

FEDERAL RESERVE SYSTEM

Proposed Agency Information Collection Activities; Comment Request

AGENCY: Board of Governors of the Federal Reserve System

SUMMARY: Background

On June 15, 1984, the Office of Management and Budget (OMB) delegated to the Board of Governors of the Federal Reserve System (Board) its approval authority under the Paperwork Reduction Act, as per 5 CFR 1320.16, to approve of and assign OMB control numbers to collection of information requests and requirements conducted or sponsored by the Board under conditions set forth in 5 CFR 1320 Appendix A.1. Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information. Copies of the Paperwork Reduction Act Submission, supporting statements and approved collection of information instruments are placed into OMB's public docket files. The Federal Reserve may not conduct or sponsor, and the respondent is not required to respond to, an information collection that has been extended, revised, or implemented on or after October 1, 1995, unless it displays a currently valid OMB control number.

Request for comment on information collection proposals

The following information collections, which are being handled under this delegated authority, have received initial Board approval and are hereby published for comment. At the end of the comment period, the proposed information collections, along with an analysis of comments and recommendations received, will be submitted to the Board for final approval under OMB delegated authority. Comments are invited on the following:

- a. Whether the proposed collections of information are necessary for the proper performance of the Federal Reserve's functions; including whether the information has practical utility;
- b. The accuracy of the Federal Reserve's estimate of the burden of the proposed information collections, including the validity of the methodology and assumptions used;
- c. Ways to enhance the quality, utility, and clarity of the information to be collected; and
- d. Ways to minimize the burden of information collections on respondents, including through the use of automated collection techniques or other forms of information technology.

DATES: Comments must be submitted on or before March 12, 2007.

ADDRESSES: You may submit comments, identified by **FR 2069 (OMB No. 7100-0030), FR 2416 and FR 2644 (OMB No. 7100-0075), FR Y-9C (OMB No. 7100-0128), FR Y-11 (OMB No. 7100-0244), FR 2314 (OMB No. 7100-0073), or FR 3036 (OMB No. 7100-0285)** by any of the following methods:

- Agency Web Site: <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.

- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.
- E-mail: regs.comments@federalreserve.gov. Include the OMB control number in the subject line of the message.
- FAX: 202-452-3819 or 202-452-3102.
- Mail: Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, DC 20551.

All public comments are available from the Board's web site at www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm as submitted, unless modified for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper in Room MP-500 of the Board's Martin Building (20th and C Streets, N.W.) between 9:00 a.m. and 5:00 p.m. on weekdays.

Additionally, commenters should send a copy of their comments to the OMB Desk Officer by mail to the Office of Information and Regulatory Affairs, U.S. Office of Management and Budget, New Executive Office Building, Room 10235, 725 17th Street, NW., Washington, DC 20503 or by fax to 202-395-6974.

FOR FURTHER INFORMATION CONTACT: A copy of the proposed form and instructions, the Paperwork Reduction Act Submission, supporting statement, and other documents that will be placed into OMB's public docket files once approved may be requested from the agency clearance officer, whose name appears below.

Michelle Shore, Federal Reserve Board Clearance Officer (202-452-3829), Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, DC 20551. Telecommunications Device for the Deaf (TDD) users may contact (202-263-4869), Board of Governors of the Federal Reserve System, Washington, DC 20551.

Proposal to approve under OMB delegated authority the extension for three years, with revision, of the following reports:

1. *Report title:* Weekly Report of Assets and Liabilities for Large Banks and Weekly Report of Selected Assets

Agency form numbers: FR 2416 and FR 2644

OMB control number: 7100-0075

Frequency: Weekly

Reporters: U.S.-chartered commercial banks

Annual reporting hours: FR 2416: 22,386 hours; FR 2644: 80,652 hours

Estimated average hours per response: FR 2416: 8.61 hours; FR 2644: 1.41 hours

Number of respondents: FR 2416: 50; FR 2644: 1,100

General description of reports: These information collections are voluntary (12 U.S.C. § 225(a) and 248(a)(2)). Individual respondent data are regarded as confidential under the Freedom of Information Act (5 U.S.C. § 552(b)(4)).

