

Supervising Multinational Banking Organizations:  
RESPONSIBILITIES OF THE HOST COUNTRY

Neal L. Petersen

MR. MUNDHEIM: Assume that we have a foreign bank with a branch or a subsidiary in the U.S. What are the supervisory responsibilities of the host country? Neal, will you start us on the answer to that question?

MR. PETERSEN: Thank you, Bob. We are now assuming Colossus International is in the U.S., either through a subsidiary or through a branch or agency. I want to discuss some of the supervisory practices that the U.S. applies to these institutions, and I shall use as a working example the history of the famous Y-7 and related forms. For those of you in the banking business those are probably code words that you know all about, but I will explain it in a little more detail for the others.

1. PRINCIPLES OF SUPERVISION

I shall start with a basic principle that cuts across the board, whether you are talking about a domestic bank operation or a foreign bank operation in the U.S. There is a fundamental principle in our system which holds that a parent of any banking organization is looked upon as a source of strength for its subsidiary banking operations. We apply that concept consistently in the domestic bank holding company field, and we will apply it in the international field with respect to foreign banks having branches or subsidiaries in the U.S.

This point of view may be somewhat different in emphasis from the perceptions of my colleagues who would argue very strongly that you have to look at banking on a consolidated basis worldwide, and that it is really the home country that has the primary and last-resort responsibility. I would not necessarily disagree with them, but we have put a little gloss on that concept. As the host country, we are indeed concerned with and do look to the foreign parent as a source of strength. And we have said that--the Board said that in February 1979 in a publicly issued policy statement [1]. The Federal Financial Institutions Examination Council (another bank regulatory agency, made up of all the other bank regulatory agencies to coordinate supervisory policies and forms) issued a very similar statement later in 1979, in July or so [2].

Overlaying the application of this principle are the peculiarities of our own domestic banking system, in terms of what we think our domestic banking system should look like and, therefore, what foreign banks should try to do when they are here. These concerns, again, have been touched on by Dennis Lehr. We have a dual banking system. We have a strong belief in the separation of banking from investment banking and other non-banking activity. That separation is eroded from time to time, but it is still an underlying philosophy of bank regulation. Therefore, a lot of supervisory information we request has to do with non-bank activities--particularly

those conducted in the U.S. We also have geographic constraints (the so-called McFadden Act constraints) in our regulatory system and these affect foreign bank operations; but that is not particularly a supervisory matter.

## 2. THE SUPERVISORY FORMS

### A. The Proposed Forms

What did the Federal Reserve, in executing its responsibilities under the Bank Holding Company Act and under the International Banking Act, do in recent months to deal with these kinds of concerns? In 1979 the Board put out for comment its Form Y-7. As it was proposed, Form Y-7 would have required very extensive information on parent foreign banking organizations overseas. Time does not permit me to discuss all of the details of what was proposed; but, for example, we would have required from the foreign parent financial statements of various subsidiaries using accounting principles generally accepted in the U.S. We would have required extensive disclosure of the related interests of directors and officers of foreign banks. We would have required extensive information with respect to less-than-majority-owned subsidiaries of foreign banks operating around the world. When we put this proposal out for comment, it was not greeted warmly by the international banking community. However, we felt that we were pursuing "national treatment" and requiring the same kind of detailed information we require from everybody else.

### B. Comments on the Forms

The foreign bank commentators had some legitimate points. The comments we received were very helpful. In that regard I want to make a practical point here--particularly for those of you who may be from offshore or representing foreign interests. In my experience, there have been a number of occasions where foreign bankers, and sometimes their counsel, are reluctant to talk to regulatory agencies about problems that the regulatory agency appears to be creating for them. Sometimes they are reluctant to accept the invitation to comment. It seems to be a tradition in some countries that you just do not get on the record with a formal comment or have a meeting with your regulator and argue with him or her. That is not the case in this country. Generally, if a foreign institution has a particular concern it is important that it make a comment. Many foreign bankers tend to rely exclusively on trade associations of one kind or another, which, of course, are very helpful sources of comments. But I am urging that if there is a concern that applies to a specific entity, for heaven's sake make your points. Indeed, comments were made by sixty or so foreign banks and a number of trade associations, including the Institute for Foreign Bankers. We had a few comments from domestic banks, but not very many.

