

**Supporting Statement for the
Consolidated Report of Condition and
Income for Edge and Agreement Corporations
(FR 2886b; OMB No. 7100-0086)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend, with revision, the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b; OMB No. 7100-0086). These data are filed quarterly by banking Edge corporations¹ and investment (nonbanking) Edge corporations.² The mandatory FR 2886b comprises a balance sheet, income statement, two schedules reconciling changes in capital and reserve accounts, and ten supporting schedules, and it parallels the Consolidated Reports of Condition and Income (Call Report) (FFIEC 031 and FFIEC 041; OMB No. 7100-0036) that commercial banks file. Except for examination reports, it provides the only financial data available for these corporations. The Federal Reserve uses the data collected on the FR 2886b to supervise Edge corporations, identify present and potential problems, and monitor and develop a better understanding of activities within the industry. Most Edge corporations are wholly owned by U.S. banks and are consolidated into the financial statements of their parent organizations. However, four banking Edge corporations with assets totaling \$10.4 billion are owned by foreign banks or nonbanking organizations.

The Federal Reserve proposes to collect certain data from all organizations that choose, under generally accepted accounting principles (GAAP), to apply a fair value option to one or more financial instruments and one or more classes of servicing assets and liabilities. The Federal Reserve also proposes to revise the instructions for information collected on restructured loans and leases consistent with proposed changes to the Call Report. The total current annual burden for the FR 2886b is estimated to be 2,406 hours. The overall annual burden is estimated to increase by thirty-six hours with the proposed revisions. A copy of the draft reporting form, marked to show the proposed changes, is attached.

Background and Justification

The Federal Reserve has the sole supervisory and regulatory authority over all Edge and agreement corporations, under Sections 25 and 25A of the Federal Reserve Act, regardless of whether they are owned by U.S. or foreign banks or by nonbank companies. Edge corporations have been operating since 1919 and during most of that time have been required to provide some type of financial information to the Federal Reserve.

The immediate predecessor report, the FR 886b, was developed in 1972. Since that time, the report has undergone numerous revisions. In 1990 the requirement for quarterly reporting of income and balance sheet information by banking Edge corporations was extended to investment Edge corporations as well. This increase in reporting activity by investment Edge corporations

¹ Regulation K defines an Edge corporation as being engaged in banking if it accepts deposits in the U.S. from nonaffiliated parties as an ordinary part of its business.

² The term Edge corporations, used in this memorandum, refers to both Edge and agreement corporations.

was prompted by significant growth in investment corporations and the resulting increase in risk exposure.

The Federal Reserve uses the data for several purposes. Information collected on the FR 2886b is used to help plan and target the scope of examinations of Edge corporations and in the evaluation of applications. Data from the FR 2886b are also used to monitor aggregate institutional trends, such as growth in assets and the number of offices, changes in leverage, and the types and locations of customers.

As domestic deposit-taking institutions, banking Edge corporations conduct activities that affect the nation's money supply even though they are treated as foreign offices for most reporting purposes. The Federal Reserve uses the FR 2886b data in conjunction with data from the Call Report in the construction of the monetary aggregates and aggregate statistics on bank credit, nondeposit funds, and assets and liabilities of commercial banks.³

In addition, the Federal Reserve uses the data in the construction of the flow of funds accounts. The Federal Reserve uses Edge corporation data to compile structure data on foreign bank activity. The Federal Reserve Banks use the Edge corporation data for similar purposes, usually pertaining to Edge corporation offices in their local districts.

Description of Information Collection

The FR 2886b comprises a balance sheet, income statement, two schedules reconciling changes in capital and reserve accounts, and ten supporting schedules. This information is collected from all banking Edge corporations. Investment Edges file a balance sheet, income statement, two schedules reconciling changes in capital and reserve accounts, and only three of the ten supporting schedules: Derivatives and Off-Balance-Sheet Items; Claims on and Liabilities to Related Organizations; and Past Due and Nonaccrual Loans, Leases, and Other Assets.

