

**Supporting Statement for the
Country Exposure Report (FFIEC 009; OMB No. 7100-0035) and the
Country Exposure Information Report (FFIEC 009a; OMB No. 7100-0035)**

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) Country Exposure Report (FFIEC 009; OMB No. 7100-0035) and the Country Exposure Information Report (FFIEC 009a; OMB No. 7100-0035). U.S. commercial banks, savings associations, Edge or agreement corporations, bank holding companies (BHCs), savings and loan holding companies (SLHCs), and intermediate holding companies (IHCs) (collectively, U.S. financial institutions) that meet certain criteria set forth in the FFIEC 009 instructions must file the quarterly FFIEC 009 with the Board, Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC) (collectively, the agencies) to report information on international claims. The agencies use this information to monitor the degree of country risk and transfer risk in U.S. financial institutions' portfolios and the potential impact of adverse international developments on the financial institutions. The FFIEC 009a is a supplement to the FFIEC 009 that must be filed by FFIEC 009 filers that have exposure exceeding certain thresholds set forth in the FFIEC 009a instructions. The FFIEC 009a collects quarterly information on material foreign country exposures of U.S. financial institutions.

The agencies collect the FFIEC 009 and FFIEC 009a under the auspices of the FFIEC. The Board is responsible for collecting and compiling the data reported on the FFIEC 009 and FFIEC 009a on behalf of all three agencies. Each of the agencies submits a separate supporting statement to OMB for this collection of information for relevant financial institutions under their supervision. For the Board, these institutions are state member banks, Edge or agreement corporations, BHCs, SLHCs, and IHCs.

The agencies propose to revise the FFIEC 009 and FFIEC 009a by reporting short sales based on the immediate counterparty and sector of the issuer rather than that of the counterparty to the short-sale transaction; and excluding certain items from the instructions that were previously considered financial claims. The current estimated total annual burden for the FFIEC 009 and FFIEC 009a with respect to financial institutions supervised by the Board is 26,516 hours and will remain unchanged as a result of the revision. The form and instructions for the FFIEC 009 and FFIEC 009a are available on the FFIEC's website at https://www.ffiec.gov/ffiec_report_forms.htm.

Background and Justification

In 1977, the agencies, under the auspices of the FFIEC, implemented the mandatory FFIEC 009 in response to substantial growth in U.S. banks' international lending and a lack of information on banks' country risk exposures. In 1984, the FFIEC increased the frequency of FFIEC 009 reporting from semiannual to quarterly to implement provisions of the International Lending Supervision Act of 1983 (the Act) for the purpose of obtaining more timely data on

changes in the composition and maturity of banks' loan portfolios subject to transfer risk, which is the possibility that an asset cannot be serviced in the currency of the payment because the obligor's country lacks the necessary foreign exchange or has put restraints on its availability.

The agencies use the information collected by the FFIEC 009 to supervise the overseas lending activities of U.S. financial institutions. The information is used to monitor the degree of country risk and transfer risk in U.S. financial institutions' portfolios and the potential impact of adverse international developments on these financial institutions. The FFIEC 009 is the source of information about the geographic distribution of bank claims that the Board provides to other U.S. government agencies and, in aggregate form, to the Bank for International Settlements (BIS). The information collected in the FFIEC 009 is not available from any other source.

In 1984, the agencies, under the auspices of the FFIEC, implemented the mandatory FFIEC 009a as a supplement to the FFIEC 009 in accordance with provisions of the Act. The FFIEC 009a provides public disclosures of information regarding material country risk exposure.

Description of Information Collection

The FFIEC 009 report collects information, by country,¹ on four schedules (one of these schedules, Schedule C, contains two parts). Schedule C, Part I, collects information on the claims on an "immediate-counterparty" basis (i.e., on the basis of the country of residence of the borrower), except for claims resulting from the fair value of derivative contracts. Part I also collects the redistribution of immediate-counterparty claims to adjust for required risk transfers. Schedule C, Part II, collects information on the reporter's claims on an ultimate-risk basis (i.e., on the basis of the country of residence of the guarantor or collateral provided) and includes memorandum items providing additional details related to those claims. Schedule L collects information on foreign-office liabilities. Schedule O collects information on off-balance-sheet exposures from commitments, guarantees, and credit. Schedule D collects information on the fair value of derivative contracts of the reporter by country, including the United States, of counterparty.

