

**Supporting Statement for  
Report of Changes in Organizational Structure; Supplement to the Report of Changes in  
Organizational Structure; Annual Report of Bank Holding Companies; and Annual  
Report of Foreign Banking Organizations  
(FR Y-10, FR Y-10E, FR Y-6, and FR Y-7; OMB No. 7100-0297)**

**Summary**

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB) proposes to revise, without extension, the following mandatory reports (OMB No. 7100-0297):

- Annual Report of Bank Holding Companies (FR Y-6), and
- Report of Changes in Organizational Structure (FR Y-10).

This family of reports also contains the following mandatory reports, which are not being revised:

- Annual Report of Foreign Banking Organizations (FR Y-7), and
- Supplement to the Report of Changes in Organizational Structure (FR Y-10E).

The FR Y-6 is an annual information collection submitted by top-tier BHCs and nonqualifying foreign banking organizations (FBOs). It collects financial data, an organization chart, and information about shareholders. The Federal Reserve uses the data to monitor holding company operations and determine holding company compliance with the provisions of the Bank Holding Company Act (BHC Act) and Regulation Y (12 CFR 225).

The FR Y-10 is an event-generated information collection submitted by FBOs, top-tier domestic Bank Holding Companies (BHCs), including financial holding companies (FHCs), and state member banks unaffiliated with a BHC, to capture changes in their regulated investments and activities. The Federal Reserve uses the data to monitor structure information on subsidiaries and regulated investments of these entities engaged in banking and nonbanking activities.

The FR Y-7 is an annual information collection submitted by qualifying FBOs to update their financial and organizational information with the Federal Reserve. The Federal Reserve uses information to assess an FBO's ability to be a continuing source of strength to its U.S. operations and to determine compliance with U.S. laws and regulations.

The FR Y-10E is a free-form supplement that may be used to collect additional structural information deemed to be critical and needed in an expedited manner.

The Federal Reserve proposes to revise the FR Y-6 by adding to the organization chart an annual requirement for institutions to verify a list of domestic branches for each depository institution and Edge and agreement corporation in the organization effective December 31, 2007. The Federal Reserve also proposes to implement a new schedule on the FR Y-10 to collect data on domestic branches of depository institutions and Edge and agreement corporations effective April 30, 2008. The estimated total current annual reporting burden for this family of reports is 35,269 hours and is estimated to increase by 10,692 hours with these proposed revisions.

## **Background and Justification**

### **FR Y-6**

Section 5(c) of the BHC Act authorizes the Board to require BHCs to keep the Board informed, in part, of their financial condition, risk management systems, and transactions with bank subsidiaries. Data from the FR Y-6 enable the Federal Reserve to monitor holding company operations, ensure that operations are conducted in a safe and sound manner, and determine holding company compliance with the provisions of the BHC Act and Regulation Y. The data collected about shareholders, directors, officers and others provide valuable information, which is used for supervisory purposes in various ways. For example, data on outside business interests of directors and officers aid in identifying chain banking organizations by indicating when an individual owns 25 percent or more of each of two or more banking organizations. In addition, information on the principal owners and directors is of supervisory importance since these individuals have a significant effect on the policies and condition of banking organizations. Furthermore, information on the outside business interests of insiders can be useful in uncovering situations that involve a conflict of interest or preferential treatment in the granting of credit. Finally, information on ownership helps the Federal Reserve monitor compliance with the Change in Bank Control Act.

A number of BHCs are not inspected on an annual basis. Therefore, annual submission of this information in the FR Y-6 is essential for supervisory purposes because it provides information between BHC inspections. The timely collection of these data in a supervisory report enhances the Federal Reserve's efforts to monitor BHC activities.

The FR Y-6 data are available to other federal banking agencies for use in their supervision of national and state nonmember banks. In addition, the FR Y-6 serves as a source of information on BHCs for the public and for responses to information requests from Congress.

