

**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 implement a number of revisions to the existing reporting requirements of the FFIEC 002, principally to help achieve consistency with the Consolidated Reports of Condition and Income (Call Report) (FFIEC 031 and FFIEC 041) filed by insured commercial banks and state-chartered savings banks. The agencies propose (1) to collect additional detail on trading assets, (2) to revise the reporting instructions and data item captions in Schedule E for reporting of Time Deposits of \$100,000 or More, and (3) to expand the data collected and modify the reporting criteria for Schedule Q, Financial Assets and Liabilities Measured at Fair Value. The agencies would implement the proposed changes for the March 31, 2011, reporting date. The proposed annual burden for the FFIEC 002 is estimated to be 24,200 hours, an increase of 333 hours from the current burden of 23,867 hours. The current annual burden for the FFIEC 002S is estimated to be 1,368 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 Selected Assets and Liabilities of Domestically Chartered Commercial Banks and U.S. Branches and Agencies of Foreign Banks (FR 2644; OMB No. 7100-0075). 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

A. Additional Detail on Trading Assets

U.S. branches and agencies of foreign banks (branches) currently report mortgage-backed securities (MBS) issued or guaranteed by U.S. Government agencies that are held for investment in Schedule RAL, item 1.c.(2)(a), all other MBS that are held for investment in Schedule RAL, item 1.c.(2)(b), and other asset-backed securities (other than MBS) held for investment in Schedule RAL, item 1.c.(3). However, branches currently report only a two-way split of trading assets between U.S. Treasury and Agency securities held for trading (Schedule RAL, item 1.f.(1)) and all other trading assets (Schedule RAL, item 1.f.(2)). The agencies propose to collect information on Schedule RAL, Assets and Liabilities, for mortgage-backed securities (MBS) held for trading, with a split between MBS issued or guaranteed by U.S. Government agencies (new Schedule RAL, item 1.f.(2)(a)) and all other MBS (new Schedule RAL, item 1.f.(2)(b)), and for other asset-backed securities (other than MBS) held for trading (new Schedule RAL, item 1.f.(3)). Current Schedule RAL, item 1.f.(2), Other trading assets, would be defined to exclude all asset-backed securities held for trading and would be renumbered as item 1.f.(4).

The additional detail would allow the agencies to better monitor movements in trading securities over time, and provide for more meaningful analysis of the existing categories of trading assets. For example, from March 2003 to December 2006 U.S. Treasury and Agency securities held for trading by branches fell from \$33.0 billion to \$23.7 billion, and by December 2009 had declined to \$19.3 billion. From March 2003 to December 2006 other trading assets³ held by branches rose from \$41.5 billion to \$120.6 billion, and by December 2009 had declined to \$52.0 billion.

B. Time Deposits of \$100,000 or More

The reporting instructions for Schedule E, Deposit Liabilities and Credit Balances, memorandum item 1.a, Time deposits of \$100,000 or more, indicate that branches should include in this item all brokered deposits issued in amounts of \$100,000 or more, regardless of whether they were participated out in shares of less than \$100,000. However, in March 2007 the Call Report instructions for a comparable item were modified to exclude all brokered deposits issued in amounts of \$100,000 or more that have been participated out by the broker in shares of less than \$100,000. The agencies propose to revise the reporting instructions for Schedule E, memorandum item 1.a, to exclude such brokered deposits. Thus the instructions would be amended to state “Exclude from this item all time deposits issued to deposit brokers in the form of large (\$100,000 or more) certificates of deposit that have been participated out by the broker in shares of less than \$100,000.” This will make the instructions consistent across these reporting series and also simplify reporting for those foreign banks that own both domestically chartered banks (which file the FFIEC 031 or 041 Call Report) and U.S. agencies or branches (which file the FFIEC 002).

³ As reported in Schedule RAL, item 1.f.(2), less the amount of trading derivatives with a positive fair value, as such amounts are separately disclosed on the FFIEC 002.

Schedule E, memorandum item 1.c, Time certificates of deposit in denominations of \$100,000 or more with remaining maturity of more than 12 months, is currently defined to include those time certificates of deposit issued in denominations of \$100,000 or more, and to exclude open-account time deposits. The agencies propose to revise the caption to this item as “Time deposits of \$100,000 or more with remaining maturity of more than 12 months included in Memorandum item 1.a, ‘Time deposits of \$100,000 or more,’ above” to include both time certificates of deposit and open-account time deposits. The agencies also propose to revise the reporting instructions for this item to report such deposits “with outstanding balances of \$100,000 or more” rather than “issued in denominations of \$100,000 or more” and to indicate that amounts reported in memorandum item 1.c are included in memorandum item 1.a. These changes would make the reporting of memorandum item 1.c more consistent with the reporting of memorandum item 1.a and with the reporting of comparable items collected on the bank Call Report.

