

**Supporting Statement for the
Country Exposure Report for U.S. Branches and Agencies of Foreign Banks
(FFIEC 019; OMB No. 7100-0213)**

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 for U.S. Branches and Agencies of Foreign Banks (FFIEC 019; OMB No. 7100-0213). The Board submits this request on behalf of the Board, Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC) (the agencies). No separate submission will be made by the FDIC or OCC. The report is required and must be submitted quarterly by all individual U.S. branches and agencies of foreign banks that have total direct claims on residents of foreign countries in excess of \$30 million. Each reporting branch or agency provides information for supervisory purposes on its direct and indirect claims, total adjusted claims on foreign residents, and information on commitments.

The agencies propose to revise the FFIEC 019 by removing the five-country limit on the reporting of gross claims on foreign nations to which the U.S. branch or agency of a foreign bank has its largest total exposures of at least \$20 million, effective for the March 31, 2022, report date.

The current estimated total annual burden for the FFIEC 019 is 5,880 hours, and would increase to 6,200 hours. The proposed revisions would result in an increase of 320 hours. The draft form and instructions are available on the FFIEC's public website at https://www.ffiec.gov/ffiec_report_forms.htm.

Background and Justification

The FFIEC implemented the FFIEC 019 report in June 1986 in response to supervisory concerns relating to funding practices of certain U.S. branches and agencies of foreign banks that were raising funds in the United States and other nations' interbank markets, and then lending the bulk of the funds to home-country residents. Major funding problems emerged for these U.S. offices when the governments of the home countries of the parent banks encountered severe difficulties in servicing their external debt. In 1985 the Board, FDIC, and OCC proposed collection of country exposure information from U.S. branches and agencies in order to supervise their operations more effectively. The FFIEC 019 is an important and unique tool for surveillance and oversight that collects the minimal amount of information needed for supervisory purposes.

Oversight of the liquidity positions of all banking offices in the United States is the primary responsibility of the three federal bank supervisory agencies under the Basel Concordat, which is an understanding among bank regulators of several countries relating to mutual supervision of banks operating in international markets. Quarterly information on significant country risk exposures is very important in measuring and supervising liquidity positions of the

branches and agencies of foreign banks, which fund themselves primarily in the U.S. domestic money markets by taking large uninsured deposits from banks, corporations, and individuals. Those branches that are insured by the FDIC also raise funds from retail customers. The financial regulatory agencies need to be able to assess the institutions' ability to repay these deposits, which is jeopardized in branches that have an excessive volume of poor quality or slow paying assets.

One important indicator of potential underlying problems is an excessive concentration by the U.S. branch or agency in assets due from a single country or a small number of countries. Therefore, the regulatory agencies need to be able to make informed judgments regarding the level of country concentrations within a specific branch or agency, to ensure that these institutions, like domestic banking institutions, are practicing reasonable country risk diversification. The FFIEC 019 assists the agencies in monitoring the extent to which the U.S. branches and agencies are pursuing prudent diversification policies and limiting potential liquidity pressures.

In addition, FDIC-insured branches of foreign banks are subject to an asset maintenance requirement (12 CFR 347.210). Under this requirement, in general, an insured branch must maintain on a daily basis eligible assets in an amount not less than 106 percent of the preceding quarter's average book value of the branch's liabilities, exclusive of liabilities due to related offices of the foreign bank. The FDIC may require that a higher ratio of eligible assets be maintained if the financial condition of the insured branch warrants such action. Among the factors that the FDIC considers in requiring a higher ratio is the concentration of transfer risk to any one country, including the country in which the foreign branch's head office is located. The data from the FFIEC 019 report assist the FDIC in evaluating the existence of such concentrations and determining whether to require that an insured branch maintain a higher ratio of eligible assets than the 106 percent minimum.

In order to limit reporting burden, the FFIEC 019 has been designed to collect the minimum amount of information needed to assess country exposure. The report currently requires each of the U.S. branches and agencies with claims on foreign parties exceeding \$30 million to report (1) its exposure to borrowers in its home country and (2) each of the next five largest country exposures, provided the exposure exceeds \$20 million. These requirements are considerably less burdensome than the information required of domestic banking institutions on the FFIEC 009 Country Exposure Report (OMB No. 7100-0035), which requires information on all country exposures and requires considerably greater maturity detail. Because smaller institutions are often more likely to encounter funding problems than larger ones, the regulatory agencies do not believe that it is appropriate to increase the minimum exposure level that must be reported.

