

**Supporting Statement for
Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies
(FR Y-11, FR Y-11S; OMB No. 7100-0244) and
Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations
(FR 2314, FR 2314S; OMB No. 7100-0073)**

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,¹ the following mandatory reports, for implementation March 31, 2009:

- (1) the Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11; OMB No. 7100-0244) and
- (2) the Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314; OMB No. 7100-0073).

This family of reports also contains the following reports that are not being revised:

- (1) the Abbreviated Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11S; OMB No. 7100-0244) and
- (2) the Abbreviated Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314S; OMB No. 7100-0073).

The FR Y-11 reporting forms collect financial information for individual non-functionally regulated U.S. nonbank subsidiaries of domestic bank holding companies (BHCs). BHCs file the FR Y-11 on a quarterly or annual basis or the FR Y-11S annually based on size thresholds. The FR Y-11 data are used with other BHC data to assess the condition of BHCs that are heavily engaged in nonbanking activities and to monitor the volume, nature, and condition of their nonbanking operations. The FR 2314 reporting forms collect financial information for non-functionally regulated direct or indirect foreign subsidiaries of U.S. state member banks (SMBs), Edge and agreement corporations, and BHCs. Parent organizations (SMBs, Edge and agreement corporations, or BHCs) file the FR 2314 on a quarterly or annual basis or the FR 2314S annually based on size thresholds. The FR 2314 data are used to identify current and potential problems at the foreign subsidiaries of U.S. parent companies, to monitor the activities of U.S. banking organizations in specific countries, and to develop a better understanding of activities within the industry, in general, and of individual institutions, in particular.

The Federal Reserve proposes to revise the FR Y-11 and the FR 2314 to collect new information on assets held in trading accounts. The Federal Reserve also requests latitude to modify proposed revisions to the FR Y-11 and FR 2314 that are appropriate and consistent with any proposed revisions and instructional changes to the Consolidated Financial Statements for

¹ The Federal Reserve would extend the expiration date by one month to maintain consistency with other holding company reports.

Bank Holding Companies (FR Y-9C; OMB No. 7100-0128) for implementation in 2009. The Federal Reserve does not propose any revisions to the FR Y-11S and FR 2314S.

A copy of the proposed reporting forms, marked to show the revisions, is attached. The total current annual burden for the FR Y-11/S is estimated to be 12,625 hours and is estimated to increase by 759 hours with these revisions. The total current annual burden for the FR 2314/S is estimated to be 6,928 hours and is estimated to increase by 208 hours with these revisions.

Background and Justification

The FR Y-11 family of reports collects financial information for individual U.S. nonbank subsidiaries of domestic BHCs, which is essential for monitoring the subsidiaries' potential impact on the BHC or its subsidiary banks' condition. Consolidated and parent company only data do not reveal the extent of the problems that may exist within the nonbank subsidiaries because the size and operations of bank subsidiaries can mask the operations of nonbank subsidiaries in a consolidated report.

In addition to providing information used in the supervision of BHCs, the FR Y-11 family of reports provides essential information to assist the Federal Reserve in the formulation of regulations and supervisory policies. The data are also used by the Federal Reserve to respond to requests from Congress and the public for information on BHCs.

The FR 2314 family of reports is the only source of comprehensive and systematic data on the assets, liabilities, and earnings of foreign subsidiaries of U.S. banking organizations and the data are used to monitor the growth, profitability, and activities of these foreign companies. The data help the Federal Reserve identify present and potential problems of these companies, monitor their activities in specific countries, and develop a better understanding of activities within the industry and within specific institutions. This information, coupled with information from the Foreign Branch Reports of Condition (FFIEC 030; OMB No. 7100-0071), provides a picture of the breadth and scope of international banking operations for U.S. banking organizations both individually and in the aggregate.

Description of the Information Collection

FR Y-11 and FR Y-11S

Domestic BHCs file the FR Y-11 for their U.S. nonbank subsidiaries. The FR Y-11 consists of an income statement and balance sheet, schedules that collect information on changes in equity capital, the allowance for loan and lease losses, off-balance-sheet data items, loans, and a memoranda section. The FR Y-11 is filed quarterly, as of the last calendar day of March, June, September, and December, by a top-tier BHC for each individual nonbank subsidiary that it owns or controls if the top-tier BHC files the FR Y-9C and the subsidiary has (a) total assets of \$1 billion or more, or (b) total off-balance-sheet activities of at least \$5 billion, or (c) equity capital of at least 5 percent of the top-tier BHC's consolidated equity capital, or (d) operating revenue of at least 5 percent of the top-tier BHC's consolidated operating revenue. The FR Y-

11 is filed annually, as of December 31, by top-tier BHCs for each individual nonbank subsidiary (that does not meet the criteria for filing quarterly) with total assets of at least \$250 million, but less than \$1 billion.