The FR 2886b respondent panel comprises sixty-two Edge and agreement corporations: twelve banking corporations (deposit taking institutions) and fifty investment corporations. The current FR 2886b form and instructions are available on the the Federal Reserve's public web site: <http://www.federalreserve.gov/reportforms/default.cfm>

Proposed Revisions

The Federal Reserve proposes to make the following revisions to the FR 2886b effective as of March 31, 2008. These proposed revisions are not related to the revisions proposed to the Call Report.

³ Data from the FR 2886b are interpolated between quarterly reports to estimate higher frequency data. For dates following the latest quarterly report, values for data items are repeated until the next quarterly report becomes available.

Reporting on Fair Value Measurements and the Use of the Fair Value Option

On September 15, 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, *Fair Value Measurements* (FAS 157), which is effective for entities for fiscal years beginning after November 15, 2007. The fair value measurements standard provides guidance on how to measure fair value and describes the type of inputs used to measure fair value based on a three-level hierarchy for all assets and liabilities that are re-measured at fair value on a recurring basis.⁴

On February 15, 2007, FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), which is effective for fiscal years beginning after November 15, 2007. The FASB's Fair Value Option standard allows entities to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings.

FAS 159 can be applied on a contract by contract basis. Currently there is no means to determine to what extent the reporting entity is applying this standard and the basis used to value assets and liabilities. Therefore, the Federal Reserve proposes to add two new memoranda items to Schedule RC, Balance Sheet, and one new memorandum item to Schedule RI, Income Statement, that would be completed by Edge corporations that have elected to account for financial instruments or servicing assets and liabilities on the books of the reporting Edge at fair value under a fair value option. The Federal Reserve proposes to add to Schedule RC, Memorandum item 2, Financial assets and liabilities measured at fair value, collecting data in Memorandum items 2.a, Total assets and 2.b, Total liabilities. The Federal Reserve proposes to add to Schedule RI, Memorandum item 1, Net change in fair values of financial instruments accounted for under a fair value option.

Restructured Mortgages

Edge corporations currently report information on the amount of loans in past due or nonaccrual status whose terms have been modified, because of a deterioration in the financial condition of the borrower, to provide for a reduction of either interest or principal, in Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, Memorandum item 1, Restructured loans and leases. However, the instructions advise respondents to exclude restructured loans secured by 1-4 family residential properties from this memorandum item.

This exclusion was incorporated into the reporting instructions because the original disclosure requirements for troubled debt restructurings under GAAP provided that creditors need not disclose information on restructured real estate loans secured by 1-4 family residential

⁴ The FASB's three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting Edge corporation has the ability to access at the measurement date (e.g., the FR 2886b reporting date). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

properties.⁵ However, this exemption from disclosure under GAAP has since been eliminated.⁶ Accordingly, the Federal Reserve proposes to revise the instructions for Schedule RC-N, Memorandum item 1, to include restructured loans secured by 1-4 family residential properties that are past due 30 days or more or in nonaccrual status.

Reduction to the Optional 15-Day Extension for Submission of Completed Reports

Edge corporations file the FR 2886b within thirty days of the quarter-end as-of date of the report. However respondents currently have the option to take up to an additional fifteen calendar days to submit their completed reports. This option is intended to be consistent with the extended filing deadline on the commercial bank Call Report permitted for any bank that has more than one foreign office other than a shell branch or an international banking facility (IBF). Prior to June 30, 2004, such commercial banks could take an additional fifteen days to submit their Call Report. However, this optional filing extension for such banks was reduced to ten days effective with the June 30, 2004, Call Report, and further reduced to five days effective with the June 30, 2006, Call Report.

The Federal Reserve propose to reduce the optional 15-day extension for the submission of completed FR 2886b reports to an optional 5-day extension, consistent with that afforded to banks filing the Call Report that have more than one foreign office other than a shell branch or an IBF. This change would not reflect any increase in burden for Edge corporations that are subsidiaries of commercial banks and therefore must already be reflected in the consolidated Call Report within the 35-day deadline. Furthermore, in practice no FR 2886b respondent has requested an extension in the most recent quarterly filings.