Abstract: The FR 2416, FR 2644, and the Weekly Report of Assets and Liabilities for Large U.S. Branches and Agencies of Foreign Banks (FR 2069; OMB No. 7100-0030) are referred to collectively as the bank credit reports. The FR 2416 is a detailed balance sheet that covers domestic offices of large U.S.-chartered commercial banks. The FR 2644 collects less-detailed information on investments, loans, total assets, and several memoranda items, covering domestic offices of small U.S.-chartered commercial banks. The bank credit reports are collected as of each Wednesday.

These three voluntary reports are mainstays of the Federal Reserve's reporting system from which data for analysis of current banking developments are derived. The FR 2416 is used on a stand-alone basis as the large domestic bank series. The FR 2644 collects sample data, which are used to estimate universe levels using data from the quarterly commercial bank Consolidated Reports of Condition and Income (FFIEC 031 and 041; OMB No. 7100-0036) (Call Report). Data from the bank credit reports, together with data from other sources, are used for constructing weekly estimates of bank credit, of sources and uses of bank funds, and of a balance sheet for the banking system as a whole.

The Federal Reserve publishes the data in aggregate form in the weekly H.8 statistical release, *Assets and Liabilities of Commercial Banks in the United States*, which is followed closely by other government agencies, the banking industry, the financial press, and other users. This release provides a balance sheet for the banking industry as a whole and data disaggregated by its large domestic, small domestic, and foreign-related components.

Current actions: The Federal Reserve proposes to reduce reporting burden by eliminating data items that are no longer useful beyond data already available from Call Reports, to collect information on real estate loan securitization activity, and to improve the detailed information associated with data on security loans. The Federal Reserve proposes to make the following modifications to the FR 2416: (1) delete data item 5.d, Loans to finance agricultural production and other loans to farmers; (2) delete data item 5.h, Loans to states and political subdivisions in the U.S.; (3) delete memorandum item M.8, Commercial and industrial loans: Outstanding principal balance of assets sold and securitized; (4) add a memorandum item, Real estate loans: Outstanding principal balance of assets sold and securitized; and (5) rename memoranda items M.1 and M.5 on revaluation gains and losses, respectively. The Federal Reserve proposes to make the following modifications to the FR 2644: (1) add a memorandum item, Real estate loans: Outstanding principal balance of assets sold and securitized, (the same data item proposed for the FR 2416 reporting form) and (2) renumber memoranda items M.4 and M.5 on net due from and net due to, respectively, to allow for the addition of the new data item on securitized real estate loans. The proposed revisions discussed above would be implemented as of June 2007. The Federal Reserve would like to reevaluate the bank credit data in coming quarters to determine whether changes consistent with the proposed March 2007 Call Report revisions would be necessary for the bank credit series. Therefore, another proposal to revise the reporting forms may be presented for review before the three-year extension expires.

2. *Report title:* Weekly Report of Assets and Liabilities for Large U.S. Branches and Agencies of Foreign Banks

Agency form number: FR 2069

OMB control number: 7100-0030

Frequency: Weekly

Reporters: U.S. branches and agencies of foreign banks

Annual reporting hours: 14,560 hours

Estimated average hours per response: 4.00 hours

Number of respondents: 70

General description of report: This information collection is voluntary (12 U.S.C. § 248(a)(2) and 3105(a)(2)). Individual respondent data are regarded as confidential under the Freedom of Information Act (5 U.S.C. § 552(b)(4)).

Abstract: The FR 2069 is a detailed balance sheet that covers large U.S. branches and agencies of foreign banks. This report, along with the FR 2416 and FR 2644, is collected as of each Wednesday.

These three voluntary reports are mainstays of the Federal Reserve's reporting system from which data for analysis of current banking developments are derived. The FR2069 collects sample data, which are used to estimate universe levels using data from the quarterly Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002; OMB No. 7100-0032). Data from the bank credit reports, together with data from other sources, are used for constructing weekly estimates of bank credit, of sources and uses of bank funds, and of a balance sheet for the banking system as a whole.

