

**Supporting Statement for the
Consolidated Report of Condition and
Income for Edge and Agreement Corporations
(FR 2886b; OMB No. 7100-0086)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to revise, without extension,¹ the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b; OMB No. 7100-0086). This reporting form is filed quarterly by banking Edge and agreement corporations² and investment (nonbanking) Edge and agreement corporations. The mandatory FR 2886b comprises a balance sheet, income statement, 2 schedules reconciling changes in capital and reserve accounts, and 10 supporting schedules. The reporting form parallels the Consolidated Reports of Condition and Income (Call Report) (FFIEC 031 and FFIEC 041; OMB No. 7100-0036) that commercial banks file and the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128) filed by large bank holding companies (BHCs). Except for examination reports, it provides the only financial data available for these corporations. The Federal Reserve is solely responsible for authorizing, supervising, and assigning ratings to Edge and agreement corporations. The Federal Reserve uses the data collected on the FR 2886b to identify present and potential problems and monitor and develop a better understanding of activities within the industry. Most Edge corporations are wholly owned by U.S. banks or BHCs and are consolidated into the financial statements of their parent organizations. However, 4 banking Edge corporations are owned by foreign banks or nonbanking organizations.

The Federal Reserve proposes the following revisions to the FR 2886b effective March 31, 2009: (1) reduce the reporting frequency to annual for Edge and agreement corporations with total assets of \$50 million or less; (2) collect a new Schedule RC-D, Trading Assets and Liabilities, comparable to, but less detailed than, Schedule HC-D, Trading Assets and Liabilities, on the FR Y-9C report; and (3) collect additional information on option contracts and other swaps (other than interest rate swaps and foreign exchange swaps). The Federal Reserve requests latitude to modify proposed revisions to the FR 2886b that are appropriate and consistent with any revisions to the FR Y-9C report proposed for implementation in 2009.

The total current annual burden for the FR 2886b is estimated to be 2,621 hours. The overall annual burden is estimated to decrease by 333 hours with the proposed revisions. A copy of the draft reporting form, marked to show the proposed changes, is attached.

¹ The Federal Reserve would extend the expiration date by one month to maintain consistency with other holding company reports.

² Regulation K defines an Edge corporation as being engaged in banking if it accepts deposits in the U.S. from nonaffiliated parties as an ordinary part of its business.

Background and Justification

The Federal Reserve has the sole supervisory and regulatory authority over all Edge and agreement corporations, under Sections 25 and 25A of the Federal Reserve Act, regardless of whether they are owned by U.S. banking organizations, foreign banks, or nonbank companies. Edge and agreement corporations have been operating since 1919 and during most of that time have been required to provide some type of financial information to the Federal Reserve.

The immediate predecessor report, the FR 886b, was developed in 1972. Since that time, the report has undergone numerous revisions. In 1990 the requirement for quarterly reporting of income and balance sheet information by banking Edge and agreement corporations was extended to investment Edge and agreement corporations as well. This increase in reporting activity by investment Edge and agreement corporations was prompted by significant growth in investment corporations and the resulting increase in risk exposure.

The Federal Reserve uses the data for several purposes. Information collected on the FR 2886b is used to help plan and target the scope of examinations of Edge and agreement corporations and in the evaluation of applications. Data from the FR 2886b are also used to monitor aggregate institutional trends, such as growth in assets and the number of offices, changes in leverage, and the types and locations of customers.

As domestic deposit-taking institutions, banking Edge and agreement corporations conduct activities that affect the nation's money supply even though they are treated as foreign offices for most reporting purposes. The Federal Reserve uses the FR 2886b data in conjunction with data from the Call Report in the construction of the monetary aggregates and aggregate statistics on bank credit, nondeposit funds, and assets and liabilities of commercial banks.³

In addition, the Federal Reserve uses the data in the construction of the flow of funds accounts. The Federal Reserve uses Edge and agreement corporation data to compile structure data on foreign bank activity. The Federal Reserve Banks use the Edge and agreement corporation data for similar purposes, usually pertaining to Edge and agreement corporation offices in their local districts.

Description of Information Collection

The FR 2886b comprises a balance sheet, income statement, 2 schedules reconciling changes in capital and reserve accounts, and 10 supporting schedules. This information is collected from all Edge and agreement corporations, although investment Edges file only 3 of the 10 supporting schedules: Derivatives and Off-Balance-Sheet Items; Claims on and Liabilities to Related Organizations; and Past Due and Nonaccrual Loans, Leases, and Other Assets.

The FR 2886b respondent panel comprises 65 Edge and agreement corporations: 15 banking corporations and 50 investment corporations. The current FR 2886b reporting form and

³ Data from the FR 2886b are interpolated between quarterly reports to estimate higher frequency data. For dates following the latest quarterly report, values for data items are repeated until the next quarterly report becomes available.

instructions are available on the Board's public web site:
www.federalreserve.gov/reportforms/default.cfm.

Proposed Revisions

The Federal Reserve proposes to make the following revisions to the FR 2886b effective as of March 31, 2009.

