Supporting Statement for the
Reports of Foreign Banking Organizations
(FR Y-7N, FR Y-7NS, and FR Y-7Q; OMB No. 7100-0125)

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 mandatory Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations[2] (FR Y-7N; OMB No. 7100-0125), for implementation March 31, 2009. This family of reports also contains the following reports that are not being revised:

(1) the Abbreviated Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7NS; OMB No. 7100-0125) and
(2) the Capital and Asset Report for Foreign Banking Organizations (FR Y-7Q; OMB No. 7100-0125).

The FR Y-7N and FR Y-7NS collect financial information for non-functionally regulated U.S. nonbank subsidiaries held by foreign banking organizations (FBOs) other than through a U.S. bank holding company (BHC), U.S. financial holding company (FHC), or U.S. bank. FBOs file the FR Y-7N quarterly or annually or the FR Y-7NS annually based on size thresholds. The FR Y-7Q collects consolidated regulatory capital information from all FBOs either quarterly or annually. FBOs that have effectively elected to become FHCs file the FR Y-7Q quarterly. All other FBOs (those that have not elected to become FHCs) file the FR Y-7Q annually.

The Federal Reserve proposes to revise the FR Y-7N to collect new information on assets held in trading accounts. The proposed changes would make the report consistent with the proposed revisions to the other nonbank subsidiary reports, the Financial and Abbreviated Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11; OMB No. 7100-0244) and the Financial and Abbreviated Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314; OMB No. 7100-0073).

The Federal Reserve also requests latitude to modify proposed revisions to the FR Y-7N that are appropriate and consistent with any proposed revisions and instructional changes to the Consolidated Financial Statements for 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-7NS and FR Y-7Q. The existing reporting criteria and the data collected on these reports meet the Federal Reserve's supervisory needs.

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

2 Excludes nonbanking subsidiaries held through a U.S. bank holding company or U.S. bank subsidiary.

A copy of the proposed reporting forms, marked to show the revisions, is attached. The total current annual burden for this family of reports is estimated to be 6,650 hours and is estimated to increase by 472 hours with these revisions.

Background and Justification

The Federal Reserve implemented the FR Y-7 in January 1972 and required only foreign banks that controlled a U.S. subsidiary bank 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 (one on February 23, 1979, and the other on 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.

In 2002, the Federal Reserve revised the FR Y-7 and implemented the FR Y-7Q, FR Y-7N, and FR Y-7NS. Revisions to the FR Y-7 included: moving the risk-based capital reporting requirement to the FR Y-7Q and moving the Nonbank Financial Information Summary (NFIS) report, which included data from U.S. nonbank subsidiaries held directly by a foreign parent (i.e., not through a U.S. BHC, or U.S. FHC or U.S. bank), to the FR Y-7N or FR Y-7NS.

The Federal Reserve System uses information collected on this family of reports 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. This information is not available from other sources.

Description of the Information Collection

FR Y-7N/NS

The FR Y-7N consists of an income statement and a balance sheet, schedules that collect information on changes in equity capital, changes in the allowance for loan and lease losses, off-balance-sheet data items, loans, and a memoranda section. All FBOs file the FR Y-7N quarterly for their significant nonbank subsidiaries. Subsidiaries are defined as significant if they have total assets of at least $1 billion **or** off-balance-sheet activities (including commitments to purchase foreign currencies and U.S. dollar exchange, all other futures and forwards contracts, option contracts, and the notional value of interest rate swaps, exchange swaps and other swaps) of at least $5 billion, as of the end of a quarter. FBOs commence quarterly reporting for these subsidiaries at the end of the quarter in which the subsidiaries meet the significance threshold. Once a subsidiary meets the quarterly reporting threshold during the calendar year, the FBO continues to file the FR Y-7N quarterly for the calendar year even if the subsidiary diminishes in size and no longer meets the threshold at some future quarter during the calendar year. For nonbank subsidiaries not fulfilling the quarterly criteria and with assets between $250 million and $1 billion, FBOs file the FR Y-7N annually. These annual reports are filed for the 12 months ending December 31st.

The FR Y-7NS is an abbreviated form that collects net income, total assets, equity capital, and total off-balance-sheet data items. All FBOs file annually for any nonbank subsidiaries that do not meet the quarterly reporting criteria for the FR Y-7N and have assets between $50 million and $250 million. The Federal Reserve believes it is important to capture basic information on these subsidiaries, since the four data items to be collected serve as good indicators of higher business volume, risk, and complexity in small subsidiaries. The Federal Reserve needs to continue to review minimum financial data from these entities in order to monitor potential developments that may pose risks to the U.S. operations of the FBO. FBOs are exempt from reporting data for any nonbank subsidiary that is functionally regulated or has assets below $50 million and does not meet the quarterly reporting criteria.

