



FEDERAL RESERVE SYSTEM

Proposed Agency Information Collection Activities; Comment Request

AGENCY: Board of Governors of the Federal Reserve System (Board).

ACTION: Notice and request for comment.

SUMMARY: In accordance with the requirements of the Paperwork Reduction Act (PRA) of 1995, the Board, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) (collectively, the “agencies”) may not conduct or sponsor, and the respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The Federal Financial Institutions Examination Council (FFIEC), of which the agencies are members, has approved the Board’s publication for public comment of a proposal to extend, with revision, the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002) and the Report of Assets and Liabilities of a Non-U.S. Branch that is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank (FFIEC 002S), which are currently approved collections of information. The Board is publishing this proposal on behalf of the agencies.

The proposed revisions to these reports would align with corresponding changes made to the Consolidated Reports of Condition and Income (FFIEC 031, FFIEC 041, and FFIEC 051). The Consolidated Reports of Condition and Income are commonly referred to as the Call Report. The proposed revisions to the FFIEC 002 and the FFIEC 002S would delete or consolidate certain items, establish certain reporting thresholds, account for changes in the accounting for equity investments, and make instructional

clarifications consistent with those previously made to or currently proposed for the Call Report instructions. The proposed revisions would result in an overall reduction in burden and would take effect as of the June 30, 2018, report date. In determining whether to approve the proposed collection of information, the agencies will consider all comments received. As required by the PRA, the Board would then publish a second Federal Register notice for a 30-day comment period and submit the final FFIEC 002 and FFIEC 002S to OMB for review and approval.

DATES: Comments must be submitted on or before [INSERT DATE 60 DAYS FROM DATE OF PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: Interested parties are invited to submit written comments to the agency listed below. All comments, which should refer to the OMB control number, will be shared among the agencies.

You may submit comments, which should refer to “FFIEC 002 and FFIEC 002S,” by any of the following methods:

- Agency website: <http://www.federalreserve.gov>. Follow the instructions for submitting comments at:
<http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.
- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.
- Email: regs.comments@federalreserve.gov. Include the reporting form numbers in the subject line of the message.

- Fax: (202) 452-3819 or (202) 452-3102.
- Mail: Ann E. Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW., Washington, DC 20551.

All public comments are available from the Board's website at www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm as submitted, unless modified for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper form in Room 3515, 1801 K Street, NW. (between 18th and 19th Streets, NW.), Washington, DC 20006, between 9:00 a.m. and 5:00 p.m. on weekdays.

Additionally, commenters may send a copy of their comments to the OMB desk officer for the agencies by mail to the Office of Information and Regulatory Affairs, U.S. Office of Management and Budget, New Executive Office Building, Room 10235, 725 17th Street, NW., Washington, DC 20503; by fax to (202) 395-6974; or by email to oir_submission@omb.eop.gov.

FOR FURTHER INFORMATION CONTACT: For further information about the proposed revisions to the FFIEC 002 and FFIEC 002S discussed in this notice, please contact the agency staff member whose name appears below. In addition, copies of the FFIEC 002 and FFIEC 002S forms can be obtained at the FFIEC's website (https://www.ffiec.gov/ffiec_report_forms.htm).

Nuha Elmaghrabi, Federal Reserve Board Clearance Officer, (202) 452-3884, Office of the Chief Data Officer, Board of Governors of the Federal Reserve System,

20th and C Streets, NW., Washington, DC 20551. Telecommunications Device for the Deaf (TDD) users may call (202) 263-4869.

SUPPLEMENTARY INFORMATION: The Board is proposing to extend for three years, with revision, the FFIEC 002 and FFIEC 002S.