### **FR Y-10**

In 1985, the FR Y-6 was restructured to collect only financial information, and the Changes in Investments and Activities of Top-Tier Financial Holding Companies, Bank Holding Companies, and State Member Banks (FR Y-6A; OMB No. 7100-0124) was created to capture structure information for new BHCs or BHCs that had undergone a change in their structure. In April 2000, the Federal Reserve revised the FR Y-6A to collect information on changes in investments and activities related to the Gramm-Leach-Bliley Act of 1999 (GLB Act) from FHCs and unaffiliated state member banks. In September 2001, the Federal Reserve replaced the FR Y-6A with the FR Y-10 to reduce the burden and costs associated with submitting this information. This revision made the submission of structure information by domestic and foreign banking organizations more similar, increased the thresholds for investments to be included, reduced the types of investments to be included, streamlined the method for indicating the percentage ownership of nonbanking investments, and simplified the submission of legal authority and activity codes. Finally, the submission of certain information on the structure of foreign investments was moved from the Report of Changes in Foreign Investments (Made Pursuant to Regulation K) (FR 2064; OMB No. 7100-0109) to the FR Y-10, and the FR 2064 was changed to a recordkeeping requirement. In 2004, the Federal Reserve revised the FR Y-10 reporting forms and instructions in an effort to reduce respondent burden. The revisions to the

reporting forms consisted primarily of reorganizing data items into separate schedules for banking and nonbanking investments. In addition, The Federal Reserve replaced FRS activity codes with the North American Industrial Classification System (NAICS) codes. In 2006, the Federal Reserve approved combining the FR Y-10 with the Report of Changes in FBO Organizational Structure (FR Y-10F), the Supplement to the Report of Changes in Organizational Structure (FR Y-10S), and the Notification of Foreign Branch Status (FR 2058) to streamline the reporting of organizational structure data. This change will be effective June 30, 2007.

The Federal Reserve System uses this information to monitor the activities of reportable companies to ensure that the activities are conducted in a safe and sound manner. The FR Y-10 data provide the Federal Reserve with information integral to monitoring compliance with the BHC Act, the GLB Act, the Federal Reserve Act (FRA), Regulation Y, and Regulation K. Additionally, the FR Y-10 is the only source of information collected by a banking agency that captures detailed information on the structure of the banking organizations described in the Respondent Panel section below.

### **FR Y-7**

The Federal Reserve implemented the FR Y-7 in January 1972 and required only foreign banks that controlled U.S. subsidiary banks to file. With the enactment of the International Banking Act of 1978 (IBA), the Congress established a framework for federal regulation of foreign banks operating in U.S. financial markets. Section 7 of the IBA authorizes the Federal Reserve to examine U.S. branches, agencies, and subsidiary commercial lending companies of foreign banks and to assess the condition of the multi-state banking operations of foreign banks. Section 8(a) of the IBA states that foreign banks that engage in banking in the United States through a U.S. branch, agency or subsidiary commercial lending company and companies that control such foreign banks are subject to the provisions of the BHC Act, as amended.

Given these statutory responsibilities, the Federal Reserve issued two policy statements (dated February 23, 1979, and July 20, 1979) on the supervision of FBOs that control a U.S. subsidiary bank. They stated that the Federal Reserve needed full financial information on foreign parent organizations to assess the foreign parent's ability to continue to serve as a source of strength for their U.S. operations. In 1980, as part of its implementation of those policy statements, the Federal Reserve issued a revised FR Y-7 form setting forth annual reporting requirements for FBOs engaged in banking in the United States.

The Federal Reserve System uses information collected on this reporting form to assess a FBO's ability to be a continuing source of strength to its U.S. operations, to determine eligibility as a Qualifying Foreign Banking Organization, and to determine compliance with U.S. laws and regulations. This information is not available from other sources.

### **FR Y-10E**

The Federal Reserve implemented the FR Y-10E, effective June 30, 2007, to create a free-form supplement to the FR Y-10 so that, should there be an immediate need for certain critical organizational structural information, the necessary data could be collected on this supplement at the earliest practicable date. This supplement may only be used to meet new legislative requirements, answer Congressional inquiries, or respond to critical market events

that could not be addressed in a timely manner if the Federal Reserve were required to seek approval through the reports clearance process.

