

**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, 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; OMB No. 7100-0079). U.S. commercial banks, bank holding companies, and Edge and agreement corporations (U.S. banks) are required to file this reporting form for their major foreign branches (currently 86 institutions) and large banking subsidiaries (currently 78 institutions). A total of 97 reports were submitted for these respondents (as of June 2005) because some organizations filed consolidated reports.

The FR 2502q collects gross assets and liability positions of each reporting office vis-à-vis individual countries, as of each quarter-end. The FR 2502q also contains a separate schedule, Schedule A, which collects information on nonnegotiable Eurodollar liabilities payable to certain U.S. addressees, which is used by the Division of Monetary Affairs in construction of the monetary aggregates. Data from the FR 2502q comprise a piece of the flow of funds data that are compiled by the Federal Reserve.

The Federal Reserve proposes the following revisions: (1) discontinuing Schedule A as a result of the elimination of M3; (2) discontinuing Memorandum item 3a; (3) revising the instructions for data to be reported in the unallocated data items; (4) reducing the reporting panel to require offices located only in the Caribbean and the United Kingdom to file the FR 2502q; and (5) conforming the names of several countries and one region to the country list compiled by the U.S. Treasury.

These proposed revisions would decrease the estimated annual reporting burden for this information collection from 2,296 to 826 hours, a reduction of 1,470 hours. A copy of the reporting form and instructions, marked to show the revisions, is attached.

**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.<sup>1</sup> 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,

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

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.

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. In March 1994, 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 Bank for International Settlements (BIS) statistics.<sup>2</sup> 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. In 2003, the report was revised to include several memorandum items to break out claims and liabilities reported under the unallocated accounts item. In the past, data from the FR 2502q 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.

## **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. The need for information on U.S. banks' assets and liabilities vis-à-vis residents of individual countries would 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. 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* positions of U.S. banks vis-à-vis residents of individual foreign countries.<sup>3</sup> 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 foreign 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.

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

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<sup>2</sup>These 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.

<sup>3</sup> 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.

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 and is now available with a lag of about twelve weeks, compared with a two-month lag for the 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 report 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.

## **Description of Information Collection**

The FR 2502q collects data quarterly 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. Schedule A collects information on Eurodollar liabilities payable to certain U.S. addressees.

### **Proposed Revisions to the Reporting Form**

**Claims and Liabilities Resulting from the Fair Value of Derivatives Contracts.** The Federal Reserve proposes to change Memorandum item 2—"Amounts included in 'UNALLOCATED' above (country code 88862) that represent claims and liabilities from the fair value of derivatives contracts"—to read, "Amounts included in 'TOTAL, all areas' above (country code 99996) that represent claims and liabilities from the fair value of derivatives contracts." This change is made necessary by the Federal Reserve's proposed change in the instructions for unallocated accounts (described in detail below), which proposes that claims and liabilities resulting from the fair value of derivatives contracts be excluded from unallocated

accounts and, instead, allocated according to the country of residence of the counterparty.

**Claims on, and Liabilities to, other non-U.S. Offices of the Parent Bank.** The Federal Reserve proposes to drop Memorandum item 3a. This item was included in order to combine the FR 2502q data with data from the TIC reports to produce Table 3.21 of the *Federal Reserve Bulletin (Bulletin)*, titled Claims on Foreign Countries. However, given the increased timeliness of the FFIEC E.16 Statistical Release, Country Exposure Lending Survey (which is based on data from the FFIEC 009), Table 3.21 of the *Bulletin* has been dropped.

**Schedule A.** The Federal Reserve has decided to discontinue publishing M3; therefore, the Federal Reserve proposes to eliminate Schedule A, which collects information on Eurodollar liabilities payable to certain U.S. addressees. The primary purpose of Schedule A is to provide the information necessary to determine the Weekly Report of Eurodollar Liabilities Held by Selected U.S. Addressees at Foreign Offices by U.S. Banks (FR 2050; OMB No. 7100-0068) reporting panel. Because the FR 2050 would be discontinued along with the publication of M3, there is no longer a compelling reason to collect Schedule A data.