Report Titles: Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks; Report of Assets and Liabilities of a Non-U.S. Branch that is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank

Form Numbers: FFIEC 002; FFIEC 002S

OMB control number: 7100-0032

Frequency of Response: Quarterly

Affected Public: Business or other for-profit

Respondents: All state-chartered or federally-licensed U.S. branches and agencies of foreign banking organizations, and all non-U.S. branches managed or controlled by a U.S. branch or agency of a foreign banking organization

Estimated Number of Respondents: FFIEC 002 – 209; FFIEC 002S – 38

Estimated Average Burden per Response: FFIEC 002 – 23.87 hours; FFIEC 002S – 6.0 hours

Estimated Total Annual Burden: FFEIC 002 – 19,955 hours; FFIEC 002S – 912 hours

Type of Review: Revision of currently approved collections.

General Description of Reports

These information collections are mandatory (12 U.S.C. 3105(c)(2), 1817(a)(1) and (3), and 3102(b)). Except for select sensitive items, the FFIEC 002 is not given confidential treatment; the FFIEC 002S is given confidential treatment (5 U.S.C. 552(b)(4) and (8)).

Abstract

On a quarterly basis, all U.S. branches and agencies of foreign banks are required to file the FFIEC 002, which is a detailed report of condition with a variety of supporting schedules. This information is used to fulfill the supervisory and regulatory requirements of the International Banking Act of 1978. The data are also used to augment the bank credit, loan, and deposit information needed for monetary policy and other public policy purposes. The FFIEC 002S is a supplement to the FFIEC 002 that collects information on assets and liabilities of any non-U.S. branch that is managed or controlled by a U.S. branch or agency of the foreign bank. A non-U.S. branch is managed or controlled by a U.S. branch or agency if a majority of the responsibility for business decisions, including but not limited to decisions with regard to lending or asset management or funding or liability management, or the responsibility for recordkeeping in respect of assets or liabilities for that foreign branch resides at the U.S. branch or agency. A separate FFIEC 002S must be completed for each managed or controlled non-U.S. branch. The FFIEC 002S must be filed quarterly along with the U.S. branch or agency's FFIEC 002. The data from both reports are used for (1) monitoring deposit and credit transactions of

U.S. residents; (2) monitoring the impact of policy changes; (3) analyzing structural issues concerning foreign bank activity in U.S. markets; (4) understanding flows of banking funds and indebtedness of developing countries in connection with data collected by the International Monetary Fund and the Bank for International Settlements that are used in economic analysis; and (5) assisting in the supervision of U.S. offices of foreign banks. The Federal Reserve System collects and processes these reports on behalf of all three agencies.

Current Actions

I. Introduction

The proposed revisions partially stem from a formal initiative launched by the FFIEC in December 2014 to identify potential opportunities to reduce burden associated with Call Report requirements for community banks. The FFIEC's formal initiative included surveys of agency Call Report data users, which have served as the foundation for the proposed burden-reducing revisions.¹ As part of these surveys, users were asked to fully explain the need for each Call Report data item they deemed essential, how the data item is used, the frequency with which it is needed, and the population of institutions from which it is needed. Based on the results of the surveys, the agencies identified Call Report data items that are no longer needed, are needed on a less frequent basis, or are needed only above certain reporting thresholds, and have proposed or finalized the elimination, less frequent collection, or creation of new or upwardly revised reporting

¹ See 80 FR 56539 (September 18, 2015), 81 FR 45357 (July 13, 2016), 81 FR 54190 (August 15, 2016), 82 FR 2444 (January 9, 2017), 82 FR 29147 (June 27, 2017), and 82 FR 51908 (November 8, 2017) for information on other actions taken under this initiative.

thresholds for these data items in the Call Report. In an effort to maintain consistency between the FFIEC 002, the FFIEC 002S, and the Call Report, the burden-reducing changes identified for the Call Report have been incorporated into this proposal where applicable. In addition, the proposed revisions ensure the reporting of data on equity investments in several FFIEC 002 schedules is consistent with changes in the accounting standards applicable to such investments. All of the revisions in this proposal have been implemented or proposed to be implemented in the Call Report.

