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
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 for three years, 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, FDIC, and 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 delete or consolidate certain items, establish certain reporting thresholds, account for changes in the accounting for equity investments, and make instructional clarifications consistent with those previously made to or currently proposed for the Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031, FFIEC 041, and FFIEC 051; OMB No. 7100-0036). The proposed revisions would result in an overall reduction in burden, and would be effective for the June 30, 2018, report date. The estimated annual burden for the FFIEC 002 is 21,259 hours. The proposed revisions would result in a net decrease in burden of 1,304 hours. The estimated annual burden for the FFIEC 002S is 912 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 to make decisions concerning monetary policy. The report is similar to the Call Report required of all U.S. commercial banks and savings associations, although the FFIEC 002 collects fewer data items.

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 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 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.

On February 7, 2011, the FDIC Board adopted a final rule amending the FDIC's regulations to redefine the assessment base used for calculating deposit insurance as prescribed by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). In June 2011, the agencies implemented the following assessment-related reporting revisions to the FFIEC 002 and FFIEC 002S through the emergency clearance process, effective with the June 30, 2011, report date: (1) the deletion of existing data items for the total daily averages of deposit liabilities before exclusions, allowable exclusions, and foreign deposits and (2) the addition of data items for reporting average consolidated total assets, average tangible equity, and the holdings of long-term unsecured debt issued by other FDIC-insured depository institutions.

In addition to its supervisory and regulatory uses, the FFIEC 002 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 $2 trillion as of March 31, 2017. 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 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-10 bank branches have heavy exposures to their home countries and G-10 banks are dealing largely with U.S. customers.[2] 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 50 largest non-U.S. banks in the world operates at least one agency or branch in the United States.

[2] The Group of Ten (G-10) 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.

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. The FFIEC 002S is a supplement to the FFIEC 002, and is completed by any non-U.S. branch that is managed or controlled by a U.S. branch or agency of a foreign bank.

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, 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.

Proposed Revisions

The proposed revisions are meant to align with revisions either implemented or proposed to be implemented in the Call Report. Below is a list of the specific proposed revisions to the FFIEC 002 and FFIEC 002S. The proposed revisions are segmented by schedule except for the revisions relating to the accounting for equity securities, which can be found following the section regarding proposed revisions to FFIEC 002 Schedule S, Servicing, Securitization, and Asset Sale Activities. Other than proposed revisions to the Report of Assets and Liabilities in the ensuing paragraph, which pertain to the FFIEC 002S, all other proposed revisions pertain only to the FFIEC 002.

Schedule RAL (FFIEC 002) and Report of Assets and Liabilities (FFIEC 002S)

In an effort to improve clarity, conformity with current accounting terminology, and internal consistency across schedules, the agencies propose to revise the caption in the FFIEC 002 and FFIEC 002S forms and instructions from "loans and leases, net of unearned income" to "loans and leases held for investment and held for sale." These two captions are intended to represent the same reported amounts. Accordingly, the agencies will replace the former caption with the latter caption in affected data items and related instructions across all applicable schedules.

Each year in the March FFIEC 002, each institution indicates in Schedule RAL, Assets and Liabilities, Memorandum item 17, the most comprehensive level of auditing work performed for the branch or agency by, or on behalf of, the parent organization during the preceding calendar year. In completing Memorandum item 17, each institution selects from seven statements describing a range of levels of auditing work the one statement that best describes the level of auditing work performed for it. Certain statements from which an institution must choose do not reflect current auditing practices performed in accordance with applicable standards and procedures promulgated by the U.S. auditing standard setters, namely the Public Company Accounting Oversight Board (PCAOB) and the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants. The PCAOB establishes auditing and related professional practice standards used in the performance and reporting of audits of the financial statements and the internal control over financial reporting (ICFR) of public companies. The ASB establishes auditing and quality control standards applicable to the performance and issuance of audit reports for entities that are not public companies, e.g. private companies.

The PCAOB's Auditing Standard No. 5 (AS 5), An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements, became effective for fiscal years ending on or after November 15, 2007, and provides guidance regarding the integration of audits of ICFR with audits of financial statements for public companies. Those public companies not required to undergo an integrated audit must have an audit of their financial statements.

