

**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, 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).<sup>1</sup> The Board submits this request on behalf of the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC). No separate submission will be made by either of those agencies.

The FFIEC 002 is required and must be submitted quarterly by U.S. branches and agencies of foreign banks. All U.S. branches and agencies of foreign banks are required to file detailed schedules of assets and liabilities in the form of a condition report and a variety of supporting schedules. This information is used to fulfill the supervisory and regulatory requirements of the International Banking Act of 1978 (IBA). This report is mandated by the FFIEC for collection by the Board, the FDIC, and the OCC (collectively the agencies) in accordance with procedures under Title 10 of the Financial Institutions Regulatory Act. 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.<sup>2</sup> A separate supplement is completed for each applicable foreign branch. The FFIEC 002S data improve U.S. deposit and credit data and data on international indebtedness, and are of assistance to U.S. bank supervisors in determining the extent of assets managed or controlled by the U.S. agency or branch of the foreign bank.

The agencies propose to implement several revisions to the FFIEC 002 reporting requirements. The proposed revisions would help to achieve consistency with the Reports of Condition and Income (Call Report) (FFIEC 031 and FFIEC 041; OMB No. 7100-0036) filed by insured commercial banks and state-chartered savings banks. The agencies propose (1) to revise the officer signature requirements and contact information, (2) to delete several data items related to bankers acceptances, (3) to modify the scope of securitizations that are included in the servicing, securitization, and asset sale activities schedule (Schedule S), (4) to breakdown real estate loans by category, (5) to add a new fair value schedule (Schedule Q) for the reporting of certain fair value measurements and the use of the fair value option, (6) to revise time deposit data items related to

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<sup>1</sup> The FFIEC 002S is currently included under OMB number 7100-0273.

<sup>2</sup> Managed or controlled means that a majority of the responsibility for business decisions, including but not limited to decisions with regard to lending or asset management or funding or liability management, or the responsibility for recordkeeping in respect of assets or liabilities for that foreign branch resides at the U.S. branch or agency.

brokered time deposits, (7) to revise data items related to credit derivatives, (8) to revise data items related to federal funds transactions and securities repurchase and resale agreement, and (9) to revise deposit insurance assessments data item for FDIC-insured branch. The agencies are also proposing to combine the FFIEC 002 and FFIEC 002S under one OMB control number, 7100-0032. The agencies propose to implement changes to the FFIEC 002 and the FFIEC 002S effective with the June 30, 2008, report date. The current annual reporting burden for the FFIEC 002 is estimated to be 24,024 hours. The proposed estimated annual burden for the revised FFIEC 002 is 26,400 hours, an increase of 2,376 hours. The current annual reporting burden for the FFIEC 002S is estimated to be 1,560 hours and would remain unchanged.

## **Background and Justification**

### **Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002)**

The agencies use the FFIEC 002 report for supervisory and regulatory purposes. The Board also uses the data for monetary policy purposes. The report is similar to the Call Report required of all U.S. commercial banks, although the FFIEC 002 collects fewer data items of information.

The IBA expresses the intent of the Congress to equalize the supervisory and regulatory treatment between foreign and domestic-owned financial institutions operating in the United States, which specifies that foreign banks' branches and agencies in the United States are to be 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 report in June 1980. The FFIEC 002 replaced a Federal Reserve report, FR 886a that had been collected from U.S. branches and agencies since 1972. The FFIEC 002 report was revised extensively effective December 1985, when several schedules were deleted, data items were added to collect separate data on International Banking Facilities (IBFs), and schedules were added covering quarterly averages (Schedule K), commitments and contingencies (Schedule L), and past due loans (Schedule N). The report also was revised to conform as closely as possible to the quarterly Call Report for domestic banks.

Effective June 2001, the agencies expanded the information collected in the FFIEC 002 to facilitate more effective analysis of the impact of securitization and asset sale activities on credit exposures, introduced a separate new schedule (Schedule S) that comprehensively captures information related to securitization and asset sale activities, and eliminated the confidential treatment for the information on Schedule N. Effective December 2001, the agencies changed the manner in which branches and agencies report information on their trust activities. Branches and agencies that previously filed the Annual Report of Trust Assets (FFIEC 001) instead began to file a new Fiduciary and Related Services Schedule (Fiduciary Schedule) (Schedule T) as part of the FFIEC 002. Branches and agencies that have fiduciary or related activity are required to report certain trust information in Schedule T annually.

