

**Supporting Statement for the
Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks
(FFIEC 002; OMB No. 7100-0032)
and the Report of Assets and Liabilities of a Non-U.S. Branch that is Managed or
Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank
(FFIEC 002S; OMB No. 7100-0032)**

Summary

The Board of Governors of the Federal Reserve System (Board) requests approval from the Office of Management and Budget (OMB) to extend, with revision, the Federal Financial Institutions Examination Council (FFIEC) Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002; OMB No. 7100-0032) and Report of Assets and Liabilities of a Non-U.S. Branch that is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank (FFIEC 002S; OMB No. 7100-0032). The Board submits this request on behalf of the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC). No separate submission will be made by either of those agencies.

The FFIEC 002 is required and must be submitted quarterly by U.S. branches and agencies of foreign banks. All U.S. branches and agencies of foreign banks are required to file detailed schedules of assets and liabilities in the form of a condition report and a variety of supporting schedules. This information is used to fulfill the supervisory and regulatory requirements of the International Banking Act of 1978 (IBA). This report is mandated by the FFIEC for collection by the Board, the FDIC, and the OCC (collectively the agencies) in accordance with procedures under Title 10 of the Financial Institutions Regulatory Act. The FFIEC 002S is a mandatory supplement to the FFIEC 002 and collects information on assets and liabilities of any non-U.S. branch that is managed or controlled by a U.S. branch or agency of a foreign bank.¹ A separate supplement is completed for each applicable foreign branch. The FFIEC 002S data improve U.S. deposit and credit data and data on international indebtedness, and are of assistance to U.S. bank supervisors in determining the extent of assets managed or controlled by the U.S. agency or branch of the foreign bank.

The agencies propose to modify the basis on which institutions, participating in the Transaction Account Guarantee (TAG) program, report data on the amount and number of qualifying noninterest-bearing transaction accounts of more than \$250,000 (Schedule O, Memorandum items 4.a and 4.b). The data items would be reported based on an average daily balance instead of the quarter-end balance. The proposed revisions are in response to the FDIC's June 2010 final rule² modifying the basis upon which a participating institution's assessment is calculated for TAG program-related accounts and they would take effect as of September 30, 2010. The proposed annual burden for the FFIEC 002 is estimated to be 24,048

¹ Managed or controlled means that a majority of the responsibility for business decisions, including but not limited to decisions with regard to lending or asset management or funding or liability management, or the responsibility for recordkeeping in respect of assets or liabilities for that foreign branch resides at the U.S. branch or agency.

² 75 FR 36506, June 28, 2010.

hours, an increase of 29 hours from the current burden of 24,019. The current annual burden for the FFIEC 002S is estimated to be 1,440 hours and would remain unchanged.

Background and Justification

Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002)

The agencies use the FFIEC 002 report for supervisory and regulatory purposes. The Board also uses the data for monetary policy purposes. The report is similar to the Call Report required of all U.S. commercial banks, although the FFIEC 002 collects fewer data items of information.

The IBA expresses the intent of the Congress to equalize the supervisory and regulatory treatment between foreign and domestic-owned financial institutions operating in the United States, which specifies that foreign banks' branches and agencies in the United States are to be subject to the supervisory authority of the U.S. federal banking agencies and that responsibility for federal supervision is to be shared among the agencies.

As one step in carrying out the supervisory and regulatory responsibilities imposed by the IBA, the agencies instituted the FFIEC 002 report in June 1980. The FFIEC 002 replaced a Federal Reserve report, FR 886a that had been collected from U.S. branches and agencies since 1972. The FFIEC 002 report was revised extensively effective December 1985, when several schedules were deleted, data items were added to collect separate data on International Banking Facilities (IBFs), and schedules were added covering quarterly averages (Schedule K), commitments and contingencies (Schedule L), and past due loans (Schedule N). The report also was revised to conform as closely as possible to the quarterly Call Report for domestic banks.