The ASB has separately provided similar guidance in Statement on Auditing Standards Number 130 (SAS 130), An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements, which became effective for integrated audits for periods ending on or after December 15, 2016. Consistent with the PCAOB, the ASB states in SAS 130 that "[a]n audit of ICFR is required to be integrated with an audit of financial statements." Unless a private company is required to or elects to have an integrated audit of its financial statements and ICFR, the private company may be required to or can choose to have an external auditor perform an audit of its financial statements. The existing wording of statements 1 and 2 of Schedule RAL, Memorandum item 17, reads as follows:

> 1 = "Independent annual audit of the branch or agency conducted in accordance with U.S. generally accepted auditing standards by a certified public accounting firm."
>
> 2 = "Independent annual audit of the branch or agency conducted in accordance with home-country auditing standards by an independent accounting firm."

Because these statements no longer fully and properly describe the types of external auditing services performed for institutions under current professional standards and to enhance the information institutions provide the agencies annually about the level of auditing external work performed for them, the agencies are proposing to replace existing statements 1 and 2 with new statements 1a and 1b and revised statement 2. These statements would read as follows:

> 1a = "An integrated audit of the branch or agency and its internal control over financial reporting conducted in accordance with the auditing standards of the American Institute of Certified Public Accountants (AICPA) or the Public Company Accounting Oversight Board (PCAOB) by an independent public accountant."
>
> 1b = "An audit of the branch or agency conducted in accordance with the auditing standards of the AICPA or the PCAOB by an independent public accountant."
>
> 2 = "An audit of the branch or agency conducted in accordance with home-country auditing standards by an independent public accountant."

Further, the agencies also propose to revise the caption to Memorandum item 17 to explicitly state that the work is performed by independent external auditors and to remove the reference to work performed on behalf of the parent organization.

The agencies also propose to consolidate the detail on the fair value and the unpaid principal balance of loans held for trading collected in Schedule RAL. For loans secured by 1-4 family residential properties, breakouts for revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit, as well as closed-end loans secured by 1-4 family residential properties, would be consolidated into a single item. In addition, construction, land development, and other land loans; loans secured by farmland; loans secured by multifamily (5 or more) residential properties; and loans secured by nonfarm nonresidential properties would be consolidated into a single item. Specifically, existing Memorandum items 5.a.(3)(a) and 5.a.(3)(b) would be consolidated into new Memorandum item 5.a.(1), while existing Memorandum items 5.a.(1), 5.a.(2), 5.a.(4), and 5.a.(5) would be consolidated into new Memorandum item 5.a.(2). Existing Memorandum items 6.a.(3)(a) and 6.a.(3)(b) would be consolidated into new Memorandum item 6.a.(1), while existing Memorandum items 6.a.(1), 6.a.(2), 6.a.(4), and 6.a.(5) would be consolidated into new Memorandum item 6.a.(2). The agencies no longer need this current level of detail on loans held for trading in the FFIEC 002.

Schedule A

On Schedule A, Cash and Balances Due from Depository Institutions, the agencies propose to consolidate the reporting of an institution's balances due from depository institutions in the U.S., which are currently reported in items 3.a for balances due from U.S. branches and agencies of foreign banks (including their international banking facilities (IBFs)) and 3.b for balances due from other depository institutions in the U.S. (including their IBFs), into a single item 3. In addition, the agencies propose to consolidate the reporting of an institution's balances due from foreign branches of U.S. banks (item 4.a), balances due from banks in the reporting institution's home country and its home country central bank (item 4.b), and balances due from all other banks in foreign countries and foreign central banks (item 4.c), into a single item 4, Balances due from banks in foreign countries and foreign central banks. The agencies no longer need this current level of detail for these balances in the FFIEC 002.

Schedule C, Part I

At present, institutions that have elected to measure loans held for investment or held for sale at fair value under a fair value option are required to report the fair value and unpaid principal balance of such loans in Memorandum items 5 and 6, respectively, of Schedule C, Part I, Loans and Leases. Because Schedule C, Part I, must be completed by all institutions, Memorandum items 5 and 6 also must be completed by all institutions although only a nominal number of institutions have disclosed reportable amounts for any of the categories of fair value option loans reported in the subitems of these two Memorandum items. Accordingly, the agencies are proposing to move Memorandum items 5 and 6 on the fair value and unpaid principal balance of fair value option loans from Schedule C, Part I, to Schedule Q, Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis, and to designate them as Memorandum items 3 and 4, respectively.