Proposed Reporting Threshold

The FR 2886b data are currently submitted quarterly by all Edge and agreement corporations. In accord with risk-focused supervision and in an effort to reduce reporting burden, the Federal Reserve proposes to establish that Edge and agreement corporations with total consolidated assets of \$50 million or less would submit the FR 2886b data annually as of December 31.⁴ All Edge and agreement corporations with consolidated assets of more than \$50 million would continue to file the FR 2886b quarterly. Of the current respondent panel, 14 investment corporations and 3 banking corporations would qualify for annual reporting.

New Schedule for Trading Assets and Liabilities

Since the Federal Reserve is solely responsible for authorizing, supervising, and assigning ratings to Edge and agreement corporations, it is critical to receive sufficient information to understand the risk profiles of Edge and agreement corporations and not to rely on information provided at the consolidated level by the parent bank or BHC. A number of large banking organizations conduct substantial trading and structured finance activities through their subsidiary Edge and agreement corporations, an activity that carries potentially very high risk.

Total trading assets data reported by FR 2886b respondents has increased approximately 310 percent to \$225 billion or nearly 18 percent of total assets between March 31, 2000, and March 31, 2008. This activity is concentrated at 9 investment Edge and agreement corporations, 8 of which have trading assets of over \$2 million and 5 of which have trading assets of over \$1 billion. To better assess the risk associated with this trading activity, the Federal Reserve proposes to collect a separate schedule for trading assets and liabilities, comparable to proposed FR Y-9C Schedule HC-D, Trading Assets and Liabilities, with somewhat less detail. The proposed new Schedule RC-D, Trading Assets and Liabilities, would include the following data items reported on a consolidated basis by Edge and agreement corporations.

1. U.S. Treasury securities
2. U.S. government agency obligations (exclude mortgage-backed securities)
3. Securities issued by states and political subdivisions in the U.S.
 - 4.a Residential mortgage backed securities
 - 4.b Commercial mortgage backed securities

⁴ Edge and agreement corporations meeting the asset size criteria of \$50 million or less would no longer file the March, June and September reports and would file annually as of December 31, beginning with the December 31, 2009, reporting date.

5. Other debt securities
6. Loans
7. Other trading assets
8. Derivatives with a positive fair value
9. Total trading assets

10. Liability for short positions:
 - a. Equity securities
 - b. Debt securities
 - c. All other assets
11. All other trading liabilities
12. Derivatives with a negative fair value
13. Total trading liabilities

Memoranda

1. Asset-backed securities:
 - a. Credit card receivables
 - b. Home equity lines
 - c. Automobile loans
 - d. Other consumer loans
 - e. Commercial and industrial loans
 - f. Other
2. Structured financial products:
 - a. Cash
 - b. Synthetic
 - c. Hybrid
3. Retained beneficial interests in securitizations (first-loss or equity tranches)
4. Equity securities:
 - a. Readily determinable fair values
 - b. Other
5. Loans pending securitization
- 6.a Gross fair value of commodity contracts
- 6.b Gross fair value of physical commodities held in inventory

Proposed data items 1 through 13 would be reported by Edge and agreement corporations that reported trading assets of \$2 million or more in Schedule RC, data item 5. Proposed memoranda items 1 through 6.b would be reported by Edge and agreement corporations that reported trading assets of \$1 billion or more in Schedule RC, data item 5. These thresholds are consistent with the thresholds for filing and all data items on this schedule would be defined as reported on FR Y-9C Schedule HC-D.

The consolidated FR Y-9C incorporates data from subsidiary Edge and agreement corporations. As mentioned previously, this reporting form collects the same trading asset and liability data items that are being proposed on the FR 2886b. Therefore, FR 2886b respondents

should not realize a significant increase in reporting burden with the creation of Schedule RC-D as such information is already collected (or soon will be) for reporting on the FR Y-9C.

Revisions to Information Collected on Option Contracts and Swaps

Respondents currently report the notional value of option contracts in Schedule RC-L, Derivatives and Off-Balance-Sheet Items, in data item 10, with a breakout between written and purchased option contracts. Information by type of option contract is not currently collected. Written option contracts data reported by FR 2886b respondents have increased 308 percent to \$1,120 billion between March 31, 2000, and March 31, 2008. Purchased option contracts have increased 294 percent to \$1,079 billion over this same time period. To better assess the risk associated with each type of option contract, the Federal Reserve proposes to collect the following breakouts for written options and purchased options: interest rate contracts, foreign exchange contracts, equity derivative contracts, and commodity and other contracts.

Respondents also currently report the notional value of swaps in Schedule RC-L, data item 11, with a breakout between interest rate swaps, foreign exchange swaps, and other swaps. Other swaps data reported by FR 2886b respondents has increased by 229 percent to \$186 billion between March 31, 2000, and March 31, 2008. To better assess the risk associated with the growing use of these types of swap contracts included in the other category, the Federal Reserve proposes to split this data item into equity derivative swap contracts, and commodity and other swap contracts.

