

Supporting Statement
OMB Control Number 1557-0099
Foreign Branch Report of Condition

Proposed Revisions

The agencies are proposing the majority of the reporting revisions to implement the new CECL accounting standard and the agencies' final rule providing regulatory capital relief to institutions that adopt the new CECL accounting standard. The agencies are proposing additional revisions to implement Section 202 and 214 of the Economic Growth, Regulatory Relief, and Consumer Protection Act.

CECL

In June 2016, the FASB issued ASU 2016-13, which introduced CECL for estimating allowances for credit losses and added Topic 326, Credit Losses, to the Accounting Standards Codification (ASC). The new credit losses standard changes several aspects of existing U.S. generally accepted accounting principles (U.S. GAAP) as follows:

Introduction of a new credit loss methodology.

The new accounting standard developed by the FASB has been designed to replace the existing incurred loss methodology in U.S. GAAP. Under CECL, the allowance for credit losses is an estimate of the expected credit losses on financial assets measured at amortized cost, which is measured using relevant information about past events, including historical credit loss experience on financial assets with similar risk characteristics, current conditions, and reasonable and supportable forecasts that affect the collectability of the remaining cash flows over the contractual term of the financial assets. In concept, an allowance will be created upon the origination or acquisition of a financial asset measured at amortized cost. At subsequent reporting dates, the allowance will be reassessed for a level that is appropriate as determined in accordance with CECL. The allowance for credit losses under CECL is a valuation account, measured as the difference between the financial assets' amortized cost basis and the amount expected to be collected on the financial assets, i.e., lifetime expected credit losses.

Reduction in the number of credit impairment models.

Impairment measurement under existing U.S. GAAP has often been considered complex because it encompasses five credit impairment models for different financial assets.¹ In contrast, CECL introduces a single measurement objective to be applied to all financial assets measured at amortized cost, including loans held-for-investment (HFI) and held-to-maturity (HTM) debt securities. CECL does not, however, specify a single method for measuring expected credit losses; rather, it allows any reasonable approach, as long as the estimate of expected credit losses achieves the objective of the FASB's new accounting standard. Under the existing incurred loss

¹ Current U.S. GAAP includes five different credit impairment models for instruments within the scope of CECL: ASC Subtopic 310-10, Receivables-Overall; ASC Subtopic 450-20, Contingencies-Loss Contingencies; ASC Subtopic 310-30, Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality; ASC Subtopic 320-10, Investments-Debt and Equity Securities - Overall; and ASC Subtopic 325-40, Investments-Other-Beneficial Interests in Securitized Financial Assets.

methodology, institutions use various methods, including historical loss rate methods, roll-rate methods, and discounted cash flow methods, to estimate credit losses. CECL allows the continued use of these methods; however, certain changes to these methods will need to be made in order to estimate lifetime expected credit losses.

Purchased credit-deteriorated (PCD) financial assets.

CECL introduces the concept of PCD financial assets, which replaces purchased credit-impaired (PCI) assets under existing U.S. GAAP. The differences in the PCD criteria compared to the existing PCI criteria will result in more purchased loans HFI, HTM debt securities, and available-for-sale (AFS) debt securities being accounted for as PCD financial assets. In contrast to the existing accounting for PCI assets, the new standard requires the estimate of expected credit losses embedded in the purchase price of PCD assets to be estimated and separately recognized as an allowance as of the date of acquisition. This is accomplished by grossing up the purchase price by the amount of expected credit losses at acquisition, rather than being reported as a credit loss expense. As a result, as of the acquisition date, the amortized cost basis of a PCD financial asset is equal to the purchase price of the asset plus the allowance for credit losses, rather than equal to the purchase price as is currently recorded for PCI loans.

AFS debt securities.

The new accounting standard also modifies the existing accounting practices for impairment on AFS debt securities. Under this new standard, institutions will recognize a credit loss on an AFS debt security through an allowance for credit losses, rather than a direct write-down as is required by current U.S. GAAP. The recognized credit loss is limited to the amount by which the amortized cost of the security exceeds fair value. A write-down of an AFS debt security's amortized cost basis to fair value, with any incremental impairment reported in earnings, would be required only if the fair value of the AFS debt security is less than its amortized cost basis and either (1) the institution intends to sell the debt security, or (2) it is more likely than not that the institution will be required to sell the security before recovery of its amortized cost basis. Although the measurement of credit loss allowances is changing under CECL, the FASB's new accounting standard does not address when a financial asset should be placed in nonaccrual status. Therefore, institutions should continue to apply the agencies' nonaccrual policies that are currently in place. In addition, the FASB retained the existing write-off guidance in U.S. GAAP, which requires an institution to write off a financial asset in the period the asset is deemed uncollectible.

Institutions must apply ASU 2016-13 in their Call Report submissions in accordance with the effective dates set forth in the ASU, if an institution is required to file such form. For institutions that are public business entities (PBE) and also are Securities and Exchange Commission (SEC) filers, as both terms are defined in U.S. GAAP, the new credit losses standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Thus, for an SEC filer that has a calendar year fiscal year, the standard is effective January 1, 2020, and the institution must first apply the new credit losses standard in its Call Report for the quarter ended March 31, 2020.