II. General Discussion and Detail of Specific Proposed Revisions

The proposed revisions are meant to align with revisions either implemented or proposed to be implemented in the Call Report. Below is a list of the specific proposed revisions to the FFIEC 002 and FFIEC 002S. The proposed revisions are segmented by schedule except for the revisions relating to the accounting for equity securities, which can be found following the section regarding proposed revisions to FFIEC 002 Schedule S, Servicing, Securitization, and Asset Sale Activities. Other than proposed revisions to the Report of Assets and Liabilities in the next paragraph, which pertain to both the FFIEC 002 and the FFIEC 002S, all other proposed revisions pertain only to the FFIEC 002.

Schedule RAL (FFIEC 002) and Report of Assets and Liabilities (FFIEC 002S)

In an effort to improve clarity, conformity with current accounting terminology, and internal consistency across schedules, the agencies propose to revise the caption in the FFIEC 002 and FFIEC 002S forms and instructions from “loans and leases, net of unearned income” to “loans and leases held for investment and held for sale.” These two

captions are intended to represent the same reported amounts. Accordingly, the agencies will replace the former caption with the latter caption in affected data items and related instructions across all applicable schedules.

Each year in the March FFIEC 002, each institution indicates in Schedule RAL, Assets and Liabilities, Memorandum item 17, the most comprehensive level of auditing work performed for the branch or agency by, or on behalf of, the parent organization during the preceding calendar year. In completing Memorandum item 17, each institution selects from seven statements describing a range of levels of auditing work the one statement that best describes the level of auditing work performed for it. Certain statements from which an institution must choose do not reflect current auditing practices performed in accordance with applicable standards and procedures promulgated by the U.S. auditing standard setters, namely the Public Company Accounting Oversight Board (PCAOB) and the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants. The PCAOB establishes auditing and related professional practice standards used in the performance and reporting of audits of the financial statements and the internal control over financial reporting (ICFR) of public companies. The ASB establishes auditing and quality control standards applicable to the performance and issuance of audit reports for entities that are not public companies, e.g. private companies.

The PCAOB's Auditing Standard No. 5 (AS 5), An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements, became effective for fiscal years ending on or after November 15, 2007, and provides guidance regarding the integration of audits of ICFR with audits of financial statements

for public companies. Those public companies not required to undergo an integrated audit must have an audit of their financial statements.

The ASB has separately provided similar guidance in Statement on Auditing Standards Number 130 (SAS 130), An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements, which became effective for integrated audits for periods ending on or after December 15, 2016. Consistent with the PCAOB, the ASB states in SAS 130 that “[a]n audit of ICFR is required to be integrated with an audit of financial statements.” Unless a private company is required to or elects to have an integrated audit of its financial statements and ICFR, the private company may be required to or can choose to have an external auditor perform an audit of its financial statements.

The existing wording of statements 1 and 2 of Schedule RAL, Memorandum item 17, reads as follows:

1 = “Independent annual audit of the branch or agency conducted in accordance with U.S. generally accepted auditing standards by a certified public accounting firm”

2 = “Independent annual audit of the branch or agency conducted in accordance with home-country auditing standards by an independent accounting firm.”

Because these statements no longer fully and properly describe the types of external auditing services performed for institutions under current professional standards and to enhance the information institutions provide the agencies annually about the level of auditing external work performed for them, the agencies are proposing to replace existing statements 1 and 2 with new statements 1a and 1b and revised statement 2.

These statements would read as follows:

1a = “An integrated audit of the branch or agency and its internal control over financial reporting conducted in accordance with the auditing standards of the American Institute of Certified Public Accountants (AICPA) or the Public Company Accounting Oversight Board (PCAOB) by an independent public accountant.”

1b = “An audit of the branch or agency conducted in accordance with the auditing standards of the AICPA or the PCAOB by an independent public accountant.”

2 = “An audit of the branch or agency conducted in accordance with home-country auditing standards by an independent public accountant.”

Further, the agencies also propose to revise the caption to Memorandum item 17 to explicitly state that the work is performed by independent external auditors and to remove the reference to work performed on behalf of the parent organization.

