Supporting Statement for the
Reports of Foreign Banking Organizations
(FR Y-7N, FR Y-7NS, and FR Y-7Q; OMB No. 7100-0125)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend, with revision, the following mandatory reports, for implementation March 31, 2008:

(1) the Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations[1] (FR Y-7N; OMB No. 7100-0125), and
(2) the Abbreviated Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7NS; OMB No. 7100-0125).

This family of reports also contains the Capital and Asset Report for Foreign Banking Organizations (FR Y-7Q; OMB No. 7100-0125), which is being extended, without revision.

The FR Y-7N and FR Y-7NS collect financial information for non-functionally regulated U.S. nonbank subsidiaries held by foreign banking organizations (FBOs) other than through a U.S. bank holding company (BHC), U.S. financial holding company (FHC) or U.S. bank. FBOs file the FR Y-7N on a quarterly or annual basis or the FR Y-7NS annually based on size thresholds. The FR Y-7Q collects consolidated regulatory capital information from all FBOs either quarterly or annually. FBOs that have effectively elected to become FHCs file the FR Y-7Q on a quarterly basis. All other FBOs (those that have not elected to become FHCs) file the FR Y-7Q annually.

The Federal Reserve proposes to eliminate reporting by subsidiaries that were created for the purposes of issuing trust preferred securities (trust preferred securities subsidiaries) on the FR Y-7N/NS to substantially reduce burden on the industry and, in this regard, make the report consistent with the proposed revision to the other nonbank subsidiary reports, the Financial and Abbreviated Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11/S; OMB No. 7100-0244) and the Financial and Abbreviated Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314/S; OMB No. 7100-0073).

On the FR Y-7N, the Federal Reserve also proposes to collect: (1) certain data from all institutions that choose, under generally accounting principles, to apply a fair value option to one or more financial instruments and one or more classes of servicing assets and liabilities and (2) a new data item on the income statement to collect fees and commissions from annuity sales. On the FR Y-7NS, the Federal Reserve proposes to add a question to determine whether the nonbank subsidiary has adopted a fair value option.

The Federal Reserve also proposes the following changes to make the FR Y-7N consistent with changes made previously to other nonbank subsidiary reports: (1) add one new equity capital component on the balance sheet for reporting partnership interests and (2) add a new section, Notes to the Financial Statements. The Federal Reserve also proposes to add

[1] Excludes nonbanking subsidiaries held through a U.S. bank holding company or U.S. bank subsidiary.

clarifying language to the instructions for the reporting of trading revenue and noninterest income from related organizations.

Lastly, the Federal Reserve requests latitude to modify proposed revisions to the FR Y-7N/NS to be consistent with any proposed revisions and instructional changes to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128) for implementation in 2008.

The Federal Reserve is not proposing any revisions to the FR Y-7Q. The existing reporting criteria and the data collected on this report meet the Federal Reserve's supervisory needs.

A copy of the proposed reporting forms, marked to show the revisions, is provided in the attachment. The total current annual burden for this family of reports is estimated to be 6,741 hours and is estimated to decrease by 115 hours with these revisions.

Background and Justification

The Federal Reserve implemented the FR Y-7 in January 1972 and required only foreign banks that controlled U.S. subsidiary banks to file. With the enactment of the International Banking Act of 1978 (IBA), the Congress established a framework for federal regulation of foreign banks operating in U.S. financial markets. Section 7 of the IBA authorizes the Federal Reserve to examine U.S. branches, agencies, and subsidiary commercial lending companies of foreign banks and to assess the condition of the multi-state banking operations of foreign banks. Section 8(a) of the IBA states that foreign banks that engage in banking in the United States through a U.S. branch, agency or subsidiary commercial lending company and companies that control such foreign banks are subject to the provisions of the BHC Act, as amended.

Given these statutory responsibilities, the Federal Reserve issued two policy statements (one on February 23, 1979, and the other on July 20, 1979) on the supervision of FBOs that control a U.S. subsidiary bank. They stated that the Federal Reserve needed full financial information on foreign parent organizations to assess the foreign parent's ability to continue to serve as a source of strength for their U.S. operations. In 1980, as part of its implementation of those policy statements, the Federal Reserve issued a revised FR Y-7 form setting forth annual reporting requirements for FBOs engaged in banking in the United States.