The agencies also propose to consolidate the detail on loans held for investment or held for sale measured at fair value and the unpaid principal balance of such loans that would be moved to Schedule Q. Breakouts for revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit, as well as closed-end loans secured by 1-4 family residential properties, would be consolidated into a single item for loans secured by 1-4 family residential properties. In addition, construction, land development, and other land loans; loans secured by farmland; loans secured by multifamily (5 or more) residential properties; and loans secured by nonfarm nonresidential properties would be consolidated into a single item for loans secured by real estate other than 1-4 family residential properties. Specifically, existing Memorandum items 5.a.(3)(a) and 5.a.(3)(b) would be consolidated into new Memorandum item 5.a.(1), while existing Memorandum items 5.a.(1), 5.a.(2), 5.a.(4), and 5.a.(5) would be consolidated into new Memorandum item 5.a.(2). Existing Memorandum items 6.a.(3)(a) and 6.a.(3)(b) would be consolidated into new Memorandum item 6.a.(1), while existing Memorandum items 6.a.(1), 6.a.(2), 6.a.(4), and 6.a.(5) would be consolidated into new Memorandum item 6.a.(2). The agencies no longer need this current level of detail in the FFIEC 002.

Schedule C, Part II

The agencies propose to remove items 1.a and 1.b on Schedule C, Part II, Loans to Small Businesses and Small Farms. Item 1.a requires FDIC-insured branches to indicate on an annual basis whether all or substantially all of the institution's dollar volume of reported "Commercial and industrial loans to U.S. addressees" consist of loans with original amounts of $100,000 or less. If a branch reports "Yes" in item 1.a, then it must provide the number of "Commercial and industrial loans to U.S. addressees" outstanding in item 1.b. This change aligns this schedule with revisions made to the corresponding schedule in the FFIEC 031 Call Report.

Schedule Q

The agencies propose to modify the reporting criteria for Schedule Q, Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis, by applying only an activity threshold and not an asset-size threshold, which currently is $500 million. As proposed, Schedule Q is to be completed by branches and agencies that (1) have elected to report financial instruments or servicing assets and liabilities at fair value under a fair value option with changes in fair value recognized in earnings or (2) reported total trading assets of $10 million or more in any of the four preceding calendar quarters. Institutions that do not meet either of these criteria would no longer need to complete this schedule, regardless of asset size. The agencies believe the activity thresholds are more appropriate than the existing simple asset-size threshold for determining which institutions must complete this schedule.

The agencies also propose to raise the dollar portion of the threshold from $25,000 to $100,000 for itemizing and describing the components of "All other assets" and "All other liabilities," which are reported in Memorandum items 1 and 2, respectively. The percentage portion of the existing thresholds would not be changed. Based on a preliminary evaluation of the existing reporting thresholds, the agencies have concluded that the dollar portion of the thresholds that currently apply to these items can be increased to provide a reduction in reporting burden without a loss of data that would be necessary for supervisory or other public policy purposes.

Schedule S

The agencies propose the following revisions to Schedule S, Servicing, Securitization, and Asset Sale Activities, as they no longer need the current level of detail on securitization and asset sale activities in the FFIEC 002:

(1) Consolidate the maximum amount of credit exposures arising from recourse or other seller-provided credit enhancements in the forms of retained interest-only strips, subordinated securities and other residual interests, and standby letters of credit and other enhancements reported in items 2.a, 2.b, and 2.c, respectively, into a single new item 2.

(2) Create a reporting threshold of $100 billion or more in total assets for reporting in item 3, which is for reporting unused commitments to provide liquidity to structures reported in item 1 involving assets sold and securitized by the reporting institution with servicing retained or with recourse or other seller-provided credit enhancements.

