

**Supporting Statement for the
Quarterly Report of Assets and Liabilities of Large Foreign Offices of U.S. Banks
(FR 2502q; OMB No. 7100-0079)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with substantial revisions, the Quarterly Report of Assets and Liabilities of Large Foreign Offices of U.S. Banks (FR 2502q; OMB No. 7100-0079). U.S. commercial banks, bank holding companies, including financial holding companies, and banking Edge and agreement corporations (U.S. banks) are required to file this reporting form for their large branches and banking subsidiaries that are located in the United Kingdom or the Caribbean. As of September 30, 2014, 25 reports were filed for large foreign branches, and 6 reports were filed for large foreign subsidiaries.

The FR 2502q collects, for each reporting office, claims on and liabilities to residents of individual countries as of each quarter-end. The data are used to construct a piece of the flow of funds data that are compiled by the Federal Reserve.

The Federal Reserve proposes to significantly revise the FR 2502q report form by eliminating most of the geographic information collected on the form. Specifically, the Federal Reserve proposes to delete all individual countries from the form, except for the United States. As a result, the body of the form would consist of two rows, with assets and liabilities reported for customers in the United States and for “Total, all areas,” the latter being simply total assets and liabilities of the reporting offices. The retention of these two rows allows the continued use of the report to better understand how banks use their offices in the Caribbean and the United Kingdom as conduits for funds to or from outside the United States. The memoranda section would be retained without changes, allowing its continued use in flow of funds data. The Federal Reserve also proposes to clarify in the instructions that (1) a reporter should begin filing the report for a branch or subsidiary as of the report date when the branch or subsidiary meets the reporting criteria, and (2) for subsidiaries, the report should be filed on a parent only basis.

The total estimated annual burden of the report would decrease from 434 hours to 124 hours, a reduction of 310 hours. A draft copy of the proposed reporting form and instructions is attached. With the elimination of geographic detail from the report, the Federal Reserve would discontinue the E.11 Statistical Release, the “Geographical Distribution of Assets and Liabilities of Major Foreign Branches and Subsidiaries of U.S. Banks,” which publishes aggregate data from the FR 2502q. The Federal Reserve proposes to make these changes effective as of September 30, 2015.

Background and Justification

The Monthly Report on Foreign Branch Assets and Liabilities (FR 2502; OMB No. 7100-0078) was implemented in 1969 and collected, for the last business day of each month, a

breakdown of foreign branch assets and liabilities by category of customer.¹ The data also distinguished between customers in the United States and those in other countries and showed the balance of accounts denominated in U.S. dollars, the balance of those denominated in all other currencies combined, and the total thereof. The Quarterly Report on Foreign Branch Assets and Liabilities (FR 2502s; OMB No. 7100-0079) provided a geographic breakdown of assets and liabilities of foreign branches as of the last day of each quarter (March, June, September, and December), similar to the current FR 2502q. The FR 2502s was implemented in September 1975, at a time when foreign branches experienced greatly increased flows of funds from the oil-exporting countries and increased borrowing by developing countries.

By the time of the 1993 review of the information collection, the country detail from the quarterly reporting form was still immensely valuable. However, the usefulness of much of the detailed balance sheet data from the monthly reporting form had diminished. In March 1994, a new quarterly reporting form, the current FR 2502q, was formed, merging the necessary information from the FR 2502 and FR 2502s. The new reporting form contained all of the country detail that had been reported on the FR 2502s, plus a handful of data items (some with revision) that had been reported on the FR 2502 that were still needed for construction of the monetary aggregates and Bank for International Settlements (BIS) statistics.² The remaining data items collected monthly on the FR 2502 were dropped. The scope of the reporting panel was broadened to include not only foreign branches of U.S. banking organizations, but large foreign subsidiaries as well.

In 2003, the FR 2502q was revised to include several memorandum items to break out claims and liabilities reported under the unallocated accounts item. Prior to this time, FR 2502q data had been combined with data from other sources to develop a profile of the total claims of U.S. banks on residents of individual countries. Around this time, however, the FR 2502q ceased to be used in this way, because data from the quarterly Federal Financial Institutions Examination Council (FFIEC) Country Exposure Report (FFIEC 009; OMB No. 7100-0035), which directly collects exposure of U.S. banks to individual countries, were compiled in a much more timely manner than they had been.

