

**Supporting Statement for the
Quarterly Report of Assets and Liabilities of Large Foreign Offices of U.S. Banks
(FR 2502Q; OMB No. 7100-0079)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with revision, the Quarterly Report of Assets and Liabilities of Large Foreign Offices of U.S. Banks (FR 2502q). U.S. commercial banks, bank holding companies, including financial holding companies, and banking Edge and agreement corporations (U.S. banks) are required to file this reporting form for their major foreign branches (currently 50 institutions) and large banking subsidiaries (currently 5 institutions).

The FR 2502q collects, for each reporting office, claims on and liabilities to individual countries as of each quarter-end. The data are used to construct a piece of the flow of funds data that are compiled by the Federal Reserve.

The Federal Reserve proposes the following revisions to the FR 2502q reporting form: (1) update the country list to remove a dissolved country and (2) increase the reporting threshold for foreign branches from \$500 million to \$2 billion. In addition, the Federal Reserve proposes the following revisions to the FR 2502q instructions: (1) clarify that entities located outside of the United Kingdom and the Caribbean are not required to file the report and (2) clarify that securities purchased and sold under resale and repurchase agreements can be netted if they meet the requirements outlined in FASB Interpretation No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements (FIN 41)". Finally, the Federal Reserve proposes to make minor changes to the FR 2502q instructions to enhance clarity. The proposed revisions to the FR 2502q would decrease the total estimated annual reporting burden from 770 hours to 574 hours, a reduction of 196 hours.

Background

The Monthly Report on Foreign Branch Assets and Liabilities (FR 2502; OMB No. 7100-0078) was implemented in 1969 and collected, for the last business day of each month, a breakdown of foreign branch assets and liabilities by category of customer.¹ The data also distinguished between customers in the United States and those in other countries and showed the balance of accounts denominated in U.S. dollars, the balance of those denominated in all other currencies combined, and the total thereof. The Quarterly Report on Foreign Branch Assets and Liabilities (FR 2502s; OMB No. 7100-0079) provided a geographic breakdown of assets and liabilities of foreign branches as of the last day of each quarter (March, June, September, and December), similar to the current FR 2502q. The FR 2502s was implemented in September 1975, at a time when foreign branches experienced greatly increased flows of funds from the oil-exporting countries and increased borrowing by developing countries.

¹ From 1965 to 1969, the Department of the Treasury collected balance-sheet data from foreign branches of U.S. banks.

By the time of the 1993 review of the information collection, the country detail from the quarterly reporting form was still immensely valuable. However, the usefulness of much of the detailed balance sheet data from the monthly reporting form had diminished. In March 1994, a new quarterly reporting form, the current FR 2502q, was formed, merging the necessary information from the FR 2502 and FR 2502s. The new reporting form contained all of the country detail that had been reported on the FR 2502s, plus a handful of data items (some with revision) that had been reported on the FR 2502 that were still needed for construction of the monetary aggregates and Bank for International Settlements (BIS) statistics.² The remaining data items collected monthly on the FR 2502 were dropped. The scope of the reporting panel was broadened to include not only foreign branches of U.S. banking organizations, but large foreign subsidiaries as well.

In 2003, the FR 2502q was revised to include several memorandum items to break out claims and liabilities reported under the unallocated accounts item. In the past, FR 2502q data were combined with data from other sources to develop a profile of the total claims of U.S. banks on residents of individual countries. However, the FR 2502q is no longer used in this way, because data from the quarterly Federal Financial Institutions Examination Council (FFIEC) Country Exposure Report (FFIEC 009; OMB No. 7100-0035), which directly collects exposure of U.S. banks to individual countries, are now compiled in a much more timely manner than in the past. In 2006, several revisions were made to the FR 2502q reporting form and instructions. As a result of the discontinuation of the publication of the monetary aggregate M3 in March 2006, Schedule A for the unallocated data items were revised. The panel was also revised to require offices located only in the Caribbean and the United Kingdom to file the FR 2502q, because consolidated reporting of liabilities of foreign offices by country of customer was added to the FFIEC 009. In 2009, the FR 2502q reporting form was revised to conform more closely to the U.S. Department of State's official country list. In addition, the country list sub-headers were clarified to indicate that the areas listed may be countries or dependencies. Minor revisions were also made to the FR 2502q instructions to indicate that countries or dependencies not listed on the reporting form should be summed in each proposed regional subtotal, rather than current unallocated data items.