## **Description of Information Collection**

The annual FR Y-6 is submitted by top-tier BHCs and nonqualifying FBOs and consists of the requirement that BHCs not registered with the Securities and Exchange Commission submit, if one is created, their annual report to shareholders. The FR Y-6 also requires the submission of an organizational chart and collects information on the identity, percentage ownership, and business interests of principal shareholders, directors, and executive officers.

The FR Y-10 collects data on organizational structural changes for the reportable companies listed in the respondent panel section. There are currently four schedules: the Banking Schedule, which is used to submit information on a banking organization and its directly or indirectly held interests in a BHC, bank organized under U.S. law, or FBO; the Nonbanking Schedule, which is used to submit information about a banking organization's directly or indirectly held interests in a nonbanking company; the Merger Schedule, which collects information on the survivors and nonsurvivors of mergers involving any reportable company; and the 4(k) Schedule which provides required post-transaction notice for activities, formations and acquisitions of companies, and large merchant banking and insurance company investments authorized under Section 4(k) of the BHC Act. Two additional schedules will be added to the reporting form in June 2007 as part of the changes approved in 2006: the Branch, Agency, and Representative Office of FBOs Schedule (which collects structure information on U.S. branches, agencies, representative offices, and non-U.S. managed branches) and the Foreign Branches of U.S. Banking Organizations Schedule (which collects structure information on foreign branches of U.S. banking organizations).

The annual FR Y-7 is submitted by qualifying FBOs that are directly or indirectly engaged in the business of banking in the United States as of the end of the respondent's fiscal year.<sup>1</sup> The FR Y-7 collects financial, organizational, and managerial information.

The FR Y-10E supplement may be used to collect additional structural information deemed to be critical and needed in an expedited manner. This supplement may only be used to meet new legislative requirements, answer Congressional inquiries, or respond to critical market events that could not be addressed in a timely manner if the Federal Reserve were required to seek approval through the reports clearance process. The Federal Reserve expects to use this supplement infrequently and only when there is not sufficient time to take proposed changes through the full clearance process. Subsequent to the implementation of this supplement, if the data were needed on a permanent basis, the Federal Reserve would complete the entire clearance process, including a request for public comment.

*Revisions Effective December 31, 2007*

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<sup>1</sup> Under the International Banking Act of 1978, banks organized under the laws of Puerto Rico and other American possessions are generally not required to file the FR Y-7. Such banks are insured by the FDIC and examined by U.S. supervisory agencies. Also, FBOs that are BHCs or that have a U.S. BHC subsidiary are required to report on the FR Y-6 all interests held through the top-tier U.S. BHC.

## **FR Y-6 Organization Chart**

The Federal Reserve proposes to add to Report Item 2: Organization Chart an annual requirement for institutions to verify a list of domestic branches that the Federal Reserve has on file for the institution. The list of domestic branches would include those of depository institutions and Edge and agreement corporations held directly or indirectly by the respondent. The Federal Reserve would provide the branch data to the institution and the institution would be required to annotate the data in the format provided. In response to industry feedback, the Federal Reserve will provide a means for the institutions to download their data in a spreadsheet format. Where the annotated changes represent data that should have been reported previously on the FR Y-10 (after April 30, 2008), the respondent would also be required to submit FR Y-10 data as of the correct effective date of the change. See the justification below for the new schedule on the Proposed FR Y-10, Domestic Branch Schedule, to be implemented in April 2008.

*Revisions Effective April 30, 2008*

## **Proposed FR Y-10 Domestic Branch Schedule**

The Federal Reserve proposes to add a schedule to the FR Y-10 for data on domestic branches and offices of depository institutions held directly or indirectly and domestic branches of Edge and agreement corporations. Top-tier BHCs, state member banks that are not controlled by a BHC, and Edge and agreement corporations would be required to submit this information. Data would not be submitted by national and nonmember banks that are unaffiliated with a BHC.