Effective June 2001, the agencies expanded the information collected in the FFIEC 002 to facilitate more effective analysis of the impact of securitization and asset sale activities on credit exposures, introduced a separate new schedule (Schedule S) that comprehensively captures information related to securitization and asset sale activities, and eliminated the confidential treatment for the information on Schedule N. Effective December 2001, the agencies changed the manner in which branches and agencies report information on their trust activities. Branches and agencies that previously filed the Annual Report of Trust Assets (FFIEC 001) instead began to file a new Fiduciary and Related Services Schedule (Fiduciary Schedule) (Schedule T) as part of the FFIEC 002. Branches and agencies that have fiduciary or related activity are required to report certain trust information in Schedule T annually.

In addition to its supervisory and regulatory uses, the FFIEC 002 report provides information needed for monetary and financial analysis essential for the conduct of monetary policy. The branches and agencies of foreign banks are a large and growing part of the U.S. banking system, with assets exceeding \$1 trillion as of March 31, 2001. The FFIEC 002 provides the benchmark data needed to derive adequate weekly estimates from the sample report titled Weekly Report of Assets and Liabilities for Large U.S. Branches and Agencies of Foreign Banks (FR 2069; OMB No. 7100-0030). The weekly estimates are used to analyze credit

developments and sources and uses of funds for the banking sector and to assess current financial developments within the entire U.S. banking system. They help to interpret the bank credit and deposit information needed for both monetary policy decisions and for gauging the response to those decisions.

Report of Assets and Liabilities of a Non-U.S. Branch that is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank (FFIEC 002S)

For a number of years foreign banks have conducted a large banking business at branches domiciled in offshore centers, primarily in the Cayman Islands and the Bahamas. For a fee, foreign banks are able to use these offshore branches to conduct a banking business free of any U.S. reserve requirements or FDIC premiums. While nominally domiciled in these offshore centers, these branches are often largely run out of the banks' U.S. agency or branch office, with a separate set of books but often with overlapping management responsibilities. The transactions of these offshore branches are often largely with U.S. residents.

The FFIEC 002S report is collected for several reasons: (1) to monitor deposit and credit transactions of U.S. residents; (2) to monitor the impact of policy changes such as changes in reserve requirements; (3) to analyze structural issues concerning foreign bank activities in U.S. markets; (4) to understand flows of banking funds and indebtedness of developing countries in connection with data collected by the International Monetary Fund and the Bank for International Settlements that are used in economic analysis; and (5) to provide information to assist in the supervision of U.S. offices of foreign banks, which often are managed jointly with these branches.

The FFIEC 002S collects detail on transactions with U.S. residents and with residents of the banks' home country. In most cases these data cover a large proportion of their total activities since many of the non G-10³ bank branches have heavy exposures to their home countries and G-10 banks are dealing largely with U.S. customers. The data improve U.S. deposit and credit data and data on international indebtedness, and are of assistance to U.S. bank supervisors in determining the extent of assets managed or controlled by the U.S. agency or branch of the foreign bank. In theory a foreign bank with an offshore branch and no U.S. presence would escape reporting. In practice this omission is likely to be relatively minor because each of the fifty largest non-U.S. banks in the world operates at least one agency or branch in the United States.

Description of Information Collection

The reporting panel for the FFIEC 002 includes all U.S. branches and agencies (including their IBFs) of foreign banks, whether federally licensed or state chartered, insured or uninsured. Each branch or agency of a particular foreign bank must submit a separate quarterly report, with one exception. A foreign bank may submit a request to the appropriate Federal Reserve Bank to consolidate reporting for two or more offices, provided that (1) the offices are

³ The Group of Ten is made up of eleven industrial countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States) which consult and cooperate on economic, monetary and financial matters.

located in the same city or metropolitan area, the same state, and the same Federal Reserve District, and (2) the consolidated report does not consolidate branches with agencies or insured branches with uninsured branches.

