BANK POLICY INSTITUTE

March 19, 2024

Via Electronic Mail

Chief Counsel's Office
Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Washington, D.C. 20219

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Manuel E. Cabeza, Counsel
Attn: Comments, Room MB-3128
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington D.C. 20429

Re: FFIEC 030 or FFIEC 030S Revisions

To Whom It May Concern:

The Bank Policy Institute[1] welcomes the opportunity to respond to the joint notice and request for comment by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency, regarding revisions to the Foreign Branch Report of Condition (FFIEC 030) and the Abbreviated Foreign Branch Report of Condition (FFIEC 030S).[2] BPI is supportive of the determination that "the [FR 2502q] data could instead be effectively

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[1] The Bank Policy Institute is a nonpartisan public policy, research and advocacy group, representing the nation's leading banks and their customers. Our members include universal banks, regional banks and the major foreign banks doing business in the United States. Collectively, they employ almost 2 million Americans, make nearly half of the nation's small business loans, and are an engine for financial innovation and economic growth.

[2] 89 Fed. Reg. 3708.

collected through the FR 2314 and FFIEC 030."[3] However, we have concerns that the current proposal would serve to significantly increase the burden on covered entities both for initial implementation and also on an ongoing basis. This would be contrary to the proposal's determination that integrating the FR 2502q items into the FR 2314 and FFIEC 030 "would reduce overall respondent burden."[4]

Our comments herein are aimed at aligning the scope of entities that would be required to provide the proposed new items on Schedule RAL-A of the FFIEC 030 with those currently subject to reporting on the FR 2502q, and to seek clarifications on proposed Schedule RAL-A line items 5 and 6. Additionally, to the extent the Agencies implement the proposed changes and maintain the proposed reporting scope, given the significance of the changes required and the operational challenges presented, we respectfully request a delayed effective date of at least four quarters following the issuance of final forms and instructions. If the Agencies were to limit the respondents for proposed Schedule RAL-A to those who meet the current requirements for reporting on the FR 2502q, firms would only need two additional quarters to implement these revisions, as further explained herein.

I. The scope of quarterly filers subject to report in proposed FFIEC 030 Schedule RAL-A should be limited to those entities currently in scope for FR 2502q to avoid significantly increasing the burden on FFIEC 030 filers.

BPI is supportive of the Agencies' proposal to add Schedule RAL-A "Due From, Due To, and Other" to the FFIEC 030 to collect the information currently collected by the FR 2502q.[5] However, due to scoping differences in the criteria for branches and subsidiaries required to submit the FR 2502q compared to those required to submit the FFIEC 030 (or the FR 2314), as proposed, this additional Schedule would significantly increase the reporting burden on FFIEC 030 respondents (as well as FR 2314 respondents if similar revisions are finalized as intended). This stands in contrast to the proposal's assertion that "these proposed revisions would reduce the burden on respondents."[6] Further, the proposal to "add additional line items to collect granular detail related to loans and lease receivables" introduces burden even on existing FR 2502q filers and exacerbates the challenges for entities not subject to the FR 2502q that would be required to report this information for the first time on the FFIEC 030. To implement the desired integration of the FR 2502q into the FFIEC 030 (and ultimately to the FR 2314) without creating undue burden on reporters, the Agencies should limit the scope of quarterly filers subject to report the new FFIEC 030 Schedule RAL-A (and any similar schedule proposed to be added to the FR 2314) to those entities currently in scope for FR 2502q.[7]

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[3] 89 Fed. Reg. 3708 at 3710.
[4] *Id.*
[5] *Id.*
[6] *Id.*
[7] Federal Reserve, *FR 2502q Instructions*, available at https://www.federalreserve.gov/apps/reportingforms/Report/Index/FR_2502q.

There are significant scoping differences between the FR 2502q and the FFIEC 030 (and FR 2314) that would substantially increase the burden of providing the information reported on the FR 2502q on the FFIEC 030 (and FR 2314).