The Federal Reserve publishes the data in aggregate form in the weekly H.8 statistical release, *Assets and Liabilities of Commercial Banks in the United States*, which is followed closely by other government agencies, the banking industry, the financial press, and other users. This release provides a balance sheet for the banking industry as a whole and data disaggregated by its large domestic, small domestic, and foreign-related components.

Current actions: The Federal Reserve proposes to make the following modifications to the FR 2069: (1) split data item 4.b, Federal funds sold and securities purchased under agreements to resell: With others, into two data items; (2) delete memorandum item M.3, Commercial and industrial loans: Outstanding principal balance of assets sold and securitized; and (3) rename memoranda items M.1 and M.2 on revaluation gains and losses, respectively. The proposed revisions discussed above would be implemented as of June 2007. The Federal Reserve would like to reevaluate the bank credit data in coming quarters to determine whether changes consistent with the proposed March 2007 Call Report revisions would be necessary for the bank credit series. Therefore, another proposal to revise the reporting forms may be presented for review before the three-year extension expires.

Proposal to approve under OMB delegated authority the revision, without extension, of the following reports:

1. *Report title:* Consolidated Financial Statements for Bank Holding Companies.

Agency form number: FR Y-9C.

OMB control number: 7100-0128.

Frequency: Quarterly.

Reporters: Bank holding companies (BHCs).

Annual reporting hours: 117,504

Estimated average hours per response: 38.35

Number of respondents: 766

General description of report: This information collection is mandatory (12 U.S.C. 1844(c)). Confidential treatment is not routinely given to the data in this report. However, confidential treatment for the reporting information, in whole or in part, can be requested in accordance with the instructions to the form, pursuant to section (b)(4) of the Freedom of Information Act (5 U.S.C. §§522(b)(4)).

Abstract: The FR Y-9 family of reports historically has been, and continues to be, the primary source of financial information on BHCs between on-site inspections. Financial information from these reports is used to detect emerging financial problems, to review performance and conduct pre-inspection analysis, to monitor and evaluate capital adequacy, to evaluate BHC mergers and acquisitions, and to analyze a BHC's overall financial condition to ensure safe and sound operations.

The FR Y-9C consists of standardized financial statements similar to the Consolidated Reports of Condition and Income (Call Report) (FFIEC 031 & 041; OMB No. 7100-0036) filed by commercial banks. The FR Y-9C collects consolidated data from the BHC and is generally filed by top-tier BHCs with total consolidated assets of \$500 million or more.

Current actions: The Federal Reserve proposes to make the following revisions to the FR Y-9C to parallel proposed changes to the Call Report. BHCs have commented that changes should be made to the FR Y-9C in a manner consistent with changes to the Call Report. Comments received on the Call Report proposal will also be taken into consideration for this proposal.

Reporting on Fair Value Measurements and the Use of the Fair Value Option

On September 15, 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, *Fair Value Measurements* (FAS 157), which is effective for BHCs and other entities for fiscal years beginning after November 15, 2007. Earlier adoption of FAS 157 is permitted as of the beginning of an earlier fiscal year, provided the BHC has not yet issued a financial statement or submitted FR Y-9C data for any period of that fiscal year. Thus, a BHC with a calendar year fiscal year may voluntarily adopt FAS 157 as of January 1, 2007. The fair

value measurements standard provides guidance on how to measure fair value and would require BHCs and other entities to disclose the inputs used to measure fair value based on a three-level hierarchy for all assets and liabilities that are re-measured at fair value on a recurring basis.¹

The FASB plans to issue a final standard, *The Fair Value Option for Financial Assets and Financial Liabilities* during the first quarter of 2007, which would be effective for BHCs and other entities for fiscal years beginning after December 15, 2006. The FASB's Fair Value Option standard would allow BHCs and other entities to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings. The Federal Reserve anticipates that relatively few BHCs will elect to use the fair value option for a significant portion of their financial assets and liabilities.

