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 minor revisions, the Quarterly Report of Assets and Liabilities of Large Foreign Offices of U.S. Banks (FR 2502q; OMB No. 7100-0079). U.S. commercial banks and Edge and agreement corporations ("U.S. banks") are required to file this report for their major foreign branches (currently 643 institutions) and large banking subsidiaries (currently 1,690 institutions). A total of only 169 reports are submitted for these respondents (as of March 2002) because some organizations file consolidated reports.

The FR 2502q collects gross assets and liability positions, as of quarter-end, of each reporting office vis-a-vis individual countries. The FR 2502q also contains a separate schedule that collects information on Eurodollar liabilities payable to certain U.S. addressees, which is used in the construction of the monetary aggregates. For both assets (claims) and liabilities, the foreign branch and subsidiary data are published in the quarterly E.11 statistical release, "Geographical Distribution of Assets and Liabilities of Major Foreign Branches of U.S. Banks." The data also are combined with data from other sources to develop a profile of the total exposure of U.S. banks to individual countries. Together with data from the Department of the Treasury, the FR 2502q provides information that is compiled by the Bank for International Settlements (BIS) for major developed countries and offshore banking centers on international banking market developments. In addition, data from the FR 2502q are used by the Department of Commerce in its estimates of the capital accounts portion of the balance of payments.

Under the proposed revisions, the country list in the body of the reporting form would be modified to conform to the Department of State's official country list. Claims and liabilities that are 7not allocated by country of customer would be further broken out into that portion that is attributable to the fair value of derivatives contracts. Claims on and liabilities to other non-U.S. offices of the parent bank would be further broken out into that portion that is attributable to unallocated claims and liabilities. In addition, the instructions would be clarified with respect to the year-end panel review process and the definition of unallocated claims. Finally, the single data item collected on Schedule A would be reported as a seven-day average (one number) instead of daily (five numbers). The current annual burden is estimated to be 32,662 hours. Because the proposed changes are not significant, the Federal Reserve estimates that there would be no change in the burden.

A copy of the reporting form and instructions, marked to reflect the proposed revisions, is attached.

Background

The FR 2502q was implemented in March 1994 from the combination of the Monthly Report on Foreign Branch Assets and Liabilities (FR 2502; OMB No. 7100-0078) with the Quarterly Report on Foreign Branch Assets and Liabilities (FR 2502s; OMB No. 7100-0079). The FR 2502 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 FR 2502s 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 begun 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.

By the time of the 1993 review of the reports, the country detail from the quarterly report was still immensely valuable. However, the usefulness of much of the detailed balance sheet data from the monthly report had diminished. A new quarterly report, the current FR 2502q, was formed, merging the necessary information from the two old reports. The new report contained all of the country detail that had been reported on the old quarterly report, plus a handful of items (some with revision) that had been reported on the monthly report that were still needed for construction of the monetary aggregates and BIS statistics.[2] The remaining 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.

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 vis-a-vis individual countries. This interest in U.S. banks' positions has been especially active during those times when developing countries have had severe payments difficulties. The need for information on U.S. banks' assets and liabilities vis-a-vis individual countries will continue to be great. Such information is obtained by combining the FR 2502q data from the branches with data from the Treasury International Capital (TIC) forms. (In combining the two sets of data, intrabank accounts are netted out on the basis of data from the FR 2502q.) The figures become available with a lag of about two months from the report date. The foreign branch and subsidiary data on claims and liabilities are published in the quarterly E.11 statistical release. The FR 2502q report is the sole source of data for the release. Additionally, the claims data from FR 2502q are combined with

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

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

TIC data and are published quarterly in Table 3.21, "Claims on Foreign Countries Held by U.S. and Foreign Offices of U.S. Banks", of the *Federal Reserve Bulletin*.

Although information on the claims of U.S.-chartered banks on foreign countries is also available from the quarterly Country Exposure Report (FFIEC 009; OMB No. 7100-0035), the latter report does not provide certain types of information provided by the FR 2502q. Because the banks' submissions that underlie the Country Exposure Report are consolidated on a worldwide basis, they do not indicate which particular offices are involved in lending to a given country. For example, they cannot show the extent to which total claims on a specific country are booked at U.S. offices, London branches, Caribbean branches, or elsewhere. Such information helps Federal Reserve staff understand the nature of activities at offshore financial centers. In addition, the Country Exposure Report has only limited coverage of banks' liabilities. 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.

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.

As noted earlier, Schedule A of the FR 2502q is used in the construction of the monetary aggregates.

Description of Information Collection

The FR 2502q collects data on the geographic distribution of the assets and liabilities of major foreign branches and subsidiaries of U.S. commercial banks and of Edge and agreement corporations. A separate schedule collects information on Eurodollar liabilities payable to certain U.S. addressees.

Proposed Revisions to the Reporting Form

Country Codes. The Federal Reserve proposes to replace the "United Kingdom" in the body of the report with individual country lines for "Channel Islands and Isle of Man," "England," "Northern Ireland," "Scotland," and "Wales." The Federal Reserve also proposes to delete the reference to "(Myanmar)" next to "Burma," add a reference to "(Brazzaville)" next to "Congo," replace "Zaire" with "Congo (Kinshasa)," and replace "U.S. Trust Territory of the Pacific Islands" with "Palau." All of these proposed changes are necessary to conform to the Department of State's official country list.