In addition to its supervisory and regulatory uses, the FFIEC 002 report provides information needed for monetary and financial analysis essential for the conduct of monetary policy. The branches and agencies of foreign banks are a large and growing part of the U.S. banking system, with assets exceeding \$1 trillion as of March 31, 2001. The FFIEC 002 provides the benchmark data needed to derive adequate weekly estimates from the sample report titled Weekly Report of Assets and Liabilities for Large U.S. Branches and Agencies of Foreign Banks (FR 2069; OMB No. 7100-0030). The weekly estimates are used to analyze credit developments and sources and uses of funds for the banking sector and to assess current financial developments within the entire U.S. banking system. They help to interpret the bank credit and deposit information needed for both monetary policy decisions and for 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)**

For a number of years foreign banks have conducted a large banking business at branches domiciled in offshore centers, primarily in the Cayman Islands and the Bahamas. For a fee, foreign banks are able to use these offshore branches to conduct a banking business free of any U.S. reserve requirements or FDIC premiums. While nominally domiciled in these offshore centers, these branches are often largely run out of the banks' U.S. agency or branch office, with a separate set of books but often with overlapping management responsibilities. The transactions of these offshore branches are often largely with U.S. residents.

The FFIEC 002S report 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 flows of banking funds and indebtedness of 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 provide information to assist in the supervision of U.S. offices of foreign banks, which often are managed jointly with these branches.

The FFIEC 002S collects detail on transactions with U.S. residents and with residents of the banks' home country. In most cases these data cover a large proportion of their total activities since many of the non G-10<sup>3</sup> bank branches have heavy exposures to their home countries and G-10 banks are dealing largely with U.S. customers. The data improve U.S. deposit and credit data and data on international indebtedness, and are of assistance to U.S. bank supervisors in determining the extent of assets managed or controlled by the U.S. agency or branch of the foreign bank. In theory a foreign bank with an offshore branch and no U.S. presence would escape reporting. In practice this omission is likely to be relatively minor because each of the fifty largest non-U.S. banks in the world operates at least one agency or branch in the United States.

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<sup>3</sup> The Group of Ten is made up of eleven industrial countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States) which consult and cooperate on economic, monetary and financial matters.

## **Description of Information Collection**

The reporting panel for the FFIEC 002 includes all U.S. branches and agencies (including their IBFs) of foreign banks, whether federally licensed or state chartered, insured or uninsured. Each branch or agency of a particular foreign bank must submit a separate quarterly report, with one exception. A foreign bank may submit a request to the appropriate Federal Reserve Bank to consolidate reporting for two or more offices, provided that (1) the offices are located in the same city or metropolitan area, the same state, and the same Federal Reserve District, and (2) the consolidated report does not consolidate branches with agencies or insured branches with uninsured branches.

While conforming generally to the U.S. commercial bank Call Report, the format of the FFIEC 002 has been designed to reflect the portfolio patterns of branches and agencies of foreign banks and their institutional character. There is more disaggregated reporting of foreign and domestic customers than is required in the Call Report for domestic banks, and Schedule M of the FFIEC 002 provides information on claims on, and liabilities to, the foreign bank head office and other related institutions of the U.S. branches and agencies.

The FFIEC 002 consists of a summary schedule of assets and liabilities (Schedule RAL) and several supporting schedules. Information is required in each schedule on balances of the entire reporting branch or agency. On the schedules for cash (Schedule A), loans (Schedule C), and deposits (Schedule E), separate detail is reported on balances of IBFs. Unlike the Call Report for domestic banks, the FFIEC 002 collects no income data.

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. This reporting treatment of due to/due from transactions with related institutions parallels the treatment called for in Schedule M of the FFIEC 002, Due from/Due to Related Institutions in the U.S. and in Foreign Countries.

Both the assets and the liabilities sections of the supplement call for detail by location and type of the other party to the transaction and by whether the transaction is denominated in U.S. or non-U.S. currency. In addition, for claims on U.S. addressees (other than related depository institutions) denominated in U.S. dollars, detail on type of claim is required. In general, the definitions of the specific types of claims (that is, portfolio items) called for, and their reporting treatment, correspond to the FFIEC 002 definitions of those data items. Further detail on transactions with U.S. addressees denominated in U.S. dollars is reported in a Memoranda section. All data items are reported in U.S. dollars. Transactions denominated in other currencies are converted to U.S. dollars under currency translation procedures used for the FFIEC 002.