The Federal Reserve proposes to add a new Schedule HC-Q to the FR Y-9C to collect data, by major asset and liability category, on the amount of assets and liabilities to which the fair value option has been applied along with separate disclosure of the amount of such assets and liabilities whose fair values were estimated under level two and under level three of the FASB's fair value hierarchy. The categories are:

- Securities held for purposes other than trading with changes in fair value reported in current earnings,
- Loans and leases,
- All other financial assets and servicing assets,
- Deposit liabilities,
- All other financial liabilities and servicing liabilities, and
- Loan commitments (not accounted for as derivatives).

In addition, the Federal Reserve proposes to collect data on trading assets and trading liabilities in the new schedule from those BHCs that complete Schedule HC-D, Trading Assets and Liabilities, that is, BHCs that reported average trading assets of \$2 million or more for any quarter of the preceding calendar year. In the proposed new schedule, such BHCs would report the carrying amount of trading assets and trading liabilities whose fair values were estimated under level two and under level three of the FASB's fair value hierarchy. Trading assets and trading liabilities are required to be reported at fair value and thus are not covered under the fair value option.

The Federal Reserve anticipates using this fair value information to make appropriate risk assessments for on-site examinations and off-site surveillance. The addition of these data items should result in minimal additional reporting burden for BHCs because FAS 157 requires

¹ The FASB's three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting BHC has the ability to access at the measurement date (e.g., the FR Y-9C reporting date). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

disclosure of amounts under all three levels of the fair value hierarchy on a quarterly and annual basis in financial statements.

The FASB's fair value measurements standard requires BHCs and other entities to consider the effect of a change in their own creditworthiness when determining the fair value of a financial liability. The Federal Reserve proposes to add one new data item to Schedule HC-R, Regulatory Capital, for the cumulative change in the fair value of all financial liabilities accounted for under the fair value option that is attributable to changes in the BHC's own creditworthiness. This amount would be excluded from the BHC's retained earnings for purposes of determining Tier 1 capital under the Federal Reserve's regulatory capital standards.

The Federal Reserve plans to clarify the instructions to Schedule HI for the treatment of interest income on financial assets and interest expense on financial liabilities measured under a fair value option. The instructions would be modified to instruct BHCs to separate the contractual year-to-date amount of interest earned on financial assets and interest incurred on financial liabilities that are reported under a fair value option from the overall year-to-date fair value adjustment and report these contractual amounts in the appropriate interest income or interest expense items on Schedule HI. In addition, the Federal Reserve proposes to modify memoranda item 6, Other noninterest income, by adding data item 6.i, Net change in the fair values of financial instruments accounted for under a fair value option.

Reporting of Certain Data on 1-4 Family Residential Mortgage Loans with Terms that Allow for Negative Amortization

Recently, the volume of 1-4 family residential mortgage loan products whose terms allow for negative amortization and the number of institutions providing borrowers with such loans has increased significantly. Loans with this feature are structured in a manner that may result in an increase in the loan's principal balance even when the borrower's payments are technically current. When loans with negative amortization are not prudently underwritten and not properly monitored, they raise safety and soundness concerns. However, due to the classification of these loans with all other 1-4 family residential mortgage loans in the FR Y-9C, the Federal Reserve has no readily available means of identifying the industry's exposure to such loans. Therefore, the Federal Reserve proposes to collect four data items to monitor the extension of negatively amortizing residential mortgage loans in the industry.

The Federal Reserve proposes to collect one memorandum item from all BHCs on Schedule HC-C, Loans and Leases, for the total amount of closed-end loans with negative amortization features secured by 1-4 family residential properties in order to obtain an overall measure of this potentially higher risk lending activity. In addition, the Federal Reserve proposes to collect two memoranda items on Schedule HC-C and one memorandum item on Schedule HI, Income Statement, from BHCs with a significant volume of negatively amortizing 1-4 family residential mortgage loans. The determination of the threshold for significant volume would be based on the aggregate carrying amount of negatively amortizing loans in excess of a certain dollar amount, for example, \$100 million or \$250 million, or in excess of a certain percentage of the total loans and leases (in domestic offices) reported on Schedule HC-C, for example, 5 percent or 10 percent. A BHC with negatively amortizing loans would determine

whether it met the size threshold for reporting the three additional memoranda items based on data reported from the previous year-end FR Y-9C report. The Federal Reserve requests public comment on the specific dollar amount and percentage of loans that should be used in setting the size threshold for additional reporting on negatively amortizing loans.