The comments on Y-7 had two general thrusts. The first, which I will dispose of quickly, is that we did not have the authority under the IBA to request all of this information. We felt we clearly did; and nobody has challenged us on that particular point, maybe because we backed off on some of the things we were requiring.

Another area of concern, which was a very difficult one, was that much of the information we were requesting--in terms of financial data and so forth--was not the sort of information foreign banks

generally disclose to their own regulators, let alone to the public. Foreign banks were unsure whether this material would be granted confidential treatment.

Those arguments were very strongly made and very seriously considered by the Board. Other comments involved various technical problems. For example, foreign banks often cannot use the accounting principles generally accepted in the U.S. They also argued that it is unreasonable for us to try to examine the business interests of their directors; that is just not done in other countries. Many good arguments were made.

The Board considered these comments over quite a number of months and finally approved a new set of forms. These, I think, alleviate most of the concerns that the foreign bankers have raised, while at the same time they give the Board and the other financial regulatory agencies adequate information to conduct their supervisory role.

Let me pause here and make a distinction which sometimes is not made between regulation, the supervisory role, and the examination role. In the banking regulatory business we generally have three functions. First is regulation, stating what you can and cannot do. Second is supervision, which is the monitoring by way of reports and the like of activities of regulated industries. And third is examination, which I would describe as the visitorial power.

A lot of people confuse supervision and examination, and consider them the same thing. I do not think they really are, and I make that point because it is important in connection with the Y-7. The Y-7 is a supervisory form. We are not proposing to take that form, and run over to Frankfurt or Basle or London, and walk in the door, and examine the parent institution. Not at all. The information that we are generating through this form is an alert mechanism. It is something that we would use to see if there are any problems developing year by year. For example, the Y-8f form (another form which has to do with transactions with affiliates) is filed quarterly and is used to pick up information on trends and developments. If we see a problem, we will address it through the usual informal consultation with the banking institution here. There may be some discussion with the parent, and there may be some discussion informally with the home country regulator if the problem is serious. However, no home country visitation is involved.

### C. Final Version of the Forms

What did the Board do in respect to the Y-7 and the Y-8f in its final regulations? A summary was made of those forms, together with an additional related form adopted by the Board. All three forms can be obtained from any Federal Reserve Bank or the Board. The summaries are useful in terms of describing what went on in the regulatory process. The system we adopted to accommodate the most serious concern of the foreign banks--the confidentiality problem--was as follows: we divided the originally proposed Y-7 form into two forms. The new Y-7 requires information, in part 1, that would be publicly available to shareholders and the public in the home country. In addition, we are not requiring the accounting principles that are generally accepted in the U.S. In the Y-7 we will accept financial statements prepared on the basis of the accounting procedures that are used in the home country, so long as we have an explanation in the initial filing of the differences between U.S. generally accepted accounting principles and home country principles.

The second part of the Y-7 form would require various kinds of information on non-banking activities in the U.S. This is no big problem for the foreign banker, since those records would be readily available and would, of course, be consistent with U.S. accounting practices.

### 3. SOLVING THE CONFIDENTIALITY PROBLEM: The New F.R. 2068

With respect to other, more sensitive financial information, we handled the issue with a new form. For an example of the problem, some institutions have over-draft accounting, and it is very difficult to figure out exactly what are earnings, or what are revenues, or what are expenses. Furthermore, there are so-called hidden reserves in a number of foreign bank operations. The use of hidden reserves is an accounting technique that has the purpose of leveling earnings over time, and it can result in the over-stating of liabilities. We are not able, from a domestic analytical point of view, to figure out these techniques just by looking at publicly available foreign bank statements.

So what we did is construct a new form called F.R. 2068. It is a confidential report on operations. This form we consider to be a bank examination report in all respects; and this is important, because we will treat it as highly confidential under the Freedom of Information Act. For those of you who are not lawyers or are not from the U.S., the Freedom of Information Act causes many problems when it comes to bank regulatory and supervisory issues and forms.