The Federal Reserve proposes to collect branch data on an event-generated basis, parallel to the other schedules on the FR Y-10, within thirty calendar days. As noted above, BHCs would verify a list of domestic branches for each depository institution within their organization in the FR Y-6 report, beginning in December 2007. The Federal Reserve would request BHCs to provide data on the FR Y-10 for any branch openings, acquisitions, sales, closings or relocations, or changes to service type or popular name, occurring between January 1, 2008 and April 30, 2008, by May 30, 2008. Thereafter, institutions would be required to report events within 30 days; however, they would be permitted to combine multiple transactions within a 30-day period into a single monthly filing.

Collecting domestic branch data on an event-generated basis would ensure that analysts will be using data that accurately reflect current market conditions. In the analysis of proposed mergers, or when performing fair lending examinations, the Federal Reserve will be able to assess banking presence in the relevant markets as of the date of the filing or exam. Currently, such analysis is not possible; even in cases where the merging parties or the bank under examination could provide up-to-date information, such data are not available for other market participants. In the analysis of actual or potential disasters, such data are also critical so that any corrective actions are taken based on the current ownership and locations of bank branches. Correct assessment of the institutions affected by a hurricane, for example, requires that the Federal Reserve know what branches are operating in the affected area at the time of the disaster and who owns those branches.

Data would be submitted for the following branches and offices:

1. Full service (brick & mortar, retail) – traditional offices.
2. Electronic Banking – offices where Internet and other similar deposits are booked.
3. Limited service (military, drive-through, mobile or seasonal, and retail) - limited, but often take or include deposits.
4. Trust - limited and nondeposit.

For both the research and supervision communities, branch data are essential for carrying out the Federal Reserve's statutory responsibility to analyze the competitive effects of proposed bank mergers and acquisitions. Competitive analysis is required by the BHC Act (sections 3(c) (1) and (2)) and the Bank Merger Act (section 18(c)). The purpose of collecting data in these four categories is to gain accurate information regarding the degree of each institution's market presence in local markets. Categories 1 and 3 are branches that take deposits and directly serve the area where they are located. Categories 2 and 4 are also deposit-taking branches but their deposits are likely to have originated from consumers in locations other than where the branch is located, implying that branch presence in the market may not indicate service in that market. The proposal to classify all branches into four categories is based upon the current collection of branch data in the Federal Deposit Insurance Corporation's (FDIC's) Summary of Deposits (SOD) Report (OMB No. 3064-0061). Each of the current SOD classifications can be mapped directly into one of the proposed categories. This should reduce burden on respondents. The Federal Reserve will provide a document mapping the proposed categories to the SOD classifications.

In many bank merger applications, applicants have argued that the competitive analysis should take into account the precise activities at a given branch. This includes cases where they have argued for the exclusion of deposits or branches on the grounds that the deposits are non-local in origin. The lack of data in these cases has hindered analysis.

The research communities within the Federal Reserve System rely heavily on domestic branch data for economic and market research as well as policy. Many research projects that use branch data are designed to enhance the Federal Reserve's understanding of the relationship between banking market structure (as measured by the number of firms operating in a market, market concentration, entry, and exit), firm behavior (prices and service quality), and performance (profitability). Branch data have been used for a variety of additional market studies, including several pertaining to lending patterns of banks. For the Survey of Small Business Finances (SSBF; FR 3044; OMB No. 7100-0262), branch data are critical in determining distances between firms and their banks and for creating Herfindahl indexes (which measure industry concentration). Accurate location data are increasingly important as the technology for geocoding data improves.

A recent example of using branch data for research and policy work was in evaluating the impact of Hurricane Katrina on the banking system immediately after the disaster. The Federal Reserve also provided geocoded maps of branches in the affected areas to the Red Cross. Although Hurricane Katrina happened in August 2005, the most current universe of branch data available for analysis was as of June 2004. The data used for this analysis were based the FDIC's June 2004 SOD data that the Federal Reserve had meticulously edited for location. Better branch data on the National Information Center (NIC) would have enabled economists to incorporate branch structure changes between June 2004 and August 2005 into their analysis and policy decisions.