The two additional Schedule HC-C memoranda items are (1) the total maximum remaining amount of negative amortization contractually permitted on closed-end loans secured by 1-4 family residential properties and (2) the total amount of negative amortization on closed-end loans secured by 1-4 family residential properties that is included in the carrying amount of these loans. The first memorandum item would provide a measure of the maximum exposure that could be incurred for negative amortization loans in the current 1-4 family residential property loan portfolio. The second memorandum item would then identify what component of 1-4 family mortgage loans is comprised of negative amortization loans. The Schedule HI memorandum item is year-to-date non-cash income on closed-end loans with a negative amortization feature secured by 1-4 family residential properties. This memorandum item would identify the amount and extent of interest revenue accrued and uncollected to ascertain the degree this potentially higher risk lending activity supports the BHC's overall net income. BHCs with negatively amortizing 1-4 family residential loans in excess of the reporting threshold for these data items would report these three data items for the entire calendar year following the end of any calendar year when this threshold was exceeded.

Reporting of Certain Brokered Time Deposit Information

The FFIEC is proposing to revise the reporting treatment of brokered time deposits on Call Report Schedule RC-E, Deposit Liabilities. Memorandum item 2.b, Total time deposits of less than \$100,000, would be revised to include brokered time deposits issued in denominations of \$100,000 or more that are participated out by the broker in shares of less than \$100,000, as well as brokered certificates of deposit issued in \$1,000 amounts under a master certificate of deposit. Memorandum item 2.c, Total time deposits of \$100,000 or more, would be revised to exclude such brokered deposits.

The Federal Reserve proposes to make similar instructional changes to seven data items on Schedule HC-E, Deposit Liabilities, to retain consistent definitions with the Call Report and to accommodate the consolidation of subsidiary bank information into the FR Y-9C report. The Federal Reserve proposes to revise the instructions for data item 1.d, Time deposits of less than \$100,000 held in domestic offices of commercial bank subsidiaries; data item 2.d, Time deposits of less than \$100,000 held in domestic offices of other depository institution subsidiaries; Memorandum item 1, Brokered deposits less than \$100,000 with a remaining maturity of one year or less; and Memorandum item 2, Brokered deposits less than \$100,000 with a remaining maturity of more than one year, to include brokered time deposits issued in denominations of \$100,000 or more that are participated out by the broker in shares of less than \$100,000 and brokered certificates of deposit issued in \$1,000 amounts under a master certificate of deposit. Data item 1.e, Time deposits of \$100,000 or more held in domestic offices of commercial bank subsidiaries; data item 2.e, Time deposits of \$100,000 or more held in domestic offices of other depository institution subsidiaries; and Memorandum item 3, Time deposits of \$100,000 or more

with a remaining maturity of one year or less, would be revised to exclude such brokered time deposits.

Instructional Clarifications

Servicing of Loan Participations

BHCs report the outstanding principal balance of assets serviced for others in Memorandum item 2 of Schedule HC-S, Servicing, Securitization, and Asset Sale Activities. In Memoranda items 2.a and 2.b, BHCs report the amounts of 1-4 family residential mortgages serviced with recourse and without recourse, respectively. Memorandum item 2.c covers all other loans and financial assets serviced for others, but BHCs are required to report the amount of such servicing only if the servicing volume is more than \$10 million. The instructions for Memorandum item 2 do not explicitly state whether a bank holding company that has sold a participation in a 1-4 family residential mortgage or other loan or financial asset, which it continues to service, should include the servicing in Memorandum item 2.a, 2.b, or 2.c, as appropriate. The absence of clear instructional guidance has resulted in questions from banking institutions and has produced diversity in practice among BHCs.

