

**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 extend, with minor revision, the mandatory Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations¹ (FR Y-7N; OMB No. 7100-0125), for implementation March 31, 2011. 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 reporting form and instructions to clarify the reporting of the net change in fair values of financial instruments accounted for under a fair value option. Also, the Federal Reserve proposes to revise the reporting of restructured loans and leases.

A copy of the proposed reporting form and instructions, marked to show the revision, is provided in the attachment. The total current annual burden for this family of reports is estimated to be 6,965 hours. The Federal Reserve believes that the increase to the burden for the FR Y-7N would be negligible based on the proposed revision and, therefore, the average ongoing annual burden for this family of reports would remain unchanged from current estimates.

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.

¹ Excludes nonbanking subsidiaries held through a U.S. bank holding company or U.S. bank subsidiary.

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, and 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 reporting form that collects net income, total assets, equity capital, and total off-balance-sheet data items. The FR Y-7NS is filed annually, as of December 31, by top-tier FBOs for each individual nonbank subsidiary (that does not meet the filing criteria for filing the detailed report) with total assets of at least \$50 million, but less than \$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.

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.

Proposed Revisions to the FR Y-7N

The Federal Reserve proposes to revise the item caption for Schedule IS, Income Statement, Memoranda item 1, Net change in fair values of financial instruments accounted for under a fair value option, by adding the parenthetical (included in items 5.a.(3), 5.a.(6), 5.a.(10) and 5.b. above). Schedule IS, Memoranda item 1, instructions currently state that respondents only include net change in fair value included in noninterest income from nonrelated organizations. However, respondents should include the net change in fair value included in trading revenue, net servicing fees, and other noninterest income from nonrelated and related organizations. The Federal Reserve would also make the corresponding instructional revision.

To be consistent with revisions proposed to the FR Y-9C, the Federal Reserve proposes to clarify the caption for Schedule BS-A, Loans and Lease Financing Receivables, data item 7.d, Restructured loans and leases, to clearly indicate that the loans to be reported in this data item should be troubled debt restructurings and to exclude leases. Under generally accepted accounting principles, troubled debt restructurings do not include changes in lease agreements. Also consistent with the proposed change to the FR Y-9C, the Federal Reserve proposes to revise the instructions for this item to include (currently excluded) loans to individuals for household, family, and other personal expenditures, and all loans secured by 1-4 family residential properties whose terms have been modified in troubled debt restructurings.

These revisions would be effective as of March 31, 2011.

Reporting Criteria

The Federal Reserve reviewed the current reporting criteria and determined that revising the reporting criteria is not warranted at this time given the financial regulatory reform mandate to supervise and examine nonbank subsidiaries. The nonbank subsidiary reports are the only source of information available for individual nonbank subsidiaries.

Frequency

The Federal Reserve recommends no changes to the reporting frequency of the FR Y-7N/NS and FR Y-7Q. The current reporting frequencies provide adequate timely data to meet the analytical and supervisory needs of the Federal Reserve.

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. No changes to these filing schedules are recommended. 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

On November 3, 2010, the Federal Reserve published a notice in the *Federal Register* (75 FR 67721) requesting public comment for 60 days on the extension, with minor revision, of this information collection. The comment period for this notice expired on January 3, 2011. The Federal Reserve did not receive any comments; the revisions will be implemented as proposed. . On March 2, 2011, the Federal Reserve published a final notice in the *Federal Register* (76 FR 11474).

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), 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), (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 6,965 hours. The Federal Reserve believes that the increase to the burden for the FR Y-N would be negligible based on the proposed revisions and, therefore, the average ongoing annual burden for this family of reports would remain unchanged from current estimates. The reporting requirements for the FR Y-7 family of reports represent less than 1 percent of total Federal Reserve System annual burden.

	<i>Number of respondents</i>	<i>Estimated annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR Y-7N (quarterly)	183	4	6.8	4,978
FR Y-7N (annual)	191	1	6.8	1,299
FR Y-7NS	237	1	1	237
FR Y-7Q (quarterly)	68	4	1.25	340
FR Y-7Q (annual)	<u>111</u>	1	1	<u>111</u>
<i>Total</i>	790			6,965

The total annual estimated cost to the public is estimated to be to \$293,227.²

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 \$34,225 per year. With the revisions the estimated costs will increase to \$37,207 per year. The one-time costs to implement the revised report are estimated to be \$7,997.

² 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 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/