

**Supporting Statement for the
Country Exposure Report (FFIEC 009; OMB No. 7100-0035) and
Country Exposure Information Report (FFIEC 009a; OMB No. 7100-0035)**

Summary

The Board of Governors of the Federal Reserve System (Board) requests approval from the Office of Management and Budget (OMB) to extend, with revision, the Federal Financial Institutions Examination Council (FFIEC) Country Exposure Report (FFIEC 009; OMB No. 7100-0035) and the Country Exposure Information Report (FFIEC 009a; OMB No. 7100-0035).

The reporting and disclosure provisions of the International Lending Supervision Act of 1983 (the Act) authorize the Federal Reserve to require these reports. The FFIEC mandates both reports and the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) collect identical reports from institutions under their supervision. The FDIC and the OCC also are submitting a similar request for OMB review for banks under their supervision.

U.S. commercial banks, savings associations and bank holding companies that meet certain criteria file quarterly the Country Exposure Report (FFIEC 009) with the Federal Reserve, the FDIC, and the OCC (collectively the agencies) and provide information on international claims of U.S. banks, savings associations, and bank holding companies that is used for supervisory and analytical purposes. The information is used to monitor country exposure of banks to determine the degree of country risk and transfer risk in their portfolios and the possible impact on U.S. banks of adverse developments in particular countries. The Country Exposure Information Report (FFIEC 009a) is a supplement to the FFIEC 009 and provides publicly available information on material foreign country exposures (all exposures to a country in excess of 1 percent of total assets or 20 percent of capital, whichever is less) of U.S. banks, savings associations and bank holding companies that file the FFIEC 009 report. As part of the Country Exposure Information Report, reporting institutions must also furnish a list of countries in which they have lending exposures above 0.75 percent of total assets or 15 percent of total capital, whichever is less. The annual reporting burden for the FFIEC 009 and the FFIEC 009a reports is currently 10,927 and is estimated to increase 9,161 hours, to 20,088 hours annually.

The banking agencies are proposing to implement a number of revisions to the FFIEC 009 and FFIEC 009a reports for the June 30, 2013 report date. The proposed revisions would assist in ensuring consistency of reporting across institutions for a number of important components of foreign country exposure and allow for improved analysis of the aggregate exposure of U.S. banks to foreign creditors. The proposed changes include: (1) increasing the number of counterparty categories, (2) adding additional information on the type of claim being reported, (3) providing details on a limited number of risk mitigants to help provide perspective to currently reported gross exposure numbers, (4) adding more detailed reporting of credit derivatives, (5) adding the United States as a country row to allow reconciliation between a reporting institution's FFIEC 009 report and its Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128) or Consolidated Reports of Condition and Income (FFIEC 031 and FFIEC 041; OMB No. 7100-0036) (Call Report), as appropriate, and (6)

expanding the entities that must report to include savings and loan holding companies (SLHCs). In addition, the proposed changes include modifying the FFIEC 009a reporting requirement for exposures to individual countries.

Background and Justification

The banking agencies use the FFIEC 009 report in carrying out their supervisory and regulatory responsibilities to collect information on overseas lending activities of U.S. banks to customers in individual countries. The information is used to monitor and analyze banks' country exposure in order to determine the possible impact on individual banks and on the entire U.S. banking system of adverse developments in particular countries. It is a basic source of information on the geographic distribution of bank claims that is provided to other U.S. government agencies and to the Bank for International Settlements (BIS). The information collected in the report is not available from any other source.

The FFIEC 009 report originated in 1977 in response to concerns about the lack of information on banks' country risk exposures, in view of the substantial growth in international lending by U.S. banks in the mid-1970s. In 1984 the FFIEC increased the frequency from semiannual to quarterly, implementing reporting requirements of the International Lending Supervision Act, to obtain more frequent and timely data on changes in the composition and maturity of banks' loan portfolios subject to transfer risk. The FFIEC revised the report in 1985 to provide greater sector detail on third-country guarantors for country redistribution of guaranteed claims and to obtain information on trade finance.