(3) Consolidate ownership (or seller's) interests carried as securities and loans, which are reported in items 6.a and 6.b, respectively, into a single new item 6. The agencies also propose to create a reporting threshold of $10 billion or more in total assets for reporting this new combined item 6.

(4) Remove items 7.a and 7.b, which contain loan amounts included in ownership (or seller's) interests carried as securities that are 30-89 days past due and 90 days or more past due, respectively.

(5) Consolidate columns B and C of item 9, which contain the maximum amount of credit exposure arising from credit enhancements provided by the reporting institution to other institutions' securitization structures, into existing column G. The activities covered in columns B and C pertain to home equity lines and credit card receivables, respectively. The amounts previously reported in columns B and C would be reported in column G, "All other loans, all leases, and all other assets."

(6) Create a reporting threshold of $10 billion or more in total assets for reporting unused commitments to provide liquidity to other institutions' securitization structures in item 10. The agencies also propose to consolidate columns B and C of item 10 into existing column G. The activities covered in columns B and C pertain to home equity lines and credit card receivables, respectively. The amounts previously reported in columns B and C by institutions with $10 billion or more in total assets would be included in column G, "All other loans, all leases, and all other assets."

(7) Consolidate columns B through F of item 11, which contain assets sold with recourse or other seller-provided credit enhancements and not securitized, into existing column G. The activities covered in columns B through F pertain to home equity lines, credit card receivables, auto loans, other consumer loans, and commercial and industrial loans, respectively. The amounts previously reported in columns B through F would be included in column G, "All other loans, all leases, and all other assets."

(8) Consolidate columns B through F of item 12, which contain the maximum amount of credit exposure arising from recourse or other seller-provided credit enhancements on assets sold with recourse or other seller-provided credit enhancements and not securitized, into existing column G. The activities covered in columns B through F pertain to home equity lines, credit card receivables, auto loans, other consumer loans, and commercial and industrial loans, respectively. The amounts previously reported in columns B through F would be included in column G, "All other loans, all leases, and all other assets."

(9) Create a reporting threshold of $10 billion or more in total assets for reporting detail on asset-backed commercial paper conduits in Memorandum item 1. Institutions report the maximum amount of credit exposure arising from credit enhancements provided to asset-backed commercial paper conduits sponsored by the reporting institution or related institutions, and by unrelated institutions, in Memorandum items 1.a.(1) and 1.a.(2), respectively. Institutions report unused commitments to provide liquidity to asset-backed commercial paper conduits sponsored by the reporting institution or related institutions, and by unrelated institutions, in Memorandum items 1.b.(1) and M.1.b.(2), respectively.

Proposed Revisions to Address Changes in Accounting for Equity Investments

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." In its summary of this ASU, the FASB described how one of the main provisions of the ASU differs from current U.S. generally accepted accounting principles (GAAP) as follows:

> The amendments in this Update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. An entity's equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this Update.

The FASB further stated in the summary that "an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer."

The instructions to the FFIEC 002 require that respondents must utilize U.S. GAAP when filing the report. The agencies propose to revise the FFIEC 002 report form and instructions to account for the changes to U.S. GAAP set forth in ASU 2016-01.[3] These proposed revised reporting requirements would become effective for different sets of respondents as those respondents become subject to the ASU. Institutions that are public business entities, as defined in U.S. GAAP, are subject to ASU 2016-01 for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Therefore, for an institution with a calendar

[3] No revisions to the FFIEC 002S regarding equity securities are being proposed.

year fiscal year that is a public business entity, the proposed revised reporting requirements would become effective for its FFIEC 002 for June 30, 2018. As discussed below, interim guidance would be provided for purposes of reporting by such an institution in accordance with the ASU in its FFIEC 002 beginning with the March 31, 2018, report date. All other institutions become subject to the ASU for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Therefore, for an institution with a calendar year fiscal year that is not a public business entity, the proposed revised reporting requirements would become effective for its FFIEC 002 for December 31, 2019. The period over which institutions will be implementing this ASU ranges from the first quarter of 2018 through the fourth quarter of 2020. December 31, 2020, will be the first quarter-end FFIEC 002 report date as of which all institutions would be required to prepare their FFIEC 002 in accordance with ASU 2016-01 and the proposed revised reporting requirements.

