

**Supporting Statement for the
Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks
(FFIEC 002; OMB No. 7100-0032)
and the
Report of Assets and Liabilities of a Non-U.S. Branch that is Managed or Controlled by a
U.S. Branch or Agency of a Foreign (Non-U.S.) Bank
(FFIEC 002S; OMB No. 7100-0032)**

Summary

The Board of Governors of the Federal Reserve System (Board) requests approval from the Office of Management and Budget (OMB) to extend 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 itself, Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC) (collectively, the agencies). No separate submission will be made by the FDIC or OCC.

The FFIEC 002 must be submitted quarterly by U.S. branches and agencies of foreign banks. The report requests detailed schedules of assets and liabilities as a condition report with a variety of supporting schedules. This information is used to fulfill the agencies' supervisory and regulatory requirements pursuant to the International Banking Act of 1978 (IBA).

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 FFIEC 002S supplement is completed by the managing or controlling U.S. branch or agency for each applicable foreign branch. The FFIEC 002S collection improves data on U.S. deposits, credit, international indebtedness, and assists U.S. bank supervisors determine the assets managed or controlled by the U.S. agency or branch of the foreign bank.

The proposed revisions to the FFIEC 002 and FFIEC 002S generally address the revised accounting for credit losses under the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (ASU 2016-13). The proposal also includes changes related to implementing the agencies' recent final rule (the CECL Rule) on the implementation and capital transition for the current expected credit losses methodology (CECL). These proposed revisions would not affect the estimated annual burden for the FFIEC 002 of 19,955 hours or the estimated annual burden for the FFIEC 002S of 912 hours.

¹ "Managed or controlled" means that a majority of the responsibility for business decisions, including, but not limited to, decisions with regard to lending, asset management, funding, liability management, or the responsibility for recordkeeping with respect to 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 IBA specifies that foreign banks' branches and agencies in the United States are 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 report collects from the U.S. branches and agencies of foreign banks information that is similar to that collected by the Call Report (FFIEC 031, FFIEC 041, and FFIEC 051; OMB No. 7100-0036) from U.S. commercial banks and savings associations, although the FFIEC 002 collects fewer data items.

In addition to its supervisory and regulatory uses, the Board uses the information collected by the FFIEC 002 to conduct monetary and financial analysis essential for the conduct of monetary policy. The data are used to analyze credit developments, identify sources and uses of funds in the banking sector, and assess financial developments within the U.S. banking system. The data help to interpret the bank credit and deposit information that the Board uses when making monetary policy decisions and assists the Board in 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)

Foreign banks often conduct business at branches that are domiciled in countries other than the United States, but which are largely run out of the banks' U.S. agency or branch office, with a separate set of books but often with overlapping management responsibilities. Such branches often engage in transactions with U.S. residents.

The information reported on 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 indebtedness and flows of banking funds in 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 collect information helpful for the supervision of U.S. offices of foreign banks, which often are managed jointly with these branches.

The FFIEC 002S collects details on transactions with U.S. residents and with residents of the banks' home countries. In most cases, these data cover a large proportion of the subject branches' total activities since most branches have heavy exposures to their home countries and deal largely with U.S. customers. This collection allows for the more complete data on U.S. deposits, credit, and international indebtedness and assists U.S. bank supervisors in determining the assets managed or controlled by the U.S. agency or branch of the foreign bank.

Description of Information Collection

The reporting panel for the FFIEC 002 includes all U.S. branches and agencies (including their International Banking Facilities (IBFs)) of foreign banks, whether federally licensed or state chartered, insured or uninsured. The FFIEC 002 consists of a summary schedule of assets and liabilities (Schedule RAL) and several supporting schedules. Each schedule requires information on balances of the entire reporting branch or agency. On the schedules for cash (Schedule A), loans (Schedule C), and deposits (Schedule E), separate details are reported on balances of IBFs. Unlike the Call Report for domestic banks and thrifts, the FFIEC 002 collects no income data.

A separate FFIEC 002S must be completed by any U.S. branch or agency of a foreign bank that manages or controls a banking branch of its parent bank in a foreign country. 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

FFIEC 002

At present, a reporting U.S. branch or agency of a foreign bank is not required to, but may choose to, establish a general allowance for loan losses, which it would report in its FFIEC 002 report in Schedule M, Part IV, item 1, "Amount of allowance for loan losses, if any, carried on the books of the reporting branch or agency including its IBF." In addition, any general allowance for loan losses is reported in Schedule M, Part I, item 2(a), column B, as part of the "Gross due to" the "Head office of parent bank," as well as in either Schedule RAL, item 2(a), "Net due from related depository institutions," or item 5(a), "Net due to related depository institutions," as applicable. The institution currently reports the total amount of the allowance carried on the books of the reporting institution, even if part of that allowance is applicable to other branches.