While conforming generally to the U.S. commercial bank Call Report, the format of the FFIEC 002 has been designed to reflect the portfolio patterns of branches and agencies of foreign banks and their institutional character. There is more disaggregated reporting of foreign and domestic customers than is required in the Call Report for domestic banks, and Schedule M of the FFIEC 002 provides information on claims on, and liabilities to, the foreign bank head office and other related institutions of the U.S. branches and agencies.

The FFIEC 002 consists of a summary schedule of assets and liabilities (Schedule RAL) and several supporting schedules. Information is required in each schedule on balances of the entire reporting branch or agency. On the schedules for cash (Schedule A), loans (Schedule C), and deposits (Schedule E), separate detail is reported on balances of IBFs. Unlike the Call Report for domestic banks, the FFIEC 002 collects no income data.

The FFIEC 002S covers all of the foreign branch's assets and liabilities, regardless of the currency in which they are payable. The supplement also covers transactions with all entities, both related and nonrelated, regardless of location. All due from/due to relationships with related institutions, both depository and nondepository, are reported on a gross basis, that is, without netting due from and due to data items against each other. This reporting treatment of due to/due from transactions with related institutions parallels the treatment called for in Schedule M of the FFIEC 002, Due from/Due to Related Institutions in the U.S. and in Foreign Countries.

Both the assets and the liabilities sections of the supplement call for detail by location and type of the other party to the transaction and by whether the transaction is denominated in U.S. or non-U.S. currency. In addition, for claims on U.S. addressees (other than related depository institutions) denominated in U.S. dollars, detail on type of claim is required. In general, the definitions of the specific types of claims (that is, portfolio items) called for, and their reporting treatment, correspond to the FFIEC 002 definitions of those data items. Further detail on transactions with U.S. addressees denominated in U.S. dollars is reported in a Memoranda section. All data items are reported in U.S. dollars. Transactions denominated in other currencies are converted to U.S. dollars under currency translation procedures used for the FFIEC 002.

The Federal Reserve offers an electronic data transmission facility through which respondents to various reports collected by the Federal Reserve may submit information. The Internet Electronic Submission (IESUB) system was offered to U.S. branches and agencies of foreign banks for electronic entry of the FFIEC 002 and the FFIEC 002S beginning in 1990.

Proposed Revisions

In October 2008, the FDIC Board of Directors adopted the Temporary Liquidity Guarantee Program (TLGP) following a determination of systemic risk by the Secretary of the

Treasury (after consultation with the President) that was supported by recommendations from the FDIC and the Board. The TLGP is part of an ongoing and coordinated effort by the FDIC, the U.S. Department of the Treasury, and the Board to address unprecedented disruptions in the financial markets and preserve confidence in the American economy.

To facilitate the FDIC's administration of the TLGP, the FDIC Board approved an interim rule on October 23, 2008,⁴ and a final rule on November 21, 2008.⁵ The TLGP comprises two distinct components: the Debt Guarantee Program (DGP), pursuant to which the FDIC guarantees certain senior unsecured debt issued by entities participating in the TLGP, and the TAG program, pursuant to which the FDIC guarantees all funds held at participating insured depository institutions (beyond the maximum deposit insurance limit) in qualifying noninterest-bearing transaction accounts. The November 2008 final rule included certain qualifying NOW accounts, among other accounts, as a type of noninterest-bearing transaction account guaranteed by the FDIC pursuant to the TAG program.

The TAG program originally was set to expire on December 31, 2009. The FDIC Board recognized that the TAG program was contributing significantly to improvements in the financial sector, and also noted that many parts of the country were still suffering from the effects of economic turmoil. As a result, on August 26, 2009, following a public notice and comment period, the FDIC Board extended the TAG program through June 30, 2010, with certain modifications to the program.⁶

Since its inception, the TAG program has been an important source of stability for many banks with large transaction account balances. In the second quarter of 2010, over 6,300 insured depository institutions, representing approximately 80 percent of all FDIC-insured institutions, were participating in the TAG program and continued to benefit from the guarantee provided by the FDIC. These institutions held an estimated \$365 billion of deposits in accounts currently subject to the FDIC's guarantee as of March 31, 2010. Of these, \$280 billion represented amounts above the insured deposit limit and guaranteed by the FDIC through its TAG program.