The FFIEC 009a requests detailed information on all exposures to a country in excess of 1 percent of total assets or 20 percent of capital, whichever is less, of the reporting institution. The FFIEC 009a also requires that respondents provide a list of the countries in which exposures are between 0.75 percent and 1 percent of total assets or between 15 and 20 percent of capital, whichever is less. Data are reported net of adjustments for transfers of exposure (through guarantees, for example).

Respondent Panel

The FFIEC 009 and FFIEC 009a are filed by any U.S. commercial banks, savings associations, BHCs, SLHCs, Edge or agreement corporations, and IHCs that meet certain criteria

¹ The country names and country codes used for reporting FFIEC 009 data are based on the geographical classification published by the Department of the Treasury. The reporting form may be modified, from time to time, to reflect country consolidations or countries that have recently gained independence.

set forth in detail in the FFIEC 009 and FFIEC 009a instructions. Generally, these criteria include having total outstanding claims of at least \$30 million on residents of foreign countries and, for U.S. commercial banks and savings associations, having one of the following: (1) a branch in a foreign country, (2) a subsidiary in a foreign country, (3) an Edge or Agreement subsidiary, (4) an International Banking Facility subsidiary, or (5) a branch in Puerto Rico or any U.S. territory or possession. The respondents differ by reporting schedule for the FFIEC 009, as described in the instructions.

If the Board, the FDIC, or the OCC determines that the country exposure of a U.S. financial institution that is not required by the FFIEC 009 or FFIEC 009a instructions to submit a report (or a given schedule therein) is material in relation to the institution's capital and assets, the agencies may order the financial institution to file the FFIEC 009 and FFIEC 009a or any schedule therein.

Proposed Revisions to the FFIEC 009 and FFIEC 009a

During the initial public comment period, the agencies received a comment from a banking trade association. The commenter noted that Schedule L of the FFIEC 009 requires reporting of short sales by country of the counterparty to which the foreign office owes delivery until the settlement date. The commenter believed this treatment to be inconsistent with the corresponding treatment in the Board's FR 2510, which provides that the immediate counterparty country and sector for short sale contracts are those of the issuer of the financial instrument that has been sold short. The commenter recommended that the reporting of short sales in Schedule L of the FFIEC 009 should be revised to conform with the treatment provided in the Board's FR 2510. The agencies also note that the reporting of short sales in the Board's FR 2510 is consistent with the BIS guidelines for reporting CBS data (CBS Guidelines). Therefore, the agencies agree with the commenter and propose to revise the instructions for Schedule L so that reporting of short sales is based on the immediate counterparty and sector of the issuer rather than that of the counterparty to the short-sale transaction.

The commenter also suggested that items to be excluded under Schedule C and Schedule L of the FFIEC 009 should be more specifically identified and that the list of exclusions should be expanded. The commenter recommended that certain cross-border claims (i.e., bank-owned or company-owned life insurance, deferred tax assets, physical commodities held in inventory, initial margin, pension assets, and cash in vault) should be excluded from Schedule C of the FFIEC 009 and that deferred tax liabilities should be excluded from Schedule L.

As a general matter, the agencies believe that the decision to include or exclude items as in Schedule C of the FFIEC 009 should be based on whether the items represent financial claims (or, for Schedule L, foreign office financial liabilities) in order to provide a proper and meaningful basis for the agencies to analyze country exposure, and should be consistent with the CBS Guidelines in order that data collected in the FFIEC 009 and FFIEC 009a would be comparable with data being provided to CBS by other jurisdictions.

In this context, the agencies agree with the commenter that bank-owned and company-

owned life insurance, physical commodities held in inventory, and pension assets should not be considered financial claims for purposes of the FFIEC 009 and FFIEC 009a. Therefore, the agencies propose to revise the instructions to exclude these items from reporting in the FFIEC 009 and FFIEC 009a by adding them to the list of “Exclude” items in section II.A of the instructions to the FFIEC 009.

To provide sufficient time for respondents to make any changes to their reporting systems that may be needed to reflect the agencies’ proposed instructional revisions discussed above, the agencies will permit respondents to file the FFIEC 009 and FFIEC 009a for the periods ending September 30, 2019, and December 31, 2019, using either the existing definitions or the revised definitions for the items discussed above.