In 2002, the Federal Reserve revised the FR Y-7 and implemented the FR Y-7Q, FR Y-7N, and FR Y-7NS. Revisions to the FR Y-7 included: 1) moving the risk-based capital reporting requirement to the FR Y-7Q and (2) moving the Nonbank Financial Information Summary (NFIS) report, which included data from U.S. nonbank subsidiaries held directly by a foreign parent (i.e., not through a U.S. BHC, or U.S. FHC or U.S. banks), to the FR Y-7N or FR Y-7NS.

The Federal Reserve System uses information collected on this family of reports to assess an FBO's ability to be a continuing source of strength to its U.S. operations and to determine compliance with U.S. laws and regulations. This information is not available from other sources.

Description of the Information Collection

FR Y-7N/NS

The FR Y-7N consists of a balance sheet and income statement, information on changes in equity capital, changes in the allowance for loan and lease losses, off-balance-sheet data items, loans, and a memoranda section. All FBOs file the FR Y-7N quarterly for their significant nonbank subsidiaries. Subsidiaries are defined as significant if they have total assets of at least $1 billion **or** off-balance-sheet activities (including commitments to purchase foreign currencies and U.S. dollar exchange, all other futures and forwards contracts, option contracts, and the notional value of interest rate swaps, exchange swaps and other swaps) of at least $5 billion, as of the end of a quarter. FBOs commence quarterly reporting for these subsidiaries at the end of the quarter in which the subsidiaries meet the significance threshold. Once a subsidiary meets the quarterly reporting threshold during the calendar year, the FBO continues to file the FR Y-7N quarterly for the calendar year even if the subsidiary diminishes in size and no longer meets the threshold at some future quarter during the calendar year. For nonbank subsidiaries not fulfilling the quarterly criteria and with assets between $250 million and $1 billion, FBOs file the FR Y-7N annually. These annual reports are filed for the twelve months ending December 31st of each calendar year.

The FR Y-7NS is an abbreviated form that collects net income, total assets, equity capital, and total off-balance-sheet data items. All FBOs file annually for any nonbank subsidiaries that do not meet the quarterly reporting criteria for the FR Y-7N and have assets between $50 million and $250 million. The Federal Reserve believes it is important to capture basic information on these subsidiaries, since the four data items to be collected serve as good indicators of higher business volume, risk, and complexity in small subsidiaries. The Federal Reserve needs to continue to review minimum financial data from these entities in order to monitor potential developments that may pose risks to the U.S. operations of the FBO. FBOs are exempt from reporting data for any nonbank subsidiary that is functionally regulated or has assets below $50 million and does not meet the quarterly reporting criteria.

FR Y-7Q

The FR Y-7Q collects consolidated capital and asset information from all FBOs. FBOs that have not elected to become FHCs report capital information for the top-tier FBO on the FR Y-7Q report annually. The report collects tier 1 capital, total risk-based capital, risk-weighted assets, and total assets. FBOs that have been granted FHC status file the FR Y-7Q quarterly. In addition, FBOs that file quarterly because of the FHC designation also have to provide separate capital schedules for each lower-tier FBO operating a branch, agency, Edge or agreement corporation, or commercial lending company in the United States.

Proposed Revisions Related to Other Nonbank Subsidiary Reports

The Federal Reserve proposes to make the following revisions to the FR Y-7N/NS to parallel proposed changes to other nonbank subsidiary reports.

Revisions to the Reporting Panel

The Federal Reserve proposes eliminating reporting by FBOs for their trust preferred securities subsidiaries on the FR Y-7N/NS to be consistent with proposed reporting panel revisions for other nonbank reports. Eliminating reporting by FBOs for their trust preferred securities subsidiaries on the FR Y-7N/NS would reduce burden on the industry. As of December 2006, BHCs and FBOs filed approximately 2,100 nonbank subsidiary reports for their trust preferred securities subsidiaries quarterly and annually with the Federal Reserve, fifty-two of which were FR Y-7N/NS filers.[2] If reporting for trust preferred securities subsidiaries is eliminated, the number of subsidiaries for which FBOs report the FR Y-7N/NS quarterly and annually would be reduced by approximately 8 percent, from 644 to 592 subsidiaries. The remaining panel would still represent more than 96 percent of total nonbank assets currently reported on the FR Y-7N/NS.

