

**Supporting Statement for the
Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies
(FR Y-11 and FR Y-11S; OMB No. 7100-0244),
Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations
(FR 2314 and FR 2314S; OMB No. 7100-0073),
Financial Statements of U.S. Nonbank Subsidiaries Held by
Foreign Banking Organizations (FR Y-7N and FR Y-7NS; OMB No. 7100-0125), and
Capital and Asset Report for Foreign Banking Organizations
(FR Y-7Q; OMB No.7100-0125)**

Summary

The Board of Governors of the Federal Reserve System (Board), under delegated authority from the Office of Management and Budget (OMB), has extended for three years, with revision, the following mandatory reports:

- Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies (FR Y-11; OMB No. 7100-0244),
- Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314; OMB No. 7100-0073), and
- Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7N; OMB No. 7100-0125).

The Board has extended, without revision, the following mandatory reports:

- Abbreviated Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies (FR Y-11S; OMB No. 7100-0244),
- Abbreviated Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314S; OMB No. 7100-0073),
- Abbreviated Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7NS; OMB No. 7100-0125), and
- Capital and Asset Report for Foreign Banking Organizations (FR Y-7Q; OMB No.7100-0125).

The Board has adopted revisions to the FR Y-11, FR 2314, and FR Y-7N reporting forms and instructions that are consistent with certain recent changes to the FR Y-9 family of reports (OMB No. 7100-0128)¹ and the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031, FFIEC 041, and FFIEC 051; OMB No. 7100-0036).² Specifically, the changes (1) add a new data item to the balance sheet to separate and reclassify equity securities with readily determinable fair values not held for trading from the “available for sale” category in accordance with Financial Accounting Standards Board’s (FASB) Accounting Standards Update (ASU) No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” and (2) add new data items to the income statement to reflect the proper reporting of income associated with these securities. These revisions are effective for reports reflecting the June 30, 2018, report date.

¹ See 83 FR 12395 (March 21, 2018).

² See 83 FR 939 (January 8, 2018).

The total current annual paperwork burden for the FR Y-11 family of reports is 14,125 hours. The total current annual paperwork burden for the FR 2314 family of reports is 14,296 hours. The total current annual paperwork burden for the FR Y-7 family of reports is 3,091 hours. The burden hours are not expected to change with the revisions.

Background and Justification

The FR Y-11 family of reports collects financial information for individual U.S. nonbank subsidiaries of domestic holding companies (i.e., bank holding companies, savings and loan holding companies, securities holding companies, and intermediate holding companies), which is essential for monitoring the subsidiaries' potential impact on the condition of the holding company or its subsidiary banks. The FR Y-11 family of reports is necessary because other data collected by the Board on a consolidated and parent-company-only basis does not reveal the extent of problems that may exist within a holding company's nonbank subsidiaries, as the size and operations of bank subsidiaries can mask the operations of nonbank subsidiaries in a consolidated report. In addition to providing information used in the supervision of holding companies, the FR Y-11 family of reports provides information to assist the Federal Reserve in the formulation of regulations and supervisory policies.

The FR 2314 family of reports is the only source of comprehensive and systematic data on the assets, liabilities, and earnings of the foreign nonbank subsidiaries of U.S. banking organizations, and the data are used to monitor the growth, profitability, and activities of these foreign companies. The data help the Federal Reserve identify present and potential problems of these companies, monitor their activities in specific countries, and develop a better understanding of activities within the industry and within specific institutions. This information, coupled with information from the Foreign Branch Reports of Condition (FFIEC 030; OMB No. 7100-0071), provides a picture of the breadth and scope of international banking operations for U.S. holding companies both individually and in the aggregate.

The FR Y-7N and the FR Y-7NS are used to assess a foreign banking organization's (FBO) ability to be a continuing source of strength to its U.S. operations and to determine compliance with U.S. laws and regulations. The FR Y-7Q collects consolidated regulatory capital and asset information from all FBOs. This information is not available from other sources.

