

**Supporting Statement for
Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies
(FR Y-11, FR Y-11S; OMB No. 7100-0244), and
Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations
(FR 2314, FR 2314S; OMB No. 7100-0073)**

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 of U.S. Bank Holding Companies (FR Y-11; OMB No. 7100-0244),
- (2) the Abbreviated Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11S; OMB No. 7100-0244),
- (3) the Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314; OMB No. 7100-0073), and
- (4) the Abbreviated Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314S; OMB No. 7100-0073).

The FR Y-11 reporting forms collect financial information for individual non-functionally regulated U.S. nonbank subsidiaries of domestic bank holding companies (BHCs). BHCs file the FR Y-11 on a quarterly or annual basis or the FR Y-11S annually based on size thresholds. 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. The FR 2314 reporting forms collect financial information for non-functionally regulated direct or indirect foreign subsidiaries of U.S. state member banks (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 or the FR 2314S annually based on size thresholds. 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.

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-11/S and the FR 2314/S to substantially reduce burden on the industry and, in this regard, make the report consistent with the proposed revision to the other nonbank subsidiary report, the Financial and Abbreviated Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7N/NS; OMB No. 7100-0125). The Federal Reserve also proposes to collect: (1) certain data on the FR Y-11 and the FR 2314 from all institutions that choose, under generally accepted 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-11S and FR 2314S, the Federal Reserve proposes to add a question to determine whether the subsidiary has adopted a fair value option. The Federal Reserve also requests latitude to modify proposed revisions to the FR Y-11/S and FR 2314/S 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. Lastly, the Federal Reserve proposes to add clarifying language to the instructions for the reporting of trading revenue and noninterest income from related organizations.

A copy of the proposed reporting forms, marked to show the revisions, is provided in the attachment. The total current annual burden for the FR Y-11/S is estimated to be 38,700 hours and is estimated to decrease by 26,075 hours with these revisions. The total current annual burden for the FR 2314 is estimated to be 6,876 hours and is estimated to increase by 52 hours with these revisions.

Background and Justification

The FR Y-11 family of reports collects financial information for individual U.S. nonbank subsidiaries of domestic BHCs, which is essential for monitoring the subsidiaries' potential impact on the BHC or its subsidiary banks' condition. Consolidated and parent company only data do not reveal the extent of the problems that may exist within the nonbank subsidiaries because the size and operations of bank subsidiaries can mask the operations of nonbank subsidiaries in a consolidated report.

In addition to providing information used in the supervision of BHCs, the FR Y-11 family of reports provides essential information to assist the Federal Reserve in the formulation of regulations and supervisory policies. The data are also used by the Federal Reserve to respond to requests from the Congress and the public for information on BHCs.

The FR 2314 family of reports is the only source of comprehensive and systematic data on the assets, liabilities, and earnings of foreign subsidiaries of U.S. banking organizations and the data are used to monitor the growth, profitability, and activities of these foreign companies. The data help the Federal Reserve identify present and potential problems of these companies, monitor their activities in specific countries, and develop a better understanding of activities within the industry and within specific institutions. This information, coupled with information from the Foreign Branch Reports of Condition (FFIEC 030; OMB No. 7100-0071), provides a picture of the breadth and scope of international banking operations for U.S. banking organizations both individually and in the aggregate.

Description of the Information Collection

FR Y-11 and FR Y-11S

Domestic BHCs file the FR Y-11 for their U.S. nonbank subsidiaries on an individual basis. The FR Y-11 consists of a balance sheet, income statement, schedules that collect information on changes in equity capital, the allowance for loan and lease losses, off-balance-

sheet data items, and loans, and a memoranda section. The FR Y-11 is filed quarterly, as of the last calendar day of March, June, September, and December, by a top-tier BHC for each individual nonbank subsidiary that it owns or controls if the top-tier BHC files the FR Y-9C and the subsidiary has (a) total assets of \$1 billion or more, or (b) total off-balance-sheet activities of at least \$5 billion, or (c) equity capital of at least 5 percent of the top-tier BHC's consolidated equity capital, or (d) operating revenue of at least 5 percent of the top-tier BHC's consolidated operating revenue. The FR Y-11 is filed annually, as of December 31, by top-tier BHCs for each individual nonbank subsidiary (that does not meet the criteria for filing quarterly) with total assets of \$250 million, but less than \$1 billion.