In 2006, several revisions were made to the FR 2502q reporting form and instructions. As a result of the discontinuation of the publication of the monetary aggregate M3 in March 2006, Schedule A for the unallocated data items was revised. The reporting panel was also revised to require offices located only in the Caribbean and the United Kingdom to file the report, because consolidated reporting of liabilities of foreign offices by country of customer was added to the FFIEC 009.

In 2009, the FR 2502q reporting form was revised to conform more closely to the U.S. Department of State's official country list. In addition, the country list sub-headers were clarified to indicate that the areas listed may be countries or dependencies. Minor revisions were also made to the FR 2502q instructions to indicate that countries or dependencies not listed on

¹ From 1965 to 1969, the Department of the Treasury collected balance-sheet data from foreign branches of U.S. banks.

² These data items included customer detail on transactions with U.S. residents, claims and liabilities with respect to other non-U.S. offices of the parent, and Eurodollar liabilities payable to certain U.S. addressees.

the reporting form should be summed in each proposed regional subtotal, rather than current unallocated data items.

In 2012, the FR 2502q reporting form was revised to update the country list to remove a dissolved country, and to increase the reporting threshold for foreign branches from \$500 million to \$2 billion. In addition, the Federal Reserve clarified the instructions.

The Federal Reserve System, along with other agencies, has an interest in knowing the amounts of the claims and liabilities of U.S.-chartered banks with respect to residents of individual countries. This interest in U.S. banks' claims on foreign residents has been especially active during those times when developing countries have had severe payment difficulties. Liability data were particularly useful at the time of the U.S. freeze of official Iranian and Libyan assets at U.S. banks, including the foreign branches. Also, information on the funds placed with U.S. banks by the oil exporting countries has been of much interest through the years, both to the Federal Reserve System and to the Congress, which has requested a great deal of data on this subject. The need for information on U.S. banks' claims on and liabilities to residents of individual countries will continue to be great. Data from the FR 2502q can be used to provide information about two aspects of U.S. banks' positions vis-à-vis residents of foreign countries. First, data from the FR 2502q can be combined with data from the Treasury International Capital (TIC) reports to obtain an estimate of the *total cross-border* positions of U.S. banks vis-à-vis residents of individual foreign countries.³ Second, data from the FR 2502q provides information about the extent to which positions of U.S. banks vis-à-vis residents of individual foreign countries are booked at U.K. or Caribbean offices, by the location of the foreign office and by whether it is a branch or a subsidiary. Such information helps the Federal Reserve understand the nature of activities of foreign offices of U.S. banks, particularly the scope of cross-border activity that is conducted by different foreign offices in the United Kingdom and the Caribbean.

The usefulness of the FR 2502q as a source of information about positions of U.S. banks vis-à-vis residents of individual foreign countries has diminished in recent years. One reason is that the FFIEC 009, which collects data on the claims of U.S.-chartered banks on residents of foreign countries, has become available in a timelier manner. Final data from the FFIEC 009 are now available with a lag of about twelve weeks. This lag is still longer than the two-month lag for the final data from the FR 2502q, but it is much less than it once was. Moreover, near-final data from the FFIEC 009 are available with a two-month lag, the same lag as final data from the FR 2502q. As a result, total claims of U.S. banks on residents of individual foreign countries are now obtained from the FFIEC 009, which is more accurate than combining data from the FR 2502q with TIC data. In addition, the FFIEC 009 was revised to include more comprehensive data on banks' liabilities, effective at the end of March 2006. Subsequently, total liabilities of U.S. banks to residents of individual foreign countries have been obtained by combining data on liabilities from the FFIEC 009 and the TIC reports.