The changes to the accounting for equity investments under ASU 2016-01 will affect several existing data items in the FFIEC 002. One outcome of these accounting changes is the elimination of the concept of available-for-sale (AFS) equity securities, which are measured at fair value on the balance sheet with changes in fair value recognized through other comprehensive income. At present, the historical cost and fair value of AFS equity securities, i.e., investments in mutual funds and other equity securities with readily determinable fair values that are not held for trading, are reported in Schedule RAL, item 1.c.(4), "All other" bonds, notes, debentures, and corporate stock, and Memorandum item 3, "Fair value of available-for-sale securities." The total fair value of AFS securities reported in Schedule RAL, Memorandum item 3, also is reported in item 1, column A, of Schedule Q. Institutions then report in columns C, D, and E of item 1 of Schedule Q a breakdown of their AFS securities by the level in the fair value hierarchy within which the fair value amounts of these securities fall (Level 1, 2, or 3). Any balance sheet netting adjustments to these fair value amounts are reported in column B of item 1 of Schedule Q.

Another outcome of the changes in the accounting for equity investments under ASU 2016-01 is that equity securities and other equity investments without readily determinable fair values that are within the scope of ASU 2016-01 and are not held for trading must be measured at fair value through net income, rather than at cost (less impairment, if any), unless the measurement election described above is applied to individual equity investments. In general, institutions currently report their holdings of such equity securities without readily determinable fair values as a component of other assets in Schedule RAL, item 1.h.

At present, AFS equity securities and equity investments without readily determinable fair values are included in the quarterly averages reported in Schedule K, Quarterly Averages. Institutions report the quarterly average for "Total claims on nonrelated parties" in item 5 of this schedule. This average reflects all equity securities not held for trading on a cost basis. In addition, for branches whose deposits are insured by the FDIC, AFS equity securities and equity investments without readily determinable fair values are included in the quarterly averages reported in Schedule O, Other Data for Deposit Insurance Assessments. Institutions report the quarterly average for "Average consolidated total assets for the calendar quarter" in item 4 of this schedule. This average reflects AFS equity securities with readily determinable fair values at the lower of cost or fair value, and equity securities without readily determinable fair values at historical cost.

The agencies have considered the changes to the accounting for equity investments under ASU 2016-01 and the effect of these changes on the manner in which data on equity securities and other equity investments are currently reported in the FFIEC 002, which has been described above. Accordingly, the proposed revisions to the FFIEC 002 report form and instructions to address the equity securities accounting changes are as follows:

(1) In Schedule RAL, Assets and Liabilities, a new Memorandum item 4, “Fair value of equity securities with readily determinable fair values not held for trading,” would be added effective June 30, 2018. From June 30, 2018, through September 30, 2020, the instructions for Memorandum item 4 and the reporting form for Schedule RAL would include guidance stating that Memorandum item 4 is to be completed only by institutions that have adopted ASU 2016-01. Institutions that have not adopted ASU 2016-01 would leave Memorandum item 4 blank. Existing Memorandum items 3, “Fair value of available-for-sale securities,” and 4, “Amortized cost of available-for-sale securities,” would be renumbered as Memorandum items 3.a and 3.b, respectively, effective June 30, 2018. During the period from June 30, 2018, through September 30, 2020, the instructions for Schedule RAL, Memorandum items 3.a and 3.b, would explain that institutions that have adopted ASU 2016-01 should include only debt securities in Memorandum items 3.a and 3.b. Effective December 31, 2020, the caption for Memorandum items 3.a and 3.b would be revised to “Fair value of available-for-sale debt securities” and “Amortized cost of available-for-sale debt securities,” respectively, and all institutions would report their holdings of equity securities with readily determinable fair values not held for trading in Memorandum item 4.

(2) In Schedule RAL, equity securities and other equity investments without readily determinable fair values not held for trading, which are currently reported in item 1.h, would continue to be reported in this item. However, the instructions would be revised as of June 30, 2018, to state that, after the effective date of ASU 2016-01 for an institution, the equity securities and other equity investments the institution reports in item 1.h would be measured in accordance with the ASU.