Justification

The Federal Reserve System, along with other agencies, has an interest in knowing the amounts of the claims and liabilities of U.S.-chartered banks with respect to residents of individual countries. This interest in U.S. banks' claims on foreign residents has been especially active during those times when developing countries have had severe payment difficulties. Liability data were particularly useful at the time of the U.S. freeze of official Iranian and Libyan assets at U.S. banks, including the foreign branches. Also, information on the funds placed with U.S. banks by the oil exporting countries has been of much interest through the years, both to the Federal Reserve System and to the Congress, which has requested a great deal of data on this subject. The need for information on U.S. banks' claims on and liabilities to residents of individual countries will continue to be great. Data from the FR 2502q can be used to provide information about two aspects of U.S. banks' positions vis-à-vis residents of foreign countries.

² These data items included customer detail on transactions with U.S. residents, claims and liabilities with respect to other non-U.S. offices of the parent, and Eurodollar liabilities payable to certain U.S. addressees.

First, data from the FR 2502q can be combined with data from the Treasury International Capital (TIC) reports to obtain an estimate of the *total cross-border* positions of U.S. banks vis-à-vis residents of individual foreign countries.³ Second, data from the FR 2502q provides information about the extent to which positions of U.S. banks vis-à-vis residents of individual foreign countries are booked at U.K. or Caribbean offices, by the location of the foreign office and by whether it is a branch or a subsidiary. Such information helps the Federal Reserve understand the nature of activities of foreign offices of U.S. banks, particularly the scope of cross-border activity that is conducted by different foreign offices in the United Kingdom and the Caribbean.

The usefulness of the FR 2502q as a source of information about *total* positions of U.S. banks vis-à-vis residents of individual foreign countries has diminished in recent years. One reason is that the FFIEC 009, which collects data on the claims of U.S.-chartered banks on residents of foreign countries, has become available in a more timely manner. Final data from the FFIEC 009 are now available with a lag of about twelve weeks, compared with a two-month lag for the final data from the FR 2502q. In addition, the FFIEC 009 was recently revised to include more comprehensive data on banks' liabilities, effective at the end of March 2006.

Nevertheless, the FR 2502q continues to provide data about the nature and scope of activities in foreign offices by location and type of office that is unavailable from other reporting forms. Because the banks' submissions that underlie the FFIEC 009 are consolidated on a worldwide basis, they do not indicate which particular offices are involved in lending to or borrowing from residents of a given country. For example, they cannot show the extent to which total claims on a specific country are booked, for example, at London or Caribbean offices, or at subsidiaries or branches.

For many years, the monitoring of international banking developments on a worldwide scale, involving U.S. and non-U.S. banks, has been greatly facilitated by the collection and dissemination activities of the BIS. Through its member central banks, the BIS collects data on the international operations of banks in the major Western European countries, the United States, Canada, Japan, the major offshore banking centers, and some of the smaller Western European countries. This information is aggregated and results are published in the BIS quarterly reports. The BIS uses the FR 2502q data on branches of U.S. banks in the Bahamas and Cayman Islands in preparing its quarterly release.

In addition, the Department of Commerce uses FR 2502q data on branches of U.S. banks in the Bahamas and the Cayman Islands (together with data from the Supplement to the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002s; OMB No. 7100-0273)) in its estimates of the capital accounts portion of the balance of payments. Other sources of data that could be used in these estimates are available only with a lag of several months. The Federal Reserve uses memorandum item 1.c., Claims on, and liabilities to, U.S. addressees other than depository institutions, as input to the flow of funds data.

³ In combining the two sets of data, intrabank accounts are netted out on the basis of data from a memoranda item in the FR 2502q.

Description of Information Collection

The FR 2502q collects data quarterly on the geographic distribution of the assets and liabilities of major U.K. or Caribbean branches and subsidiaries of U.S. commercial banks, bank holding companies, including financial holding companies, and of banking Edge and agreement corporations.

Reporting Panel

U.S. commercial banks, bank holding companies, and banking Edge and agreement corporations are required to file the FR 2502q for their major foreign branches and large banking subsidiaries that are located in the Caribbean or the United Kingdom. Major foreign branches are currently defined as those with assets of \$500 million or more, payable in all currencies. Large banking subsidiaries are defined as those that file the Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314; OMB No. 7100-0073) quarterly, have a banking charter, and have assets of \$2 billion or more *and* deposits of \$10 million or more. The Federal Reserve proposes to increase the reporting threshold for major foreign branches from \$500 million to \$2 billion. Increasing the reporting threshold for branches from \$500 million to \$2 billion would eliminate 14 respondents from the FR 2502q reporting panel. As of end-June 2011, the total assets of these branches (approximately \$14 billion) would comprise approximately 0.6% of the aggregate total assets of branches currently filing the FR 2502q, which is almost \$2.3 trillion.