The Federal Reserve offers an electronic data transmission facility through which respondents to various reports collected by the Federal Reserve may submit information. The Internet Electronic Submission (IESUB) system was offered to U.S. branches and agencies of foreign banks for electronic entry of the FFIEC 002 and the FFIEC 002S beginning in 1990.

## **Proposed Revisions Effective June 30, 2008**

### **Officer Signature Requirements and Contact Information**

Considering the importance of data quality, the agencies believe that it is most appropriate for the branch or agency's chief financial officer (or the individual performing an equivalent function) to ensure that the FFIEC 002 and FFIEC 002S are reported accurately. The agencies are proposing to revise the existing officer signature requirement so that the FFIEC 002 and FFIEC 002S must be signed by the branch or agency's chief financial officer rather than by any authorized officer of the branch or agency. In signing the FFIEC 002 and FFIEC 002S, the chief financial officer would attest that the reporting forms have been prepared in conformance with the instructions issued by the FFIEC and are true and correct to the best of the officer's knowledge and belief. The agencies would also retain the existing requirement for the branch or agency's senior executive officer to sign the report.

The agencies are also proposing to add contact information (name, title, e-mail address, telephone number, and fax number) for the chief financial officer and another person to whom questions about the reports should be directed to facilitate communication between the agencies and the branch or agency concerning the FFIEC 002 and FFIEC 002S.

### **Bankers Acceptances**

The FFIEC 002 balance sheet (Schedule RAL) requires branches and agencies to separately disclose the amount of their Customers' liability to this branch or agency on acceptances outstanding (data items 1.g.(1) and 1.g.(2)) and their Branch or agency liability on acceptances executed and outstanding (data item 4.d). On the loan schedule (Schedule C) branches and agencies disclose Holdings of own acceptances included in Schedule C, part I, item 4 (data item M.2). On the derivatives and off-balance-sheet items schedule (Schedule L) branches and agencies disclose Participations in acceptances conveyed to others by the reporting branch or agency (data item 5). On the confidential due from/due to related institutions in the U.S. and in Foreign Countries schedule (Schedule M, Part V) branches and agencies disclose Participations in acceptances conveyed to related depository institutions by the reporting branch or agency (data item 5). Over time, the volume of acceptance assets and liabilities as a percentage of industry assets and liabilities has declined substantially to a nominal amount, with only a small number of branches and agencies submitting these data items. The agencies are proposing to delete these six data items and branches and agencies would be instructed to include any acceptance assets and liabilities (other than holdings of the reporting branch or agency's own acceptances) in Other assets and Other liabilities, respectively, on the FFIEC 002 balance sheet.

### **Scope of Securitizations to Be Included in Schedule S**

In column G of Schedule S, Servicing, Securitization, and Asset Sale Activities, branches and agencies submit information on securitizations and on asset sales with recourse or other seller-provided credit enhancements involving loans and leases other than those covered in columns A through F. Although the scope of Schedule S was intended to cover all of a branch's or agency's

securitizations and credit-enhanced asset sales, as currently structured column G does not capture transactions involving assets other than loans and leases. As a result, securitization transactions involving such assets as securities, for example, have not been submitted in Schedule S. Therefore, the agencies propose to revise the scope of column G to encompass All Other Loans, All Leases, and All Other Assets to ensure that they can identify and monitor the full range of branches' and agencies' involvement in and credit exposure to securitizations and asset sales. As a result, column G would begin to reflect securitization transactions involving such assets as securities. With fewer than five branches and agencies submitting data on securitizations in column G of Schedule S at present, the proposed change in the scope of column G is expected to affect only a nominal number of branches and agencies.

### **Breakdown of Real Estate Loans by Category**

FFIEC 002 reporters have become increasingly involved in real estate lending and the agencies are proposing that Loans secured by real estate (Schedule C, data item 1) be broken out by category in order to better track this activity. The proposed change would also make the FFIEC 002 more consistent with the Call Report. Specifically, the agencies are proposing to add the following categories of loans secured by real estate:

- Construction, land development, and other land loans;
- Loans secured by farmland (including farm residential and other improvements);
- Revolving, open-ended loans secured by 1-4 family residential properties and extended under lines of credit;
- Closed-end loans secured by 1-4 family residential properties;
- Loans secured by multi-family (5 or more) residential properties; and
- Loans secured by nonfarm nonresidential properties.