Proposed Revisions to the FR Y-7N

As of March 2008, 57 nonbank subsidiaries submitted data for trading assets of $137 billion on the FR Y-7N, representing approximately 27 percent of their total assets. Since March 2004, trading assets reported on the FR Y-7N have increased over 52 percent. To enhance the data reported by nonbank subsidiaries on assets held in trading accounts and to make the data on the FR Y-7N consistent with the information reported on the FR Y-11 and 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).

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-7N reporting instructions indicate that this report is 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-7N.

The Federal Reserve proposes to revise 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.

FR Y-7Q

The FR Y-7Q collects consolidated capital and asset information from all FBOs. FBOs that have not elected to become FHCs report capital and asset information for the top-tier FBO on the FR Y-7Q reporting form annually. FBOs that have been granted FHC status file the FR Y-7Q quarterly. The reporting form collects tier 1 capital, total risk-based capital, risk-weighted assets, and total assets. In addition, FBOs that file the FR Y-7Q because of the FHC designation also have to provide separate capital schedules for each lower-tier FBO operating a branch, agency, Edge or agreement corporation, or commercial lending company in the United States.

Time Schedule for Information Collection

FBOs file the FR Y-7N quarterly for certain significant nonbank subsidiaries. FBOs file the FR Y-7N or FR Y-7NS annually for nonbank subsidiaries not fulfilling the quarterly criteria and with assets greater than or equal to $50 million. FBOs are required to file 60 days after the report date. All FBOs are required to file the FR Y-7Q within 90 days after the report date. There are no proposed changes to these filing schedules. Data from these reports are not published, but nonconfidential data would be available to the public upon request.

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-7N. The comment period for this notice expired on January 12, 2009. The Federal Reserve included a statement in the *Federal Register* to notify the industry that the Federal Reserve is evaluating allowing respondents to file the FR Y-7N/NS and other Federal Reserve reports using International Financial Reporting Standards (IFRS). The current reporting basis for the FR Y-7N/NS is generally accepted accounting principles (GAAP). 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

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

Legal Status

The Board’s Legal Division has determined that the FR Y-7N, FR Y-7NS, and FR Y-7Q reports are authorized by section 5(c) of the Bank Holding Company Act (12 U.S.C. 1844(c)) and sections 8(c) and 13 of the International Banking Act (12 U.S.C. 3106(c) and 3108). The Board's Legal Division also determined that the data are not considered confidential. However, individual respondents may request confidential treatment for any of these reports 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 would constitute a clearly unwarranted invasion of personal privacy." The applicability of these exemptions would need to be determined on a case-by-case basis.

Estimate of Respondent Burden

As shown in the following table, the current estimated annual reporting burden for this family of reports is 6,650 hours and would increase to 7,122. The reporting burden for the FR Y-7NS and FR Y-7Q reports would remain unchanged. The estimated annual burden for each of these reports, current and proposed, is less than 1 percent of the total Federal Reserve System burden.

	Number of Respondents	*Estimated annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
Current				
FR Y-7N (quarterly)	194	4	6.3	4,889
FR Y-7N (annual)	169	1	6.3	1,065
FR Y-7NS	229	1	1	229
FR Y-7Q (quarterly)	67	4	1.25	335
FR Y-7Q (annual)	132	1	1	132
Total				6,650
Proposed				
FR Y-7N (quarterly)	194	4	6.8	5,277
FR Y-7N (annual)	169	1	6.8	1,149
FR Y-7NS	229	1	1	229
FR Y-7Q (quarterly)	67	4	1.25	335
FR Y-7Q (annual)	132	1	1	132
Total				7,122
Change				+472

The total cost to the public is estimated to increase from the current level of $409,973 to $439,071 for the revised reporting form.[3]

Estimate of Cost to the Federal Reserve System

Current costs to the Federal Reserve System for collecting and processing the FR Y-7N, Y-7NS, and Y-7Q are estimated to be $46,106 per year. With the revisions the estimated costs will increase to $48,957 per year. The one-time costs to implement the revised FR Y-7N report are estimated to be $5,312.

3 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.