The consolidated FR Y-9C report incorporates data from subsidiary Edge and agreement corporations. This report collects the categories of option contracts and swap contracts that are being proposed. Therefore, FR 2886b respondents should not realize a significant increase in reporting burden with these proposed revisions to Schedule RC-L as such information is already collected for reporting on the FR Y-9C.

Frequency

The Federal Reserve recommends maintaining the current frequency of this report. Collection of this information on a quarterly basis is necessary to effectively monitor on an ongoing basis the condition of Edge corporations.

Time Schedule for Information Collection and Publication

The FR 2886b is filed quarterly as of the last calendar day of March, June, September and December. Banking Edge corporations and investment Edge corporations file the FR 2886b within 30 days of the as-of date. If necessary, a respondent is permitted to take an additional 15 calendar days to submit its completed report without request. All data are submitted to the Federal Reserve Bank District in which the reporter is domiciled. The Federal Reserve Banks then transmit the data to the Board on a flow basis. All Edge corporation data are transmitted to the Board by the 55th calendar day following the as-of date.

Data from this report are included in several Federal Reserve statistical releases: the weekly H.6 release, "Money Stock, Liquid Assets, and Debt Measures," the weekly H.8 release, "Assets and Liabilities of Commercial Banks in the United States," and the quarterly Z.1 release, "Flow of Funds Accounts of the United States." These statistical releases are available on the Board's public website: www.federalreserve.gov/publications.htm.

Legal Status

The Board's Legal Division has determined that section 25 and 25A of the Federal Reserve Act authorize the Board to require the FR 2886b (12 U.S.C. 602 and 625). For Edge corporations engaged in banking, current Schedules RC-M (with the exception of data item 3) and RC-V are held confidential pursuant to section (b)(4) of the Freedom of Information Act (5 U.S.C. 552(b)(4)). For investment Edge corporations only information collected on Schedule RC-M (with the exception of data item 3) are given confidential treatment pursuant to section (b)(4) of the Freedom of Information Act (5 U.S.C. 552(b)(4)).

Consultation Outside the Agency

On November 13, 2008, the Federal Reserve published a notice in the *Federal Register* (73 FR 67159) requesting public comment for 60 days on the revision, without extension, of the FR 2886b. The comment period for this notice expires on January 12, 2009.

Estimates of Respondent Burden

The FR 2886b respondent panel comprises 65 Edge and agreement corporations: 15 banking corporations (deposit taking institutions) and 50 investment corporations. The estimated reporting burden is lower for investment Edges, which file only 3 supporting schedules, than for banking Edges, which file all 10 supporting schedules. The current annual burden is estimated to be 2,621 hours and represents less than 1 percent of the total Federal Reserve burden for all reports. The average estimated hours per response would increase 0.30 hours for banking Edge corporations, and would increase 0.95 hours for investment Edge corporations, with the proposed revisions. The Federal Reserve anticipates that proposed new Schedule RC-D would be applicable to 8 investment Edge corporations, with Schedule RC-D memoranda items applicable to 5 such respondents, and the proposed Schedule RC-L off-balance-sheet data items would be applicable to less than one-fourth of the respondent panel. With the proposed filing threshold for annual filing, the Federal Reserve estimates that overall annual burden would decrease by 333 hours. Three banking Edges and 14 investment Edges would file annually rather than quarterly.

| FR 2886b | <i>Number of respondents</i> | <i>Annual frequency</i> | <i>Estimated average hours per response</i> | <i>Estimated annual burden hours</i> |
|---|------------------------------|-------------------------|---|--------------------------------------|
| <i>Current</i> | | | | |
| Banking: | | | | |
| Edge and agreement corporations | 15 | 4 | 14.85 | 891 |
| Investment: | | | | |
| Edge and agreement corporations | <u>50</u> | 4 | 8.65 | <u>1,730</u> |
| <i>Total</i> | 65 | | | 2,621 |
| <i>Proposed</i> | | | | |
| Banking: | | | | |
| Edge and agreement corporations (quarterly) | 12 | 4 | 15.15 | 727 |
| Edge and agreement corporations (annual) | 3 | 1 | 15.15 | 45 |
| Investment: | | | | |
| Edge and agreement corporations (quarterly) | 36 | 4 | 9.60 | 1,382 |
| Edge and agreement corporations (annual) | <u>14</u> | 1 | 9.60 | <u>134</u> |
| <i>Total</i> | 65 | | | 2,288 |
| <i>Change</i> | | | | -333 |

The total cost to the public is estimated to decrease from the current level of \$161,585 to \$141,055 for the revised FR 2886b reports.⁵

⁵ 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.

Estimated Cost to the Federal Reserve System

Current costs to the Federal Reserve System for collecting and processing the FR 2886b are estimated to be \$162,704 per year. With the revisions the estimated costs will increase to \$178,298 per year. The one-time costs to implement the revised report are estimated to be \$9,312.

Sensitive Questions

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