Nevertheless, the FR 2502q continues to provide data about the nature and scope of activities in foreign offices by location and type of office that is unavailable from other reporting forms. Because the banks' submissions that underlie the FFIEC 009 are consolidated on a

³ In combining the two sets of data, intrabank accounts are netted out on the basis of data from a memoranda item in the FR 2502q.

worldwide basis, they do not indicate which particular offices are involved in lending to or borrowing from U.S. or foreign residents. For example, they cannot show the extent to which subsidiaries or branches in London or the Caribbean serve as a conduit for claims on or liabilities to U.S. or foreign residents. In addition, data from the FFIEC 009 do not show the extent to which U.S. banks' derivatives activities are booked in, for example, London offices.

For many years, the monitoring of international banking developments on a worldwide scale, involving U.S. and non-U.S. banks, has been greatly facilitated by the collection and dissemination activities of the BIS. Through its member central banks, the BIS collects data on the international operations of banks in the major Western European countries, the United States, Canada, Japan, the major offshore banking centers, and some of the smaller Western European countries. This information is aggregated and results are published in the BIS quarterly reports. The BIS uses the FR 2502q data on branches of U.S. banks in the Bahamas in preparing its quarterly release.

In addition, the Department of Commerce uses FR 2502q data on branches of U.S. banks in the Bahamas and the Cayman Islands (together with data from 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)) in its estimates of the capital accounts portion of the balance of payments. Other sources of data that could be used in these estimates are available only with a lag of several months. The Federal Reserve uses memorandum item 1.c., Claims on, and liabilities to, U.S. addressees other than depository institutions, as input to the flow of funds data.

Description of Information Collection

The FR 2502q collects data quarterly on the geographic distribution of the assets and liabilities of major U.K. or Caribbean branches and subsidiaries of U.S. commercial banks, bank holding companies, including financial holding companies, and of banking Edge and agreement corporations.

Proposed Revisions

Rows for assets and liabilities by country of customer would be dropped, except for the row for the United States (country code 01007). The row for "Total, all areas" (country code 99996) would also be retained. The retention of these two rows allows the continued use of the report to better understand how banks use their offices in the Caribbean and the United Kingdom as conduits for funds to or from outside the United States. The memoranda section would be unchanged, allowing its continued use in flow of funds data and in shedding light on where U.S. banks book their derivatives activities.

The Federal Reserve also proposes to clarify in the instructions that a reporter should begin filing the report for a branch or subsidiary as of the report date on which it meets the criteria specified in the instructions. Additionally, the Federal Reserve proposes to make clear in the instructions that for subsidiaries, the report should be filed on a parent only (non-consolidated) basis, which is the same basis on which the Financial Statements of Foreign

Subsidiaries of U.S. Banking Organizations (FR 2314) is filed. The Federal Reserve proposes to make these changes effective as of September 30, 2015.

Reporting Panel

U.S. commercial banks, bank holding companies, and banking Edge and agreement corporations are required to file the FR 2502q for their major foreign branches and large banking subsidiaries that are located in the Caribbean or the United Kingdom. Major foreign branches are currently defined as those with assets of \$2 billion or more, payable in all currencies. Large banking subsidiaries are defined as those that file the Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314; OMB No. 7100-0073) quarterly, have a banking charter, and have assets of \$2 billion or more *and* deposits of \$10 million or more. The Federal Reserve recommends making no change to the reporting thresholds for either branches or subsidiaries.

Frequency

Respondents file the FR 2502q as of the last business day of the quarter with their Reserve Bank. A less frequent periodicity would have serious adverse consequences for two reasons: First, because developments affecting international borrowing and lending occur rapidly, data collected less frequently would be much less useful for analytical and supervisory purposes. These purposes include use of these statistics in U.S. balance of payments and flow of funds data. Second, the BIS quarterly series on international banking assets and liabilities would become less complete and less useful. The BIS uses quarterly submissions for branches of U.S. banks in some offshore banking centers to estimate the positions of all banks in these centers on dates for which the authorities there do not submit any report.

Time Schedule for Information Collection and Publication

Respondents file the FR 2502q quarterly, as of the last business day of the quarter, with their Reserve Bank on a schedule that allows the Reserve Bank to meet the Federal Reserve Board's transmission deadlines, which is 11:00 p.m. Eastern Time on the second Thursday of the second month following the report date. Reserve Banks edit and then transmit the data to the Federal Reserve Board for central processing. The data (aggregated for all reporters by country) are published by the Federal Reserve Board in the quarterly E.11 statistical release, *Geographical Distribution of Assets and Liabilities of Major Foreign Branches of U.S. Banks*. The FR 2502q is the sole source of data for the release. With the elimination of geographic detail from the report, the Federal Reserve would discontinue the E.11 Statistical Release.