Description of Information Collection

The FFIEC 019 report must be filed by each U.S. branch or agency of a foreign bank that has total direct claims on foreign residents in excess of \$30 million. Currently, the branch or agency reports its total exposure (1) to residents of its home country and (2) to the other five foreign nations to which its exposure is largest and is at least \$20 million. The home country

exposure must be reported regardless of the size of the total claims for that nation.

Each reporting branch or agency must report, by country as appropriate, the information on its direct claims (assets such as deposit balances, loans, or securities), indirect claims (which include guarantees), and total adjusted claims on foreign residents, as well as information on commitments. The respondent must also report information on claims on related non-U.S. offices that are included in total adjusted claims on the home country, as well as a breakdown for the home country and each other reported country of adjusted claims on unrelated foreign residents by the sector of borrower or guarantor, and by maturity (in two categories: one year or less, and over one year).

Respondent Panel

The panel for the FFIEC 019 comprises all branches and agencies of foreign banks domiciled in the United States with total direct claims on foreign residents in excess of \$30 million.

Proposed Revisions to the FFIEC 019

The agencies propose to revise the FFIEC 019 by removing the five-country limit on the reporting of gross claims on foreign nations to which the U.S. branch or agency of a foreign bank has exposures of at least \$20 million. The proposed revisions would become effective for the March 31, 2022, report date.

Removal of the five-country reporting limit would allow supervisors to collect information on all foreign countries for which a U.S. branch or agency of a foreign bank has exposure of \$20 million or above. The existing five-country limit was implemented at a time when U.S. branches and agencies of foreign banks had a smaller presence in the U.S. and their exposures to foreign nations were limited to their home country and one or two other nations where the U.S. branch or agency conducted transactions primarily for financing trade. Currently, there are larger U.S. branches and agencies of foreign banks that conduct a wider range of transactions as part of the parent bank's global strategy. For example, some U.S. branches are now an integral part of the parent bank's capital market operations engaging in funding transactions between off-shore countries and other branches of the parent bank in other regions, such as Europe, Asia, and Latin America.

According to the most recent FFIEC 019 data, a number of U.S. branches and agencies of foreign banks had a fifth-country reported exposure above \$50 million, and seven respondents had a fifth-country exposure above \$1 billion. This data provides evidence that the five-country limit could be excluding sizeable foreign exposures. The proposed revision would facilitate consistency of reporting across institutions for key components of foreign country exposure. The additional reported data would allow supervisors to compare the amount of one institution's exposures to those of its peers for a country or set of countries, to analyze the aggregate exposure of U.S. banks to foreign creditors, and to monitor trends in exposures.

The existing FFIEC 019 report form and instructions would be revised to remove the

five-country reporting limit. Specifically, references to “other five foreign nations to which its exposure is largest and is at least \$20 million” would be revised to read “other foreign nations to which its exposure is at least \$20 million.” The existing report form would be revised to permit more than five line items to report foreign countries for which the total adjusted claims is largest and is greater than or equal to \$20 million. For consistency with other FFIEC reports, the FFIEC 019 report form would be revised to add the list of countries and codes that are currently reflected on the FFIEC 009. The instructions would be updated to direct respondents to leave columns blank for countries below the disclosure threshold of \$20 million.

Time Schedule for Information Collection

The FFIEC 019 is filed quarterly as of the last business day of March, June, September, and December. Each reporting branch or agency must file its report with the appropriate Reserve Bank within 45 days of the report date.

Public Availability of Data

The agencies do not routinely publicly release information collected through the FFIEC 019.

Legal Status

The Board is authorized to collect the FFIEC 019 by sections 7 and 13 of the International Banking Act of 1978 (12 U.S.C. §§ 3105 and 3108). Additionally, the FDIC and OCC are authorized to collect the FFIEC 019 by sections 7 and 10 of the Federal Deposit Insurance Act (12 U.S.C. §§ 1817 and 1820), and the National Bank Act (12 U.S.C. § 161) as applied through section 4 of the International Banking Act of 1978 (12 U.S.C. § 3102), respectively. The FFIEC 019 is mandatory.