Time Schedule for Information Collection and Publication

Respondents must file the FFIEC 009 and FFIEC 009a quarterly, as of the last calendar day of March, June, September, and December. Each report must be submitted within 45 days of the reporting date for the March, June, and September quarters and within 50 days of the reporting date for the December quarter.

The FFIEC publishes aggregate data from the FFIEC 009 in the quarterly E.16 statistical release, *Country Exposure Lending Survey*. Both FFIEC 009 aggregated data and applicable individual FFIEC 009a data are included in this release. In addition, the Federal Reserve makes aggregate data available to the BIS, which publishes statistical data on consolidated bank claims on foreign borrowers as its “consolidated international banking statistics” on its website (<https://www.bis.org/statistics/constats.htm>) and in its *Quarterly Review*.

Legal Status

The FFIEC 009 and FFIEC 009a are authorized pursuant to sections 9(6), 11(a), 25, and 25A of the Federal Reserve Act for state member banks, agreement corporations, and Edge corporations, respectively (12 U.S.C. §§ 324, 248(a), 602, and 625); section 5(c) of the Bank Holding Company Act of 1956 (BHC Act) for BHCs (12 U.S.C. § 1844(c)); and section 10(b)(3) of the Home Owners’ Loan Act for SLHCs (12 U.S.C. § 1467a(b)(3)). With respect to foreign banking organizations (FBOs) and their subsidiary IHCs, section 5(c) of the BHC Act, in conjunction with section 8 of the International Banking Act of 1978 (12 U.S.C. § 3106), authorizes the Board to require FBOs and any subsidiary thereof to file the FFIEC 009 and FFIEC 009a. The FFIEC 009 and FFIEC 009a are mandatory.

Individual respondents may request that information submitted to the Board through the FFIEC 009 and FFIEC 009a be kept confidential. If a respondent requests confidential treatment, the Board will determine whether the information is entitled to confidential treatment on a case-by-case basis. Information may be kept confidential under exemption 4 for the Freedom of Information Act (FOIA), which protects privileged or confidential commercial or financial information (5 U.S.C. § 552(b)(4)) or under FOIA exemption 6, which covers personal information, the disclosure of which would constitute an unwarranted invasion of privacy (5 U.S.C. § 552(b)(6)).

Consultation Outside the Agency

The Board developed the FFIEC 009 and FFIEC 009a in consultation with the FDIC and OCC. There has been no consultation outside the agency with respect to the proposed extension, with revision, of this collection of information.

Public Comments

On April 29, 2019, the agencies published an initial notice in the *Federal Register* (84 FR 18120) requesting public comment for 60 days on the extension, without revision, of the FFIEC 009 and FFIEC 009a. The comment period for this notice expired on June 28, 2019. The agencies received one comment covering several different subjects from a banking trade association.

The commenter raised issues related to consistency in certain defined terms and reporting treatments between the FFIEC 009 and FFIEC 009a, on the one hand, and other information collections undertaken by the FFIEC, its member entities, and Treasury, on the other, and recommended that the agencies provide additional detail regarding certain reporting items and expand the list of exclusions from Schedule C and Schedule L.

First, the commenter stated that, while the FFIEC 009 and FFIEC 009a instructions define domicile of counterparties on the basis of “country of incorporation or charter,” the definition is not uniform across all FFIEC and Board reports. This definition, while consistent with that used in some non-FFIEC reports (i.e., Treasury International Capital (TIC) reports and the Board’s FR Y-15), is inconsistent with the terms “principal business address” and “country in which the obligor is headquartered” used in the Call Report² as well as the Board’s FR Y-9C and FR Y-14Q. The agencies believe the definition of domicile using “country of incorporation or charter” provides a clearer basis for determination of domicile and a more consistent basis over time for the purposes of the FFIEC 009 and FFIEC 009a, which is designed to provide a more detailed and accurate view of cross-border country exposures than the other reports. Accordingly, the agencies propose to retain the “country of incorporation or charter” definition for reporting the domicile of counterparties in the FFIEC 009 and FFIEC 009a instructions.

