

**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 Capital and Asset Report for Foreign Banking Organizations (FR Y-7Q; OMB No. 7100-0125).

Also included in this family of reports are the following mandatory reports, which are not being revised or extended:

- (1) the Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations¹ (FR Y-7N; OMB No. 7100-0125), and
- (2) the Abbreviated Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7NS; 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 predominantly based on asset size thresholds. The FR Y-7Q collects consolidated regulatory capital information from all FBOs either quarterly or annually. The FR Y-7Q is filed quarterly by FBOs that have effectively elected to become FHCs and by FBOs that have total consolidated assets of \$50 billion or more, regardless of FHC status. All other FBOs file the FR Y-7Q annually.

The Federal Reserve proposes to collect one new data item to implement the enhanced prudential standards for FBOs adopted pursuant to section 165 of the Dodd-Frank Act (DFA Section 165), Enhanced Prudential Standards for Large Domestic and Foreign Banking Organizations. The new data item, Total U.S. Non-Branch Assets, would be used to determine which FBOs would be required to form an intermediate holding company (IHC). The proposed revision would be effective December 31, 2014. The total current annual burden for the FR Y-7 series of reports is estimated to be 6,439 hours and would increase by 120 hours with the proposed revision.

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.

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

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.

In August 2013, the Federal Reserve revised the FR Y-7Q to modify the quarterly filing requirements and to add a data item to the reporting form.² The respondent panel was modified to require all FBOs with total consolidated assets of \$50 billion or more to begin filing quarterly effective March 31, 2014, regardless of FHC status. In addition, a data item was added to Part 1 to collect the top-tier FBO's total combined assets of U.S. operations, net of intercompany balances and transactions between U.S. domiciled affiliates, branches, and agencies.

In December 2013, the Federal Reserve reduced reporting burden by increasing the asset size thresholds for filing the FR Y-7N and FR Y-7NS annual reports to total assets greater than or equal to \$500 million, but less than \$1 billion and to total assets of at least \$250 million, but less than \$500 million, respectively.

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

Current FR Y-7N and FR Y-7NS

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,

² See 78 Federal Register 52391 – 52405.

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 \$500 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 \$250 million, but less than \$500 million.

Current FR Y-7Q

The FR Y-7Q collects consolidated capital and asset information from all FBOs. The reporting form collects tier 1 capital, total risk-based capital, risk-weighted assets, total assets and total combined assets of U.S. operations, net of intercompany balances and transactions between U.S. domiciled affiliates, branches, and agencies. In addition, FBOs that file the FR Y-7Q because of the FHC designation also must provide separate capital schedules quarterly for each lower-tier FBO operating a branch, agency, Edge or agreement corporation, or commercial lending company in the United States.

The FR Y-7Q is filed quarterly by FBOs if the top-tier FBO or any FBO in its tiered structure has effectively elected to be an FHC, and by FBOs with total consolidated assets of \$50 billion or more, regardless of FHC status. The FR Y-7Q is filed annually if the FBO or any FBO in its tiered structure has not effectively elected to be a FHC and the FBO has total consolidated assets of less than \$50 billion.

Proposed Revisions to the FR Y-7Q

On February 18, 2014, the Federal Reserve Board approved a final rule to implement Enhanced Prudential Standards (section 165 of the Dodd-Frank Act) for large U.S. bank holding companies and FBOs.³

The final rule mandates that an FBO with total consolidated assets of \$50 billion or more and U.S. non-branch assets of \$50 billion or more form an IHC and hold its ownership interest in any U.S. subsidiary, other than a company held pursuant to section 2(h)(2) of the Bank Holding Company Act (a section 2(h)(2) company) or a DPC branch subsidiary,⁴ through the IHC.⁵ The

³ Regulation YY--Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies (Docket No. R-1438). <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20140218a1.pdf>.

⁴ A DPC branch subsidiary is a subsidiary of a U.S. branch or a U.S. agency acquired or formed to hold assets acquired, in the ordinary course of business and for the sole purpose of securing or collecting debt previously contracted in good faith by that branch or agency.

⁵ The term “subsidiary” is defined using the Bank Holding Company Act definition. The final rule provides the

IHC will be subject to enhanced prudential standards on a consolidated basis, including risk-based and leverage capital requirements, capital planning, stress testing, and liquidity requirements. The IHC requirement is designed to provide a platform for supervising and regulating the U.S. operations of FBOs on a consistent basis and to further the financial stability objectives of the Dodd-Frank Act.