To address the change in allowance nomenclature arising from the broader scope of allowances under ASU 2016-13, the agencies propose to revise Schedule M, Part IV, item 1, from "Amount of allowance for loan losses" to "Allowance for credit losses on loans and leases," effective March 31, 2021. For the period from March 31, 2019, through December 31, 2020, the reporting form and instructions for this data item would include guidance stating that institutions that have adopted ASU 2016-13 would report the "allowance for credit losses on loans and leases," as applicable. For the transition period from March 31, 2021, through December 31, 2022, the reporting form and instructions for this data item would be updated to include guidance stating that institutions that have not adopted ASU 2016-13 would report the amount of the "allowance for loan losses," as applicable. In addition, for these same time periods, the agencies propose to revise the instructions for Schedule M, Part I, item 2(a), column B, as well as Schedule RAL, items 2(a) and 5(a), to incorporate language clarifying that institutions should include any allowance for loan losses or any allowances for credit losses in

these items, as applicable. If an institution chooses to establish them, the allowances for credit losses reportable in item 2(a) or 5(a), as applicable, could apply to loans, leases, other financial assets measured at amortized cost, and off-balance sheet credit exposures (but not available-for-sale securities, which are reported at fair value on Schedule RAL).

Finally, effective March 31, 2019, the agencies propose to add a statement to the instructions for Schedule RAL, item 1(h), “Other assets (including other claims on nonrelated parties,” that specifies that institutions that have adopted ASU 2016-13 should exclude from this item any accrued interest receivable that is reported elsewhere on the balance sheet as part of the related financial asset’s amortized cost.

FFIEC 002S

The General Instructions for the FFIEC 002S state that due from/due to relationships with related institutions (both depository and nondepository) are to be reported on a gross basis and that such relationships include all claims between the foreign branch and any related institutions arising in connection with any accounting or regulatory allocations entered on the books of the reporting foreign branch that ultimately affect unremitted profits. As an example of such allocations, the General Instructions cite the “allowance for possible loan losses.” In addition, the instructions for item 2(c), “Loans,” states that loans (and leases) should be reported before deduction of any allowance for loan losses. To address the change in allowance nomenclature arising from the broader scope of allowances under ASU 2016-13, the agencies propose to revise the FFIEC 002S General Instructions and item 2(c) instructions to change the “allowance for loan losses” terminology to “allowances for credit losses” and “allowances for credit losses on loans and leases,” respectively, effective March 31, 2021. Allowances for credit losses could apply to loans, leases, other financial assets measured at amortized cost, and off-balance sheet credit exposures (but not available-for-sale securities). For the period from March 31, 2019, through December 31, 2020, the General Instructions for reporting due from/due to relationships would include guidance stating that institutions that have adopted ASU 2016-13 should interpret the “allowance for loan losses” as “allowances for credit losses,” as applicable. For the transition period from March 31, 2021, through December 31, 2022, these General Instructions would include guidance stating that institutions that have not adopted ASU 2016-13 should interpret “allowances for credit losses” as the “allowance for loan losses,” as applicable. Comparable changes would be made to the instructions for item 2(c) for these periods.

Time Schedule for Information Collection and Publication

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 Federal Reserve Bank in whose district the reporting branch or agency is located within 30 calendar days following the report date. After processing and editing respondent data, the Board sends the data to the FDIC and OCC for their use in monitoring the U.S. activities of foreign banks under their supervision.

Aggregate data for all U.S. branches and agencies that file the FFIEC 002 are published in the *Federal Reserve Bulletin* and are also used in developing flow of funds estimates and the

estimates published in the Federal Reserve weekly H.8 statistical release, *Assets and Liabilities of Commercial Banks in the United States*. Aggregate data for the FFIEC 002S are available to the public upon request.

Individual respondent data, excluding confidential information, are available to the public from the National Technical Information Service in Springfield, Virginia, upon request. In addition, individual respondent data are also available on the FFIEC public website at www.ffiec.gov/nicpubweb/nicweb/nichome.aspx.

