

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of Banking Supervision and Regulation

Date: September 17, 2009

To: Board of Governors

From: Division of Banking Supervision and Regulation
(Tina Robertson, Doug Carpenter, and Wanda Dreslin)

Subject: Proposal to revise, without extension, the Financial Statements for Nonbank Subsidiaries of U.S. Bank Holding Companies

Summary

The Division of Banking Supervision and Regulation (BS&R) proposes to revise, without extension, the following mandatory reports, for implementation March 31, 2010:

- (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, which 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.

Board staff proposes to revise the FR Y-11 and the FR 2314 instructions for noninterest expense from related organizations to clarify the reporting of negative amounts. Board staff 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 Bank Holding Companies (FR Y-9C; OMB No. 7100-0128) for implementation in 2010. Board staff does not propose any revisions to the FR Y-11S and the FR 2314S.

Copies of the proposed FR Y-11 and FR 2314 instructions, marked to show the revisions, are provided in the attachment. The total current annual burden for the FR Y-11/S and FR 2314/S is estimated to be 17,779 and 16,983 hours, respectively, and would remain unchanged. Additional information about the paperwork burden associated with the FR Y-11 and FR 2314 reports, including statutory and regulatory history, a description of the reporting requirements, and how the estimated total annual burden was calculated, is discussed below.

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 Board in the formulation of regulations and supervisory policies. The data are also used by the Board 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, and 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 and FR 2314 Instructions

Board staff proposes to revise the instructions for Schedule IS, data item 7(b) Noninterest expense pertaining to related organizations, to indicate that negative amounts reported in this

data item should not be reported as net credit balances in data item 5(b), Noninterest income from related organizations. Rather, paper filers should report negative amounts in parentheses or with a minus (-) sign and electronic filers should report negative amounts with a minus (-) sign. The proposed revision would make the reporting of negative amounts consistent with reporting of negative amounts in data item 7(a), Noninterest expense pertaining to nonrelated organizations and the treatment of negative amounts reported on the FR Y-9C. Board staff does not propose any revisions to the FR Y-11S and the FR 2314S.

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 annual FR Y-11, FR Y-11S, FR 2314, 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 under [12 U.S.C. 324, 602, 625, and 1844(c)]. Overall, the Board 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

There has been no consultation outside the Federal Reserve System.

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 annual reporting burden for the FR Y-11 and FR 2314 reports is estimated to be 17,779 hours and 16,983 hours, respectively, and would remain unchanged with this revision. The reporting requirements for the FR Y-11, FR Y-11S, FR 2314, and FR 2314S reports represent less than 1 percent of total Federal Reserve System annual 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)	570	4	6.8	15,504
FR Y-11 (annual)	265	1	6.8	1,802
FR Y-11S	<u>473</u>	1	1.0	<u>473</u>
<i>Total</i>	1,308			17,779
<i>Current</i>				
FR 2314 (quarterly)	582	4	6.6	15,365
FR 2314 (annual)	199	1	6.6	1,313
FR 2314S	<u>305</u>	1	1.0	<u>305</u>
<i>Total</i>	1,086			16,983

The total estimated annual cost to the public of the FR Y-11 and FR 2314 reports is \$1,096,075 and \$1,047,002¹, respectively.

Estimate of Cost to the Federal Reserve System

The estimated cost to the Federal Reserve System for collecting and processing the FR Y-11 are estimated to be \$265,000 per year. Current costs to the Federal Reserve System for collecting and processing the FR 2314 are estimated to be \$ 106,300 per year.

¹ 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% Administrative or Junior Analyst @ \$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 (BLS), Occupational Employment and Wages 2007, www.bls.gov/news.release/ocwage.nr0.htm Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/