Eliminating reporting for trust preferred securities subsidiaries will not compromise essential information. Information reported for trust preferred securities subsidiaries in this nonbank report pertains primarily to the establishment of the trust and the issuance of trust preferred securities. As expected, the largest asset reported on the quarterly reports was the "balances due from the parent," which represented the loan from the nonbank to the parent organization in the trust preferred securities arrangement. Minimal information other than information related to the trust preferred securities is provided on the nonbank reports filed for trust preferred securities subsidiaries. If warranted for supervisory purposes, the Federal Reserve could request individual financial statements and other information from FBOs for their trust preferred securities subsidiaries.

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. The fair value measurements standard provides guidance on how to measure fair value and describes the type of 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.[3]

The FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), on February 15, 2007, which is effective for fiscal years beginning after November 15, 2007. This standard allows bank holding companies and other entities to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings.

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[2] FBOs file the detailed FR Y-7N for thirty-seven of their subsidiaries on a quarterly or annual basis.

[3] 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 nonbank subsidiary has the ability to access at the measurement date (e.g., the FR 7-N 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.

FAS 159 can be applied on a contract by contract basis. Currently there is no means to determine to what extent the reporting entity is applying this standard and the basis used to value assets and liabilities. Therefore, the Federal Reserve proposes to add two new memoranda items to Schedule BS, Balance Sheet, and one new memorandum item to Schedule IS, Income Statement, that would be completed by FBOs that have elected to account for financial instruments or servicing assets and liabilities on the books of the nonbank subsidiary at fair value under a fair value option. The Federal Reserve proposes to add to Schedule BS, Memoranda item 1, Financial assets and liabilities measured at fair value under a fair value option, collecting data in Memoranda items 1.a., Total assets and 1.b, Total liabilities. The Federal Reserve proposes to add to Schedule IS, Income Statement, Memoranda item 1, Net change in fair values of financial instruments accounted for under a fair value option. The Federal Reserve also proposes to add to the FR Y-7NS the question, "Has the nonbank subsidiary elected to account for certain assets and liabilities under a fair value option with changes in fair value recognized in earnings?" to determine whether the nonbank subsidiary has adopted a fair value option.

Schedule IS—Income Statement

The Federal Reserve proposes to add a new data item 5.a.(9), Fees and commissions from annuity sales. Currently, nonbank subsidiaries report income from sales of annuities in data items 5.a.(4), Investment banking, advisory, brokerage, and underwriting fees and commissions and 5.a.(8), Insurance commissions and fees. Since fixed annuities are considered insurance products and variable annuities may be considered both insurance and securities products, a separate data item is deemed warranted to specifically capture revenues from annuities. Moreover, the above data items commingle income from the sale of annuities with noninterest income from a variety of activities and a separate data item will assist the Federal Reserve in more clearly distinguishing the subsidiaries' sources of noninterest income.

Other Proposed Revisions That Parallel Prior Revisions to Other Nonbank Subsidiary Reports

The Federal Reserve proposes the following revisions to maintain consistency with other nonbank subsidiary reports. These revisions parallel revisions made to other nonbank subsidiary reports previously.

Schedule IS—Income Statement

The Federal Reserve proposes to add a new data item 5.a.(9), Fees and commissions from annuity sales. Currently, nonbank subsidiaries report income from sales of annuities in data items 5.a.(4), Investment banking, advisory, brokerage, and underwriting fees and commissions and 5.a.(8), Insurance commissions and fees. Since fixed annuities are considered insurance products and variable annuities may be considered both insurance and securities products, a separate data item is deemed warranted to specifically capture revenues from annuities. Moreover, the above data items commingle income from the sale of annuities with noninterest income from a variety of activities and a separate data item will assist the Federal Reserve in more clearly distinguishing the subsidiaries' sources of noninterest income.

Schedule BS—Balance Sheet

The Federal Reserve proposes to add a new data item, 18.e, General and limited partnership shares and interests, renumber current data item, 18.e, Other equity capital components, as data item 18.f., and renumber current data item 18.f, Total equity capital, as data item 18.g. Currently, the instructions for data item 18, Equity capital, directs subsidiaries that are not corporate in form (that is, those that do not have capital structures consisting of capital stock and the other components of equity capital currently listed under data item 18) to report their entire net worth in data item 18.f, Total equity. The reporting form and the instructions for data item 18.f, Total equity capital, state that data item 18.f must equal the sum of the components of data item 18. However, equity capital of those entities not in corporate form cannot appropriately be reported in any of the components of data item 18. The proposed data item and clarifications to the instructions for data item 18 would remove this inconsistency and improve the accuracy of the information reported. In addition, the Federal Reserve proposes to clarify that Schedule IS-A, Changes in Equity Capital, data item 6, Other adjustments to equity capital, should include contributions and distributions to and from partners or limited liability company (LLC) shareholders when the company is a partnership or a LLC. Schedule IS-A, data item 6 is a component of Schedule IS-A, data item 7, Total equity at end of current period. Schedule IS-A, data item 7 must equal Schedule BS, data item 18.g, Total equity.