The agencies also propose to consolidate the detail on the fair value and the unpaid principal balance of loans held for trading collected in Schedule RAL. For loans secured by 1-4 family residential properties, breakouts for revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit, as well as closed-end loans secured by 1-4 family residential properties, would be consolidated into a single item. In addition, construction, land development, and other land loans; loans secured by farmland; loans secured by multifamily (5 or more) residential properties; and loans secured by nonfarm nonresidential properties would be consolidated into a single item. Specifically, existing Memorandum items 5.a.(3)(a) and 5.a.(3)(b) would be consolidated into new Memorandum item 5.a.(1), while existing Memorandum items 5.a.(1), 5.a.(2), 5.a.(4), and 5.a.(5) would be consolidated into new Memorandum item 5.a.(2). Existing Memorandum items 6.a.(3)(a) and 6.a.(3)(b) would be consolidated into

new Memorandum item 6.a.(1), while existing Memorandum items 6.a.(1), 6.a.(2), 6.a.(4), and 6.a.(5) would be consolidated into new Memorandum item 6.a.(2). The agencies no longer need this current level of detail on loans held for trading in the FFIEC 002.

Schedule A

On Schedule A, Cash and Balances Due from Depository Institutions, the agencies propose to consolidate the reporting of an institution's balances due from depository institutions in the U.S., which are currently reported in items 3.a for balances due from U.S. branches and agencies of foreign banks (including their international banking facilities (IBFs)) and 3.b for balances due from other depository institutions in the U.S. (including their IBFs), into a single item 3. In addition, the agencies propose to consolidate the reporting of an institution's balances due from foreign branches of U.S. banks (item 4.a), balances due from banks in the reporting institution's home country and its home country central bank (item 4.b), and balances due from all other banks in foreign countries and foreign central banks (item 4.c), into a single item 4, Balances due from banks in foreign countries and foreign central banks. The agencies no longer need this current level of detail for these balances in the FFIEC 002.

Schedule C – Part I

At present, institutions that have elected to measure loans held for investment or held for sale at fair value under a fair value option are required to report the fair value and unpaid principal balance of such loans in Memorandum items 5 and 6, respectively, of

Schedule C, Part I, Loans and Leases. Because Schedule C, Part I, must be completed by all institutions, Memorandum items 5 and 6 also must be completed by all institutions although only a nominal number of institutions have disclosed reportable amounts for any of the categories of fair value option loans reported in the subitems of these two Memorandum items. Accordingly, the agencies are proposing to move Memorandum items 5 and 6 on the fair value and unpaid principal balance of fair value option loans from Schedule C, Part I, to Schedule Q, Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis, and to designate them as Memorandum items 3 and 4, respectively.

The agencies also propose to consolidate the detail on loans held for investment or held for sale measured at fair value and the unpaid principal balance of such loans that would be moved to Schedule Q. Breakouts for revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit, as well as closed-end loans secured by 1-4 family residential properties, would be consolidated into a single item for loans secured by 1-4 family residential properties. In addition, construction, land development, and other land loans; loans secured by farmland; loans secured by multifamily (5 or more) residential properties; and loans secured by nonfarm nonresidential properties would be consolidated into a single item for loans secured by real estate other than 1-4 family residential properties. Specifically, existing Memorandum items 5.a.(3)(a) and 5.a.(3)(b) would be consolidated into new Memorandum item 5.a.(1), while existing Memorandum items 5.a.(1), 5.a.(2), 5.a.(4), and 5.a.(5) would be consolidated into new Memorandum item 5.a.(2). Existing Memorandum items 6.a.(3)(a) and 6.a.(3)(b) would be consolidated into new

Memorandum item 6.a.(1), while existing Memorandum items 6.a.(1), 6.a.(2), 6.a.(4), and 6.a.(5) would be consolidated into new Memorandum item 6.a.(2). The agencies no longer need this current level of detail in the FFIEC 002.