The FFIEC 009a report was implemented in 1984 as a supplement to the FFIEC 009 report to provide public disclosure of information regarding material country risk exposure in accordance with the Act. Section 907 of the Act provides that the federal banking agencies shall require and publicly disclose certain reports from banking institutions with foreign country exposure. The FFIEC 009a is available to the public and requires respondents to report all exposures to a country in excess of 1 percent of the total assets or 20 percent of capital of the reporting institution, whichever is less. In addition, each institution furnishes a list of the countries in which exposures are between 0.75 percent and 1 percent of total assets or between 15 and 20 percent of capital, whichever is less. Data are reported net of adjustments for transfers of exposure, for example through guarantees. The FFIEC initially established this reporting basis, which is consistent with the approach taken by the Securities and Exchange Commission, following consultation with bankers.

Effective with the March 31, 1997, report date, the FFIEC incorporated the following revisions to the FFIEC 009: added a new schedule to collect information on the respondent's country exposure resulting from revaluation gains on foreign exchange and derivative contracts held in the trading account; added a new item, Assets Held for Trading (new column 20); deleted an item, Amount of Claims that Represent Guarantees Issued by the U.S. Government and its Agencies (old column 13); combined three columns, Commercial Letters of Credit (old column 20), Standby Letters of Credit and Risk Participations Purchased (old column 21), and All Other Commitments (old column 22), into one column Commitments (new column 15); redefined the column Trade Financing to contain all items reported in column 9, Trade Financing

and column 20, Commercial Letters of Credit and renumbered as column 21; combined columns for the breakdown of time remaining to maturity for total claims on foreign residents for Over One Year to Two Years and Over Two Years to Five Years into a single column for Over One Year to Five Years; and revised the instructions to require all claims consisting of available-for-sale securities to be reported at amortized cost rather than at fair value. In addition, minor instructional clarifications and a revision of the reporting form to reflect country code changes were changed. The revisions to the FFIEC 009a report included the addition of a new column to collect the Amount of Cross-border Claims Outstanding from Derivative Products after Mandated Adjustments for Transfer of Exposure and Amount of Net Local Country claims from Derivative Products (new column 3).

Effective with the March 31, 2003, report date, the FFIEC required electronic submission of all FFIEC 009 and FFIEC 009a reports.

Effective with the March 31, 2006, report date, the FFIEC revised the FFIEC 009 in order to harmonize U.S. data with data on cross-border exposures collected by other countries and disseminated by the BIS as their “consolidated banking statistics.” The revisions provided additional information about U.S. banks’ exposure to country risk, transfer risk, and foreign-exchange risk. The revisions collected additional detail on foreign-office claims of U.S. banks on local residents, including sector breakdowns and a currency split; a split between commitments and guarantees plus credit derivatives; additional detail on foreign-office liabilities; and trade finance after adjustments for collateral and guarantees. The definition of the public (i.e., government) sector was brought into agreement with the definition used in the Call Report that banks file quarterly. The instructions were changed to collect data on exposures arising from all derivatives contracts, not just those held in the trading account. There were no changes to the FFIEC 009a, although the change in the definition of the public sector on the FFIEC 009 changed the amounts reported in columns 6 and 7 on the FFIEC 009a by corresponding amounts. The instructions to the FFIEC 009a reporting form were changed to reflect column changes on the FFIEC 009.

Description of Information Collection

The FFIEC 009 report is filed as of the last business day of each quarter by any state member bank, savings association or bank holding company (BHC) that (a) has at least one of the following: (1) a branch in a foreign country; (2) a subsidiary in a foreign country; (3) an Edge or Agreement subsidiary; (4) an International Banking Facility (IBF) subsidiary; or (5) a branch in Puerto Rico or any U.S. territory or possession; and (b) has, on a fully consolidated basis, total outstanding claims of at least \$30 million on residents of foreign countries.

