

**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)**

1. Explain the circumstances that make the collection of information necessary.

In 1977, the Board of Governors of the Federal Reserve System (Board), the Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC) (collectively, the agencies), under the auspices of the Federal Financial Institutions Examination Council (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.

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.

2. Indicate how, by whom, and for what purpose the information is to be used. Except for a new collection, indicate the actual use the agency has made of the information received from the current collection.

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, bank holding companies (BHCs), savings and loan holding companies (SLHCs), and intermediate holding companies (IHCs).

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.

- 3. Describe whether, and to what extent, the collection of information involves the use of automated, electronic, mechanical, or other technological collection techniques or other forms of information technology.**

The data collected through the FFIEC 009 and 009a are submitted electronically through the Board's Reporting Central online application.

- 4. Describe efforts to identify duplication. Show specifically why any similar information already available cannot be used or modified for use for the purposes described in Item 2 above.**

The data collected through the FFIEC 009 and FFIEC 009a are unique and cannot be replaced by data already collected by the federal government.

- 5. If the collection of information impacts small businesses or other small entities, describe any methods used to minimize burden.**

Of respondents to the FFIEC 009 and FFIEC 009a, none are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$600 million in total assets), <https://www.sba.gov/document/support--table-size-standards>.

- 6. Describe the consequence to Federal program or policy activities if the collection is not conducted or is conducted less frequently, as well as any technical or legal obstacles to reducing burden.**

Federal statute requires the quarterly submission of the data.

- 7. Explain any special circumstances that would cause an information collection to be conducted in a manner inconsistent with 5 CFR 1320.5(d)(2).**

This information collection is conducted in a manner consistent with the guidelines in 5 CFR 1320.5(d)(2).

- 8. Describe comments in response to the *Federal Register* notice and efforts to consult outside the agency.**

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 Report¹ 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 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

¹ The Consolidated Reports of Condition and Income, also referred to as the FFIEC 031, FFIEC 041, and FFIEC 051 reports.

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).² 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 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.

² BIS, Monetary and Economic Department, *Reporting guidelines for the BIS international banking statistics* (July 2019) available at <https://www.bis.org/statistics/bankstatsguide.pdf>.

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).

9. Explain any decision to provide any payment or gift to respondents, other than remuneration of contractors or grantees.

There are no payments or gifts provided to respondents.

10. Describe any assurance of confidentiality provided to respondents and the basis for the assurance in statute, regulation, or agency policy. If the collection requires a systems of records notice (SORN) or privacy impact assessment (PIA), those should be cited and described here.

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)).

11. Provide additional justification for any questions of a sensitive nature.

There are no questions of a sensitive nature.

12. Provide estimates of the annual hourly burden of the collection of information.

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. 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 respondents</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.

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/>.

13. Provide an estimate for the total annual cost burden to respondents or record keepers resulting from the collection of information.

There are no annualized costs to the respondents.

14. Provide estimates of annualized costs to the Federal government.

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

15. Explain the reasons for any program changes or adjustments reported on the burden worksheet.

There are no substantive changes to the information being collected.

16. Provide information regarding plans for publication of data.

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/consstats.htm>) and in its *Quarterly Review*.

17. If seeking approval to not display the expiration date for OMB approval of the information collection, explain the reasons that display would be inappropriate.

No such approval is sought.

18. Explain each exception to the topics of the certification statement identified in “Certification for Paperwork Reduction Act Submissions.”

There are no exceptions.