(3) In Schedule K, Quarterly Averages, the instructions for item 5, “Total claims on nonrelated parties,” would include guidance from June 30, 2018, through September 30, 2020, stating that, for purposes of reporting the quarterly average for total claims:

- Institutions that have adopted ASU 2016-01 should reflect the quarterly average of all debt securities not held for trading on an amortized cost basis, and
- Institutions that have not adopted ASU 2016-01 should reflect the quarterly average for all securities not held for trading on an amortized cost basis.

Then, effective December 31, 2020, the instructions for item 5 would indicate that, for debt securities not held for trading, the quarterly average for total claims should reflect such securities on an amortized cost basis.

(4) In Schedule O, Other Data for Deposit Insurance Assessments, the instructions for item 4, "Average consolidated total assets for the calendar quarter," would include guidance from June 30, 2018, through September 30, 2020, stating that, for purposes of reporting the quarterly average for total assets:

- Institutions that have adopted ASU 2016-01 should reflect the quarterly average for debt securities not held for trading at amortized cost, and
- Institutions that have not adopted ASU 2016-01 should reflect the quarterly average for all debt securities not held for trading at amortized cost, available-for-sale equity securities with readily determinable fair values at the lower of cost or fair value, and equity securities without readily determinable fair values at historical cost.

Then, effective December 31, 2020, the instructions for item 4 would indicate that, for debt securities not held for trading, the quarterly average for total assets should reflect such securities at amortized cost.

(5) In Schedule Q, the caption for item 1, "Available-for-sale securities," would be changed to "Available-for-sale debt securities and equity securities with readily determinable fair values not held for trading" effective June 30, 2018. From June 30, 2018, through September 30, 2020, the instructions for item 1 and the reporting form for Schedule Q would include guidance stating that, for institutions that have adopted ASU 2016-01, the amount reported in item 1, column A, must equal the sum of Schedule RAL, Memorandum items 3.a and 4, and for institutions that have not adopted ASU 2016-01, the amount reported in item 1, column A, must equal Schedule RAL, Memorandum item 3.a. Effective December 31, 2020, this guidance would indicate that the amount reported in item 1, column A, must equal the sum of Schedule RAL, Memorandum items 3.a and 4.

Institutions that apply ASU 2016-01 in the first quarter of 2018 will need to report their holdings of equity securities and other equity investments in accordance with this accounting standard within the existing structure of the FFIEC 002 for March 31, 2018. Interim guidance accompanied the Board's transmittal letter to institutions for the March 31, 2018, report date, and advised institutions that have adopted ASU 2016-01 to (a) continue to report the fair value and historical cost of their holdings of equity securities with readily determinable fair values not held for trading (which were reportable as available-for-sale equity securities prior to the adoption of ASU 2016-01) in existing Memorandum items 3 and 4 of Schedule RAL, (b) measure their holdings of equity securities and other equity investments without readily determinable fair values not held for trading in accordance with the ASU and continue to report them in Schedule RAL, item 1.h, (c) report Schedule K, item 5, consistent with the measurement of Schedule RAL, item 1.i, except that all debt securities not held for trading should be measured on an amortized cost basis, (d) report Schedule O, item 4, consistent with the measurement of Schedule RAL, item 3, except that all debt securities not held for trading should be measured at amortized cost, and (e) continue to report the amount from Memorandum item 3 of Schedule RAL in Schedule Q, item 1, column A.

Time Schedule for Information Collection and Publication

The proposed revisions do not alter the time schedule or publication of the FFIEC 002 or FFIEC 002S. 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 are available on the FFIEC public website at www.ffiec.gov/nicpubweb/nicweb/nichome.aspx.

Legal Status

The Board is authorized to collect information on the FFIEC 002 and FFIEC 002S pursuant to section 7(c)(2) of the IBA (12 U.S.C. 3105(c)(2)). 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 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 obligation to respond is mandatory.

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) and (b)(8)). Information from all other schedules of the FFIEC 002 is available to the public on request. The proposed items would not be held confidential.