Schedule C – Part II

The agencies propose to remove items 1.a and 1.b on Schedule C, Part II, Loans to Small Businesses and Small Farms. Item 1.a requires FDIC-insured branches to indicate on an annual basis whether all or substantially all of the institution’s dollar volume of reported “Commercial and industrial loans to U.S. addressees” consist of loans with original amounts of \$100,000 or less. If a branch reports “Yes” in item 1.a, then it must provide the number of “Commercial and industrial loans to U.S. addressees” outstanding in item 1.b. This change aligns this schedule with revisions made to the corresponding schedule in the FFIEC 031 Call Report.

Schedule Q

The agencies propose to modify the reporting criteria for Schedule Q, Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis, by applying only an activity threshold and not an asset-size threshold, which currently is \$500 million. As proposed, Schedule Q is to be completed by branches and agencies that (1) have elected to report financial instruments or servicing assets and liabilities at fair value under a fair value option with changes in fair value recognized in earnings, or (2) reported total trading assets of \$10 million or more in any of the four preceding calendar quarters. Institutions that do not meet either of these criteria would no longer need to complete this

schedule, regardless of asset size. The agencies believe the activity thresholds are more appropriate than the existing simple asset-size threshold for determining which institutions must complete this schedule.

The agencies also propose to raise the dollar portion of the threshold from \$25,000 to \$100,000 for itemizing and describing the components of “All other assets” and “All other liabilities,” which are reported in Memorandum items 1 and 2, respectively. The percentage portion of the existing thresholds would not be changed. Based on a preliminary evaluation of the existing reporting thresholds, the agencies have concluded that the dollar portion of the thresholds that currently apply to these items can be increased to provide a reduction in reporting burden without a loss of data that would be necessary for supervisory or other public policy purposes.

Schedule S

The agencies propose the following revisions to Schedule S, Servicing, Securitization, and Asset Sale Activities, as they no longer need the current level of detail on securitization and asset sale activities in the FFIEC 002:

- (1) Consolidate the maximum amount of credit exposures arising from recourse or other seller-provided credit enhancements in the forms of retained interest-only strips, subordinated securities and other residual interests, and standby letters of credit and other enhancements reported in items 2.a, 2.b, and 2.c, respectively, into a single new item 2.
- (2) Create a reporting threshold of \$100 billion or more in total assets for reporting in item 3, which is for reporting unused commitments to provide liquidity to structures

reported in item 1 involving assets sold and securitized by the reporting institution with servicing retained or with recourse or other seller-provided credit enhancements.

(3) Consolidate ownership (or seller's) interests carried as securities and loans, which are reported in items 6.a and 6.b, respectively, into a single new item 6. The agencies also propose to create a reporting threshold of \$10 billion or more in total assets for reporting this new combined item 6.

(4) Remove items 7.a and 7.b, which contain loan amounts included in ownership (or seller's) interests carried as securities that are 30-89 days past due and 90 days or more past due, respectively.

(5) Consolidate columns B and C of item 9, which contain the maximum amount of credit exposure arising from credit enhancements provided by the reporting institution to other institutions' securitization structures, into existing column G. The activities covered in columns B and C pertain to home equity lines and credit card receivables, respectively. The amounts previously reported in columns B and C would be reported in column G, "All other loans, all leases, and all other assets."

(6) Create a reporting threshold of \$10 billion or more in total assets for reporting unused commitments to provide liquidity to other institutions' securitization structures in item 10. The agencies also propose to consolidate columns B and C of item 10 into existing column G. The activities covered in columns B and C pertain to home equity lines and credit card receivables, respectively. The amounts previously reported in columns B and C by institutions with \$10 billion or more in total assets would be included in column G, "All other loans, all leases, and all other assets."

(7) Consolidate columns B through F of item 11, which contain assets sold with recourse or other seller-provided credit enhancements and not securitized, into existing column G. The activities covered in columns B through F pertain to home equity lines, credit card receivables, auto loans, other consumer loans, and commercial and industrial loans, respectively. The amounts previously reported in columns B through F would be included in column G, “All other loans, all leases, and all other assets.”