Information collected on the FFIEC 019 is confidential pursuant to exemption 8 of the Freedom of Information Act (5 U.S.C. § 552(b)(8)), which specifically exempts from disclosure information “contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of an agency responsible for the regulation or supervision of financial institutions.”

Consultation Outside the Agency

The Board coordinated and consulted with the FDIC and OCC with respect to this proposal to extend the FFIEC 019, with revision.

Public Comments

On May 7, 2021, the Board published an initial notice in the *Federal Register* (86 FR 24619) requesting public comment for 60 days on the extension, with revision, of the FFIEC 019. The comment period for this notice expired on July 6, 2021. The agencies received one comment from a banking trade association.

The commenter asked the agencies to clarify the definitions and treatment of certain terms in the FFIEC 019 to be consistent with the FFIEC 009. The commenter stated that consistency between these terms in the FFIEC 019 and FFIEC 009 would reduce burden on firms that use FFIEC 009 definitions to report cross-jurisdictional data via the Systemic Risk Report (FR Y-15; OMB No. 7100-0352). Specifically, the commenter asked the agencies to clarify the FFIEC 019 instructions as follows: add sections on accounting and differences from U.S. generally accepted accounting principles; add clarifying information to the Claims section regarding the definition of “claims”; add instructions related to Indirect Claims, including instructions related to required risk transfers (e.g., guarantees, insurance policies, and head offices), collateralized claims, debt and equity securities, netting and offsetting, reporting credit derivatives, and treatment of multi-name credit derivatives; and add specific instructions for allocating claims to the rows. The agencies agree with the commenter’s suggestions and will revise the FFIEC 019 instructions accordingly. The comment did not object to the agencies’ proposed revisions to the FFIEC 019, and the agencies will adopt those revisions as proposed.

On August 18, 2021, the Board published a final notice in the *Federal Register* (86 FR 46252) requesting public comment for 30 days on the extension, with revision, of the FFIEC 019. The comment period for this notice expires on September 17, 2021.

Estimate of Respondent Burden

As shown in the table below, the estimated total annual burden for the FFIEC 019 is 5,880 hours, and would increase to 6,200 with the proposed revisions. The agencies estimate that, for the approximately 20 financial institutions expected to have more than five foreign country exposures of at least \$20 million to report, the proposed revision would impose, on average, a 4 hour implementation burden to update each firm’s reporting systems and practices. The estimated number of institutions with additional exposures to report is based on the number of respondents that reported five foreign exposures of at least \$20 million as of year-end 2020. Once reporting systems are updated, the agencies believe that ongoing burden will not substantially change because any increase in the total number of foreign exposures reported would be approximately offset by the simplified assessment to determine which foreign exposures to report. The estimated total number of respondents is based on year-end FFIEC 019 reporting for 2020. These reporting requirements represent less than 1 percent of the Board’s total paperwork burden.

FFIEC 019	<i>Estimated number of respondents¹</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current				
FFIEC 019	147	4	10	5,880
Proposed				
FFIEC 019 (ongoing)	147	4	10	5,880
FFIEC 019 (one-time)	20	4	4	<u>320</u>
	<i>Proposed Total</i>			6,200
	<i>Change</i>			320

The estimated total annual cost to the public for the FFIEC 019 is \$347,802, and would increase to \$366,730 with the proposed revisions.²

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 estimated cost to the Federal Reserve System for collecting and processing the FFIEC 019 is \$13,100. The Federal Reserve System collects and processes the data for all three of the federal bank regulatory agencies.

¹ Of these respondents, 22 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>.

² 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 \$20, 45% Financial Managers at \$73, 15% Lawyers at \$72, and 10% Chief Executives at \$95). 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 2020*, published March 31, 2021, <http://www.bls.gov/news.release/ocwage.t01.htm>. Occupations are defined using the BLS Standard Occupational Classification System, <http://www.bls.gov/soc/>.