### **Reporting of Certain Fair Value Measurements and the Use of the Fair Value Option**

On September 15, 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, Fair Value Measurements (FAS 157), which generally is effective for banks and other entities for fiscal years beginning after November 15, 2007. On February 15, 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159), which is effective for banks and other entities for fiscal years beginning after November 15, 2007. Earlier adoption of FAS 157 is permitted as of the beginning of an earlier fiscal year, provided the entity has not yet issued a financial statement or filed an FFIEC 002 for any period of that fiscal year. Early adoption of FAS 159 was also permitted provided the entity also elected to apply FAS 157 at the same date or earlier. In addition, the FASB also issued Statement No. 155, Accounting for Certain Hybrid Financial Instruments (FAS 155), and Statement No. 156, Accounting for Servicing of Financial Assets (FAS 156), in 2006.

The fair value measurements standard provides guidance on how to measure fair value and requires entities to disclose the inputs used to measure fair value based on a three-level hierarchy for

all assets and liabilities that are remeasured at fair value on a recurring basis.<sup>4</sup> FAS 155, FAS 156, and FAS 159 allow entities to irrevocably elect to report certain financial and servicing assets and liabilities at fair value with the changes in fair value included in earnings. This accounting election is referred to as a fair value option.

The agencies are proposing to add a new Schedule Q to the FFIEC 002 to collect data, by major asset and liability category, on the total fair value of those assets and liabilities within the category to which a fair value option has been applied along with separate disclosure of the amount of such assets and liabilities within the category whose fair values were estimated under Levels 1, 2, and 3 of the FASB's fair value hierarchy. The schedule would also include a data item for each asset and liability category that would allow branches and agencies to report any amounts netted in the determination of total fair value reported for that category on Schedule RAL. The categories are:

- Securities held for purposes other than trading with changes in fair value reported in current earnings;
- Loans and leases;
- All other financial assets and servicing assets;
- Deposit liabilities;
- All other financial liabilities and servicing liabilities; and
- Loan commitments (not accounted for as derivatives).

In addition, the agencies propose to collect fair value data on trading assets and trading liabilities in new Schedule Q from those branches and agencies that reported trading assets (the sum of Schedule RAL, data items 1.f.1 and 1.f.2, column A) of \$2 million or more for any of the four preceding quarters.<sup>5</sup> In the proposed new schedule, such entities would report the total fair value carrying amount of trading assets and trading liabilities as well as a breakdown of these assets and liabilities into the three fair value levels under FASB's fair value hierarchy and any netted amounts. Trading assets and trading liabilities are required to be reported at fair value and, thus, are not covered under the fair value option. The proposed change would also make the FFIEC 002 more consistent with the Call Report.

The agencies are also proposing to add memorandum items to capture the fair value and unpaid principal balance of loans measured at fair value under a fair value option. One set of memorandum items would apply to such loans that are reported in Other trading assets (data item

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<sup>4</sup> The FASB's three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date (e.g., the FFIEC 002 reporting date). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

<sup>5</sup> For example, if a branch or agency reported trading assets of \$2 million or more for the first time in its FFIEC 002 for March 31, 2008, it would begin to report the proposed fair value data on trading assets and trading liabilities in Schedule Q in its FFIEC 002 for June 30, 2008. Assuming the branch or agency reported trading assets of less than \$2 million in its FFIEC 002 for June 30, 2008 and subsequent report dates, it would complete the Schedule Q items for trading assets and liabilities in its FFIEC 002 for June 30, 2008, through March 31, 2009, but would discontinue completing these items beginning June 30, 2009.

1.f.2) on Schedule RAL and another set would apply to such loans that are reported on Schedule C. These proposed memorandum items would collect data for the following categories of loans:

- Construction, land development, and other land loans;
- Loans secured by farmland (including farm residential and other improvements);
- Revolving, open-ended loans secured by 1-4 family residential properties and extended under lines of credit;
- Closed-end loans secured by 1-4 family residential properties;
- Loans secured by multi-family (5 or more) residential properties;
- Loans secured by nonfarm nonresidential properties;
- Commercial and industrial loans; and
- Other loans.