Frequency

The Federal Reserve recommends no change in the frequency of this report. Collection of this information on a quarterly basis is necessary to effectively monitor on an ongoing basis the condition of Edge corporations.

Time Schedule for Information Collection and Publication

The FR 2886b is filed quarterly as of the last calendar day of March, June, September and December. Banking Edge corporations and investment Edge corporations file the FR 2886b within thirty days of the as-of date. If necessary a respondent is currently permitted to take an additional fifteen calendar days to submit its completed report. All data are submitted to the Federal Reserve Bank District in which the reporter is domiciled. The Federal Reserve Banks then transmits the data to the Board on a flow basis. All Edge corporation data are currently transmitted to the Board by the fifty-fifth calendar day following the as-of date.

⁵ See Financial Accounting Standards Board Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*, footnote 25.

⁶ See Financial Accounting Standards Board Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, paragraph 22(f).

Data from this report are included in several Federal Reserve statistical releases: the weekly H.6 release, "Money Stock, Liquid Assets, and Debt Measures," the weekly H.8 release, "Assets and Liabilities of Commercial Banks in the United States," and the quarterly Z.1 release, "Flow of Funds Accounts of the United States." These statistical releases are available on the Federal Reserve's public web site: <http://www.federalreserve.gov/publications.htm> .

Legal Status

The Board's Legal Division has determined that Sections 25 and 25A of the Federal Reserve Act (12 U.S.C. §§602 and 625) authorize the Board to require the FR 2886b. The Board's Legal Division has determined that Schedules RC-M and RC-V are held confidential pursuant to Section (b)(4) of the Freedom of Information Act (5 U.S.C. § 552(b)(4)).

Consultation Outside the Agency

On November 9, 2007, the Federal Reserve published a notice in the *Federal Register* (72 FR 63580) requesting public comment for sixty days on the extension, with revision, of the FR 2886b report. The comment period for this notice expired on January 8, 2008. The Federal Reserve did not receive any comments; the revisions will be implemented as proposed. On February 27, 2008, the Federal Reserve published a final notice in the *Federal Register* (73 FR 10442).

Sensitive Questions

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

Estimates of Respondent Burden

The FR 2886b respondent panel comprises sixty-two Edge and agreement corporations: twelve banking corporations (deposit-taking institutions) and fifty investment corporations. The estimated reporting burden is lower for investment Edges, which file only three supporting schedules, than for banking Edges, which file all ten supporting schedules. The current annual burden is estimated to be 2,406 hours and represents less than 1 percent of the total Federal Reserve burden for all reports. The average estimated hours per response for FR 2886b filers would increase 0.15 hours with the proposed revisions. The Federal Reserve anticipates that proposed new data items related to the fair value option may be applicable to up to one fourth of respondents.

FR 2886b	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<i>Current</i>				
<i>Banking</i>				
Edge corporations	11	4	14.7	647
Agreement corporations	1	4	14.7	59
<i>Investment</i>				
Edge corporations	22	4	8.5	748
Agreement corporations	28	4	8.5	<u>952</u>
<i>Total</i>	62			2,406
<i>Proposed</i>				
<i>Banking</i>				
Edge corporations	11	4	14.85	653
Agreement corporations	1	4	14.85	59
<i>Investment</i>				
Edge corporations	22	4	8.65	761
Agreement corporations	28	4	8.65	<u>969</u>
<i>Total</i>	62			2,442
<i>Change</i>				+36

The total cost to the public is estimated to increase from the current level of \$148,330 to \$150,549 for the revised reports.⁷

Estimated Cost to the Federal Reserve System

Current costs to the Federal Reserve System for collecting and processing the FR 2886b are estimated to be \$135,055 per year. With the revisions the estimated costs will increase to \$135,355 per year. The one-time costs to implement the revised report are estimated to be \$9,702.

⁷ Total cost to the public was estimated using the following formula. Percent of staff time, multiplied by annual burden hours, multiplied by hourly rate: 30% Clerical @ \$25, 45% Managerial or Technical @ \$55, 15% 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.