Subject to the reporting threshold that applies to Memorandum item 2.c, Memorandum item 2 was intended to cover the entire volume of loans and other financial assets for which BHCs perform the servicing function, regardless of whether the servicing involves whole loans and other financial assets or only portions thereof, as is typically the case with loan participations. The risks and responsibilities inherent in servicing are present whether all or part of a loan or financial asset is serviced for the benefit of another party. Accordingly, the Federal Reserve proposes to clarify the instructions to Memorandum item 2 of Schedule HC-S to explicitly state that the amount of loan participations serviced for others should be included in this data item.

2. *Report title:* Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies.

Agency form number: FR Y-11.

OMB control number: 7100-0244.

Frequency: Quarterly and annually.

Reporters: Bank holding companies (BHCs).

Annual reporting hours: FR Y-11 (quarterly): 32,690; FR Y-11 (annually): 1,911.

Estimated average hours per response: FR Y-11 (quarterly): 6.35; FR Y-11 (annually): 6.35.

Number of respondents: FR Y-11 (quarterly): 1,287; FR Y-11 (annually): 301.

General description of report: This information collection is mandatory (12 U.S.C. §§1844(c)). Confidential treatment is not routinely given to the data in these reports. However, confidential treatment for the reporting information, in whole or in part, can be requested in accordance with

the instructions to the form, pursuant to section (b)(4) of the Freedom of Information Act [5 U.S.C. §§522(b)(4)].

Abstract: The FR Y-11 reports collect financial information for individual U.S. nonbank subsidiaries of domestic BHCs. BHCs file the FR Y-11 on a quarterly or annual basis according to filing criteria. The FR Y-11 data are used with other BHC data to assess the condition of BHCs that are heavily engaged in nonbanking activities and to monitor the volume, nature, and condition of their nonbanking operations.

Current actions: Recently, the volume of 1-4 family residential mortgage loan products whose terms allow for negative amortization and the number of institutions providing borrowers with such loans has increased significantly. Loans with this feature are structured in a manner that may result in an increase in the loan's principal balance even when the borrower's payments are technically current. When loans with negative amortization are not prudently underwritten and not properly monitored, they raise safety and soundness concerns. Currently the Federal Reserve has no readily available means of identifying the industry's exposure to such loans. Therefore, the Federal Reserve proposes to collect four data items at the nonbank subsidiary level to monitor the extension of negatively amortizing residential mortgage loans in the industry and to parallel the data items being proposed for inclusion on the FR Y-9C.

The Federal Reserve proposes to collect one memorandum item from all nonbank subsidiaries on Schedule BS-A, Loan and Leases Financing Receivables, for the total amount of closed-end loans with negative amortization features secured by 1-4 family residential properties in order to obtain an overall measure of this potentially higher risk lending activity. In addition, the Federal Reserve proposes to collect two memorandum items on Schedule BS-A and one memorandum item on Schedule IS, Income Statement, from nonbank subsidiaries with a significant volume of negatively amortizing 1-4 family residential mortgage loans. The Federal Reserve's determination of the threshold for significant volume would be based on the aggregate carrying amount of negatively amortizing loans in excess of a certain percentage of the total loans and leases reported on Schedule BS-A, for example, 5 percent or 10 percent. A nonbank with negatively amortizing loans would determine whether it met the size threshold for reporting the three additional memorandum items based on data reported from the previous year-end FR Y-11. The Federal Reserve requests public comment on the percentage of loans that should be used in setting the size threshold for additional reporting on negatively amortizing loans. In addition, the Federal Reserve seeks comment as to whether the percentage threshold established for the nonbank subsidiary reports should be consistent with or differ from the percentage threshold established for the FR Y-9C.

The Federal Reserve also proposes two additional Schedule BS-A memorandum items to collect (1) the total maximum remaining amount of negative amortization contractually permitted on closed-end loans secured by 1-4 family residential properties and (2) the total amount of negative amortization on closed-end loans secured by 1-4 family residential properties that is included in the carrying amount of these loans. The first memorandum item would provide a measure of the maximum exposure that could be incurred for negative amortization loans in the current 1-4 family residential property loan portfolio. The second memorandum item would then identify what component of 1-4 family mortgage loans is comprised of negative

amortization loans. The Schedule IS memorandum item is year-to-date non-cash income on closed-end loans with a negative amortization feature secured by 1-4 family residential properties. This memorandum item would identify the amount and extent of interest revenue accrued and uncollected to ascertain the degree this potentially higher risk lending activity supports the BHC's overall net income. All nonbank subsidiaries with negatively amortizing 1-4 family residential loans in excess of the reporting threshold would report these data items for the entire calendar year following the end of any calendar year when the threshold was exceeded.