The FFIEC 009 report collects information, by country¹, on three schedules. Schedule 1 collects information on the respondent’s country exposure excluding claims resulting from the positive fair value of derivatives contracts, which are reported in Schedule 2. Specifically,

¹ Country names and country codes used for reporting FFIEC 009 data are based on the geographical classification published by the Department of the Treasury. The reporting form may be modified, from time to time, to reflect country consolidations or countries that have recently gained independence.

Schedule 1 collects information on the respondent's cross-border claims on residents of foreign countries and their foreign-office claims on local residents. These claims are reported on an immediate-counterparty basis and on an ultimate-risk basis (i.e., after adjustments for guarantees and collateral), and inward and outward risk transfers are also reported. The sector (bank, public, and other) of the borrower is broken out, as are claims with a remaining maturity up to and including one year. Cross-border and foreign-office commitments to and guarantees (including credit derivatives) on foreigners are reported on an ultimate-risk basis. Schedule 1.a collects information on the respondent's foreign-office liabilities in non-local currency and in local currency by country of the foreign office and total liabilities booked at the respondent's foreign offices by country of the liability-holder. Schedule 1.a also includes memorandum items for net liabilities due from own related offices in other countries, assets held for trading, and trade finance. Schedule 2 collects information on the respondent's cross-border claims on foreigners that result from the positive fair value of all the respondent's derivative contracts. This information includes the sector (bank, public, and other) of the obligor and optional information on the positive and negative fair value of derivatives contracts of foreign offices vis-à-vis local residents. In addition, claims on bank branches that are not formally guaranteed by the head offices of the branches are identified by country of the location of the branch.

The FFIEC 009a is a quarterly supplement to the FFIEC 009 report and implements public disclosure provisions of the Act. Respondents provide detail on all exposures to a country in excess of 1 percent of the total assets or 20 percent of capital of the reporting institution, whichever is less. Each FFIEC 009a respondent also furnishes a list of the countries in which exposures are between 0.75 percent and 1 percent of total assets or between 15 and 20 percent of capital, whichever is less. In addition, Section 910(a)(1) of the Act authorizes the federal banking agencies to interpret and define the terms used in the Act. Thus, the agencies have the right to order a banking institution to file the FFIEC 009 and FFIEC 009a quarterly, even if the specified reporting criteria are not met, if the agencies deem the institution's country exposure to be material in relation to its capital and assets.

Proposed Revisions to the FFIEC 009 and FFIEC 009a

It became evident during the recent financial crisis that the level of detail provided in the current report was insufficient to capture the evolving risks from U.S. institutions' foreign exposures. In response, banks increasingly provided additional information in other public disclosures, including filings with the Securities and Exchange Commission (e.g., in Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K), about exposure to a selected group of countries. That information is drawn from banks' internal calculations of foreign exposure, and therefore differed from the amounts reported in the FFIEC 009 report, which is based on a single standardized methodology for calculating and reporting such foreign exposures across all institutions, and the amounts publicly disclosed in the FFIEC's Country Exposure Lending Survey statistical release and the FFIEC 009a report, which are extracted from the FFIEC 009 report.²

² The quarterly statistical release and individual institutions' FFIEC 009a reports can be accessed at www.ffiec.gov/E16.htm.

The FFIEC 009 report, as it is proposed to be revised, would serve an important purpose by ensuring consistency of reporting across institutions for a number of important components of foreign country exposure. These data would allow supervisors to compare the amount of one institution's exposures to those of its peers for a country or set of countries, to analyze the aggregate exposure of U.S. banks to foreign creditors, and to monitor trends in exposures. The revised FFIEC 009a data would allow market participants to analyze more detailed, aggregate exposure data. The FFIEC 009 report is not a substitute for other more detailed supervisory data or internal management information.

In response to these issues, the agencies have developed recommended improvements to the reporting of foreign country exposure data by U.S. reporting institutions on the FFIEC 009 and FFIEC 009a reports. The changes are designed to improve the utility of the data for policy makers, bank supervisors, and market participants. The revised FFIEC 009 and FFIEC 009a reports are proposed to be effective June 30, 2013.