Consultation Outside the Agency

On December 27, 2017, the Board, under the auspices of the FFIEC, published an initial notice in the *Federal Register* (82 FR 61294) requesting public comment for 60 days on the extension, with revision, of the FFIEC 002 and FFIEC 002S. The comment period for this notice expired on February 26, 2018. The Board received two comments on the proposal, one specific comment from an individual and one general comment from a government entity. The government entity did not raise concerns about the proposal itself, but stated that it uses certain data items in the FFIEC 002 and FFIEC 002S in preparing economic statistics on international transactions, and encouraged the agencies to continue collecting those items. The comment from the individual pertained to the most comprehensive level of auditing performed for the branch or agency by, or on behalf of, its parent organization during the preceding calendar year, which every FFIEC 002 filer is required to report in Schedule RAL, Memorandum item 17, on its March report.

In response to certain auditing standards issued by the PCAOB and the ASB, the Board proposed to revise two of the existing statements describing the most comprehensive level of auditing work performed for the branch or agency during the preceding year. The Board also proposed to revise the information collected in Memorandum item 17 to refer to the work performed by independent external auditors and to remove the reference to work performed on behalf of the parent organization. The individual requested clarification as to which branches and agencies are required to have an integrated audit conducted by independent external auditors as mentioned in the text for proposed statement 1a in the response to Memorandum item 17. Specifically, the individual wanted to confirm that only public companies and companies with a market capitalization greater than $75 million are required to have an integrated audit.

Under section 363.3(b) of the FDIC's regulations (12 CFR 363.3(b)), the independent public accountant who audits the financial statements of an FDIC-insured branch of a foreign bank with $1 billion or more in total claims on nonrelated parties is required to audit and report on the effectiveness of the branch's internal control over financial reporting (ICFR). Standards issued by the PCAOB and the ASB provide guidance regarding the integration of audits of ICFR with audits of financial statements. Thus, statement 1a and its reference to an integrated audit are applicable to certain FDIC-insured branches, which means that the requirement for an integrated audit is not limited to the circumstances described by the commenter. However, the Board will clarify statement 1a of Memorandum item 17 by adding "(e.g., as required for FDIC-insured branches subject to Part 363 of the FDIC's regulations that have $1 billion or more in total claims on nonrelated parties)" at the end of the proposed text of this statement.

After considering the comments received on the proposal, the agencies will proceed with the proposed reporting revisions to the FFIEC 002 and FFIEC 002S, while incorporating one clarification in response to the specific comment described above. These reporting revisions would take effect as of the June 30, 2018, report date. On April 27, 2018, the Board published a final notice in the *Federal Register* (83 FR 18562).

Estimate of Respondent Burden

The current annual reporting burden for the FFIEC 002 is estimated to be 21,259 hours and would decrease to 19,955 hours. The average estimated hours per response for FFIEC 002 would decrease from 25.43 hours to 23.87 hours due to the proposed changes. The FFIEC 002S is estimated to be 912 hours and would remain unchanged. These reporting requirements represent less than 1 percent of the total Federal Reserve paperwork burden.

FFIEC 002 and FFIEC 002S	*Number of respondents*[4]	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
Current				
FFIEC 002	209	4	25.43	21,259
FFIEC 002S	38	4	6	912
Total				22,171
Proposed				
FFIEC 002	209	4	23.87	19,955
FFIEC 002S	38	4	6	912
Total				20,867
Change				(1,304)

The current total annual cost to the public for the FFIEC 002 and FFIEC 002S is estimated to be $1,242,685 and with the proposed revisions would decrease to $1,169,595.[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

The proposed cost to the Federal Reserve System for collecting and processing the FFIEC 002 and FFIEC 002S is estimated to be $198,700 per year, an increase of $13,300 from the current cost of $185,400. The one-time cost to implement the revised report is estimated to be $17,200. The Federal Reserve System collects and processes the data for all three of the agencies.

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[4] Of these respondents, 63 FFIEC 002 and 7 FFIEC 002S are considered small entities as defined by the Small Business Administration (i.e., entities with $550 million or less in total assets) www.sba.gov/contracting/getting-started-contractor/make-sure-you-meet-sba-size-standards/table-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 $18, 45% Financial Managers at $69, 15% Lawyers at $68, and 10% Chief Executives at $94). 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 2017*, published March 30, 2018, www.bls.gov/news.release/ocwage.t01.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.