Description of Information Collection

The FR Y-11 consists of an income statement, balance sheet, schedules that collect information on changes in equity capital, the allowance for loan and lease losses, off-balance-sheet data items, loans, and a memoranda section. Domestic holding companies file the FR Y-11 reports for their U.S. nonbank subsidiaries. A top-tier holding company must file the FR Y-11 quarterly for each nonbank subsidiary that it owns and controls if the top-tier holding company has total consolidated assets of \$500 million or more as of June 30 of the preceding year or files the FR Y-9C to meet supervisory needs and the subsidiary meets any one of the following criteria: (1) total assets of \$1 billion or more, (2) total off-balance-sheet activities of \$5 billion or more, (3) equity capital of at least 5 percent of the top-tier holding company's consolidated

equity capital, or (4) operating revenue of at least 5 percent of the top-tier holding company's consolidated operating revenue. The FR Y-11 is filed annually, as of December 31, by top-tier holding companies for each individual nonbank subsidiary that does not meet the criteria for filing quarterly and with total assets of at least \$500 million, but less than \$1 billion.

The FR Y-11S is an abbreviated reporting form that collects four data items: net income, total assets, equity capital, and total off-balance-sheet data items. The FR Y-11S is filed annually, as of December 31, by top-tier holding companies for each individual nonbank subsidiary that does not meet the criteria for filing the FR Y-11 and with total assets of at least \$250 million, but less than \$500 million.

The FR 2314 reports collect financial information for direct or indirect foreign subsidiaries of U.S. state member banks (SMBs), Edge and agreement corporations, and holding companies. The FR 2314 consists of an income statement and balance sheet, schedules that collect information on changes in equity capital, the allowance for loan and lease losses, off-balance-sheet data items, and loans, and a memoranda section. A parent U.S. banking organization must file the FR 2314 quarterly, as of the last calendar day of March, June, September, and December, for its subsidiary if the subsidiary is owned or controlled by a parent U.S. holding company that has total consolidated assets of \$500 million or more as of June 30 of the preceding year or files the FR Y-9C to meet supervisory needs, or the subsidiary is owned or controlled by a SMB or an Edge or agreement corporation that has total consolidated assets equal to or greater than \$500 million, and the subsidiary has (1) total assets of \$1 billion or more, (2) total off-balance-sheet activities of \$5 billion or more, (3) equity capital of at least 5 percent of the top-tier organization's consolidated equity capital, or (4) operating revenue of at least 5 percent of the top-tier organization's consolidated operating revenue. The FR 2314 is filed annually, as of December 31, for each individual subsidiary that does not meet the criteria for filing quarterly and that has total assets of at least \$500 million but less than \$1 billion.

The FR 2314S is an abbreviated reporting form that collects four data items: net income, total assets, equity capital, and total off-balance-sheet data items. The FR 2314S is filed annually, as of December 31, for each individual subsidiary that does not meet the criteria for filing the FR 2314 and with assets of at least \$250 million but less than \$500 million.

The FR Y-7N consists of an income statement and a balance sheet, schedules that collect information on changes in equity capital, changes in the allowance for loan and lease losses, off-balance-sheet data items, and loans, and a memoranda section. All FBOs file the FR Y-7N quarterly for their significant nonbank subsidiaries. Subsidiaries are defined as significant if they have total assets of at least \$1 billion or off-balance-sheet activities (including commitments to purchase foreign currencies and U.S. dollar exchange, all other futures and forwards contracts, option contracts, and the notional value of interest rate swaps, exchange swaps and other swaps) of \$5 billion or more, 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 and that has 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 and with total assets of at least \$250 million, but less than \$500 million.

The FR Y-7Q collects consolidated capital and asset information from all FBOs. Part 1 of the reporting form currently collects the following information: tier 1 capital, total risk-based capital, risk-weighted assets, total consolidated assets, total combined assets of U.S. operations, net of intercompany balances and transactions between U.S. domiciled affiliates, branches, and agencies, and total U.S. non-branch assets. In addition, an FBO that files the FR Y-7Q because it is a financial holding company (FHC) also must provide separate capital schedules on Part 2 of the FR Y-7Q 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

The Board has proposed a number of revisions to the FR Y-11, FR 2314, and FR Y-7N reporting requirements that are consistent with changes to the Call Report and the FR Y-9 family of reports that were effective March 31, 2018. The revisions address the changes in accounting for equity investments under ASU 2016-01.

