

**Supporting Statement for 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. 7100-0273)**

Summary

The Board of Governors of the Federal Reserve System (Board), on behalf of the federal banking agencies (the Board, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC)), requests approval from the Office of Management and Budget (OMB) to extend for three years, without revision, the Federal Financial Institutions Examinations Council (FFIEC) 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. 7100-0273). Attached is a copy of the current reporting form and instructions. Current approval expires on May 31, 2005.

On a quarterly basis, all U.S. branches and agencies of foreign banks are required to file detailed schedules of their assets and liabilities on the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002). The FFIEC 002S is a mandatory supplement to that report 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. "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. A separate supplement is completed for each applicable foreign branch. 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. The current annual burden for the FFIEC 002S is estimated to be 1,824 hours.

This report has been approved and mandated by the FFIEC for collection by the three federal banking regulatory agencies. The Federal Reserve has been designated by the federal banking agencies as the agency responsible for the data collection and processing of this report. The entire reporting burden is covered by this submission and is assumed by the Federal Reserve. The OCC and the FDIC will not be making separate submissions to OMB.

Background and Justification

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 (IMF) and the Bank for International Settlements (BIS) 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-10¹ 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.

Description of Information Collection

The supplement 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 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 items. Further detail on transactions with U.S. addressees denominated in U.S. dollars is reported in a Memoranda section.

All 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.

¹ 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.

Time Schedule for Information Collection

The supplement is completed as of the close of business of the last calendar day of the quarter (March, June, September, and December) and submitted to the Federal Reserve Bank within thirty days of the report date, along with the managing U.S. branch or agency's FFIEC 002. (The Federal Reserve serves as the collection agent for the FFIEC 002. The report is submitted to the Federal Reserve Bank in whose district the reporting U.S. branch or agency is located.) Aggregate data are available to the public upon request.

Legal Status

The Legal Division of the Board of Governors of the Federal Reserve System has determined that 12 U.S.C. § 3105(c)(2), 1817(a)(1), and 3102(b) authorize the Board to require the supplement from a U.S. branch or agency that manages or controls any non-U.S. branch. The Board's Legal Division has also determined that the individual respondent information contained in the supplement is exempt from disclosure pursuant to the Freedom of Information Act [5 U.S.C. § 552(b)(4) and (b)(8)].

Consultation Outside the Agency

The Federal Reserve has consulted with representatives of the FDIC and the OCC, and the three agencies have agreed to proceed with this request for OMB approval. In conjunction with this submission, copies of the supporting statement are being distributed to the FDIC and the OCC.

Estimate of Respondent Burden

This report is collected from all U.S. branches and agencies of foreign banks that manage or control a non-U.S. branch. The number of respondents is 76 and the annual reporting burden is estimated to be 1,824 hours annually, as presented in the following table. This burden is 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>
FFIEC 002S	76	4	6	1,824

Based on an average hourly cost of \$30, the total cost to U.S. branches and agencies of foreign banks is estimated to be \$54,720 annually. This estimate represents costs associated with recurring salary and employee benefits, and expenses associated with software, data processing, and bank records that are not used internally for management purposes but are necessary to complete the FFIEC 002S report.

Sensitive Questions

This report contains no sensitive questions, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The total cost to the Federal Reserve System for collecting and processing the FFIEC 002S report is estimated to be \$31,000 annually.