The Federal Reserve System uses branch data from the SOD for Community Reinvestment Act (CRA) exams and to study and report to the Congress evaluations of compliance with consumer regulations. Better branch data would allow CRA examiners to look at peer groups of branches across banks. The Federal Reserve's Home Mortgage Disclosure Act (HMDA) system uses branch information from NIC to determine the reporting panel. In addition, HMDA (OMB No. 7100-0147) and CRA (OMB No. 7100-0197) data are geocoded and numerous studies and reports regarding fair lending practices are based on the HMDA files that include branch data.

The Federal Reserve also needs the data to construct better estimates of distance between Federal Reserve offices and depository institution customers for check and cash infrastructure purposes. Improved estimates of distance would contribute to the analyses of general restructuring proposals for checks and for cash by increasing the accuracy of cost-benefit analyses of the effect of such changes on Reserve Bank efficiency and industry costs.

Reserve Bank statistics functions rely on branch data to help analyze fluctuations in financial data that may be associated with a branch purchase, closure, or sale. Branch structure information is made available to the public in a variety of ways including several Board publications and statistical tables and on the NIC public website. Several Reserve Banks also have applications that use NIC branch data.

This proposal would replace most of the current process for gathering domestic branch structure data, which is inadequate. Branch data for domestic state member banks are communicated to the Federal Reserve primarily through applications. Information for all other domestic bank branches (branches of national and nonmember banks) is obtained by Federal Reserve staff searching FDIC and Office of the Comptroller of the Currency bulletins. The results of this process are data that are not consistent and that are often stale. The timing and extent of notifications to various bank regulators do not allow for consistent maintenance of the data that the Federal Reserve needs. This current process has been useful to some internal users over the years, but since there is no formal data collection, the data are not relied upon by the Federal Reserve. The Federal Reserve needs a formal information collection to ensure that these data are consistent, complete, and updated on the same frequency.

Collecting branch data for the institutions associated with top-tier BHCs, state member banks unaffiliated with a BHC, and Edge and agreement corporations would cover 95 percent of the banking branches and 82 percent of banking and thrift branches. While this does not cover the universe, it is a close approximation and the remaining branches can be maintained through the previous methods, as the volume will be significantly lower. The data would be joined with deposits data from the SOD for competitive analysis purposes.

Domestic bank branch data are submitted to the FDIC on the SOD<sup>2</sup> as of June 30 each year. This reporting form collects structure and deposits information on all insured branches. The volume of branch structure changes is high, as openings, closings, relocations, purchases, and sales are common practices, and the relevancy of the annual data significantly diminishes

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<sup>2</sup> Thrift branches are also reportable to the Office of Thrift Supervision (OTS) on their annual Branch Office Survey (OMB No. 1550-0004) data.

over time.

### **Respondent Panel**

The FR Y-6 panel comprises top-tier BHCs and nonqualifying FBOs. The FR Y-10 and FR Y-10E panel comprises FBOs; top-tier BHCs; state member banks that are not controlled by a BHC; Edge and agreement corporations that are not controlled by a member bank, a domestic BHC, or a FBO; and nationally chartered banks that are not controlled by a BHC, with regard to their foreign investments only. The FR Y-7 panel comprises all qualifying FBOs that engage in banking in the United States, either directly or indirectly.

### **Time Schedule for Information Collection and Publication**

The FR Y-6 is submitted annually, no later than three months after the end of the BHC's or nonqualifying FBO's fiscal year. Individual respondent data are available to the public upon request through the appropriate Reserve Bank. Under certain circumstances, however, respondents may request confidential treatment. Data from the FR Y-6 are not published.

The FR Y-10 is event-generated, and the data are submitted within thirty calendar days of a reportable transaction or event. Individual respondent data are available to the public upon request through the appropriate Reserve Bank. Under certain circumstances, however, respondents may request confidential treatment. Limited data from the FR Y-10 are published on the NIC website.

All qualifying FBOs file the FR Y-7 annually as of the end of the FBO's fiscal year; the data are due not later than four months after the report date. Data from these reporting forms are not published, but nonconfidential data would be available to the public upon request. Submissions are mandatory.

