

**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, the mandatory Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations<sup>1</sup> (FR Y-7N; OMB No. 7100-0125), for implementation March 31, 2010. This family of reports also contains the following reports, which 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 instructions for noninterest expense from related organizations to clarify the reporting of negative amounts. The proposed change 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 2010.

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.

A copy of the proposed reporting instructions, marked to show the revisions, is provided in the attachment. The total current annual burden for this family of reports is estimated to be 6,889 hours and would remain unchanged. Additional information about the paperwork burden

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<sup>1</sup> Excludes nonbanking subsidiaries held through a U.S. bank holding company or U.S. bank subsidiary.

associated with the FR Y-7 family of 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 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. The FR Y-7N is filed annually, as of December 31, 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-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. Board staff 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. Board staff 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**

The Federal Reserve proposes to revise the instructions to 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-11, FR 2314, and the FR Y-9C.

The Federal Reserve does not propose any revisions to the FR Y-7NS.

### **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.

The Federal Reserve does not propose any revisions to the FR Y-7Q.

### **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. The data from these reports that are not given confidential treatment are available to the public, but are not published routinely.

### **Consultation Outside the Agency and Discussion of Public Comment**

On September 25, 2009, the Federal Reserve published a notice in the *Federal Register* (74 FR 48960) requesting public comment for 60 days on the revision, without extension, of the FR Y-7N. The comment period for this notice expired on November 24, 2009. The Federal Reserve did not receive any comments; the revisions will be implemented as proposed. On March 1, 2010, the Federal Reserve published a final notice in the *Federal Register* (75 FR 9211).

### **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)]. 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 annual reporting burden for this family of reports is estimated to be 6,889 hours and would remain unchanged with this revision. The reporting requirements for the FR Y-7 family of reports represent less than 1 percent of total Federal Reserve System annual burden.

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	<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-7N (quarterly)	176	4	6.8	4,787
FR Y-7N (annual)	204	1	6.8	1,387
FR Y-7NS	245	1	1	245
FR Y-7Q (quarterly)	73	4	1.25	365
FR Y-7Q (annual)	<u>105</u>	1	1	<u>105</u>
<i>Total</i>	803			6,889

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The total annual estimated cost to the public is estimated to be to \$424,707.<sup>2</sup>

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

The costs to the Federal Reserve System for collecting and processing the FR Y-7N, Y-7NS, and Y-7Q are estimated to be \$48,957 per year.

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<sup>2</sup> 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](http://www.bls.gov/news.release/ocwage.nr0.htm) Occupations are defined using the BLS Occupational Classification System, [www.bls.gov/soc/](http://www.bls.gov/soc/)