3. *Report title:* Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations.

Agency form number: FR 2314.

OMB control number: 7100-0073.

Frequency: Quarterly and annually.

Reporters: Foreign subsidiaries of U.S. state member banks (SMBs), bank holding companies (BHCs), and Edge or agreement corporations.

Annual reporting hours: FR 2314 (quarterly): 5,402; FR 2314 (annually): 966.

Estimated average hours per response: FR 2314 (quarterly): 6.40; FR 2314 (annually): 6.40.

Number of respondents: FR 2314 (quarterly): 211; FR 2314 (annually): 151.

General description of report: This information collection is mandatory (12 U.S.C. §§324, 602, 625, and 1844(c)). Confidential treatment is not routinely given to the data in these reports. However, confidential treatment for the reporting information, in whole or in part, can be requested in accordance with the instructions to the form, pursuant to section (b)(4) of the Freedom of Information Act [5 U.S.C. §§522(b)(4)].

Abstract: The FR 2314 reports collect financial information for direct or indirect foreign subsidiaries of U.S. SMBs, Edge and agreement corporations, and BHCs. Parent organizations (SMBs, Edge and agreement corporations, or BHCs) file the FR 2314 on a quarterly or annual basis according to filing criteria. The FR 2314 data are used to identify current and potential problems at the foreign subsidiaries of U.S. parent companies, to monitor the activities of U.S. banking organizations in specific countries, and to develop a better understanding of activities within the industry, in general, and of individual institutions, in particular.

Current actions: Recently, the volume of 1-4 family residential mortgage loan products whose terms allow for negative amortization and the number of institutions providing borrowers with such loans has increased significantly. Loans with this feature are structured in a manner that may result in an increase in the loan's principal balance even when the borrower's payments are technically current. When loans with negative amortization are not prudently underwritten and not properly monitored, they raise safety and soundness concerns. Currently the Federal Reserve has no readily available means of identifying the industry's exposure to such loans. Therefore, the Federal Reserve proposes to collect four data items at the nonbank subsidiary level to monitor the extension of negatively amortizing residential mortgage loans in the industry and to parallel the data items being proposed for inclusion on the FR Y-9C.

The Federal Reserve proposes to collect one memorandum item from all nonbank subsidiaries on Schedule BS-A, Loan and Leases Financing Receivables, for the total amount of closed-end loans with negative amortization features secured by 1-4 family residential properties in order to obtain an overall measure of this potentially higher risk lending activity. In addition, the Federal Reserve proposes to collect two memorandum items on Schedule BS-A and one memorandum item on Schedule IS, Income Statement, from nonbank subsidiaries with a significant volume of negatively amortizing 1-4 family residential mortgage loans. The Federal Reserve's determination of the threshold for significant volume would be based on the aggregate carrying amount of negatively amortizing loans in excess of a certain percentage of the total loans and leases reported on Schedule BS-A, for example, 5 percent or 10 percent. A nonbank with negatively amortizing loans would determine whether it met the size threshold for reporting the three additional memorandum items based on data reported from the previous year-end FR 2314. The Federal Reserve requests public comment on the percentage of loans that should be used in setting the size threshold for additional reporting on negatively amortizing loans. In addition, the Federal Reserve seeks comment as to whether the percentage threshold established for the nonbank subsidiary reports should be consistent with or differ from the percentage threshold established for the FR Y-9C.