Section 37(a) of the Federal Deposit Insurance Act (12 U.S.C. 1831n(a)) states that, in general, the accounting principles applicable to reports required to be filed with federal banking agencies “shall be uniform and consistent with generally accepted accounting principles.” The proposal would maintain consistency with U.S. generally accepted accounting principles (GAAP) by implementing the provisions of ASU 2016-01 in the FR Y-11, FR 2314, and FR Y-7N reports in accordance with the effective dates set forth in the ASU.

In its summary of this ASU, which was issued in January 2016, the FASB described how one of the main provisions of the ASU differs from current 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.”

Entities would apply ASU 2016-01 to the FR Y-11, FR 2314, and FR Y-7N in accordance with the effective dates set forth in the ASU. For entities that are public business entities, as defined in U.S. GAAP, ASU 2016-01 is effective for fiscal years beginning after

December 15, 2017, including interim periods within those fiscal years. For example, entities with a calendar year fiscal year that are public business entity would begin to apply ASU 2016-01 for the March 31, 2018 reporting. For all other holding companies, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. For example, a holding company with a calendar year fiscal year that is not a public business entity would begin to apply ASU 2016-01 in its reports for December 31, 2019.

In order to make the FR Y-11, FR 2314, and FR Y-7N reports consistent with ASU 2016-01, the proposal would revise the reporting forms and instructions by (1) adding a new data item (2.c.) to the balance sheet to separate and reclassify equity securities with readily determinable fair values from the “available for sale” category and (2) adding new data items to the income statement to reflect the proper reporting of income associated with these securities (8.a, 8.b, and 8.c).

Schedule IS, item 8, would be broken into items effective June 30, 2018, in order to more accurately reflect the income (loss) on equity securities. A new item 8.a would capture income (loss) before unrealized holding gains (losses) on equity securities not held for trading, applicable income taxes, and discontinued operations. A new item 8.b would capture unrealized holding gains (losses) on equity securities not held for trading. In addition to unrealized holding gains (losses) during the year-to-date reporting period on equity securities with readily determinable fair values, holding companies would also include the year-to-date changes in the carrying amounts of equity investments without readily determinable fair values. The existing Schedule IS, item 8, which captures income (loss) before applicable income taxes and discontinued operations, would be renumbered 8.c, and would represent the sum of items 8.a and 8.b.

From June 30, 2018, through September 30, 2020, the instructions for item 8.b and the reporting form would include guidance stating that the item is to be completed only by holding companies that have adopted ASU 2016-01. Institutions that have not adopted ASU 2016-01 would leave item 8.b blank.

Finally, from June 30, 2018, through September 30, 2020, the instructions for item 6, “Realized gains (losses) on securities not held in trading accounts,” and the reporting form will include guidance stating that, for institutions that have adopted ASU 2016-01, item 6 includes realized gains (losses) only on available-for-sale (AFS) debt securities. Effective December 31, 2020, the caption for item 6 would be revised to “Realized gains (losses) on available-for-sale debt securities”.

Another outcome of the change in accounting for equity investments under ASU 2016-01 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. The total fair value of AFS securities, which includes both debt and equity securities, was previously reported on the balance sheet of the FR Y-11, FR 2314, and FR Y-7N report forms in Schedule BS, item 2.b. Item 2.c was created on Schedule BS effective June 30, 2018, to capture equity securities. From June 30, 2018, through September 30, 2020,

the instructions for item 2.c and the reporting form for Schedule BS would include guidance stating that item 2.c is to be completed only by entities that have adopted ASU 2016-01. Entities that have not adopted ASU 2016-01 would leave item 2.c blank. During this period, the instructions for Schedule BS, item 2.b, “Available-for-sale securities,” would explain that entities that have adopted ASU 2016 01 should include only debt securities in item 2.b. Effective December 31, 2020, the caption for item 2.b would be revised to “Available-for-sale debt securities” and all entities would report their holdings of equity securities with readily determinable fair values not held for trading in item 2.c.