**Country List.** The Federal Reserve would update the names of several countries and one region to conform to the country list compiled by the U.S. Treasury. The region Oceania would be renamed “Other Countries”, Western Samoa would be renamed “Samoa (formerly Western Samoa)”, Burkina would be renamed “Burkina Faso”, Vatican City would be renamed “Holy See”, Korea would be renamed “Korea, South”, North Korea would be renamed “Korea, North” and British Oceania would be renamed “British Indian Ocean Territory”.

### **Proposed Revisions to the Instructions**

**Unallocated Accounts.** The Federal Reserve proposes to change the instructions for unallocated accounts. In particular, the Federal Reserve proposes that claims and liabilities should be reported as unallocated only if it is not possible for the reporter to determine the country of customer, if the country of customer is not listed on the form, or if the claims on and liabilities to addressees in that country are less than \$1 million (equivalent) . Claims and liabilities resulting from, respectively, the positive and negative fair value of derivatives contracts would no longer be automatically added to unallocated claims and liabilities. This change should make the FR 2502q less burdensome for reporters, and it should make the information obtained from the report more meaningful. The previous instructions included the reporting of derivatives contracts in the unallocated accounts item in order to make data from the FR 2502q more consistent with the TIC report. However, as noted above, due to the increased timeliness of the FFIEC 009 data, it would no longer be necessary to combine the FR 2502q data with the TIC data.

## **Proposed Revisions to the 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 proposes to leave the asset and deposit size thresholds unchanged, but to confine the reportable offices data to those located in the Caribbean and the United Kingdom. Reporters would no longer need to file information for branches and subsidiaries that are located elsewhere. The rationale for this change stems from the increased timeliness of data available from the FFIEC 009, which collects exposure of U.S. banks to residents of foreign countries, and from the inclusion in the FFIEC 009 of data on liabilities to residents of foreign countries, by country of residence. Because the FFIEC 009 is reported on a consolidated basis, total claims on and liabilities to residents of foreign countries would now be available by country of customer of U.S. banking organizations on a consolidated basis. As a result, it is no longer necessary to collect comprehensive data on claims and liabilities from foreign branches and subsidiaries of U.S. banks. The proposed revisions to the reporting panel would reduce the number of branches to 40, and the number of subsidiaries to 19. The number of submissions would drop to an estimated 42 (38 for branches and 4 for subsidiaries) filed by 33 banking institutions. These changes would reduce the coverage ratio to 59 percent overall, with 68 percent coverage for branches and 18 percent coverage for subsidiaries.<sup>4</sup>

### **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.

### **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 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." 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

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<sup>4</sup>The coverage ratio is measured as total assets of current or prospective reporters as a percent of total assets for all foreign branches and all banking subsidiaries (which report on the Foreign Branch Report of Condition (FFIEC 030: OMB No. 7100-0071) and the FR 2314, respectively).

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), 353 et seq., 461, 602, and 625 authorize the Federal Reserve 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. Federal Reserve Board has consulted informally with the Department of Commerce.

### Estimate of Respondent Burden

The current annual burden for the FR 2502q is estimated to be 2,296 hours annually and would decrease to 826 hours, a reduction of 1,470 hours. This decrease in burden reflects the proposed revision limiting the reporting panel to only those offices located in the Caribbean and the United Kingdom. Revising the reporting panel would reduce the number of covered branches and subsidiaries from 164 to 59. Because only two items are being eliminated from the reporting form the Federal Reserve estimates that there would be no changes in the estimated average hours per response. This estimate of 3.5 hours applies regardless of whether the data are submitted on an individual or consolidated basis. The annual burden for the FR 2502q represents less than 1 percent of the total Federal Reserve System paperwork burden for all information collections.

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	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<u>Current</u>				
FR 2502q	164	4	3.5	2,296
<u>Proposed</u>				
Caribbean and U.K. offices only	59	4	3.5	826
	<i>change</i>			(1,470)

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Based on an estimated cost of \$20 per hour, the estimated annual cost to the public would decrease from \$45,920 to \$16,520.

## **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 proposed cost to the Federal Reserve System for collecting and processing the FR 2502q is estimated to be \$47,850 per year, a decrease of 21.9 percent from the current cost of \$61,250. The one-time cost to implement the revised reports is estimated to be \$9,810.