Currently, FR 2502q reporting is limited to the branches or subsidiaries located in the United Kingdom or the Caribbean that meet certain standards. For branches, only those that file the FFIEC 030 and have total assets reported in item 11 of $2 billion or more are required to file the FR 2502q. For subsidiaries, only those that file the FR 2314, have a banking charter and engage in banking business, and report $2 billion or more in total assets in Schedule BS, item 10, and $10 million or more in total deposits in Schedule BS-M, item 6, are required to file the FR 2502q.[8] However, the FFIEC 030 has a significantly larger scope for required quarterly respondents, who under this proposal would now be required to report proposed Schedule RAL-A, largely consisting of information from the FR 2502q.

Specifically, the FFIEC 030 quarterly reporting requirements scope in any "branch with either total assets of at least $2 billion (item 11) or commitments to purchase foreign currencies and U.S. dollar exchange (a purchase of U.S. dollar exchange is equivalent to a sale of foreign currency) of at least $5 billion (item 20) as of the end of a calendar quarter."[9] According to the most recent notice and request for comment on the FR 2502q,[10] the Board estimates only 23 respondents for the form, while the current FFIEC 030 joint notice and request for comment states that the Agencies estimate 79 quarterly respondents.[11] The FFIEC 030's reporting scope, without geographic limitation to UK and Caribbean branches or subsidiaries, includes a significantly larger number of reporters compared to the FR 2502q, resulting in a much greater burden on firms that would be reporting this information for additional entities.

Further, once the FR 2314 is updated to include items from the FR 2502q, an even larger population of entities would be scoped into the reporting of this information. The FR 2314 instructions[12] state that a U.S. Banking Organization must file quarterly for its foreign subsidiary if the parent U.S. holding company has total consolidated assets of $500 million or more or files the FR Y-9C, or the subsidiary is owned or controlled by a state member bank or an Edge or agreement corporation that has total consolidated assets equal to or greater than $500 million, and the subsidiary meets any one of several criteria.[13] According to the most recent notice, the Board estimates that it expects 439 quarterly

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8 *Id.*

9 Federal Reserve, *Redlined Draft FFIEC 030 Instructions for the Proposed FFIEC 030 Revisions – January 19, 2024*, available at https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC030_20240119_i_draft.pdf, at 3.

10 86 Fed. Reg. 8014.

11 89 Fed. Reg. 3708 at 3709.

12 Federal Reserve, *FR 2314 Instructions*, available at https://www.federalreserve.gov/apps/reportingforms/Report/Index/FR_2314FR_2314S

13 These criteria are (1) Total assets of the foreign subsidiary are equal to or greater than $1billion; (2) The foreign subsidiary's off-balance-sheet activities are equal to or greater than $5 billion; (3) The foreign subsidiary's equity capital is equal to or greater than 5 percent of the top-tier organization's consolidated equity capital; or (4) The foreign subsidiary's operating revenue is equal to or greater than 5 percent of the top-tier organization's consolidated operating revenue.

respondents for the FR 2314.[14] The FR 2314's significantly larger scope of reporting entities will therefore also introduce burden on firms reporting this information for many additional entities.

The reporting burden introduced by the requirement to disclose FR 2502q data on these forms would be greatest on respondents that have newly scoped in entities and would be reporting this information for the first time. These respondents would have to develop, test and maintain entirely new reporting systems, or at a minimum make significant modifications to existing systems, in order to report this information for a new group of entities.

<u>The proposed changes and increased granularity of items reported significantly increase the burden on reporting firms.</u>

In addition to the expanded scope of reporters, this proposal contains several proposed changes and new line-item breakouts that would introduce significant burden on reporters. These new items, if implemented as proposed in new Schedule RAL-A "Due From, Due To, and Other", would require significant operational enhancements and substantial manual effort to effectively implement. For example, line items 1-4 of the newly proposed FFIEC 030 Schedule RAL-A include reportable sub-line items (i.e., 1.a, 1.b, 2.a, 2.b, 3.a, 3.b, 4.a, and 4.b) that further disaggregate current FFIEC 030 line items 8, 9, 16, and 17.[15] Current FFIEC 030 item 8 reports "Gross due from head office, U.S. branches, and other foreign branches of this bank" and proposed Schedule RAL-A sub line items 1.a delineates this value into "Head office and U.S. branches of this bank" and "Other foreign branches of this bank" for 1.b.[16] The additional sub-line items mentioned above for items 2-4 a. and b. breakout existing values in the same way, into foreign and domestic branches. Firms will have to data mine the necessary attributes that will identify head office and U.S. branches opposed to other foreign branches, which requires additional development work to incorporate this information into reporting tools. This disaggregation of existing values into distinct domestic and foreign reporting is burdensome on firms as it requires modifications to existing reporting systems that do not currently capture this data on such a granular level.

