31 FFIEC 002. Thereafter, FDIC-insured branches' deposit records and systems should enable them to report information on all retirement deposit accounts in these Schedule O Memorandum items in accordance with the applicable instructions.

In addition, the agencies are providing guidance concerning the reporting of brokered certificates of deposit issued in \$1,000 amounts under a master certificate of deposit in the revised Schedule O data items and in Schedule E of the FFIEC 002. For these so-called retail brokered deposits, multiple purchases by individual depositors from an individual FDIC-insured branch normally do not exceed the applicable deposit insurance limit (either \$100,000 or \$250,000), but under current deposit insurance rules the deposit broker is not required to provide information routinely on these purchasers and their account ownership capacity to the insured branch issuing the deposits. For purposes of revised Schedule O, Memorandum item 1, multiple accounts of the same depositor should not be aggregated. Therefore, in the absence of information on account ownership capacity for retail brokered certificates of deposit in \$1,000 amounts, which are rebuttably presumed

¹ For further details, see the *Federal Register* notice published on March 23, 2006 (71 FR 14629).

² For further details, see the Call Report *Federal Register* notice published on May 8, 2006 (71 FR 26809).

to be fully insured deposits, branches issuing these brokered deposits should include them in Schedule O, Memorandum item 1, as “Deposit accounts of \$100,000 or less.” Furthermore, these brokered certificates of deposit in \$1,000 amounts should not be included in Schedule E, Memorandum item 1.a, “Time deposits of 100,000 or more,” or Memorandum item 1.c, “Time certificates of deposit of \$100,000 or more with remaining maturity of more than 12 months.”

2. Given the purpose of these memorandum items, the dollar amount cited in the caption would need to be changed if the deposit insurance limit were to change. To ensure that the dollar amount cited in the caption changes automatically as a function of the deposit insurance limit in effect on the report date, the caption for Memorandum item 1 would be footnoted to state that the specific dollar amounts used as the basis for reporting the number and amount of deposit accounts in Memorandum items 1.a through 1.d reflect the deposit insurance limits in effect on the report date. The instructions for this Memorandum item would be similarly clarified.³

3. Memorandum items 2.a and 2.b of Schedule O would be replaced and redefined as Memorandum item 2, “Estimated amount of uninsured deposits in the branch (excluding IBF),” and would be completed only by branches with \$1 billion or more in total claims on nonrelated parties.⁴

Currently there are thirteen branches that would be required to report the proposed Memorandum item 1 and only four branches that would be required to report the proposed Memorandum item 2. Therefore, the agencies estimate that these deposit-related reporting changes will have a nominal effect on the overall reporting burden of the FFIEC 002.

Time Schedule for Information Collection

The FFIEC 002 report is collected as of the end of each calendar quarter and must be submitted by U.S. branches and agencies of foreign banks to the appropriate Federal Reserve Bank within thirty days of the report date. After the processing and editing functions have been completed, the Board sends the data to the FDIC and OCC for their use in monitoring the U.S. activities of foreign banks under their supervision. Aggregate data for all U.S. branches and agencies are published in the *Federal Reserve Bulletin* and are also used in developing flow of funds estimates and the estimates published in the Federal Reserve statistical release, “Assets and Liabilities of Commercial Banks in the United States” (H.8).

Individual respondent data, excluding confidential information, are available to the public from the National Technical Information Service in Springfield, Virginia, upon request. The information on file is provided on compact discs. In addition, individual respondent data are also available on the FFIEC public web site at: <http://www.ffiec.gov/nicpubweb/nicweb/nichome.aspx>.

³ For further details, see the Call Report *Federal Register* notices published on November 8, 2002, and March 4, 2003 (67 FR 68229 and 68 FR 10310, respectively).

⁴ For further details, see the Call Report *Federal Register* notices published on October 18, 2001, February 28, 2002, August 23, 2005, and February 17, 2006 (66 FR 52973, 67 FR 9355, 70 FR 49363, and 71 FR 8649, respectively).

Legal Status

The Board's Legal Division has determined that section 7(c)(2) of the IBA [12 U.S.C. § 3105(c)(2)] authorizes the agencies to require the report. In addition, section 4(b) of the IBA [12 U.S.C. § 3102(b)] authorizes the OCC to collect the information from Federal branches and Federal agencies of foreign banks. Further, section 7(a) of the Federal Deposit Insurance Act [12 U.S.C. § 1817(a)(1) and (3)] authorizes the agencies to collect the information from insured branches of foreign banks. The Board's Legal Division has also determined that the individual respondent information contained in Schedule M (Due from/Due to Related Institutions in the U.S. and in Foreign Countries) is exempt from disclosure pursuant to the Freedom of Information Act [5 U.S.C. § 552(b)(4) and (b)(8)]. Information from all other schedules of the report is available to the public on request.

Consultation Outside the Agency

On June 5, 2006, the Board, under the auspices of the FFIEC and on behalf of the FDIC and the OCC, published a notice in the *Federal Register* (71 FR 32347) requesting public comment for 60 days on the revision of the FFIEC 002. The comment period for this notice expired on August 4, 2006. The agencies received one supportive comment letter from a federal agency describing its use of the data to prepare economic account information and estimates of international transactions. The revisions to the FFIEC 002 have been approved by the FFIEC as originally proposed, but with the addition of transition guidance.

Estimate of Respondent Burden

This report is collected from the universe of U.S. branches and agencies of foreign banks. The number of respondents is 275 and the annual reporting burden is estimated to be 25,025 hours. This burden is less than 1 percent of the total Federal Reserve System burden.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FFIEC 002	275	4	22.75	25,025

The total cost to the public is estimated to be \$1,692,941.⁵

⁵ Total cost to the public was estimated using the following formula. Percent of staff time, multiplied by annual burden hours, multiplied by hourly rate: 25% - Clerical @ \$25, 40% - Managerial or Technical @ \$55, 25% - Senior Management @ \$100, and 10% - Legal Counsel @ \$144. Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics, *Occupational Employment and Wages*, news release.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The annual cost to the Federal Reserve System for collecting and processing the FFIEC 002 is estimated to be \$500,000. The Federal Reserve System collects and processes the data for all three federal bank regulatory agencies.