(8) Consolidate columns B through F of item 12, which contain the maximum amount of credit exposure arising from recourse or other seller-provided credit enhancements on assets sold with recourse or other seller-provided credit enhancements and not securitized, into existing column G. The activities covered in columns B through F pertain to home equity lines, credit card receivables, auto loans, other consumer loans, and commercial and industrial loans, respectively. The amounts previously reported in columns B through F would be included in column G, “All other loans, all leases, and all other assets.”

(9) Create a reporting threshold of \$10 billion or more in total assets for reporting detail on asset-backed commercial paper conduits in Memorandum item 1. Institutions report the maximum amount of credit exposure arising from credit enhancements provided to asset-backed commercial paper conduits sponsored by the reporting institution or related institutions, and by unrelated institutions, in Memorandum items 1.a.(1) and 1.a.(2), respectively. Institutions report unused commitments to provide liquidity to asset-backed commercial paper conduits sponsored by the reporting institution or related institutions, and by unrelated institutions, in Memorandum items 1.b.(1) and M.1.b.(2), respectively.

Proposed Revisions to Address Changes in Accounting for Equity Investments

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.” In its summary of this ASU, the FASB described how one of the main provisions of the ASU differs from current U.S. generally accepted accounting principles (GAAP) as follows:

The amendments in this Update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. An entity’s equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this Update.

The FASB further stated in the summary that “an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.”

The instructions to the FFIEC 002 require that respondents must utilize U.S. GAAP when filing the report. The agencies propose to revise the FFIEC 002 report form and instructions to account for the changes to U.S. GAAP set forth in ASU 2016-01.² These proposed revised reporting requirements would become effective for different sets

² No revisions to the FFIEC 002S regarding equity securities are being proposed.

of respondents as those respondents become subject to the ASU. Institutions that are public business entities, as defined in U.S. GAAP, are subject to ASU 2016-01 for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Therefore, for an institution with a calendar year fiscal year that is a public business entity, the proposed revised reporting requirements would become effective for its FFIEC 002 for June 30, 2018. As discussed below, interim guidance would be provided for purposes of reporting by such an institution in accordance with the ASU in its FFIEC 002 for March 31, 2018. All other institutions become subject to the ASU for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Therefore, for an institution with a calendar year fiscal year that is not a public business entity, the proposed revised reporting requirements would become effective for its FFIEC 002 for December 31, 2019. The period over which institutions will be implementing this ASU ranges from the first quarter of 2018 through the fourth quarter of 2020. December 31, 2020, will be the first quarter-end FFIEC 002 report date as of which all institutions would be required to prepare their FFIEC 002 in accordance with ASU 2016-01 and the proposed revised reporting requirements.

The changes to the accounting for equity investments under ASU 2016-01 will affect several existing data items in the FFIEC 002. One outcome of these accounting changes is the elimination of the concept of available-for-sale (AFS) equity securities, which are measured at fair value on the balance sheet with changes in fair value recognized through other comprehensive income. At present, the historical cost and fair value of AFS equity securities, i.e., investments in mutual funds and other equity

securities with readily determinable fair values that are not held for trading, are reported in Schedule RAL, item 1.c.(4), “All other” bonds, notes, debentures, and corporate stock, and Memorandum item 3, “Fair value of available-for-sale securities.” The total fair value of AFS securities reported in Schedule RAL, Memorandum item 3, also is reported in item 1, column A, of Schedule Q. Institutions then report in columns C, D, and E of item 1 of Schedule Q a breakdown of their AFS securities by the level in the fair value hierarchy within which the fair value amounts of these securities fall (Level 1, 2, or 3). Any balance sheet netting adjustments to these fair value amounts are reported in column B of item 1 of Schedule Q.

Another outcome of the changes in the accounting for equity investments under ASU 2016-01 is that equity securities and other equity investments without readily determinable fair values that are within the scope of ASU 2016-01 and are not held for trading must be measured at fair value through net income, rather than at cost (less impairment, if any), unless the measurement election described above is applied to individual equity investments. In general, institutions currently report their holdings of such equity securities without readily determinable fair values as a component of other assets in Schedule RAL, item 1.h.