These additional data items are necessary to enable the agencies to understand the differences between fair value and contractual cash flows for loans to which the fair value option is applied and to improve the agencies' ability to make comparisons among entities that elect a fair value option and those that do not, consistent with proposed Call Report changes.

### **Time Deposits Data**

The Federal Reserve uses data from Schedule E, Deposit Liabilities, to ensure accurate construction of the monetary aggregates for monetary policy purposes. In order to more accurately calculate the monetary aggregates, the agencies propose to revise Total time deposits of \$100,000 or more (data item M.1.a). Memorandum item 1.a would be revised to exclude brokered time deposits issued in denominations of \$100,000 or more that are participated out by the broker in shares of less than \$100,000 as well as brokered certificates of deposit issued in \$1,000 amounts under a master certificate of deposit (when information on the number of \$1,000 amounts held by each of the broker's customers is not readily available to the branch or agency). A corresponding change would be made to Memorandum item 1.c, Time certificates of deposit of \$100,000 or more with remaining maturity of more than 12 months.

In addition, as a result of the increase in the deposit insurance limit for certain retirement plan deposit accounts from \$100,000 to \$250,000, a new Memorandum item 1.b, Individual Retirement Accounts (IRAs) and Keogh Plan accounts included in Memorandum item 1.a, 'Total time deposits of \$100,000 or more,' above, would be added to Schedule E to separately identify the portion of the total time deposits of \$100,000 or more reported in Memorandum item 1.a that represents IRA and Keogh Plan accounts. This new memorandum item is also necessary to support the accurate calculation of the monetary aggregates.

The agencies are proposing a similar instructional change for Schedule O that would direct insured branches to include brokered time deposits, as discussed above, in Memorandum item 1.a, Deposit accounts of \$100,000 or less, and to exclude these brokered time deposits from Memorandum item 1.b, Deposit accounts of more than \$100,000.



## **Information on Credit Derivatives**

Branches and agencies currently report the notional amounts of the credit derivatives on which they are the guarantor and on which they are the beneficiary as well as the gross positive and negative fair values of these credit derivatives in Memoranda items 1 and 2 of Schedule L, Derivatives and Off-Balance Sheet Items, and Schedule M, Due from/Due to Related Institutions in the U.S. and in Foreign Countries, Part V. The agencies propose to revise these existing data items so that branches and agencies with credit derivatives will provide a breakdown of these notional amounts by type of credit derivative: credit default swaps, total return swaps, credit options, and other credit derivatives, with those where the branch or agency is the guarantor reported in column A and those where the branch or agency is the beneficiary in column B. Branches and agencies would continue to separately report the gross positive and negative fair values of credit derivatives on which they are the guarantor and the beneficiary without a breakdown by type of credit derivative. The agencies are also proposing to move credit derivatives from a memoranda item to a data item on Schedule L and Schedule M, Part V.

## **Revising the Reporting of Federal Funds Transactions and Securities Repurchase and Resale Agreements**

On Schedule RAL, the agencies are proposing to revise the existing breakdowns of federal funds sold and securities purchased under agreements to resell that are reported in data items 1.d.1 and 1.d.2, respectively. First, the counterparty coverage of the federal funds sold and securities resale agreements reported in data items 1.d.1.a and 1.d.2.a would be changed from depository institutions in the U.S. to commercial banks in the U.S. This revision would facilitate the derivation of interbank loans, used for a weekly Federal Reserve release.

Second, the agencies are proposing to add two-way breakdowns of federal funds sold to others, currently reported in data item 1.d.1.b, and securities resale agreements with others, currently reported in data item 1.d.2.b. In the first two-way breakdown, branches and agencies would separately report federal funds sold to nonbank brokers and dealers in securities and federal funds sold to others (including depository institutions in the U.S. other than commercial banks). Similarly, branches and agencies would separately report securities resale agreements with nonbank brokers and dealers in securities and securities resale agreements with others (including depository institutions in the U.S. other than commercial banks). This revision would facilitate the derivation of total security loans, used for a weekly Federal Reserve release.