The FR Y-11S is an abbreviated reporting form that collects four data items: net income, total assets, equity capital, and total off-balance-sheet data items. The FR Y-11S is filed annually, as of December 31, by top-tier BHCs for each individual nonbank subsidiary (that does not meet the criteria for filing quarterly) with total assets of at least \$50 million, but less than \$250 million, or with total assets greater than 1 percent of the total consolidated assets of the top-tier organization.

FR 2314 and FR 2314S

The FR 2314 collects financial information for direct or indirect foreign subsidiaries of U.S. SMBs, Edge and agreement corporations, and BHCs. The FR 2314 consists of an income statement and balance sheet, schedules that collect information on changes in equity capital, the allowance for loan and lease losses, off-balance-sheet data items, loans, and a memoranda section. A parent U.S. banking organization must file the FR 2314 quarterly as of the last calendar day of March, June, September, and December for its subsidiary if the subsidiary is owned or controlled by a parent U.S. BHC that files the FR Y-9C or a SMB or an Edge or agreement corporation that has total consolidated assets equal to or greater than \$500 million and the subsidiary has (a) total assets of \$1 billion or more, or (b) total off-balance-sheet activities of at least \$5 billion, or (c) equity capital of at least 5 percent of the top-tier organization's consolidated equity capital, or (d) operating revenue of at least 5 percent of the top-tier organization's consolidated operating revenue. The FR 2314 is filed annually for each individual subsidiary (that does not meet the criteria for filing quarterly) with total assets of at least \$250 million, but less than \$1 billion.

The FR 2314S is an abbreviated reporting form that collects four data items: net income, total assets, equity capital, and total off-balance-sheet data items. The FR 2314S is filed annually, as of December 31, for each individual subsidiary (that does not meet the criteria for filing quarterly) with assets of at least \$50 million but less than \$250 million, or with total assets greater than 1 percent of the total consolidated assets of the top-tier organization.

Proposed Revisions to the FR Y-11 Only

As of March 2008, 51 nonbank subsidiaries reported trading assets of \$122 billion on the FR Y-11, representing approximately 16 percent of their total assets. Since March 2004, trading assets reported on the FR Y-11 have increased over 100 percent. To enhance the data reported by nonbank subsidiaries on assets held in trading accounts and to make the data on the FR Y-11 consistent with the information currently reported on the FR 2314, the Federal Reserve proposes to revise Schedule BS-M, Memoranda, to collect the following data on trading assets by type of asset: (1) securities of U.S. government and its agencies, (2) securities of all foreign governments and official institutions, (3) equity securities, (4) corporate bonds, notes and

debentures, (5) revaluation gains on interest rate, foreign exchange rate, and other commodity and equity contracts, and (6) other (including commercial paper).

Proposed Revisions to the FR Y-11 and FR 2314

Effective with the March 31, 2008, FR Y-9C report, BHCs were permitted to report loans held for sale as trading assets if the BHC applies fair value accounting and manages these assets as trading positions, subject to the controls and applicable regulatory guidance related to trading activities. In addition, new items were added to Schedule HC-D, Trading Assets and Liabilities, of the FR Y-9C to capture detail for the types of loans reported as trading assets and the dollar amount of loans held for trading that are past due or in nonaccrual status. The FR Y-11 and FR 2314 reporting instructions indicate that these reports are to be filed on a consistent basis with the FR Y-9C report. Therefore, nonbank subsidiaries may also report loans held for sale as trading assets if they meet the above criteria. However, loans treated as trading assets and the amount of loans held for trading that are past due or in nonaccrual status are not separately disclosed on the FR Y-11 and FR 2314.

The Federal Reserve proposes to revise the FR Y-11 and FR 2314, Schedule BS-M-Memoranda, to also capture (1) the fair value of loans held for trading, (2) the fair value of loans held for trading that are past due 90 days or more or in nonaccrual status, and (3) the unpaid principal balance of these loans that are past due or in nonaccrual status. Collection of these data would allow the Federal Reserve to better monitor the specific risk exposures associated with and the delinquency patterns exhibited by such trading assets.