Similarly, line item 5 of proposed Schedule RAL-A includes reportable sub-line items (i.e., 5.a, 5.b, 5.c, and 5.d) which are new reporting requirements compared to the requirements to report assets in FR 2502q line item 1.c "Claims on, and liabilities to, U.S. addressees other than depository institutions." Specifically, the proposed sub-line items require the reporting of loans to real estate (5.a), nondepository financial institutions (5.b), commercial and industrial loans (5.c), and all other loans and leases (5.d) specific to U.S. addressees other than the parent bank and other depository institutions.[17] This is a separate population of items from the value that is currently reported in FR 2502q item 1.c and would substantially expand the granularity of information required to be reported, introducing burden for both existing FR 2502q filers and those reporting this information for the first time on the FFIEC 030. For respondents that are not currently filing the FR 2502q, similar, but not identical, information is reported on FFIEC 030 (now Schedule RAL) Line 6, "Loans and lease financing receivables." Information

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14 86 Fed. Reg. 28346.
15 Federal Reserve, supra note 8 at 11.
16 *Id.*
17 Federal Reserve, supra note 8 at 12.

reported in Schedule RAL line 6 would have to be refined to appropriately reflect the instructions proposed for Schedule RAL-A line items 5.a through 5.d by narrowing the scope to only loans to U.S. addressees, excluding loans to the parent bank, and excluding loans to depository institutions. These changes would require modifications to existing reporting systems, which introduces considerable burden on firms to properly develop, test, and implement into their systems. These changes would also introduce burden on respondents that currently report the FR 2502q, as the current reporting process for item 1.c on the FR 2502q is done entirely manually. Thus, with the additional granular breakouts, operational complexity would be introduced to the reporting process through the need for additional manual processes not only for initial implementation, but also on an ongoing basis.

Likewise, proposed Schedule RAL-A line items 5 and 6, "Assets that are claims on U.S. addressees other than depository institutions," and "Liabilities to U.S. addressees other than depository institutions," are relatively consistent with the reporting of assets and liabilities in FR 2502q line item 1.c. "Claims on, and liabilities to, U.S. addressees other than depository institutions."[18] However, the instructions for line items 5 and 6 do not contain the exclusion for "negotiable CDs" that is currently found in FR 2502q line item 1.c. As such, firms that currently report the FR 2502q would be required to make modifications to existing reporting systems to correctly identify and report these items for the proposed schedule. Additionally, for those firms that have not been reporting the 2502q, while Schedule RAL-A line items 5 and 6 are similar to current FFIEC 030 item, line items 11 and 19, "Total Assets" and "Total Liabilities;" these values would have to be refined to appropriately reflect the instructions proposed for line items 5 and 6 of Schedule RAL-A, by narrowing the scope to only assets/liabilities to U.S. addressees, excluding assets/liabilities to the parent bank, and excluding assets/liabilities to depository institutions.

Additionally, certain entities that currently report FR 2502q have operational challenges when identifying the country of the counterparty's principal address for certain assets and liabilities. As a result, the total balances for these assets and liabilities cannot be reported under "United States" and instead are reported in the "Total, all areas (Total assets must equal total liabilities)" line item of the FR 2502q. However, the proposed FFIEC Schedule RAL-A does not have a commensurate place to report these items, as the scope of line items 5 and 6 is limited to U.S. addressees only. As such, the balances for those assets and liabilities that firms have challenges identifying as U.S. addressees will not be captured in Schedule RAL-A, and will only be included in Schedule RAL Line item 11, Total Assets and Line item 19 Total Liabilities. This operational challenge exists for those entities that currently submit FR 2502q and would extend to the incremental legal entities required to report proposed Schedule RAL-A in FFIEC 030 if finalized as proposed.

The Agencies should limit the scope of respondents for proposed Schedule RAL-A to those that meet the current criteria to file the FR 2502q.