On the liability side, the agencies are proposing a more limited revision of the existing breakdowns of federal funds purchased and securities sold under agreements to repurchase that are reported in data items 4.b.1 and 4.b.2, respectively. Thus, the counterparty coverage of the federal funds purchased and securities repurchase agreements reported in data items 4.b.1.a and 4.b.2.a would be changed from depository institutions in the U.S. to commercial banks in the U.S. As a result, federal funds purchased from and securities repurchase agreements with depository institutions in the U.S. other than commercial banks would be included in data item 4.b.1.b, Federal funds purchased from others, and data item 4.b.2.b, Securities sold under agreements to repurchase with others, respectively. This would facilitate the collection of data on borrowings from commercial banks in the U.S. and borrowings from others that is published weekly in Federal

Reserve releases. A further breakdown of the Other borrowed money reported in data item 4.c of Schedule RAL would not be required since data on such borrowings from commercial banks in the U.S. is already available from Schedule P of the FFIEC 002.

### **Deposit Insurance Assessment Revisions for FDIC-Insured Branches**

On November 30, 2006, the FDIC published a final rule amending Part 327 of its regulations, Assessments, to improve and modernize its operational systems for deposit insurance assessments (71 FR 69270). These amendments to Part 327 revised the definition of the assessment base for deposit insurance purposes to be consistent with Section 3(l) of the Federal Deposit Insurance Act (FDI Act). This was intended to eliminate the need for periodic updates to the FDIC's assessment regulations in response to outside factors and allow a simplification of the associated reporting requirements. In addition, to address timing issues with quarter-end reporting, under amended Part 327, the FDIC will use daily average deposits and exclusions over the quarter instead of quarter-end totals for deposits and exclusions to compute the assessment base for insured institutions with \$1 billion or more in assets and other institutions that meet specified criteria. All other insured institutions may opt permanently to determine their assessment base using daily averages.

In conjunction with these amendments to Part 327 of the FDIC's regulations, the agencies revised and reduced the overall reporting requirements related to deposit insurance assessments in the Call Report in order to simplify regulatory reporting. These assessment data reporting changes included an interim transition period during 2007 with final implementation of the revised Call Report requirements taking place in 2008. The agencies are proposing to make comparable changes to the reporting requirements related to deposit insurance assessments in Schedule O of the FFIEC 002 for those branches of foreign banks that are insured by the FDIC. These proposed revised reporting requirements would contain the following key elements:

- Insured branches would separately report (a) gross deposits as defined in Section 3(l) of the FDI Act (12 U.S.C. 1813(l)) before any allowable exclusions, (b) allowable exclusions, including foreign deposits, and (c) foreign deposits;
- The same data items would be reported for both quarter-end and daily average deposits;
- All insured branches would report using quarter-end deposits, allowable exclusions, and foreign deposits; and
- All insured branches with \$1 billion or more in total claims on nonrelated parties, and other insured branches that meet specified criteria, would also report daily averages for deposits, allowable exclusions, and foreign deposits in addition to quarter-end amounts.

The agencies would also provide an interim transition period covering the June 30, 2008, through December 31, 2008, report dates during which insured branches would have the option to submit Schedule O using either the current or revised formats for reporting data for measuring their assessment base. An insured branch that chooses to begin reporting under the revised format in any quarter during the interim period would be required to continue to report under the revised format through the rest of the interim period and would not be permitted to revert back to the current reporting format. The revised reporting format would take effect for all insured branches on March 31, 2009, at which time the current reporting format would be eliminated. Although no insured branch that chose to report under the revised format during the 2008 interim period would be

required to report daily averages during this period, any insured branch could elect to report daily averages as of any quarter-end report date (beginning June 30) in 2008. However, once an insured branch begins to report daily averages (even during the interim period), it would be required to continue to report daily averages each quarter thereafter in Schedule O of its FFIEC 002.

At present, 20 data items are required in Schedule O of the FFIEC 002 to determine an insured branch's assessment base. As proposed by the agencies, the changes to Schedule O would effectively reduce the number of reported data items to as few as two for certain small insured branches (without foreign deposits) and no more than six for other insured branches. Specifically, the agencies propose to replace data items 1 through 7 and Memorandum items 4 and 5 (including their sub items) on Schedule O, Other Data for Deposit Insurance Assessments, with the following six data items:

- Total deposit liabilities before exclusions (gross) as defined in Section 3(l) of the FDI Act and FDIC regulations;
- Total allowable exclusions (including foreign deposits);
- Total foreign deposits (included in total allowable exclusions);
- Total daily average of deposit liabilities before exclusions (gross) as defined in Section 3(l) of the FDI Act and FDIC regulations;
- Total daily average of allowable exclusions (including foreign deposits); and
- Total daily average of foreign deposits (included in total daily average of allowable exclusions).