In broad terms, the proposed revisions to the FFIEC 009 report would increase the number of counterparty categories, add additional information on the type of claim being reported, provide details on a limited number of risk mitigants to help provide perspective to currently reported gross exposure numbers, add more detailed reporting of credit derivatives, and add the United States as a country row to allow reconciliation between a reporting institution's FFIEC 009 report and its Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128) or Call Report, as appropriate, and expand the entities that must report to include savings and loan holding companies (SLHCs). The specific proposed changes are discussed in more detail below.

First, the number of exposure categories would be increased. The FFIEC 009 report currently has three categories for claims: "bank," "public," and "other." The revised form would split the "other" category into "corporate," "household," and "non-bank financial institutions." This proposed disaggregation will allow supervisors and the public to better analyze risks by counterparty type.

Second, the revisions would include a memorandum item for the amount of claims held in the form of securities held-to-maturity (HTM) and available-for-sale (AFS), providing additional information on this type of foreign country exposure, which may perform differently under stressed conditions than loans or leases.

Third, the revisions would include memorandum information on collateral pledged against claims. Collateral pledged against a claim, for example in repurchase transactions, can reduce risk; with the proposed revisions, the FFIEC 009 would include information on such mitigants for the first time. Collateral held against claims would be reported on a gross basis, and would include additional information on the amount of such collateral that is in cash, that is held in the same country as the claim against which it is pledged, and that is in the form of repurchase or securities lending agreements. The proposed new data on collateral held against claims will provide information for users to better assess net risks based on their own assumptions about the benefits of the collateral, and also should produce greater insight into

reporting institutions' own internal calculations of foreign country exposure, which typically take collateral into account.

Fourth, the revisions would modify the FFIEC 009a public reporting requirement for exposures to individual countries. The threshold triggering public disclosure would remain, as currently set, at 1 percent of total assets or 20 percent of total capital, whichever is less. However, in calculating claims for this purpose, institutions would no longer subtract local liabilities of foreign branches or subsidiaries, changing the basis of reporting claims from transfer risk to country risk. This proposed change could result in the disclosure of claims for additional individual countries for a given institution.

Fifth, data on gross credit derivatives purchased would be collected for the first time. Gross credit derivatives sold is already reported on the FFIEC 009 report. In addition, a conservatively netted (i.e., at the counterparty and reference entity level) version of credit derivatives purchased and sold would also be reported. The values reported would be notional amounts. These proposed additional data would provide a more complete view of credit derivative exposures.

Sixth, information on offsetting positions in the securities trading book would be reported. Trading books may contain closely related long and short positions that partially or fully offset one another, mitigating the risk inherent in a given level of gross exposure. This proposed memorandum item would provide the portion of trading assets that can be offset by short positions at the level of the issuer (legal entity basis) and the instrument (debt versus debt; equity versus equity).

Seventh, the United States would be added as a country for which exposures would be reported. Reporting institutions have indicated a strong preference for including the U.S. in the country rows so that amounts reported on an institution's FFIEC 009 report can be reconciled to those reported on its FR Y-9C report or Call Report (FFIEC 031), as appropriate, which includes exposures to the U.S.

Eighth, the banking agencies propose adding SLHCs³ to the panel of entities that must file the FFIEC 009 and FFIEC 009a. The proposed revisions would provide data to analyze the foreign country exposures and overall financial condition of SLHCs.

Finally, the publicly available FFIEC 009a report would be expanded to include additional information for those individual countries for which the reporting threshold is triggered. This expansion would incorporate much of the new information proposed to be added to the FFIEC 009 report – the risk mitigants of collateral, offsetting positions for the trading book, and credit derivatives purchased; securities HTM and AFS; and claims on nonbank financial institutions – into the FFIEC 009a report. The proposed revisions to the FFIEC 009a report also include adding selected data currently reported on the FFIEC 009 report but not on

³ The Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111–203) was enacted into law on July 21, 2010. Title III of the Dodd-Frank Act abolished the Office of Thrift Supervision (OTS) and transferred all former OTS authorities (including rulemaking) related to SLHCs to the Federal Reserve effective as of July 21, 2011.

the FFIEC 009a report – trading assets and unused commitments and guarantees – to properly inform the new information on offsetting positions for the trading book and off-balance-sheet items. The proposed enhancements to the FFIEC 009a report would provide market participants with more detailed aggregate exposure data for analytical purposes.