To provide additional stability for participating insured depository institutions and enhance the likelihood of a continuing and sustainable economic recovery in the financial sector, on April 13, 2010, the FDIC Board adopted an interim rule (with a request for comment) extending the TAG program for six months through December 31, 2010, with the possibility of an additional 12-month extension, through December 31, 2011, without further rulemaking upon a determination by the FDIC Board that continuing economic difficulties warrant such an extension.⁷ Although the April 2010 interim rule proposed no increase in fees for continued participation in the TAG program, it modified the basis upon which a participating institution's assessment is calculated to reflect a change from quarter-end reporting to average daily balance reporting for TAG-related accounts beginning with the third quarter of 2010. In addition, in order to align NOW accounts covered by the TAG program with current market rates and to

⁴ 73 FR 64179, October 29, 2008. The FDIC amended the interim rule effective November 4, 2008. 73 FR 66160, November 7, 2008.

⁵ 73 FR 72244, November 26, 2008.

⁶ 74 FR 45093, September 1, 2009.

⁷ 75 FR 20257, April 19, 2010.

ensure that the program is not used inappropriately by institutions to attract interest-rate-sensitive deposits to fund risky activities, the April 2010 interim rule reduced the interest rate on NOW accounts eligible for the FDIC's guarantee from a maximum of 0.50 percent to a maximum of 0.25 percent. Because the April 2010 interim rule modified the existing regulatory requirements placed on institutions participating in the TAG program, the rule provides an irrevocable, one-time opportunity for currently participating institutions to opt out of the extended TAG program.

Following the public comment period for the April 2010 interim rule extending the TAG program, the FDIC Board adopted a final rule addressing the program on June 22, 2010, that is almost identical to the interim rule.⁸ The June 2010 final rule made one modification to the April 2010 interim rule that does not affect the proposed regulatory reporting revision that is the subject of this notice.

At present, institutions participating in the TAG program report the amount and number of qualifying noninterest-bearing transaction accounts of more than \$250,000 as of the quarter-end report date in FFIEC 002 Schedule O, Memorandum items 4.a and 4.b. By the very nature of these transaction accounts, the account balances are volatile, fluctuating greatly on any given day due to the operational nature of the deposits, such as for payrolls, and withdrawals made by typical business customers. Therefore, in response to the modification of the basis upon which a participating institution's assessment is calculated from quarter-end reporting to average daily balance reporting for TAG program-related accounts that is contained in the FDIC's April 2010 interim rule, the agencies requested comment on May 21, 2010, on a proposal to change the basis for reporting in the items identified above.⁹ More specifically, the agencies proposed that the total dollar amount of TAG program-qualifying accounts and the total number of such accounts would be reported as an average daily balance rather than as a quarter-end amount beginning with the September 30, 2010, report date. The amounts to be reported as daily averages would be the total dollar amount of the noninterest-bearing transactions accounts, as defined in the April 2010 interim rule and the June 2010 final rule, of more than \$250,000 for each calendar day during the quarter divided by the number of calendar days in the quarter. For days that an office of the reporting institution is closed (e.g., Saturdays, Sundays, or holidays), the amounts outstanding from the previous business day would be used. The total number of accounts to be reported would be calculated on the same basis. Thus, all insured depository institutions that do not opt out of the extension of the TAG program will need to ensure that their reporting procedures will enable them to gather the necessary daily data each quarter. For example, for September 30, 2010, the daily data will cover the period from July 1 through September 30, 2010.

Time Schedule for Information Collection

The FFIEC 002 and FFIEC 002S are collected as of the end of the last calendar day of March, June, September, and December. U.S. branches and agencies of foreign banks must submit the FFIEC 002 and FFIEC 002S to the appropriate Federal Reserve Bank within 30 calendar days following the report date. After the processing and editing functions have been

⁸ 75 FR 36506, June 28, 2010.