Unallocated Accounts. The Federal Reserve proposes to add line item 2 "Unallocated, Of which, claims and liabilities from the fair value of derivatives contracts (code to be added)" to the Memoranda section to collect a further break-out of the portion attributable to the fair value of derivatives contracts. Total unallocated claims and liabilities would continue to be collected. In the past few years, unallocated claims and liabilities have become large and volatile. To better understand these shifts, it would be useful to know how much of the unallocated portion stems from the fair value of derivatives contracts, which may be the cause of its growth and volatility.

Claims on, and Liabilities to, other non-U.S. Offices of the Parent Bank. The Federal Reserve proposes to add Memorandum line item 3a. to get a further break-out of claims on and liabilities to other non-U.S. offices of the parent bank for the portion attributable to unallocated claims and liabilities. Total claims on and liabilities to other non-U.S. offices of the parent bank would continue to be collected. Memorandum item 3 of the FR 2502q, together with data from Memorandum item 1, are combined with data from the TIC reports to produce Table 3.21 of the *Bulletin*, titled "Claims on Foreign Countries." However, although the TIC data and Memorandum item 1 exclude claims resulting from the fair value of derivatives contracts, Memorandum item 3 *includes* such claims, which are large and growing. This inconsistency makes it increasingly difficult to combine these data to produce an accurate measure of claims on foreign countries for the *Bulletin* table.

Schedule A. The Federal Reserve proposes that the single data item, nonnegotiable Eurodollars, on Schedule A be reported as a weekly average (one number) instead of daily (five numbers). Respondents would be asked to calculate and report a seven-day average figure; they would no longer be asked to report a figure for each business day of the report week. A worksheet would be attached to the instructions to assist in calculating the average.

Proposed revisions to the Instructions

Unallocated Section. The Federal Reserve proposes to change the wording in the instructions that refer to claims and liabilities resulting from the fair value of derivatives contracts to avoid confusion and reflect changes in accounting practices. Specifically, the Federal Reserve proposes to replace "revaluation gains and losses on off-balance-sheet items" with "claims and liabilities resulting from the fair value of derivatives contracts." The Federal Reserve also proposes to delete "lease financing receivables" and "accrued interest receivable and payable" from this section because the country of customer for these items should be simple for respondents to determine. Finally, the Federal Reserve proposes to include the equity capital of subsidiaries (a liability) in this line item because the treatment is consistent with the TIC data. The proposed changes will not reduce the ability of banks to determine the country of customer for items that are excluded from unallocated.

Schedule A. Staff proposes to change the wording in the instructions regarding Schedule A to reflect the collection of seven-day average (one number) instead of daily data. A new worksheet would be attached to the instructions to assist in calculating the average.

Reporting Panel

U.S. commercial banks and Edge and agreement corporations are required to file the FR 2502q for their major foreign branches and large banking subsidiaries. "Major" foreign branches are 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 has examined the possibility of raising the reporting thresholds above the existing level of $500 million in total assets for branches and the existing levels of $2 billion in total assets and $10 million in deposit liabilities for subsidiaries. The Federal Reserve recommends making no change to the reporting thresholds for either branches or subsidiaries.

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. 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. The monetary aggregate statistics also could be compromised if the Schedule A data items used for benchmarking the weekly Eurodollar estimates were available less frequently than quarterly.

The daily data collected on the FR 2502q have revealed considerable day-to-day volatility. Thus, weekly average, rather than single-day, coverage continues to be needed for more accurate measurement of M3.

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. The staff at the Reserve Banks edit and then transmit the data to the Board for central processing. The data (aggregated for all reporters by country) are published by the Federal Reserve in the quarterly E.11 statistical release, "Geographical Distribution of Assets and Liabilities of Major Foreign Branches of U.S. Banks." In addition, the assets data are combined with data for banks' U.S. offices to produce the *Federal Reserve Bulletin* table (3.21) on claims on foreigners held by U.S.-chartered banks. The FR 2502q data relating to branches in offshore centers are also 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 used by the Department of Commerce in estimating the capital accounts portion of the balance of payments.

Legal Status

The Board's Legal Division has determined that 12 U.S.C. § § 248(a)(2), 353 et seq., 461, 602, and 625 authorize the 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 consultation outside the Federal Reserve System.

Estimate of Respondent Burden

The current burden for the FR 2502q report is estimated to be 32,662 hours annually, as shown in the following table. Because changes to the report are not significant, the Federal Reserve estimates that there would be no changes in the burden. Some reporters choose to file one consolidated report for all their subsidiaries or branches. Thus, the number of reports submitted is only 169, as of March 2002. Those reports cover 938 branches and subsidiaries; the burden for collecting this information from each branch or subsidiary is 3.5 hours, whether individual or consolidated reports are submitted. The annual burden for the FR 2502q represents less than 1 percent of the total Federal Reserve System paperwork burden for all reports.

	Number of respondents	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
FR 2502q	2,333	4	3.5	32,662

Based on an estimated cost of $20 per hour, the estimated annual cost to the public is $653,240.

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

The estimated current costs to the Federal Reserve System for collecting and processing the FR 2502q data are $90,882 annually.