

**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 revise 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 add two data items to Schedule O of the FFIEC 002 for collecting data related to deposit insurance assessments and to revise the instructions for an existing item to Schedule O effective December 31, 2010. These changes respond to amendments made to the Federal Deposit Insurance Act (FDI Act) by Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) (Pub. L. 111-203, July 21, 2010) pertaining to the insurance of transaction accounts. The proposed annual burden for the FFIEC 002 is estimated to be 24,067 hours, an increase of 19 hours from the current burden of 24,048 hours. The current annual burden for the FFIEC 002S is estimated to be 1,440 hours and would remain unchanged.

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.

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-10² 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 located in the same city or metropolitan area, the same state, and the same Federal Reserve District, and (2) the

² 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.

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 Transaction Account Guarantee (TAG) program as one of two components of a 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.³ Under the TAG program the FDIC guarantees all funds held at participating insured depository institutions (beyond the maximum deposit insurance limit) in qualifying noninterest-bearing transaction accounts, which include certain interest-bearing NOW accounts.

The TAG program originally was set to expire on December 31, 2009, but it was extended through June 30, 2010, with certain modifications to the program, and then extended for another six months through December 31, 2010, with the possibility of an additional 12-month extension, through December 31, 2011.⁴

Section 343 of the Dodd-Frank Act amends the FDI Act with respect to the insurance coverage of noninterest-bearing transaction accounts. These amendments take effect December 31, 2010, and require the FDIC to “fully insure the net amount that any depositor at an insured depository institution maintains in a noninterest-bearing transaction account,” thereby in effect replacing the FDIC’s TAG program. Section 343 includes a definition of “noninterest-bearing transaction account” that differs from the definition of this term in the FDIC’s TAG program regulations.⁵ In addition, the full insurance coverage of these accounts applies to all insured depository institutions, not just those institutions that elected to obtain insurance coverage for noninterest-bearing transaction accounts through the FDIC’s TAG program. Under Section 343, the full insurance coverage of noninterest-bearing transaction accounts would be in effect through December 31, 2012.

As a result of this statutory change in deposit insurance coverage for noninterest-bearing transaction accounts, the agencies are proposing to add two data items to Schedule O of the FFIEC 002 in which data are collected for deposit insurance assessment purposes effective December 31, 2010. As of that report date, all insured depository institutions, including those institutions that had not elected to participate in the FDIC’s TAG program, would begin to report the quarter-end amount and number of noninterest-bearing transaction accounts (as defined in the Dodd-Frank Act, not as defined in the FDIC’s TAG program regulations) of more than \$250,000. These data are needed in order for the FDIC to estimate the quarter-end amount of insured deposits for reserve ratio calculation purposes⁶ and to determine the appropriate level of the Deposit Insurance Fund’s contingent loss reserve for anticipated failures of insured depository institutions. Unless the full insurance coverage of noninterest-bearing transaction

³ To administer the TLGP, the FDIC Board approved an interim rule on October 23, 2008, an amendment to the interim rule on November 4, 2008, and a final rule on November 21, 2008. See 73 FR 64179, October 29, 2008; 73 FR 66160, November 7, 2008; and 73 FR 72244, November 26, 2008, respectively.

⁴ See 74 FR 45093, September 1, 2009; 75 FR 20257, April 19, 2010; and 75 FR 36506, June 28, 2010.

⁵ As defined in Section 343, a “noninterest-bearing transaction account” is an account “(I) with respect to which interest is neither accrued nor paid; (II) on which the depositor or account holder is permitted to make withdrawals by negotiable or transferable instrument, payment orders of withdrawal, telephone or other electronic media transfers, or other similar items for the purpose of making payments or transfers to third parties or others; and (III) on which the insured depository institution does not reserve the right to require advance notice of an intended withdrawal.” In contrast, under the FDIC’s TAG program, the term “noninterest-bearing transaction account” includes not only those accounts within the scope of Section 343 but also accounts commonly known as Interest on Lawyers Trust Accounts (or functionally equivalent accounts) and negotiable order of withdrawal accounts with interest rates no higher than 0.25 percent for which the institution at which the account is held has committed to maintain the interest rate at or below 0.25 percent.

⁶ The Deposit Insurance Fund’s reserve ratio is the fund’s balance divided by estimated insured deposits.

accounts under Section 343 of the Dodd-Frank Act is extended, the two proposed new data items would be collected only through the December 31, 2012, report date.

Institutions participating in the FDIC's TAG program should note that, for purposes of determining their TAG program assessments for the fourth calendar quarter of 2010 (which will be payable on March 30, 2011), they must complete the existing TAG program data items, Schedule O, Memorandum items 4.a and 4.b, for the final time in their reports for December 31, 2010. These items capture the average daily amount and average daily number for the quarter of qualifying noninterest-bearing transaction accounts of more than \$250,000 as defined in the FDIC's TAG program regulations.

As a result of the full insurance coverage for noninterest-bearing transaction accounts as defined in the Dodd-Frank Act effective December 31, 2010, the agencies are also proposing to revise the instructions for reporting estimated uninsured deposits in Schedule O, Memorandum item 2. These items are required to be completed by institutions with \$1 billion or more in total assets. At present, balances in TAG program qualifying noninterest-bearing transaction accounts of more than \$250,000 are treated as uninsured deposits for purposes of reporting estimated uninsured deposits because the TAG program was instituted as a component of the TLGP, which resulted from a systemic risk determination. Thus, TAG program insurance coverage and assessments are separate from the regular deposit insurance program administered by the FDIC. Under the Dodd-Frank Act, the extension of full insurance coverage to noninterest-bearing transaction accounts at all insured depository institutions falls within the FDIC's regular deposit insurance program. Therefore, in response to this statutory change in insurance coverage, the instructions for reporting estimated uninsured deposits in FFIEC 002 Schedule O, Memorandum item 2, would be revised to indicate that balances of more than \$250,000 in noninterest-bearing transaction accounts (as defined in the Dodd-Frank Act) should be treated as insured, rather than uninsured, deposits. Unless the full insurance coverage of noninterest-bearing transaction accounts under Section 343 of the Dodd-Frank Act is extended, this instructional revision would be in effect only through the December 31, 2012, report date.

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 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 September 3, 2010, the Board, under the auspices of the FFIEC and on behalf of the FDIC and OCC, published a notice in the *Federal Register* (75 FR 54227) requesting public comment for 60 days on the revision of the FFIEC 002. The comment period for this notice expired on November 2, 2010. The agencies did not receive any comments. On November 9, 2010, the Board published a final notice in the *Federal Register* (75 FR 68856) for the FFIEC 002 and the FFIEC 002S, implementing the changes as proposed.

Estimate of Respondent Burden

The current estimated annual reporting burden for the FFIEC 002 is 24,048. The agencies estimate that the total proposed annual reporting burden is 24,067 hours, an increase of 19 hours. Only FDIC insured depository institutions are affected by the revision. 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	25.05	0
FFIEC 002S	60	4	6	<u>0</u>
<i>Total</i>				** Expression is faulty **88
Proposed				
FFIEC 002	240	4	25.07	067
FFIEC 002S	60	4	6	<u>0</u>
<i>Total</i>				** Expression is faulty **
<i>Change</i>				19

The total cost to the public is estimated to be \$1,073,845 for the FFIEC 002 and FFIEC 002S.⁷

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.

⁷ 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/.