Second, the commenter stated the FFIEC 009 and FFIEC 009a instructions, in defining financial institutions for sector reporting, include some different categories of institutions in the non-bank financial institutions sector when compared to three Board reports (FR Y-15, FR 2510, and FR Y-9C). The FFIEC 009 instructions specifically include private equity companies, finance companies, and mortgage companies along with other types of institutions in the definition of non-bank financial institutions, while the instructions for the Board’s FR Y-15 specifically exclude finance companies and do not mention private equity companies or mortgage companies in the definition of “financial institutions” used in specifying interconnectedness indicators (Schedule B). The agencies note that the definition of non-bank financial institutions in the Board’s FR 2510 corresponds to the definition used in the FFIEC 009, and the definition of “non-depository financial institutions” used in the Board’s

² The Consolidated Reports of Condition and Income, also referred to as the FFIEC 031, FFIEC 041, and FFIEC 051 reports.

FR Y-9C (Schedule HC-C) includes finance companies, mortgage companies, and mortgage finance companies among other types of institutions. The agencies believe that private equity companies, finance companies, and mortgage companies are meaningful components of the non-bank financial sector for purposes of the FFIEC 009 and that collected data on exposures to these types of companies would be less useful if included together with the corporate sector. The agencies also note that it is important for data collected in the FFIEC 009 to be comparable to data gathered for the same purpose by other jurisdictions, so that these data can be combined by the BIS into meaningful global aggregate statistical data that are issued as the BIS Consolidated Banking Statistics (CBS); these aggregate data are relied upon by FFIEC member entities (including the agencies) and many others to monitor and analyze global banking and financial conditions. The definition in the FFIEC 009 instructions of these types of companies as non-bank financial companies conforms with the definition under the CBS. Therefore, the agencies propose to retain the definition of non-bank financial sector that includes these types of companies.

Third, the commenter stated that, as a result of a recent change in U.S. generally accepted accounting principles (GAAP), the FFIEC 009 and FFIEC 009a would collect operating lease liabilities without capturing corresponding operating lease assets. The commenter considered this treatment to be inappropriately asymmetric and recommended that operating lease liabilities be excluded from reporting on Schedule L of the FFIEC 009. The agencies agree that operating lease right-of-use assets should properly be excluded from reporting on the FFIEC 009, like other fixed assets, but believes that operating lease liabilities are now reportable as liabilities under GAAP, and thus should be included in foreign liabilities for purposes of the FFIEC 009. Unlike financial-statement collections such as the Call Report or the Board's FR Y-9C, the FFIEC 009 is designed to collect additional detail for specific types of claims and liabilities and not to reflect a comprehensive and symmetric balance sheet. Therefore, the agencies propose to not exclude operating lease liabilities from Schedule L of the FFIEC 009.

Fourth, the commenter noted that Schedule L of the FFIEC 009 requires reporting of short sales by country of the counterparty to which the foreign office owes delivery until the settlement date. The commenter believed this treatment to be inconsistent with the corresponding treatment in the Board's FR 2510, which provides that the immediate counterparty country and sector for short sale contracts are those of the issuer of the financial instrument that has been sold short. The commenter recommended that the reporting of short sales in Schedule L of the FFIEC 009 should be revised to conform with the treatment provided in the Board's FR 2510. The agencies also note that the reporting of short sales in the Board's FR 2510 is consistent with the BIS guidelines for reporting CBS data (CBS Guidelines).³ Therefore, the agencies agree with the commenter and propose to revise the instructions for Schedule L so that reporting of short sales is based on the immediate counterparty and sector of the issuer rather than that of the counterparty to the short-sale transaction.

Fifth, the commenter noted a difference in treatment between the FFIEC 009 and U.S. GAAP for netting trading assets against trading liabilities in the same security (i.e., Committee on Uniform Security Identification Procedures (CUSIP) netting) and stated that changing the

³ BIS, Monetary and Economic Department, *Reporting guidelines for the BIS international banking statistics* (July 2019) available at <https://www.bis.org/statistics/bankstatsguide.pdf>.

FFIEC 009 instructions to align with netting under U.S. GAAP would reduce the burden on banking organizations required to report the FFIEC 009. To address this concern, the commenter recommended that CUSIP netting for purposes of the FFIEC 009 be aligned with netting permitted under U.S. GAAP to simplify the currently required operational and reconciliation processes. The agencies believe that aligning CUSIP netting with U.S. GAAP for country exposure reporting would potentially distort such reporting in cases in which the office holding the position, the issuer of the underlying security, and the counterparty to the short position are not the same. The agencies also note that it is important for data collected in the FFIEC 009 to be comparable to data gathered for the same purpose by other jurisdictions, so that these data can be combined by the BIS into meaningful global aggregate statistical data as the CBS. Aligning CUSIP netting with U.S. GAAP for country exposure reporting by U.S. banking organizations in the FFIEC 009 would create a key inconsistency between U.S. data and data provided by other jurisdictions which adhere to International Financial Reporting Standards (IFRS) because IFRS does not allow for CUSIP netting. Therefore, the agencies propose to retain the current, more limited use of CUSIP netting described in the FFIEC 009 instructions.