Time Schedule for Information Collection

The time schedule for filing both reports is quarterly as of the end of March, June, September, and December, and each report should be submitted within 45 days of the reporting date. The Federal Reserve is responsible for collecting, editing, and compiling the data on behalf of all three banking agencies.

The FFIEC publishes aggregate data from the FFIEC 009 in the quarterly E.16 statistical release, *Country Exposure Lending Survey*. In addition, the Federal Reserve makes aggregate data available to the BIS. The BIS then publishes statistical data on consolidated bank claims on foreign borrowers as its “consolidated international banking statistics” on its website and in its *Quarterly Review*. Data from the FFIEC 009a are published on the FFIEC website.

Legal Status

The Board’s Legal Division has determined that Section 11(a) of the Federal Reserve Act (12 U.S.C. § 248(a)(1) and (2)), Section 5(c) of the Bank Holding Company Act of 1956 (12 U.S.C. § 1844(c)), and Section 907 of the International Lending Supervision Act of 1983 (12 U.S.C. § 3906) authorize the Federal Reserve to require the FFIEC 009 report. The Federal Reserve is authorized to collect the FFIEC 009a report pursuant to 12 U.S.C. § 3906. In addition, the Federal Reserve is authorized to collect information from savings and loan holding companies pursuant to 12 U.S.C. § 1467a(b)(3) and 5412. Individual respondent data reported on the FFIEC 009 are exempt from disclosure under the Freedom of Information Act (5 U.S.C. § 552(b)(4) and (b)(8)).

Consultation Outside the Agency

Representatives of the OCC, Federal Reserve, and FDIC developed recommendations for improving the reporting of foreign country exposure data by U.S. banks on the FFIEC 009 and FFIEC 009a reports. Discussions about the scope of the proposed revisions were held with reporting institutions and in several cases their suggestions were incorporated into this proposal. On January 29, 2013, the agencies published an initial notice in the *Federal Register* (78 FR 6176) requesting public comment for 60 days on the extension, with revision, of the FFIEC 009 and FFIEC 009a. The comment period for this notice expires on April 1, 2013.

Estimate of Respondent Burden

The reporting burden associated with the current FFIEC 009 is estimated to require an average of 70 hours per response and would increase to 115 hours per response with the proposed revisions, for a total burden of 19,320 hours annually. The reporting burden associated with the FFIEC 009a is estimated to require an average of 5.25 hours per response and would

increase to an average 6.00 hours per response, with a total burden of 768 hours annually. The change in the number of respondent for the FFIEC 009 and FFIEC 009a reflects the addition of approximately five SLHCs to the respondent panel. The total burden 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				
FFIEC 009	37	4	70	10,360
FFIEC 009a	27	4	5.25	<u>567</u>
<i>Total</i>				10,927
Proposed				
FFIEC 009	42	4	115	19,320
FFIEC 009a	32	4	6.00	<u>768</u>
<i>Total</i>				20,088
<i>Change</i>				9,161

The current total cost to the public is estimated to be \$490,076 and with the proposed revisions would increase to \$900,947 for the FFIEC 009 and the FFIEC 009a.⁴

Sensitive Questions

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

Estimate of Cost to the Federal Reserve System

The cost to the Federal Reserve System for collecting and processing the FFIEC 009 and FFIEC 009a will be obtained.

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 @ \$17, 45% Financial Managers @ \$52, 15% Legal Counsel @ \$55, and 10% Chief Executives @ \$81). Hourly rate estimates for each occupational group are the median hourly wages (rounded up) using data from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2011, www.bls.gov/news.release/ocwage.nr0.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.