In addition, the accumulated balance of the unrealized gains (losses) on AFS equity securities, net of applicable income taxes, that have been recognized through other comprehensive income is now included in accumulated other comprehensive income (AOCI), which is reported in the equity capital section of the FR Y-11, FR 2314, and FR Y-7N reports balance sheet in Schedule BS, item 18.d. With the elimination of AFS equity securities on the effective date of ASU 2016-01, the net unrealized gains (losses) on these securities that had been included in AOCI will be reclassified (transferred) from AOCI into the retained earnings component of equity capital, which is reported on the balance sheet in Schedule BS, item 18.c. After the effective date, changes in the fair value of (i.e., the unrealized gains and losses on) a holding company’s equity securities that would have been classified as AFS had the previously applicable accounting standards remained in effect will be recognized through net income rather than other comprehensive income.

The Board notes that, because of the different effective dates for ASU 2016-01 for public business entities and all other entities, as well as the varying fiscal years across the population of entities that file these reports, the period over which entities 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 FR Y-11, FR 2314, and FR Y-7N report date for which all entities would be required to prepare their nonbank reports in accordance with ASU 2016-01. As a result, and in response to the ASU, the Board is revising the reporting of information on equity securities and other equity investments that would be introduced in the nonbank reports effective June 30, 2018, but would not be fully phased in until December 31, 2020.

Time Schedule for Data Collection

Companies are required to file the quarterly FR Y-11 and FR 2314 as of the end of March, June, September, and December, and must submit them within sixty days after the as-of date. Meeting the thresholds for filing quarterly is self-determined by the respondent and ascertained as of the reporting date. The annual FR Y-11 and FR 2314, FR Y-11S, and the FR 2314S are filed as of December 31 and are also submitted within sixty days after the as-of date.

FBOs are required to file the FR Y-7N (quarterly or annually) and FR Y-7NS reports 60 days after the report date. All FBOs are required to file the FR Y-7Q within 90 days after the report date. Respondents self-determine, as of the reporting date, whether they meet the thresholds for filing quarterly.

Legal Status

The Board has the authority to require BHCs and any subsidiary thereof, savings and loan holding companies and any subsidiary thereof, and securities holding companies and any affiliate thereof to file the FR Y-11 and FR 2314 pursuant to, respectively, section 5(c) of the Bank Holding Company Act (BHC Act) (12 U.S.C. 1844(c)), section 10(b) of the Homeowners' Loan Act (12 U.S.C. 1467a(b)), and section 618 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) (12 U.S.C. 1850a). The Board has the authority to require SMBs, agreement corporations, and Edge corporations to file the FR 2314 pursuant to, respectively, sections 9(6), 25(7), and 25A(17) of the Federal Reserve Act (12 U.S.C. 324, 602, and 625). With respect to FBOs and their subsidiary IHCs, section 5(c) of the BHC Act, in conjunction with section 8 of the International Banking Act (12 U.S.C. 3106), authorizes the board to require FBOs and any subsidiary thereof to file the FR Y-11 reports, the FR 2314 reports, FR Y-7N reports, and the FR Y-7Q. These reports are mandatory.

Information collected in these reports generally is not considered confidential. However, because the information is collected as part of the Board's supervisory process, certain information may be afforded confidential treatment pursuant to exemption 8 of the Freedom of Information Act (FOIA) (5 U.S.C. 552(b)(8)). Individual respondents may request that certain data be afforded confidential treatment pursuant to exemption 4 of FOIA if the data has not previously been publically disclosed and the release of the data would likely cause substantial harm to the competitive position of the respondent (5 U.S.C. 552(b)(4)). Additionally, individual respondents may request that personally identifiable information be afforded confidential treatment pursuant to exemption 6 of FOIA if the release of the information would constitute a clearly unwarranted invasion of personal privacy (5 U.S.C. 552(b)(6)). The applicability of FOIA exemptions 4 and 6 would be determined on a case-by-case basis.