Finally, the commenter suggested that items to be excluded under Schedule C and Schedule L of the FFIEC 009 should be more specifically identified and that the list of exclusions should be expanded. The commenter recommended that certain cross-border claims (i.e., bank-owned or company-owned life insurance, deferred tax assets, physical commodities held in inventory, initial margin, pension assets, and cash in vault) should be excluded from Schedule C of the FFIEC 009 and that deferred tax liabilities should be excluded from Schedule L.

As a general matter, the agencies believe that the decision to include or exclude items as in Schedule C of the FFIEC 009 should be based on whether the items represent financial claims (or, for Schedule L, foreign office financial liabilities) in order to provide a proper and meaningful basis for the agencies to analyze country exposure, and should be consistent with the CBS Guidelines in order that data collected in the FFIEC 009 and FFIEC 009a would be comparable with data being provided to CBS by other jurisdictions.

In this context, the agencies agree with the commenter that bank-owned and company-owned life insurance, physical commodities held in inventory, and pension assets should not be considered financial claims for purposes of the FFIEC 009 and FFIEC 009a. Therefore, the agencies propose to revise the instructions to exclude these items from reporting in the FFIEC 009 and FFIEC 009a by adding them to the list of “Exclude” items in section II.A of the instructions to the FFIEC 009.

The agencies do not agree with the commenter with regard to initial margin because the agencies believe that initial margin represents a financial claim like others related to derivatives. The agencies therefore propose that initial margin should continue to be reported as part of derivative claims in Schedule D.

The agencies believe that cash in vault represents a financial claim and, moreover, that this claim is subject to transfer risk, an important element of the risks that may be associated with

cross-border financial claims. As a result, the agencies do not agree with the commenter and propose that cash in vault should continue to be reported in the FFIEC 009 and FFIEC 009a.

Finally, the agencies do not agree with the commenter that deferred tax assets and liabilities are not financial claims. In addition, the agencies note that deferred tax assets and liabilities are specifically identified in the CBS Guidelines as reportable claims (liabilities). Therefore, the agencies propose to retain the current inclusion of deferred tax assets and liabilities among reportable items in the FFIEC 009 and FFIEC 009a.

To provide sufficient time for respondents to make any changes to their reporting systems that may be needed to reflect the agencies' proposed instructional revisions discussed above, the agencies will permit respondents to file the FFIEC 009 and FFIEC 009a for the periods ending September 30, 2019, and December 31, 2019, using either the existing definitions or the revised definitions for the items discussed above. On September 9, 2019, the agencies published a final notice in the *Federal Register* (84 FR 47340).

Estimate of Respondent Burden

As shown in the table below, the estimated total annual burden of the FFIEC 009 and FFIEC 009a is 26,516 hours for financial institutions supervised by the Board and would stay the same with the proposed revisions. The estimated number of respondents is based on the reporting panel as of December 31, 2018. These reporting requirements represent less than 1 percent of the Board's total paperwork burden.

	<i>Estimated number of respondents⁴</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FFIEC 009	49	4	131	25,676
FFIEC 009a	35	4	6	<u>840</u>
<i>Total</i>				26,516

The estimated total annual cost to the public for this information collection is \$1,527,322.⁵

Sensitive Questions

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

⁴ Of these respondents, none are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets), <https://www.sba.gov/document/support--table-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 \$19, 45% Financial Managers at \$71, 15% Lawyers at \$69, and 10% Chief Executives at \$96). 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 2018*, published March 29, 2019, <https://www.bls.gov/news.release/ocwage.t01.htm>. Occupations are defined using the BLS Occupational Classification System, <https://www.bls.gov/soc/>.

Estimate of Cost to the Federal Reserve System

The estimated cost to the Federal Reserve System for collecting and processing the FFIEC 009 and FFIEC 009a is \$117,000.