Legal Status

Section 11(a)(2) of the Federal Reserve Act (FRA) authorizes the Board to require depository institutions to submit reports of their 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)). Section 7(c)(2) of the IBA, provides that Federal branches and agencies of foreign banks are subject to the reporting requirements in section 11(a) of the FRA “to the same extent and in the same manner as if the branch or agency were a state member bank” (12 U.S.C. 3105(c)(2)). Section 7(c)(2) of the IBA also provides that state-licensed branches and agencies of foreign banks are subject to the requirement in section 9 of the FRA (12 U.S.C. 324) that they file reports of condition with the appropriate Federal Reserve Bank (12 U.S.C. 3105(c)(2)). In addition, section 4(b) of the IBA authorizes the OCC to collect such information from Federal branches and agencies of foreign banks (12 U.S.C. 3102(b)). The Board, FDIC, and OCC also are authorized to collect reports of condition from insured branches of foreign banks pursuant to section 7(a) of the Federal Deposit Insurance Act (12 U.S.C. 1817(a)(1) and (3)). The obligation to respond is mandatory for reporting institutions.

In general, the information collected in the FFIEC 002 report is made available to the public, except that the data collected from a U.S. branch or agency of a foreign bank in Schedule M of the FFIEC 002 report is withheld as confidential commercial and financial information. Schedule M requires respondents to report the amounts due to/due from related institutions in the U.S. and in foreign countries; however, U.S. banking organizations, which are direct competitors of the FFIEC 002 respondents, are not required to disclose financial information involving transactions with related institutions. Accordingly, disclosure of this confidential financial information on the FFIEC 002 report would put respondents at a distinct competitive disadvantage relative to their U.S. banking organization counterparts. Schedule M, therefore, is considered exempt from public disclosure pursuant to exemption 4 of the Freedom of Information Act (FOIA), which protects “trade secrets and commercial or financial information obtained from a person and privileged or confidential” (5 U.S.C. 552(b)(4)).² If a respondent believes that disclosure of any of the public portions of its FFIEC 002 report would be reasonably likely to result in substantial harm to its competitive position under exemption 4 of the FOIA, the respondent may request confidential treatment for such information as set forth in the Board’s Rules Regarding the Availability of Information (12 CFR 261.15) and in the Instructions to the FFIEC 002 report.

² Although Schedule M of the FFIEC 002 report is withheld from the public, the Instructions to the FFIEC 002 report indicate that these reports are made available to the relevant state supervisory authority in their entirety.

The FFIEC 002S report collects data on transactions with all entities, both related and nonrelated, and similar to Confidential Schedule M of the FFIEC 002 report, also collects data on the amount due to/from transactions with related institutions (both depository and non-depository). The data collected on the FFIEC 002S report has been deemed confidential since the inception of the report. The primary rationale for confidential treatment of the FFIEC 002S report in its entirety is because the report may contain intracompany business information and because home country data collected on the FFIEC 002S could reveal information about individual customers. U.S. banking organizations, which are direct competitors of the FFIEC 002S respondents, are not required to publicly disclose such financial information involving transactions with related institutions. Accordingly, disclosure of the confidential financial information submitted on the FFIEC 002S report, would put respondents at a distinct competitive disadvantage relative to their U.S. banking organization counterparts. The FFIEC 002S report, therefore, is considered exempt from disclosure in its entirety pursuant to exemption 4 of the FOIA. Aggregate data from the FFIEC 002S report for multiple respondents, which does not reveal the identity of any individual respondent, may be released.

Public Comments and Response

On September 28, 2018, the agencies, under the auspices of the FFIEC, published an initial notice in the *Federal Register* (83 FR 49160) 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 November 27, 2018. No comments were received on the FFIEC 002 or FFIEC 002S and the agencies will proceed with the revisions as originally proposed. On February 14, 2019, the agencies published a final notice in the *Federal Register* (84 FR 4131).

Consultation outside the Agency

There has been no consultation outside of the Federal Reserve System

Estimate of Respondent Burden

The current estimated annual reporting burdens for the FFIEC 002 and FFIEC 002S are 19,955 hours and 912 hours, respectively, and would remain unchanged with the proposed revisions. This burden estimate accounts for all filers of the FFIEC 002, including those supervised by the FDIC or OCC. These reporting requirements represent less than 1 percent of the total Federal Reserve System paperwork burden.

FFIEC 002 and FFIEC 002S	<i>Number of respondents³</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FFIEC 002	209	4	23.87	19,955
FFIEC 002S	38	4	6	<u>912</u>
<i>Total</i>				20,867

The total cost to the public for the FFIEC 002 and FFIEC 002S is estimated to be \$1,169,595.⁴

Sensitive Questions

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

Estimate of Cost to the Federal Reserve System

The current annual cost to the Federal Reserve System for collecting and processing the FFIEC 002 and FFIEC 002S is estimated to be \$62,700. The Federal Reserve System collects and processes the data for all three of the agencies.

³ Of these respondents, 89 for the FFIEC 002 and 11 for the FFIEC 002S 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.

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/.