The FR Y-10E is event-generated and would be submitted on an ad-hoc basis when needed.

### **Legal Status**

The Board's Legal Division determined that the following statutes authorize the Federal Reserve to require the reporting forms:

**FR Y-6:** Section 5(c)(1)(A) of the BHC Act (12 U.S.C. 1844(c)(1)(A)); Section 8(a) of the IBA (12 U.S.C. 3106(a)); Sections 11(a)(1), 25 and 25A of the FRA (12 U.S.C. 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 CFR 211.13(c)); and Section 225.5(b) of Regulation Y (12 CFR 225.5(b)).

**FR Y-10 and FR Y-10E:** Sections 4(k) and 5(c) of the BHC Act (12 U.S.C. 1843(k), 1844(c)); Sections 11(a)(1), 25(7) and 25A of the FRA (12 U.S.C. 248(a)(1), 602, and 611a); 12 U.S.C. 321, 601, 615; Section 211.13(c) of Regulation K (12 CFR 211.13(c)); Section 225.5(b) of Regulation Y (12 CFR 225.5(b)); Section 225.87 of Regulation Y (12 CFR 225.87); and Section 8(a) of the IBA (12 U.S.C. 3106(a)).



**FR Y-7:** 12 U.S.C. 3106 and 3108(a).

The Board's Legal Division also determined that the data collected in the FR Y-6, FR Y-10, FR Y-10E, and FR Y-7 are not considered confidential. However, a company may request confidential treatment pursuant to sections (b)(4) and (b)(6) of the Freedom of Information Act (5 U.S.C. 522(b)(4) and (b)(6)). Section (b)(4) provides exemption for trade secrets and commercial or financial information obtained from a person as privileged or confidential. Section (b)(6) provides exemption for personnel and medical files and similar files the disclosure of which will constitute a clearly unwarranted invasion of personal privacy.

**Estimate of Respondent Burden**

As shown in the following table, the current estimated annual reporting burden for the organizational structure reporting forms is 35,269 hours. The proposed changes would result in a net increase in burden to 45,961 hours annually. The estimated annual burden for these reporting forms, current and proposed, is less than 1 percent of the total Federal Reserve System burden.

	<i>Number of respondents</i>	<i>Estimated annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<i>Current</i>				
FR Y-10	2,768	4	1	11,072
FR Y-10E	2,768	1	.50	1,384
FR Y-6	5,156	1	4.25	21,913
FR Y-7	257	1	3.50	<u>900</u>
<i>Total</i>				35,269
<i>Proposed</i>				
FR Y-10	2,768	6	1	16,608
FR Y-10E	2,768	1	.50	1,384
FR Y-6	5,156	1	5.25	27,069
FR Y-7	257	1	3.50	<u>900</u>
<i>Total</i>				45,961
<i>change</i>				10,692

The total estimated annual reporting cost to the public for these reporting forms would increase from \$2,385,948 to \$3,109,262.<sup>3</sup>

**Estimate of Cost to the Federal Reserve System**

<sup>3</sup> Total cost to the public was estimated using the following formula. Percent of staff time, multiplied by current and proposed 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.

Current costs to the Federal Reserve System for collecting and processing these reports are estimated to be \$1,775,077 per year. With the revisions the estimated costs will increase by 12 percent to \$1,996,070 per year. The one-time costs to implement the revised reports are estimated to be \$483,997.

### **Consultation Outside the Agency**

The Federal Reserve System has consulted directly with industry trade groups on this proposal. In addition, on September 13, 2006, the Federal Reserve published a notice in the *Federal Register* (71 FR 54075) requesting public comment for 60 days on the extension, with revision, on the organizational structure reports. The comment period for this notice expired on November 13, 2006. The Federal Reserve received seven comment letters from large bank holding companies and industry trade associations. On March 22, 2007, the Federal Reserve published a final notice in the *Federal Register* (72 FR 13492) on the organizational structure reports.

### **Sensitive Questions**

These collections of information contain no questions of a sensitive nature, as defined by OMB guidelines.