For a PBE that is not an SEC filer, the credit losses standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Thus, for a PBE that is not an SEC filer and has a calendar year fiscal year, the standard is effective January 1, 2021, and the institution must first apply the new credit losses standard in its Call Report for the quarter ended March 31, 2021. For an institution that is not a PBE, the credit losses standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Thus, for an institution that is not a PBE and has a calendar year fiscal year, the standard is effective January 1, 2022, and the institution must first apply the new credit losses standard in its Call Report for the quarter ended March 31, 2022. For regulatory reporting purposes, early application of the new credit losses standard is permitted for all institutions for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

A. JUSTIFICATION.

1. Circumstances that make the collection of information necessary:

The Foreign Branch Report of Condition (FFIEC 030) is required by statute. Under 12 U.S.C. 602, every national banking association operating a foreign branch must file this report. The agencies need this information to monitor U.S. bank activity at overseas locations and funds flow worldwide. The agencies also need this information for planning foreign branch examinations.

2. Use of the information:

The Foreign Branch Report of Condition is the only report with balance sheet and contingent liability data collected by the agencies from foreign branches. The data collected are used by the agencies to monitor banking activity at overseas locations. On an aggregate basis, the agencies use the data to monitor U.S. bank activity in the Eurocurrency markets and in tracking funds flow worldwide. Data on specific branches or branches within a specific country or region are used in planning examinations.

The scope of the FFIEC 030S is comparable to a report filed with the Federal Reserve by U.S. banking organizations for their foreign subsidiaries. The items for this report are considered the minimum information needed to serve as indicators of higher business volume, risk, and complexity in small-sized foreign branches. The reported information is also used to monitor potential developments that may pose risks to the overall operations of the parent bank.

3. Consideration of the use of improved information technology:

The FFIEC 030 and 030S collection forms are designed to allow banks to automatically populate collected data items directly from their computerized general ledger system.

4. Efforts to identify duplication:

The FFIEC member agencies have reviewed the report form to minimize any potential duplication as part of their approval process. The Foreign Branch Report of Condition is the only report with balance sheet and contingent liability data from foreign branches.

5. Methods used to minimize burden if the collection has a significant impact on a substantial number of small entities:

Not applicable.

6. Consequences to the Federal program if the collection were conducted less frequently:

If this collection were conducted less frequently than the present annual collection, the agencies would have insufficient information regarding U.S. bank activity in the Eurocurrency markets and at specific foreign locations on which to base informed policy decisions, reports to Congress, and foreign branch examinations. Quarterly reporting by the largest foreign branches permits OCC to monitor foreign currency markets in a timely manner while minimizing burden on the respondents as a whole.

7. Special circumstances that would cause an information collection to be conducted in a manner inconsistent with 5 CFR Part 1320:

This collection is conducted in accordance with 5 CFR part 1320.

8. Efforts to consult with persons outside the agency:

The OCC, along with the FDIC and Board, requested comment for 60 days on the proposed changes through a notice published in the Federal Register on September 28, 2018. See 83 FR 49160.

The agencies received comments on the proposals covered in the notice from two entities, a bankers' association and a bank. None of the comments addressed the proposed revisions to this information collection (FFIEC 030).

9. Payment or gift to respondents:

There is no payment or gift to respondents.

10. Any assurance of confidentiality:

The agencies will keep the information private to the extent permitted by law.

11. Justification for questions of a sensitive nature:

The collection does not include any questions of a sensitive nature.

12. Burden estimate:

Estimated Number of Respondents: 199 annual branch respondents (FFIEC 030); 57 quarterly branch respondents (FFIEC 030); 30 annual branch respondents (FFIEC 030S).

Estimated Average Time Per Response: 3.4 burden hours (FFIEC 030); 0.5 burden hours (FFIEC 030S).

199 respondents x 1 response = 199 responses x 3.4 hours = 676.6 hours

57 respondents x 4 responses = 228 responses x 3.4 hours = 775.2 hours

30 respondents x 1 response = 30 responses x 0.5 = 15 hours

Estimated Total Annual Burden: 1,467 hours.

The OCC estimates the cost of the hour burden to respondents as follows:

1,467 hours x \$117 = \$171,639

To estimate wages we reviewed data from May 2017 for wages (by industry and occupation) from the U.S. Bureau of Labor Statistics (BLS) for depository credit intermediation (NAICS 522100). To estimate compensation costs associated with the rule, we use \$117 per hour, which is based on the average of the 90th percentile for seven occupations adjusted for inflation (2.2 percent), plus an additional 34.2 percent to cover private sector benefits for financial activities.

13. Estimate of total annual costs to respondents (excluding cost of hour burden in Item #12):

No estimated costs, other than cost of burden hours reported in Item 12.

14. Estimate of annualized costs to the Federal government:

No estimated costs.

15. Change in burden:

None. The OCC expects that there will be no difference in burden between the current reporting

and the proposed reporting related to CECL implementation on the FFIEC 030.

16. Information regarding collections whose results are to be published for statistical use:

The OCC does not plan to publish the information.

17. Reasons for not displaying OMB approval expiration date:

The agencies plan to display the expiration date.

18. Exceptions to the certification statement:

No exceptions.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS.

Not applicable.