⁹ 75 FR 28612, May 21, 2010.

completed, the Board sends the data to the FDIC and OCC for their use in monitoring the U.S. activities of foreign banks under their supervision. Aggregate data for all U.S. branches and agencies that file the FFIEC 002 are published in the *Federal Reserve Bulletin* and are also used in developing flow of funds estimates and the estimates published in the Federal Reserve weekly H.8 statistical release, *Assets and Liabilities of Commercial Banks in the United States*. Aggregate data for the FFIEC 002S are available to the public upon request.

Individual respondent data, excluding confidential information, are available to the public from the National Technical Information Service in Springfield, Virginia, upon request. The information on file is provided on compact discs. In addition, individual respondent data are also available on the FFIEC public website at www.ffiec.gov/nicpubweb/nicweb/nichome.aspx.

Legal Status

The Board's Legal Division has determined that section 7(c)(2) of the IBA [12 U.S.C. § 3105(c)(2)] authorizes the agencies to require the FFIEC 002 and FFIEC 002S. In addition, section 4(b) of the IBA [12 U.S.C. § 3102(b)] authorizes the OCC to collect the information from Federal branches and Federal agencies of foreign banks. Further, section 7(a) of the Federal Deposit Insurance Act [12 U.S.C. § 1817(a)] authorizes the agencies to collect the information from insured branches of foreign banks. The Board's Legal Division has also determined that the individual respondent information on the FFIEC 002 contained in Schedule M (Due from/Due to Related Institutions in the U.S. and in Foreign Countries) and the FFIEC 002S is exempt from disclosure pursuant to the Freedom of Information Act [5 U.S.C. § 552(b)(4)]. Information from all other schedules of the FFIEC 002 is available to the public on request.

Consultation Outside the Agency and Discussion of Public Comments

On May 21, 2010, the Board, under the auspices of the FFIEC and on behalf of the FDIC and the OCC, published a notice in the *Federal Register* (75 FR 28612) requesting public comment for 60 days on the extension, with revision, of the FFIEC 002 and the FFIEC 002S. The comment period for this notice expired on July 20, 2010. The agencies received one comment on the proposed revision of the TAG program reporting requirements. The commenter, a bank consultant, sought information concerning the calculation of TAG program average daily balances and was directed to the guidance on this subject, including an example that had been posted on the FDIC's web site. This guidance and example can be accessed at www.fdic.gov/regulations/resources/TLGP/tagp-programReportingGuidance.pdf. On August 2, 2010, the Board published a final notice in the *Federal Register* (75 FR 45201) for the FFIEC 002 and FFIEC 002S, implementing the changes as proposed.

Estimate of Respondent Burden

The current estimated annual reporting burden for the FFIEC 002 is 24,019. The agencies estimate that the total proposed annual reporting burden is 24,048 hours, an increase of 29 hours. The current estimated annual reporting burden for the FFIEC 002S is 1,440 hours and

would remain unchanged. These reporting requirements represent less than 1 percent of the total Federal Reserve System paperwork burden.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current				
FFIEC 002	240	4	25.02	0
FFIEC 002S	60	4	6	0
<i>Total</i>				** Expression is faulty **
Proposed				
FFIEC 002	240	4	25.05	0
FFIEC 002S	60	4	6	0
<i>Total</i>				** Expression is faulty **
<i>Change</i>				0

The total cost to the public is estimated to be \$1,073,045 for the FFIEC 002 and FFIEC 002S.¹⁰

Sensitive Questions

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

Estimate of Cost to the Federal Reserve System

The current annual cost to the Federal Reserve System for collecting and processing the FFIEC 002 and the FFIEC 002S is estimated to be \$221,900. The Federal Reserve System collects and processes the data for all three of the agencies.

¹⁰ 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% Office & Administrative or Support @ \$16, 45% Financial Managers @ \$48, 15% Legal Counsel @ \$54, and 10% Chief Executives @ \$76). Hourly rate for each occupational group are the median hourly wages (rounded up) from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages 2008*, www.bls.gov/news.release/ocwage.nr0.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.