Legal Status

The Federal Reserve Board's Legal Division has determined that Section 11(a)(2) of the Federal Reserve Act (FRA) authorizes the Board to require depository institutions to provide whatever "reports of its liabilities and assets as the Board may determine to be necessary or desirable to enable the Board to discharge its responsibility to monitor and control monetary and credit aggregates." (12 U.S.C. § 248(a)(2).) Authority may also be implied pursuant to Section

19 of the FRA (12 U.S.C. § 461(b)). In addition, under Section 25(7) of the FRA, the Board may require national banks operating foreign branches and foreign subsidiaries to furnish such information as the Board may demand and may conduct an examination of the bank's foreign branches and foreign subsidiaries (12 U.S.C. § 602). Pursuant to Section 25A(17) of the FRA, the Board may also require Edge Act and agreement corporations to file reports and submit to examinations (12 U.S.C. § 625).

In the past the microdata collected on the FR 2502q report was accorded confidential treatment under exemption (b)(4) of the Freedom of Information Act (5 U.S.C. § 552(b)(4)). As a result of the proposed removal of all the other countries that are individually listed on the FR 2502q report, however, the only country-of-customer asset and liability data that will remain broken out on the form is for the United States. The Federal Reserve indicates that the FR 2314 report on foreign *subsidiaries* of U.S. banks treats similar data as not confidential, while the Foreign Branch Report of Condition (FFIEC 030; OMB No. 7100-0071) provides for confidential treatment of similar information regarding U.S. bank *branches*. Thus, it is not readily apparent how releasing the remaining microdata contained on the revised FR 2502q report would be reasonably likely to result in substantial harm to the competitive position of the respondents. As a result, the question of microdata confidentiality was published for public comment in the *Federal Register* Notice noted below. The Federal Reserve did not receive any comments regarding the question of confidentiality, and the Legal division has determined that there is no need to keep this information confidential.

Consultation Outside the Agency

On March 12, 2015, the Federal Reserve published a notice in the *Federal Register* (80 FR 13001) requesting public comment for 60 days on the extension, with substantial revisions, of the FR 2502q. The comment period for this notice expired on May 11, 2015. The Federal Reserve received one comment supporting the revisions. The revisions will be implemented as proposed. On May 29, 2015, the Federal Reserve published a final notice in the *Federal Register* (80 FR 30680).

Estimate of Respondent Burden

The current annual burden for the FR 2502q is estimated to be 434 hours annually and with the proposed revision would decrease to 124 hours, as shown in the following table. As of September 30, 2014, there were 31 reports filed for large foreign branches and subsidiaries. The estimated average response time, which is the same for data that are submitted on an individual and a consolidated basis, is currently estimated to be 3.5 hours for the current form and would decrease to 1 hour for the revised form. These reporting requirements represent less than 1 percent of total Federal Reserve System paperwork burden.

FR 2502q	<i>Number of respondents⁴</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current	31	4	3.5	434
Proposed	31	4	1	<u>124</u>
<i>Change</i>				(310)

The total cost to the public for FR 2502q is estimated to decrease from the current level of \$22,460 to \$6,417 for the revised FR 2502q report, a reduction of \$16,043.⁵

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

Based on the proposed revisions the cost to the Federal Reserve System for collecting and processing this report is estimated to decrease from \$54,800 to \$41,300 per year. The one-time cost to implement the revised report is estimated to be \$4,400.

⁴ Of the 31 respondents required to comply with this information collection, none of the respondents are considered a small entity as defined by the Small Business Administration (i.e., entities with \$550 million or less in total assets) www.sba.gov/content/small-business-size-standards.

⁵ Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at \$17, 45% Financial Managers at \$63, 15% Lawyers at \$64, and 10% Chief Executives at \$87). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages May 2014*, published March 25, 2015, www.bls.gov/news.release/ocwage.nr0.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.