C. Financial Assets and Liabilities Measured at Fair Value

Effective for the September 30, 2008, report date, the banking agencies began collecting information on certain assets and liabilities measured at fair value on FFIEC 002 Schedule Q, Financial Assets and Liabilities Measured at Fair Value. Currently, this schedule is completed by branches with a significant level of trading activity or that use a fair value option. The information collected on Schedule Q is intended to be consistent with the fair value disclosures and other requirements in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* [formerly FASB Statement No. 157, *Fair Value Measurements* (FAS 157)]. Based on the agencies’ ongoing review of industry reporting and disclosure practices since the inception of this standard, and the reporting of items at fair value on Schedule RAL, Assets and Liabilities, the agencies propose to expand the data collected on Schedule Q in two material respects.

First, to improve the consistency of data collected on Schedule Q with the ASC Topic 820 disclosure requirements and industry disclosure practices, the agencies propose to expand the detail of the collected data. The agencies propose to expand the detail on Schedule Q to collect fair value information on all assets and liabilities reported at fair value on a recurring basis in a manner consistent with the asset and liability breakdowns on Schedule RAL. Thus, the agencies propose to change the title of Schedule Q to Assets and Liabilities Measured at Fair Value on a Recurring Basis and add items to collect fair value information on:

- Available-for-sale securities (new item 1);
- Federal funds sold and securities purchased under agreements to resell (new item 2);
- Federal funds purchased and securities sold under agreements to repurchase (new item 9);
- Other borrowed money (new item 11); and
- Subordinated notes and debentures (new item 12).

The agencies also propose to modify the existing collection of loan and lease data and trading asset and liability data to collect data separately for:

- Loans and leases held for sale (new item 3);
- Loans and leases held for investment (new item 4);
- Trading derivative assets (new item 5.a);

- Other trading assets (new item 5.b);
- Trading derivative liabilities (new item 10.a); and
- Other trading liabilities (new item 10.b).

The agencies also propose to add totals to capture total assets (new item 7) and total liabilities (new item 14) for items reported on the schedule. In addition, the agencies propose to modify the existing items for “other financial assets and servicing assets” and “other financial liabilities and servicing liabilities” to collect information on “all other assets” (new item 6) and “all other liabilities” (new item 14) reported at fair value on a recurring basis, including nontrading derivatives. Components of “all other assets” and “all other liabilities” would be separately reported (in new memorandum items 1 and 2, respectively) if they are greater than \$25,000 and exceed 25 percent of the total fair value of “all other assets” and “all other liabilities,” respectively. In conjunction with this change, the existing reporting for loan commitments accounted for under a fair value option would be revised to include these instruments, based on whether their fair values are positive or negative, in the items for “all other assets” and “all other liabilities” reported at fair value on a recurring basis, with separate disclosure of these commitments if significant. Furthermore, current item 2.a, Nontrading securities at fair value with changes in fair value reported in current earnings, and current item 4, Deposits, would be renumbered as items 5.b.(1) and 8, respectively.

Second, the agencies propose to modify the reporting criteria for Schedule Q. The current instructions require all branches that have adopted ASC Topic 820 and (1) have elected to account for financial instruments or servicing assets and liabilities at fair value under a fair value option or (2) have trading assets of \$2 million or more in any of the four preceding calendar quarters, to complete Schedule Q. The agencies propose to maintain this reporting requirement for branches that use a fair value option or that have significant trading activity. In addition, the agencies propose to extend the requirement to complete Schedule Q to all branches that reported \$500 million or more in total assets as of the preceding December 31, regardless of whether they have elected to apply a fair value option to financial or servicing assets and liabilities.

The agencies believe that the proposed information is necessary to more accurately assess the impact of fair value accounting and fair value measurements for safety and soundness purposes. The collection of the information on Schedule Q, as proposed, will facilitate and enhance the banking agencies’ ability to monitor the extent of fair value accounting by branches, including the elective use of fair value accounting and the nature of the inputs used in the valuation process, pursuant to the disclosure requirements of ASC Topic 820. The information collected on Schedule Q is consistent with the disclosures required by ASC Topic 820 and consistent with industry practice for reporting fair value measurements and should, therefore, not impose significant incremental burden on branches.

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 17, 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 57020) 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 November 16, 2010. The agencies received one comment expressing support for the proposed revisions. On January 11, 2011, the Board published a final notice in the *Federal Register* (76 FR 1613) for the FFIEC 002 and FFIEC 002S.

Estimate of Respondent Burden

The current estimated annual reporting burden for the FFIEC 002 is 23,867. The agencies estimate that the total proposed annual reporting burden is 24,200 hours, an increase of 333 hours. This increase is attributed to an increase in the hourly estimate for the new and revised data items. The current estimated annual reporting burden for the FFIEC 002S is 1,368 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	238	4	25.07	0
FFIEC 002S	57	4	6	<u>1,368</u>
<i>Total</i>				25,235
Proposed				
FFIEC 002	238	4	25.42	24,200
FFIEC 002S	57	4	6	<u>1,368</u>
<i>Total</i>				25,568
<i>Change</i>				333

The total cost to the public is estimated to be \$1,076,413 for the FFIEC 002 and FFIEC 002S.⁴

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.

⁴ 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/.