The FR Y-11S is an abbreviated reporting form that collects four data items: net income, total assets, equity capital, and total off-balance-sheet data items. The FR Y-11S is filed annually, as of December 31, by top-tier BHCs for each individual nonbank subsidiary (that does not meet the criteria for filing quarterly) with total assets of at least \$50 million, but less than \$250 million, or with total assets greater than 1 percent of the total consolidated assets of the top-tier organization.

FR 2314 and FR 2314S

The FR 2314 collects financial information for direct or indirect foreign subsidiaries of U.S. SMBs, Edge and agreement corporations, and BHCs. The FR 2314 consists of a balance sheet, income statement, schedules that collect information on changes in equity capital, the allowance for loan and lease losses, off-balance-sheet data items, and loans, and a memoranda section. A parent U.S. banking organization must file the FR 2314 quarterly as of the last calendar day of March, June, September, and December for its subsidiary if the subsidiary is owned or controlled by a parent U.S. BHC that files the FR Y-9C or a SMB or an Edge or agreement corporation that has total consolidated assets equal to or greater than \$500 million and the subsidiary has (a) total assets of \$1 billion or more, or (b) total off-balance-sheet activities of at least \$5 billion, or (c) equity capital of at least 5 percent of the top-tier organization's consolidated equity capital, or (d) operating revenue of at least 5 percent of the top-tier organization's consolidated operating revenue. The FR 2314 is filed annually for each individual subsidiary (that does not meet the criteria for filing quarterly) with total assets of \$250 million, but less than \$1 billion.

The FR 2314S is an abbreviated reporting form that collects four data items: net income, total assets, equity capital, and total off-balance-sheet data items. The FR 2314S is filed annually, as of December 31, for each individual subsidiary (that does not meet the criteria for filing quarterly) with assets of at least \$50 million but less than \$250 million, or with total assets greater than 1 percent of the total consolidated assets of the top-tier organization.

Proposed Revisions

FR Y-11 and FR 2314

Revisions to the Reporting Panel

The Federal Reserve proposes eliminating reporting by BHCs for their trust preferred securities subsidiaries on the FR Y-11/S and FR 2314/S to reduce burden on the industry. As of December 2006, BHCs filed approximately 2,100 nonbank subsidiary reports for their trust preferred securities subsidiaries quarterly and annually with the Federal Reserve, 2,046 of which were FR 11/S filers.¹ Of the FR Y-11/S submissions, over half were the detailed FR Y-11 on an annual or quarterly basis. If reporting for trust preferred securities subsidiaries is eliminated, the number of subsidiaries for which BHCs report the FR Y-11/S quarterly and annually would be reduced by approximately 65 percent, from 3,156 to 1,110 subsidiaries. The remaining panel would still represent more than 96 percent of total nonbank assets currently reported on the FR Y-11/S.

Eliminating reporting for trust preferred securities subsidiaries would not compromise essential information. The essential information for analysts can be obtained from the parent company-only financial statements. Information reported for trust preferred securities subsidiaries in these nonbank reports 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 BHC 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 BHCs 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.²

1 As of December 2006, foreign banking organizations filed fifty-four FR Y-7N/NS reports for their trust preferred securities subsidiaries. No parent organizations filed the FR 2314 for their trust preferred securities subsidiaries.

2 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 subsidiary has the ability to access

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 BHCs and other entities to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings.

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 BHCs that have elected to account for financial instruments or servicing assets and liabilities on the books of the 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 2, 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-11S and FR 2314S 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 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, subsidiaries report income from sales of annuities in data item 5.a.(4), Investment banking, advisory, brokerage, and underwriting fees and commissions. 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 item commingles income from the sale of annuities with noninterest income from a variety of activities and a separate item would assist the Federal Reserve in more clearly distinguishing the subsidiaries’ sources of noninterest income.