Under the final rule, an FBO that meets the threshold for the IHC requirement on July 1, 2015, will be required to establish an IHC by July 1, 2016.⁶

In order to determine whether an FBO meets the threshold for formation of a U.S. IHC, the Federal Reserve proposes to collect a new data item, Total U.S. Non-Branch Assets. This item would collect the sum of the total combined assets of a top-tier FBO's top-tier U.S. domiciled affiliates.⁷ In situations where a top-tier U.S. domiciled affiliate is a parent of one or more subsidiaries, the total consolidated assets of the affiliate would include the assets of the affiliate and its subsidiaries, in accordance with U.S. Generally Accepted Accounting Principles (GAAP), and the total consolidated assets (or total assets, as applicable) of each top-tier U.S. domiciled affiliate should be combined. In situations where a top-tier U.S. domiciled subsidiary is not consolidated with the FBO for GAAP purposes, that entity shall be accounted for under the equity method and the sum of the amount of the investments should be included in the sum of the total combined assets of top-tier U.S. domiciled affiliates. The sum of the total combined assets of top-tier U.S. domiciled affiliates reported by a top-tier FBO should exclude intercompany balances and intercompany transactions between the FBO's U.S. domiciled affiliates to the extent such items are not already eliminated in consolidation. However, the sum of the total combined assets of top-tier U.S. domiciled affiliates reported by a top-tier FBO should include asset exposures to U.S. branches, or agencies of the FBO and to non U.S. domiciled affiliates⁸.

U.S. domiciled affiliate is defined as a subsidiary, an associated company, or an entity treated as an associated company (e.g., a corporate joint venture) as set forth in the instructions for the Consolidated Financial Statements for Holding Companies (FR Y-9C; OMB No. 7100-0128).

Board flexibility in exceptional circumstances to permit an FBO to establish multiple IHCs or use an alternative organizational structure to hold its interest in U.S. subsidiaries.

⁶ On July 1, 2016, the IHC would be required to hold the FBO's ownership interest in any U.S. BHC or insured depository institution subsidiary and U.S. subsidiaries representing 90 percent of the FBO's assets not held under the BHC or insured depository institution subsidiary. The draft final rule would also provide an FBO until July 1, 2017, to transfer any residual U.S. subsidiaries to the IHC.

⁷ Total combined assets of the top-tier FBO's U.S. domiciled affiliates should exclude the assets of section 2(h)(2) companies as defined in section 2(h)(2) of the Bank Holding Company Act (12 U.S.C. 1841(h)(2)) and DPC branch subsidiaries. This item excludes the assets of U.S. branches and agencies.

⁸ In cases where the non U.S. Domiciled affiliate is already consolidated with a Top Tier U.S. Domiciled affiliate these exposures are excluded.

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 and Publication

FBOs are required to file the FR Y-7N (quarterly/annually) and FR Y-7NS reports 60 days after the report date. Meeting the thresholds for filing quarterly is self-determined by the respondent and ascertained as of the reporting 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.

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]. In addition, Section 165 of the Dodd-Frank Act (12 U.S.C. 5365) directs the Federal Reserve to establish enhanced prudential standards for certain companies, including certain FBOs. 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.

Consultation Outside the Agency

On June 18, 2014, the Federal Reserve published a notice in the *Federal Register* (79 FR 34753) requesting public comment for 60 days on the proposal to revise, without extension, the FR Y-7Q. The comment period for this notice expired on August 18, 2014. The Federal Reserve received one comment letter from a banking association. The commenter asked for an explanation of the instructions for calculating the proposed new data item, Total U.S. non-branch assets, and suggested an alternative approach for calculating the new item. Details addressing the comment are included in the final *Federal Register* notice published November 21, 2014 (79 FR 69476), implementing the revisions as proposed.

Sensitive Questions

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

Estimate of Respondent Burden

As shown in the following table, the current annual reporting burden for this family of

reports is estimated to be 6,439 hours. The proposed revisions to the FR Y-7Q would result in an increase in burden of 120 hours. 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 respondents⁹</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<i>Current</i>				
FR Y-7N (quarterly)	183	4	6.8	4,978
FR Y-7N (annual)	97	1	6.8	660
FR Y-7NS	93	1	1	93
FR Y-7Q (quarterly)	109	4	1.50	654
FR Y-7Q (annual)	<u>43</u>	1	1.25	<u>54</u>
<i>Total</i>	525			6,439
<i>Proposed</i>				
FR 7N (quarterly)	183	4	6.8	4,978
FR Y-7N (annual)	97	1	6.8	660
FR Y-7 NS	93	1	1	93
FR Y-7Q (quarterly)	109	4	1.75	763
FR Y-7Q (annual)	<u>43</u>	1	1.5	<u>65</u>
<i>Total</i>	525			6,559
<i>Difference</i>				120

The total annual cost to the public is estimated to be to \$327,745 and would increase to \$333,853.¹⁰

Estimate of Cost to the Federal Reserve System

The cost to the Federal Reserve System for collecting and processing the FR Y-7N/NS/Q reports is estimated to be \$183,547 per year.

⁹ Of the respondents required to comply with this information collection, 93 are small entities as defined by the Small Business Administration (i.e., entities with less than \$500 million in total assets).

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 Support at \$18, 45% Financial Managers at \$61, 15% Lawyers at \$63, and 10% Chief Executives at \$86). Hourly rate for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2013, www.bls.gov/news.release/ocwage.nr0.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/