Thus, instead of starting with total demand deposits and total time and savings deposits as reported in Schedule O of the FFIEC 002 and making adjustments to these reported deposits for purposes of measuring an insured branch's assessment base, which is the present method, the computation of the insured branch's assessment base under the FDIC's amended assessment regulations and these proposed revisions to the FFIEC 002 would start with the gross total deposit liabilities that meet the statutory definition of deposits in Section 3(l) of the FDI Act before any allowable exclusions from the definition. The total amount of allowable exclusions from the assessment base would be reported separately for any insured branch that maintains such records as will readily permit verification of the correctness of its assessment base. The allowable exclusions, which are set forth in Section 3(l)(5) and other sections of the FDI Act and in the FDIC's regulations, include foreign deposits (including International Banking Facility deposits), reciprocal balances, drafts drawn on other depository institutions, pass-through reserve balances, depository institution investment contracts, and deposits accumulated for the payment of personal loans that are assigned or pledged to assure payment at maturity. The net amount of unposted debits and credits would no longer be considered within the definition of the assessment base.

The agencies believe that the amount of gross total deposit liabilities that meet the statutory definition of deposits is typically found in and supported by the control totals in an insured branch's deposit systems that provide the detail sufficient to track, control, and handle inquiries from depositors about their specific individual accounts. These deposit systems can be automated or manual. In any case, control totals for deposit liabilities should be readily available, which should ease an insured branch's transition to the revised Schedule O reporting requirements. Compared to the amount of information that an insured branch currently reports in order to determine its

assessment base, the proposed changes to the Schedule O reporting requirements should also facilitate the reporting of daily averages for deposits and allowable exclusions since many of the presently reported adjustments will not need to be tracked and averaged separately.

In addition to quarter-end balance reporting, insured branches that meet certain criteria would be required to report average daily deposit liabilities, average daily allowable exclusions, and average daily foreign deposits to determine their assessment base effective March 31, 2009. The amounts to be reported would be averages of the balances as of the close of business for each day for the calendar quarter. For days that an insured branch is closed (e.g., Saturdays, Sundays, or holidays), the amounts outstanding from the previous business day would be used. An insured branch is considered closed if there are no transactions posted to the general ledger as of that date.

The agencies are proposing to require an insured branch to report daily averages beginning March 31, 2009, if it reports \$1 billion or more in total claims on nonrelated parties in data item 1.i, column A, of Schedule RAL of the FFIEC 002 for March 31, 2008, regardless of the amount its total claims on nonrelated parties in subsequent quarters. In addition, if an insured branch reports \$1 billion or more in total claims on nonrelated parties in Schedule RAL in two consecutive FFIEC 002 reports beginning with its June 30, 2008, report, daily average reporting would begin on the later of March 31, 2009, or the report date six months after the second consecutive quarter. An insured branch reporting less than \$1 billion in total claims on nonrelated parties in Schedule RAL of its FFIEC 002 for March 31, 2008, would be permitted to continue to determine its assessment base using quarter-end balances until it met the two-consecutive-quarter total claims size test for reporting daily averages unless it opted to determine its assessment base using daily averages. After an insured branch begins to report daily averages for its total deposits, allowable exclusions, and foreign deposits, either voluntarily or because it is required to do so, the insured branch would not be permitted to switch back to reporting only quarter-end balances.

Under this proposal, insured branches will continue to report information on the number and amount of deposit accounts, the estimated amount of uninsured deposits (if total claims on nonrelated parties are \$1 billion or more), and preferred deposits in Memorandum items 1 through 3 of Schedule O. However, the agencies are proposing to reduce the reporting frequency for the memorandum item for preferred deposits. This memorandum item would be reported only as of December 31 each year, which is consistent with the reporting frequency in the Call Report, rather than quarterly as at present.

### **Instructional Clarifications**

For Schedule E, Column D, branches and agencies report all deposit liabilities of their IBF. A footnote on the reporting form indicates that amounts in this column should exclude those IBF liabilities to be reported as federal funds purchased and securities sold under agreements to repurchase or as other borrowed money. In contrast, the FFIEC 002 instructions for Schedule E state that branches and agencies should:

“Report in column D all deposit liabilities of the branch or agency’s International Banking Facility liabilities, regardless of whether they are transaction or nontransaction accounts. For purposes of this report, IBF deposit liabilities include deposits, placements, borrowings and

similar obligations represented by promissory notes, acknowledgements of advance, or similar instruments that are not issued in negotiable or bearer form and that are issued to other IBFs or to nonrelated non-U.S. addressees, including banks.”