Consultation Outside the Agency

On May 1, 2018, the Board published an initial notice in the *Federal Register* (83 FR 19062) requesting public comment for 60 days on the extension, with revision, of these reports. The comment period for this notice expired on July 2, 2018, and the Board did not receive any comments. The revisions will be implemented as proposed. On August 8, 2018, the Board published a final notice in the *Federal Register* (83 FR 39091).

Estimates of Respondent Burden

As shown in the following table, the current annual reporting burden for the FR Y-11 and the FR Y-11S is estimated to be 14,125. The changes would not result in a change to the current reporting burden estimates for these reports due to the negligible burden associated with the changes. These reporting requirements represent less than 1 percent of the total Federal Reserve System paperwork burden.

	<i>Number of respondents³</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR Y-11 (quarterly)	461	4	6.8	12,539
FR Y-11 (annual)	191	1	6.8	1,299
FR Y-11S	287	1	1.0	<u>287</u>
<i>Total</i>				14,125

The total cost to the public for the FR Y-11 reports is estimated to be \$791,706.⁴

As shown in the following table, the current annual reporting burden for the FR 2314 and FR 2314S is estimated to be 14,296 hours. The changes would not result in a change to the current reporting burden estimates for these reports due to the limited number of institutions impacted and negligible burden associated with the changes. These reporting requirements represent less than 1 percent of the total Federal Reserve System paperwork burden.

	<i>Number of respondents⁵</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR 2314 (quarterly)	474	4	6.6	12,514
FR 2314 (annual)	225	1	6.6	1,485
FR 2314S	297	1	1.0	<u>297</u>
<i>Total</i>				14,296

The total cost to the public for the FR 2314 reports is estimated to be \$801,291.⁴

As shown in the following table, the current annual reporting burden for the FR Y-7N, FR Y-7NS, and FR Y-7Q is estimated to be 3,091 hours. The changes would not result in a change to the current reporting burden estimates for these reports due to the limited number of

³ Of these respondents, 110 FR Y-11 (quarterly), 32 FR Y-11 (annual), and 273 FR Y-11S are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) www.sba.gov/document/support--table-size-standards. Respondent count is as of December 31, 2016, for the FR Y-11 (annual) and the FR Y-11S. Respondent count for the FR Y-11 (quarterly) is as of June 30, 2017.

⁴ 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/.

⁵ Of these respondents, 35 FR 2314 (quarterly), 29 FR 2314 (annual), and 297 FR 2314S are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) www.sba.gov/document/support--table-size-standards. Respondent count is as of December 31, 2016, for the FR 2314 (annual) and the FR 2314S. Respondent count for the FR 2314 (quarterly) is as of June 30, 2017.

institutions impacted and negligible burden associated with the changes. These reporting requirements represent less than 1 percent of the total Federal Reserve System paperwork burden.

	<i>Number of respondents⁶</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR Y-7N (quarterly)	45	4	6.8	1,224
FR Y-7N (annual)	23	1	6.8	156
FR Y-7NS	31	1	1.0	31
FR Y-7Q (quarterly)	136	4	3.0	1,632
FR Y-7Q (annual)	32	1	1.5	<u>48</u>
<i>Total</i>				3,091

The total cost to the public for the FR Y-7 reports is estimated to be \$173,251.⁴

Sensitive Questions

These information collections contain no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The current cost to the Federal Reserve System for collecting and processing the FR Y-11 reports would decrease to \$110,600 from \$114,700 with a one-time cost of \$13,400. The current cost to the Federal Reserve System for collecting and processing the FR 2314 reports would decrease to \$83,200 from \$92,500 with a one-time cost of \$11,700. The current cost to the Federal Reserve System for collecting and processing the FR Y-7 reports would decrease to \$126,900 from \$129,000 with a one-time cost of \$1,500.

⁶ Of these respondents, 45 FR Y-7N (quarterly), 23 FR Y-7N (annual), and 31 FR Y-7NS respondents are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) www.sba.gov/document/support-table-size-standards. Respondent count is as of December 31, 2016, for the FR Y-7N (annual) and FR Y-7NS. Respondent count for the FR Y-7N (quarterly) is as of June 30, 2017.