

**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 extend for three years, with revision, 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 corporations¹ and investment (nonbanking) Edge corporations.² The mandatory FR 2886b comprises a balance sheet, income statement, two schedules reconciling changes in capital and reserve accounts, and ten supporting schedules, and it parallels the Consolidated Reports of Condition and Income (Call Report) (FFIEC 031 and FFIEC 041; OMB No. 7100-0036) that commercial banks file. Except for examination reports, it provides the only financial data available for these corporations. The Federal Reserve uses the data collected on the FR 2886b to supervise Edge corporations, 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 and are consolidated into the financial statements of their parent organizations. However, six banking Edge corporations with assets totaling \$8 billion are owned by foreign banks and nonbanking organizations.

The Federal Reserve proposes to delete three items related to bankers acceptances, consistent with proposed changes to the Call Report. The total current annual burden for the FR 2886b is estimated to be 3,055 hours. The annual burden should not change because very few institutions report the items proposed for deletion. A copy of the draft reporting form, marked to show the proposed changes, is attached.

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. or foreign banks or by nonbank companies. Edge 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 corporations was extended to investment Edge corporations as well. This increase in reporting activity by investment Edge corporations was prompted by significant growth in investment corporations and the resulting increase in risk exposure.

¹ 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.

² The term "Edge corporations," used in this memorandum, refers to both Edge and agreement corporations.

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 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 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 corporation data to compile structure data on foreign bank activity.

Description of Information Collection

The FR 2886b comprises a balance sheet, income statement, two schedules reconciling changes in capital and reserve accounts, and ten supporting schedules. This information is collected from all Edge corporations although, as noted in the table below, investment Edges file only three of the ten supporting schedules.

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.

Schedule	Banking Edge Corporation	Investment Edge Corporation
RI	Income Statement	Income Statement
RI-A	Changes in Equity Capital	Changes in Equity Capital
RI-B	Changes in Allowance for Loan and Lease Losses	Changes in Allowance for Loan and Lease Losses
RC	Balance Sheet	Balance Sheet
	<i>Supporting Schedules</i>	
RC-A	Cash and Balances Due From Depository Institutions	
RC-B	Securities	
RC-C	Loans and Lease Financing Receivables	
RC-E	Deposit Liabilities	
RC-K	Quarterly Averages	
RC-L	Derivatives and Off-Balance-Sheet Items	Derivatives and Off-Balance-Sheet Items
RC-M	Claims on and Liabilities to Related Organizations	Claims on and Liabilities to Related Organizations
RC-N	Past Due & Nonaccrual Loans, Leases, and Other Assets	Past Due & Nonaccrual Loans, Leases, and Other Assets
RC-R	Regulatory Capital	
RC-V	Branch Schedule of Selected Items	

The FR 2886b respondent panel comprises seventy-six Edge and agreement corporations: nineteen banking corporations (deposit taking institutions) and fifty-seven investment corporations. The current FR 2886b form and instructions are available on the Board’s public web site: <http://www.federalreserve.gov/boarddocs/reportforms/default.cfm>.

Proposed Revisions

Bankers Acceptances. The FR 2886b balance sheet (Schedule RC) has long required Edge and agreement corporations to separately disclose the amount of their Customers’ liability on acceptances outstanding (item 7) and their Liability on acceptances executed and outstanding (item 16). In addition, Edge corporations also report the amount of Participations in acceptances conveyed to others (including related organizations) by this office (Schedule RC-L, item 6). 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 Edge corporations reporting these items. The Federal Reserve proposes to delete these three items and instruct respondents to include any acceptance assets and liabilities in Other assets and Other liabilities, Schedule RC, items 8 and 18, respectively.

Clarifications. The Federal Reserve proposes to clarify Schedule RC-E, Deposit Liabilities, item 2, Commercial banks and other depository institutions in the U.S., by changing the parenthetical from (including their IBFs) to (excluding their IBFs). This parenthetical phrase has been misinterpreted by respondents. While Schedule RC-E excludes deposits of the Edge corporations' own IBFs, item 2 currently instructs respondents to include deposits of IBFs of other depository institutions. However, IBFs of other depository institutions are precluded from placing deposits with Edge corporations. The Federal Reserve will also make minor instructional clarifications.

Frequency

The Federal Reserve recommends no change in the 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 thirty days of the as-of date.

Data from this report are included in several Board 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 web site: <http://www.federalreserve.gov/publications.htm>.

Legal Status

The Board's Legal Division has determined that 12 U.S.C. §§602 and 625 authorize the Board to require the FR 2886b. For Edge corporations engaged in banking, current Schedules RC-M 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 are given confidential treatment pursuant to Section (b)(4) of the Freedom of Information Act (5 U.S.C. § 552(b)(4)).

Estimates of Respondent Burden

The FR 2886b respondent panel comprises seventy-six Edge and agreement corporations: nineteen banking corporations (deposit taking institutions) and fifty-seven investment corporations. The estimated reporting burden is lower for investment Edges, which file only three supporting schedules, than for banking Edges, which file all ten supporting schedules. The current annual burden is estimated to be 3,055 hours and represents less than 1 percent of the total Federal Reserve burden for all reports. The Federal Reserve believes that the average ongoing annual burden for the FR 2886b report would remain unchanged from current estimates and averages, since very few institutions report the three items proposed for deletion. Only about 15 percent of Edge and agreement corporations reported data for bankers acceptances on

the balance sheet and only one reported data for the off-balance-sheet item. The decrease in the estimated average hours per response is insignificant when averaged across all respondents.

FR 2886b	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Banking				
Edge corporations	18	4	14.7	1,058
Agreement corporations	1	4	14.7	59
Investment				
Edge corporations	26	4	8.5	884
Agreement corporations	31	4	8.5	1,054
<i>Total</i>	76			3,055

Based on an hourly rate of \$30 the cost to the public of the proposed report is estimated to be \$91,650.

Estimated Cost to the Federal Reserve System

The current cost to the Federal Reserve System for collecting and processing these data is estimated to be \$82,900.

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Sensitive Questions

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