At present, AFS equity securities and equity investments without readily determinable fair values are included in the quarterly averages reported in Schedule K, Quarterly Averages. Institutions report the quarterly average for “Total claims on nonrelated parties” in item 5 of this schedule. This average reflects all equity securities not held for trading on a cost basis. In addition, for branches whose deposits are insured by the FDIC, AFS equity securities and equity investments without readily determinable

fair values are included in the quarterly averages reported in Schedule O, Other Data for Deposit Insurance Assessments. Institutions report the quarterly average for “Average consolidated total assets for the calendar quarter” in item 4 of this schedule. This average reflects AFS equity securities with readily determinable fair values at the lower of cost or fair value, and equity securities without readily determinable fair values at historical cost.

The agencies have considered the changes to the accounting for equity investments under ASU 2016-01 and the effect of these changes on the manner in which data on equity securities and other equity investments are currently reported in the FFIEC 002, which has been described above. Accordingly, the proposed revisions to the FFIEC 002 report form and instructions to address the equity securities accounting changes are as follows:

(1) In Schedule RAL, Assets and Liabilities, a new Memorandum item 4, “Fair value of equity securities with readily determinable fair values not held for trading,” would be added effective June 30, 2018. From June 30, 2018, through September 30, 2020, the instructions for Memorandum item 4 and the reporting form for Schedule RAL would include guidance stating that Memorandum item 4 is to be completed only by institutions that have adopted ASU 2016-01. Institutions that have not adopted ASU 2016-01 would leave Memorandum item 4 blank. Existing Memorandum items 3, “Fair value of available-for-sale securities,” and 4, “Amortized cost of available-for-sale securities,” would be renumbered as Memorandum items 3.a and 3.b, respectively, effective June 30, 2018. During the period from June 30, 2018, through September 30, 2020, the instructions for Schedule RAL, Memorandum items 3.a and 3.b, would explain that institutions that have adopted ASU 2016-01 should include only debt securities in

Memorandum items 3.a and 3.b. Effective December 31, 2020, the caption for Memorandum items 3.a and 3.b would be revised to “Fair value of available-for-sale debt securities” and “Amortized cost of available-for-sale debt securities,” respectively, and all institutions would report their holdings of equity securities with readily determinable fair values not held for trading in Memorandum item 4.

(2) In Schedule RAL, equity securities and other equity investments without readily determinable fair values not held for trading, which are currently reported in item 1.h, would continue to be reported in this item. However, the instructions would be revised as of June 30, 2018, to state that, after the effective date of ASU 2016-01 for an institution, the equity securities and other equity investments the institution reports in item 1.h would be measured in accordance with the ASU.

(3) In Schedule K, Quarterly Averages, the instructions for item 5, “Total claims on nonrelated parties,” would include guidance from June 30, 2018, through September 30, 2020, stating that, for purposes of reporting the quarterly average for total claims:

- Institutions that have adopted ASU 2016-01 should reflect the quarterly average of all debt securities not held for trading on an amortized cost basis, and
- Institutions that have not adopted ASU 2016-01 should reflect the quarterly average for all securities not held for trading on an amortized cost basis.

Then, effective December 31, 2020, the instructions for item 5 would indicate that, for debt securities not held for trading, the quarterly average for total claims should reflect such securities on an amortized cost basis.

(4) In Schedule O, Other Data for Deposit Insurance Assessments, the instructions for item 4, “Average consolidated total assets for the calendar quarter,” would include

guidance from June 30, 2018, through September 30, 2020, stating that, for purposes of reporting the quarterly average for total assets:

- Institutions that have adopted ASU 2016-01 should reflect the quarterly average for debt securities not held for trading at amortized cost, and
- Institutions that have not adopted ASU 2016-01 should reflect the quarterly average for all debt securities not held for trading at amortized cost, available-for-sale equity securities with readily determinable fair values at the lower of cost or fair value, and equity securities without readily determinable fair values at historical cost.

Then, effective December 31, 2020, the instructions for item 4 would indicate that, for debt securities not held for trading, the quarterly average for total assets should reflect such securities at amortized cost.