The Federal Reserve also proposes two additional Schedule BS-A memorandum items to collect (1) the total maximum remaining amount of negative amortization contractually permitted on closed-end loans secured by 1-4 family residential properties and (2) the total amount of negative amortization on closed-end loans secured by 1-4 family residential properties that is included in the carrying amount of these loans. The first memorandum item would provide a measure of the maximum exposure that could be incurred for negative amortization loans in the current 1-4 family residential property loan portfolio. The second memorandum item would then identify what component of 1-4 family mortgage loans is comprised of negative amortization loans. The Schedule IS memorandum item is year-to-date non-cash income on closed-end loans with a negative amortization feature secured by 1-4 family residential properties. This memorandum item would identify the amount and extent of interest revenue accrued and uncollected to ascertain the degree this potentially higher risk lending activity supports the BHC's overall net income. All nonbank subsidiaries with negatively amortizing 1-4 family residential loans in excess of the reporting threshold would report these data items for the entire calendar year following the end of any calendar year when the threshold was exceeded.

The Federal Reserve proposes to add the section Notes to the Financial Statements to allow respondents the opportunity to provide, at their option, any material information included in specific data items on the financial statements that the parent U.S. banking organization wishes to explain. The addition of this section would enable the Federal Reserve to automate information that respondents may want to report as footnotes to various reported data items and provide for release of this information to the public. This section is currently included on the FR Y-11.

Proposal to approve under OMB delegated authority the implementation of the following survey:

Report title: Central Bank Survey of Foreign Exchange and Derivatives Market Activity

Agency form number: FR 3036

OMB control number: 7100-0285

Frequency: One-time

Reporters: Financial institutions that serve as intermediaries in the wholesale foreign exchange and derivatives market and dealers.

Annual reporting hours: 3,150

Estimated average hours per response: Turnover survey: 51 hours; outstandings survey: 60 hours

Number of respondents: 60

General description of report: This information collection is voluntary (12 U.S.C. 225a, 248(a)(2), 358, and 3105(c)) and is given confidential treatment (5 U.S.C. §552(b)(4)).

Abstract: The FR 3036 is the U.S. part of a global data collection that is conducted by central banks every three years. More than fifty central banks plan to conduct the survey in 2007. The Bank for International Settlements compiles national data from each central bank to produce global market statistics.

The Federal Reserve System and other government agencies use the survey to monitor activity in the foreign exchange and derivatives markets. Respondents use the published data to gauge their market share.

Current actions: The proposed survey would collect information on the size and structure of the foreign exchange and over-the-counter derivatives markets. The survey would cover the turnover in the foreign exchange spot market, the foreign exchange derivatives market, and interest rate derivatives markets (forwards, swaps, and options). In addition, the survey would gather data on the notional amounts and gross positive and negative market values of outstanding derivatives contracts for over-the-counter foreign exchange, interest rates, equities, and commodities.

To reduce reporting burden, the Derivatives Outstanding part of the survey is coordinated with the Semiannual Report of Derivatives Activity (FR 2436; OMB No. 7100-0286). Those firms that submit FR 2436 data would not complete the Derivatives Outstanding part of the survey.

Differences between the proposed survey and the 2004 survey are as follows:

1. The abbreviated report for FR 2436 reporters has been eliminated from the Outstanding survey. Data on credit derivatives are now submitted on the FR 2436.
2. Data items to capture credit default swaps have been added to the Outstanding survey to be consistent with the FR 2436. Given the growth in the credit derivative market, these data are important component of understanding the structure and activity of the overall over-the-counter derivatives market.
3. Additional currencies have been identified in tables on interest rate derivatives and on foreign exchange transactions on both the Outstanding and Turnover surveys. This change will facilitate reporting and ensure comprehensive identification of turnover in all participating countries' currencies. Reporting central banks will retain discretion to customize this list.
4. The section on electronic trading and identification of execution method has been simplified and adjusted in order to better distinguish between categories on the Turnover survey.
5. The definition of internal and related party trades has been clarified on the Turnover survey in order to improve consistency of data reporting.
6. The two data items in the memorandum section concerning trading activity trends on the Turnover survey have been split into four data items to provide detail on derivative contracts markets since these markets behave very differently.

Board of Governors of the Federal Reserve System, January 8, 2007.

(signed)

Jennifer J. Johnson,
Secretary of the Board.