Proposed Revisions to the FR 2502q Form and Instructions

The Federal Reserve proposes revisions to the FR 2502q reporting form and instructions. The reporting form would be modified by removing Netherland Antilles (Country code: 37206) from the list of reportable countries and adding Curacao and Saint Maarten to the country list with Bonaire, St. Eustatius and Saba to be covered in Other Latin America and Caribbean. These proposed changes to the FR 2502q country list are necessary since Netherland Antilles was dissolved in October 2010 and the dissolution resulted in the creation of Curacao and Saint Maarten as separate countries and Bonaire, St. Eustatius and Saba as municipalities of the Netherlands. In addition, the Federal Reserve proposes the following revisions to the FR 2502q instructions: (1) clarify that entities located outside of the United Kingdom and the Caribbean are not required to file the report and (2) clarify that securities purchased and sold under resale and repurchase agreements can be netted if they meet the requirements outlined in FASB Interpretation No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements (FIN 41). Finally, the Federal Reserve proposes to make minor changes to the FR 2502q instructions to enhance clarity.

Frequency

Respondents file the FR 2502q as of the last business day of the quarter with their Reserve Bank. A less frequent periodicity would have serious adverse consequences for two reasons: First, because developments affecting international borrowing and lending occur rapidly, data collected less frequently would be much less useful for analytical and supervisory purposes. These purposes include use of these statistics in U.S. balance of payments and flow of funds data. Second, the BIS quarterly series on international banking assets and liabilities would become less complete and less useful. The BIS uses quarterly submissions for branches of U.S. banks in some offshore banking centers to estimate the positions of all banks in these centers on dates for which the authorities there do not submit any report.

Time Schedule for Information Collection and Publication

Respondents file the FR 2502q quarterly, as of the last business day of the quarter, with their Reserve Bank on a schedule that allows the Reserve Bank to meet the Federal Reserve Board's transmission deadlines, which is 11:00 p.m. Eastern Time on the second Thursday of the second month following the report date. Reserve Banks edit and then transmit the data to the Federal Reserve Board for central processing. The data (aggregated for all reporters by country) are published by the Federal Reserve Board in the quarterly E.11 statistical release, *Geographical Distribution of Assets and Liabilities of Major Foreign Branches of U.S. Banks*. The FR 2502q is the sole source of data for the release. The FR 2502q data relating to branches in offshore centers are an integral part of the BIS quarterly reports on international banking assets and liabilities. The FR 2502q data relating to branches in offshore centers are also used by the Department of Commerce in estimating the capital accounts portion of the balance of payments.

Legal Status

The Federal Reserve Board's Legal Division has determined that 12 U.S.C. §248(a)(2), 461, 602, and 625 authorize the Federal Reserve Board to require the report. Individual respondent data are regarded as confidential under the Freedom of Information Act (5 U.S.C. §552(b)(4)).

Consultation Outside the Agency

There has been no official consultation outside the Federal Reserve System. The Federal Reserve has consulted informally with the Department of Commerce. On December 8, 2011, the Federal Reserve published a notice in the *Federal Register* (76 FR 76730) requesting public comment for 60 days on the proposed revision to this information collection. The comment period for this notice expired February 6, 2012. No comments were received; the revisions will be implemented as proposed. On February 28, 2012, the Federal Reserve published a final notice in the *Federal Register* (77 FR 12056).

Estimate of Respondent Burden

Based on the proposed revision to increase the reporting threshold for major foreign branches from \$500 million to \$2 billion, the total annual burden would decrease from 770 hours

to 574 hours, and the total number of branches and subsidiaries for which the FR 2502q is filed would decrease from 55 to 41. The estimated average response time (3.5 hours) is the same for data that are submitted on an individual and a consolidated basis. The annual burden for the FR 2502q represents less than 1 percent of the total Federal Reserve System paperwork burden.

	<i>Number of respondents</i>	<i>Annual Frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current	55	4	3.5	770
Proposed	41	4	3.5	<u>574</u>
<i>Change</i>				-196

The total cost to the public is estimated to decrease from the current level of \$33,418 to \$24,912 for the revised FR 2502q report.⁴

Sensitive Questions

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

Estimate of Cost to the Federal Reserve System

Based on the proposed revisions the cost to the Federal Reserve System for collecting and processing this report is estimated to increase from \$43,950 to \$44,350 per year. The one-time cost to implement the revised report is estimated to be \$7,800.

⁴ 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% Office & Administrative Support @ \$16, 45% Financial Managers @ \$50, 15% Legal Counsel @ \$54, and 10% Chief Executives @ \$80). Hourly rate for each occupational group are the median hourly wages (rounded up) from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2010, www.bls.gov/news.release/ocwage.nr0.htm Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/