Since the FFIEC 002 instructional language conflicts with the language in the footnote on the reporting form, which provides correct guidance, the agencies will clarify the FFIEC 002 instructional language by removing the second sentence of the current instruction to Column D and by deleting the word liabilities the second time it appears in the first sentence of the current instruction.

### **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 appropriate Federal Reserve Bank within thirty calendar days following the report date. After the processing and editing functions have been completed, 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. The information on file is provided on compact discs. In addition, individual respondent data are also available on the FFIEC public web site at: <http://www.ffiec.gov/nicpubweb/nicweb/nichome.aspx>.

### **Legal Status**

The Board’s Legal Division has determined that section 7(c)(2) of the IBA [12 U.S.C. § 3105(c)(2)] authorizes the agencies to require the FFIEC 002 and FFIEC 002S. In addition, section 4(b) of the IBA [12 U.S.C. § 3102(b)] authorizes the OCC to collect the information from Federal branches and Federal agencies of foreign banks. Further, section 7(a) of the Federal Deposit Insurance Act [12 U.S.C. § 1817(a)(1) and (3)] authorizes the agencies to collect the information from insured branches of foreign banks. The Board’s Legal Division has also determined that the individual respondent information on the FFIEC 002 contained in Schedule M (Due from/Due to Related Institutions in the U.S. and in Foreign Countries) and the FFIEC 002S is exempt from disclosure pursuant to the Freedom of Information Act [5 U.S.C. § 552(b)(4) and (b)(8)]. Information from all other schedules of the FFIEC 002 is available to the public on request.

### **Consultation Outside the Agency**

On January 15, 2008, the Board, under the auspices of the FFIEC and on behalf of the FDIC and the OCC, published a notice in the *Federal Register* (73 FR 2491) requesting public comment for 60 days on the extension, with revision, of the FFIEC 002 and the FFIEC 002S. The comment

period for this notice expires on March 17, 2008.

### Estimate of Respondent Burden

The FFIEC 002 is collected from the universe of U.S. branches and agencies of foreign banks. As of June 30, 2007, the number of respondents is 264 and the current estimated annual reporting burden is 24,024 hours. This proposal would add several new data items to the FFIEC 002 and revise certain existing data items. The proposal as a whole would produce a net increase in reporting burden of two hours and fifteen minutes. The agencies estimate the total proposed annual reporting burden to be 27,970 hours, an increase of 2,376 hours, as presented in the following table. The FFIEC 002S is collected from all U.S. branches and agencies of foreign banks that manage or control a non-U.S. branch. As of June 30, 2007, the number of respondents is 65 and the current estimated annual reporting burden is 1,560 hours. The proposed total annual burden for the FFIEC 002 and FFIEC 002S represents less than 1 percent of the total Federal Reserve System burden.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<b>Current</b>				
FFIEC 002	264	4	22.75	24,024
FFIEC 002S	65	4	6	<u>1,560</u>
<i>Total</i>				25,584
<b>Proposed</b>				
FFIEC 002	264	4	25.00	26,400
FFIEC 002S	65	4	6	<u>1,560</u>
<i>Total</i>				27,960
<i>Change</i>				2,376

The total cost to the public is estimated to be \$1,723,734.<sup>6</sup>

### Sensitive Questions

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

<sup>6</sup> Total cost to the public was estimated using the following formula. Percent of staff time, multiplied by annual burden hours, multiplied by hourly rate: 30% - Clerical @ \$25, 45% - Managerial or Technical @ \$55, 15% - Senior Management @ \$100, and 10% - Legal Counsel @ \$144. Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics, *Occupational Employment and Wages*, news release.

## **Estimate of Cost to the Federal Reserve System**

The current annual estimated cost to the Federal Reserve System for collecting and processing the FFIEC 002 and the FFIEC 002S is \$500,000 and \$31,000, respectively. The Federal Reserve System collects and processes the data for all three federal bank regulatory agencies. Cost estimates for the proposed revisions for the FFIEC 002 will be obtained.