Frequency

There are no changes proposed to the reporting frequency of the FR Y-11/S and FR 2314/S. The current reporting frequencies provide adequate timely data to meet the analytical and supervisory needs of the Federal Reserve.

Time Schedule for Information Collection

The quarterly FR Y-11 and FR 2314 are filed as of the end of March, June, September, and December and are submitted within 60 days after the as-of date. Meeting the thresholds for filing quarterly is self determined by the respondent and ascertained as of the reporting date. The FR Y-11 annual, FR Y-11S, FR 2314 annual, and FR 2314S are filed as of the end of December and are also submitted within 60 days after the as-of date. The data from the FR Y-11 and FR 2314 that are not given confidential treatment are available to the public, but are not published routinely.

Legal Status

The Board's Legal Division has determined that the FR Y-11 reports are authorized by section 5(c) of the Bank Holding Company Act (12 U.S.C. 1844(c)). The Board's Legal Division has determined that the FR 2314 reports are authorized by sections 9(6), 25(7), and 25A(17) of the Federal Reserve Act (12 U.S.C. 324, 602, and 625) and by section 5(c) of the Bank Holding Company Act (12 U.S.C. 1844(c)). Overall, the Federal Reserve does not consider these data to be confidential. However, a respondent may request confidential treatment pursuant to sections (b)(4), (b)(6), and (b)(8) of the Freedom of Information Act (5 U.S.C. 552(b)(4), (b)(6), and (b)(8)). The applicability of these exemptions would need to be determined on a case-by-case basis.

Consultation Outside the Agency

On November 13, 2008, the Federal Reserve published a notice in the *Federal Register* (73 FR 67159) requesting public comment for 60 days on the revision, without extension, of the FR Y-11 and FR 2314. The comment period for this notice expired on January 12, 2009. The Federal Reserve did not receive any comments; the revisions will be implemented as proposed. On March 12, 2009, the Federal Reserve published a final notice in the *Federal Register* (74 FR 10741).

Sensitive Questions

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

Estimates of Respondent Burden

As shown in the following table, the current estimated annual reporting burden for the FR Y-11 reports is 12,625 hours and would increase to 13,384 hours with these revisions. The current estimated annual reporting burden for the FR 2314 reports is 6,928 hours and would increase to 7,136 hours with these revisions. The proposed total burden for the two reports represents 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>
<i>Current</i>				
FR Y-11 (quarterly)	420	4	6.4	10,752
FR Y-11 (annual)	219	1	6.4	1,402
FR Y-11S	<u>471</u>	1	1.0	<u>471</u>
<i>Total</i>	1,110			12,625
<i>Proposed</i>				
FR Y-11 (quarterly)	420	4	6.8	11,424
FR Y-11 (annual)	219	1	6.8	1,489
FR Y-11S	<u>471</u>	1	1.0	<u>471</u>
<i>Total</i>	1,110			13,384
<i>Change</i>				+759
<i>Current</i>				
FR 2314(quarterly)	218	4	6.4	5,581
FR 2314 (annual)	168	1	6.4	1,075
FR 2314S	<u>272</u>	1	1.0	<u>272</u>
<i>Total</i>	658			6,928
<i>Proposed</i>				
FR 2314(quarterly)	218	4	6.6	5,755
FR 2314 (annual)	168	1	6.6	1,109
FR 2314S	<u>272</u>	1	1.0	<u>272</u>
<i>Total</i>	658			7,136
<i>Change</i>				+208

With the proposed revisions, the total estimated annual cost to the public of the FR Y-11 reports would increase from \$778,331 to \$825,124 and the total estimated annual cost to the public of the FR 2314 reports would increase from \$427,111 to \$439,934.²

Estimate of Cost to the Federal Reserve System

Current costs to the Federal Reserve System for collecting and processing the FR Y-11 are estimated to be \$264,800 per year. With the revisions the estimated costs would increase to \$265,000 per year. The one-time costs to implement the revised report are estimated to be \$10,930. Current costs to the Federal Reserve System for collecting and processing the FR 2314 are estimated to be \$100,400 annually. With the revisions the estimated costs would increase to

² 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.

\$106,300 per year. The one-time costs to implement the revised report are estimated to be \$11,260.