Notes to the Financial Statements

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 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 and FR 2314.

Time Schedule for Information Collection

FBOs file the FR Y-7N quarterly for certain significant nonbank subsidiaries. Subsidiaries are defined as significant if they have total assets of at least $1 billion **or** off-balance-sheet activities of at least $5 billion, as of the end of a quarter. FBOs file the FR Y-7N or FR Y-7NS annually for nonbank subsidiaries not fulfilling the quarterly criteria and with assets greater than or equal to $50 million. The reporting on the FR Y-7N and FR Y-7NS are based on the U.S. calendar year and are due sixty days after the report date. All FBOs are required to file the FR Y-7Q within ninety days after the report date. There are no proposed changes to these filing schedules. Data from these reports are not published, but nonconfidential data would be available to the public upon request. Reporting is mandatory.

Legal Status

The Board's Legal Division has determined that the FR Y-7N, FR Y-7NS, and FR Y-7Q reports are authorized by Section 5(c) of the Bank Holding Company Act [12 U.S.C. 1844(c)] and sections 8(c) and 13 of the International Banking Act [12 U.S.C. 3106(c) and 3108]. The Board's Legal Division also determined that the data are not considered confidential. However, individual respondents may request confidential treatment for any of these reports pursuant to sections (b)(4) and (b)(6) of the Freedom of Information Act [5 U.S.C. §§522(b)(4) and (b)(6)]. Section (b)(4) provides exemption for "trade secrets and commercial or financial information obtained from a person as privileged or confidential." Section (b)(6) provides exemption for "personnel and medical files and similar files the disclosure of which would constitute a clearly unwarranted invasion of personal privacy." The applicability of these exemptions would need to be determined on a case-by-case basis.

Consultation Outside the Agency

On November 9, 2007, the Federal Reserve published a notice in the *Federal Register* (72 FR 63580) requesting public comment for sixty days on the extension, with revision, of the FR Y-7N and FR Y-7NS reports. The *Federal Register* notice also covers the extension, without revision, of the FR Y-7Q report. The comment period for this notice expires on January 8, 2008.

Sensitive Questions

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

Estimate of Respondent Burden

The following table shows the estimated annual reporting burden for the current and proposed reporting forms. The Federal Reserve estimates that the proposed changes to the FR Y-7N/NS would decrease the total annual reporting burden from 6,741 to 6,626 hours. This net reduction of 115 hours reflects a decrease in the number of respondents and an increase in the estimated average hours per response due to the addition of new data items. The reporting burden for the FR Y-7Q reports would remain unchanged. The estimated annual burden for each of these reports, current and proposed, is less than 1 percent of the total Federal Reserve System burden.

	Number of Respondents	*Estimated annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
Current FR Y-7N (quarterly)	203	4	6	4,872
Proposed FR Y-7N (quarterly)	194	4	6.3	4,889
Current FR Y-7N (annual)	197	1	6	1,182
Proposed FR Y-7N(annual)	169	1	6.3	1,065
Current FR Y-7NS	244	1	1	244
Proposed FR Y-7NS	229	1	1	229
Current FR Y-7Q (quarterly)	65	4	1.25	325
Current FR Y-7Q (annual)	118	1	1	118
Current Total				6,741
Proposed Total				6,626
Change				(-115)

The total cost to the public is estimated to decrease from the current level of $415,583 to $408,493 for the revised reporting forms.[4]

Estimate of Cost to the Federal Reserve System

The cost to the Federal Reserve System for collecting and processing the FR Y-7N, Y-7NS, and Y-7Q 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% - Clerical @ $25, 45% - Managerial or Technical @ $55, 15% - Senior Management @ $100, and 10% - Legal Counsel @ $144. Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics, *Occupational Employment and Wages*, news release.