In light of the significant scoping differences between the FR 2502q and each of the FFIEC 030 and FR 2314, as well as the additional new line item breakouts, this proposal would introduce a significant burden on reporting firms. These items would impact both current FR 2502q reporters, and

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[18] Federal Reserve, supra note 3 at 4.

those who would be reporting this information for the first time. This proposal would necessitate both the development of new systems, as well as modifications to existing ones which, especially considering the use of manual processes for FR 2502q reporting, make this proposal unreasonably burdensome. In consideration of the significant additional burden that would result from an expansion in the reporting population for this schedule, we urge the Agencies to limit the entities subject to proposed Schedule RAL-A to those that meet the current criteria for the FR 2502q.

II. If the scope of respondents required to report on the proposed FFIEC 030 Schedule RAL-A is not limited to those reporting on the FR 2502q, firms would need at least four quarters from publication of the final forms and instructions to implement the revisions; however, if the scope were so limited, firms would only need two additional quarters to implement the proposal.

If the Agencies were to proceed with finalizing the FFIEC 030 changes as proposed, implementation for an as of date of June 30, 2024, would not be possible. With any reporting change that requires the development of new systems, processes, and controls, firms require significant time to effectively implement these changes to complete the proper system builds, testing, and verification, in accordance with the expectations of the Agencies and the firms. Considering the broadly expanded scope of reporters, as well as the increased granularity of items to be reported, as detailed above, it is evident that significant changes must be made by firms. These adjustments to current practices and processes would also necessitate the modification of reporting controls and data governance procedures, all of which would need to be tested to make them operational and fully compliant prior to the effective date. Therefore, the proposed June 30, 2024, as of date would leave firms with insufficient time to make these necessary systems and governance changes. If the Agencies implement the changes as proposed, firms would require at least four additional quarters, following the release of final forms and instructions and commensurate revisions to related reporting forms as detailed above, to properly implement systems and procedures. However, if the Agencies were to limit the scope of respondents for proposed Schedule RAL-A to those that meet the requirements for the FR 2502q, firms would only require two additional quarters, following the release of final forms and instructions, to implement these measures.

III. The treatment for proposed Schedule RAL-A line item 5 should be clarified by adding a Micro Data Reference Manual (MDRM) and explicitly stating that its value is not an aggregate total of its sub-items and clarifications are also needed for line item 6.

Line item 5 of proposed Schedule RAL-A, "Assets that are claims on U.S. addressees other than depository institutions," requires clarification in order for firms to properly report the requested information due to discrepancies between the proposed forms and instructions. First, the proposed FFIEC 030 instructions state to "Report claims on U.S. addressees other than parent bank and other depository institutions. Include all assets such as securities, the positive fair value of derivative contracts, and balances of trust department;"[19] however, the proposed FFIEC 030 forms do not appear to have an MDRM or place to report this information. Second, as line item 5, which "include[s] all

[19] Federal Reserve, supra note 8 at 12.

assets", precedes 5.a through 5.d, whose values are comprised of "all loans and lease receivables," firms are unclear whether line item 5 is intended to be an aggregate total of its sub-items, which would not follow from the reporting logic. Specifically, line item 5 specifies to include "all assets" while 5.a through 5.d consider only a subset of all assets, loans and lease receivables. Any final notice implementing these proposed changes should (i) clarify the reporting of Schedule RAL-A line item 5 by adding an MDRM and (ii) explicitly note in the instructions that line item 5 is not an aggregate total of its sub-line items, and that these values come from two different populations.[20]

Additionally, clarifications are needed for proposed Schedule RAL-A line item 6, Liabilities to U.S. addresses other than depository institutions, which states to "include all liabilities" in this item. We request that the Agencies clarify whether this item's scope is intended to extend to all liabilities, such as third-party liabilities, or if respondents should report only deposit liabilities in line item 6.

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BPI appreciates the opportunity to comment on the proposal. If you have any questions, please contact the undersigned by phone at 202.589.1932 or by email at jack.stump@bpi.com.

Respectfully submitted,

Jack Stump
Assistant Vice President, Regulatory Affairs
Bank Policy Institute

cc: Michael Gibson
Mark Van Der Weide
Board of Governors of the Federal Reserve System

Benjamin McDonough
Grovetta Gardineer
Office of the Comptroller of the Currency

Doreen Eberley
Harrel Pettway
Federal Deposit Insurance Corporation

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20 Federal Reserve, supra note 8 at 12.