Frequency

There are no changes proposed to the reporting frequency of the FR Y-11/S and FR 2314/S. The current reporting frequencies provide adequate timely data to meet the analytical and supervisory needs of the Federal Reserve.

at the measurement date (e.g., the FR Y-11 and FR 2314 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.

Time Schedule for Information Collection

The quarterly FR Y-11 and FR 2314 are filed as of the end of March, June, September, and December and are submitted within sixty days after the as-of date. Meeting the thresholds for filing quarterly is self determined by the respondent and ascertained as of the reporting date. The FR Y-11 annual, FR Y-11S, FR 2314 annual, and FR 2314S are filed as of the end of December and are also submitted within sixty days after the as-of date. The data from the FR Y-11 and FR 2314 that are not given confidential treatment are available to the public, but are not published routinely.

Legal Status

The Board's Legal Division has determined that the FR Y-11 reports are authorized by Section 5(c) of the Bank Holding Company Act [12 U.S.C. 1844(c)]. The Board's Legal Division has determined that the FR 2314 reports are authorized under [12 U.S.C. 324, 602, 625, and 1844(c)]. Overall, the Federal Reserve does not consider these data to be confidential. However, a respondent may request confidential treatment pursuant to sections (b)(4), (b)(6), and (b)(8) of the Freedom of Information Act [5 U.S.C. 552(b)(4), (b)(6), and (b)(8)]. 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-11, FR Y-11S, FR 2314, and FR 2314S reports. The comment period for this notice expired on January 8, 2008. The Federal Reserve did not receive any comments; the revisions will be implemented as proposed. On February 27, 2008, the Federal Reserve published a final notice in the *Federal Register* (73 FR 10442).

Sensitive Questions

These collections of information contain no questions of a sensitive nature, as defined by OMB guidelines.

Estimates of Respondent Burden

As shown in the following table, the current estimated annual reporting burden for the FR Y-11 reports is 38,700 hours and would decrease to 12,625 hours. The current estimated annual reporting burden for the FR 2314 reports is 6,876 hours and would increase to 6,928 hours. The increase in the estimated average hours per response is due to the addition of the new data items. The proposed total burden for the two reports represents less than 1 percent of the total Federal Reserve System burden.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<u><i>Current</i></u>				
FR Y-11 (quarterly)	1,394	4	6.35	35,408
FR Y-11 (annual)	286	1	6.35	1,816
FR Y-11S	1,476	1	1.0	<u>1,476</u>
<i>Total</i>	3,156			38,700
<u><i>Proposed</i></u>				
FR Y-11 (quarterly)	420	4	6.40	10,752
FR Y-11 (annual)	219	1	6.40	1,402
FR Y-11S	471	1	1.0	<u>471</u>
<i>Total</i>	1,110			12,625
<i>Change</i>				(26,075)
<u><i>Current</i></u>				
FR 2314(quarterly)	218	4	6.35	5,537
FR 2314 (annual)	168	1	6.35	1,067
FR 2314S	272	1	1.0	<u>272</u>
<i>Total</i>	658			6,876
<u><i>Proposed</i></u>				
FR 2314(quarterly)	218	4	6.40	5,581
FR 2314 (annual)	168	1	6.40	1,075
FR 2314S	272	1	1.0	<u>272</u>
<i>Total</i>	658			6,928
<i>Change</i>				52

With the proposed revisions, the total estimated annual cost to the public of the FR Y-11 reports would decrease from \$2,385,855 to \$778,331 and the total estimated annual cost to the public of the FR 2314 reports would increase from \$423,905 to \$427,111.³

Estimate of Cost to the Federal Reserve System

Current costs to the Federal Reserve System for collecting and processing the FR Y-11 are estimated to be \$355,200 per year. With the revisions the estimated costs will decrease to \$253,900 per year. The one-time costs to implement the revised report are estimated to be \$12,330. Current costs to the Federal Reserve System for collecting and processing the FR 2314 are estimated to be \$65,100 annually. With the revisions the estimated costs will increase to

³ 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.

\$65,500 per year. The one-time costs to implement the revised report are estimated to be \$10,760.