(5) In Schedule Q, the caption for item 1, “Available-for-sale securities,” would be changed to “Available-for-sale debt securities and equity securities with readily determinable fair values not held for trading” effective June 30, 2018. From June 30, 2018, through September 30, 2020, the instructions for item 1 and the reporting form for Schedule Q would include guidance stating that, for institutions that have adopted ASU 2016-01, the amount reported in item 1, column A, must equal the sum of Schedule RAL, Memorandum items 3.a and 4, and for institutions that have not adopted ASU 2016-01, the amount reported in item 1, column A, must equal Schedule RAL, Memorandum item 3.a. Effective December 31, 2020, this guidance would indicate that the amount reported in item 1, column A, must equal the sum of Schedule RAL, Memorandum items 3.a and 4.

Institutions that apply ASU 2016-01 in the first quarter of 2018 will need to report their holdings of equity securities and other equity investments in accordance with this

accounting standard within the existing structure of the FFIEC 002 for March 31, 2018. Interim guidance accompanying the Board's transmittal letter to institutions for the March 31, 2018, report date will advise institutions that have adopted ASU 2016-01 to (a) continue to report the fair value and historical cost of their holdings of equity securities with readily determinable fair values not held for trading (which were reportable as available-for-sale equity securities prior to the adoption of ASU 2016-01) in existing Memorandum items 3 and 4 of Schedule RAL;(b) measure their holdings of equity securities and other equity investments without readily determinable fair values not held for trading in accordance with the ASU and continue to report them in Schedule RAL, item 1.h; (c) report Schedule K, item 5, consistent with the measurement of Schedule RAL, item 1.i, except that all debt securities not held for trading should be measured on an amortized cost basis; (d) report Schedule O, item 4, consistent with the measurement of Schedule RAL, item 3, except that all debt securities not held for trading should be measured at amortized cost; and (e) continue to report the amount from Memorandum item 3 of Schedule RAL in Schedule Q, item 1, column A.

III. Timing

The proposed changes to the report forms and instructions described in this notice would be implemented as of the June 30, 2018, report date. However, as discussed above, the proposed revised reporting requirements for equity investments would have varying effective dates for individual respondents and would begin with the June 30, 2018, report date. The agencies invite comment on any difficulties that institutions would expect to encounter in implementing the systems and process changes necessary to

accommodate the proposed revisions to the FFIEC 002 and FFIEC 002S as of this proposed effective date.

The specific wording of the captions for the new or revised data items discussed in this proposal and the numbering of these data items may be modified to provide clarity.

IV. Request for Comment

Public comment is requested on all aspects of this notice. Comment is specifically invited on:

- a. Whether the information collections are necessary for the proper performance of the agencies' functions, including whether the information has practical utility;
- b. The accuracy of the agencies' estimate of the burden of the information collections, including the validity of the methodology and assumptions used;
- c. Ways to enhance the quality, utility, and clarity of the information to be collected;
- d. Ways to minimize the burden of the information collections on respondents, including through the use of automated collection techniques or other forms of information technology; and
- e. Estimates of capital or start up costs and costs of operation, maintenance, and purchase of services to provide information.

Comments submitted in response to this notice will be shared among the agencies. All comments will become a matter of public record.

[THIS SIGNATURE PAGE PERTAINS TO THE NOTICE AND REQUEST FOR COMMENT, “PROPOSED AGENCY INFORMATION COLLECTION ACTIVITIES; COMMENT REQUEST,” FOR THE REPORT OF ASSETS AND LIABILITIES OF U.S. BRANCHES AND AGENCIES OF FOREIGN BANKS, AND THE REPORT OF ASSETS AND LIABILITIES OF A NON-U.S. BRANCH THAT IS MANAGED OR CONTROLLED BY A U.S. BRANCH OR AGENCY OF A FOREIGN (NON-U.S.) BANK]

Board of Governors of the Federal Reserve System, December 21, 2017.

Margaret Shanks,
Deputy Secretary of the Board.

Billing Code

Board: 6210-01-P

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