The Freedom of Information Act basically provides that a member of the public can obtain any document that is an official agency document in the possession of a federal agency, unless there are specific exemptions enabling the agency to withhold the information. One of those exemptions, exemption 8, has to do with examination reports. We do not give such reports out to the public, and our action has been sustained in the courts. The courts have given a very wide definition to the term examination report--even including consumer examination reports, where examiners measure a bank's compliance with the Truth in Lending Act, equal credit opportunity statutes, and the like. These reports are deemed confidential examination reports, not subject to disclosure under exemption 8, even though they have very little to do with safety and soundness.

In regard to the confidential portions of the foreign bank reports, we obtained an opinion from the Office of Information Policy of the Department of Justice (the part of the Justice Department which defends Freedom of Information Act suits) that this material may be kept confidential from the public. Of course, if the need is shown, we will exchange this information with other bank regulatory agencies that have a supervisory concern--such as the Comptroller of the Currency, in the case of the federal branch, or the FDIC, in case of an insured state branch. That is done with all examination reports. With respect to other agencies in the government, some of which have enforcement concerns (the Securities and Exchange Commission, for example), we will not automatically give out an examination report to any agency that asks for it in connection with an examination or an enforcement action it may be considering. We ask the agency, and require it, to define its request very narrowly and to justify its need for the information. We do not permit fishing expeditions for information, and we often have long and sometimes heated discussions with agencies that request examination reports.

So we think we are able to give a good deal of assurance to the foreign banking community that the information in the F.R. 2068 will be kept confidential. We are never in a position, however, to guarantee confidentiality, because courts in this country conceivably could order disclosure if a suit were filed. Nevertheless, I think it highly unlikely that an examination report would be publicly disclosed. It is possible, of course, that examination reports could be subpoenaed during the course of litigation; but if disclosure were ordered it would be under a protective order, so that access to the information would be limited to the court and opposing counsel.

In summary, I think we have eliminated most of the major concerns on the confidentiality side--to the extent we can under our system of law. We have (as described in Appendix II A & B) modified these report forms considerably. These forms--the Y-7, Y-8f, and F.R. 2068--are the principal supervisory forms used by the Federal Reserve with respect to foreign bank operations in the U.S. The reports are due four months after the close of an institution's fiscal year; and the Reserve Banks or the Board would be willing to discuss any specific problem that a particular institution may have in terms of public disclosure and confidentiality. We are very flexible.

For example, in regard to the Y-7 (which is not a bank examination report and does not have the protection that I mentioned with respect to the F.R. 2068), we would entertain a request that certain information, which might otherwise be publicly available or disclosed in that form, not be disclosed, on the basis of another exemption of the Freedom of Information Act grounded on trade and confidential information.

Let me re-emphasize that the U.S., as a host country, is very concerned about the impact of foreign banking operations on our own banking structure. Because of that concern we probably require more information than is perhaps typical of other countries with respect to foreign entrants in those countries.

#### NOTES

- [1] 44 Fed. Reg. 10509 (1979).
- [2] 44 Fed. Reg. 44267 (1979).

## APPENDIX II-A

## FEDERAL RESERVE SYSTEM

## REPORT REQUIREMENTS

ANNUAL REPORT OF FOREIGN BANKING ORGANIZATIONS  
FOREIGN BANKING ORGANIZATION CONFIDENTIAL REPORT OF OPERATIONS

[Docket No. R-0256]

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final report forms.

**SUMMARY:** The Board of Governors of the Federal Reserve System has adopted final forms for submission by foreign banks that conduct a banking business in the United States through branches, agencies, subsidiary banks or commercial lending companies. These forms are the Annual Report of Foreign Banking Organizations, Form F.R. Y-7, and the Foreign Banking Organization Confidential Report of Operations, Form F.R. 2068. The reports replace the current Form F.R. Y-7 which had been filed only by those foreign banking organizations that owned commercial banks in the United States. A proposed F.R. Y-7 was published for comment in November 1979, and in response to comments received the Board adopted the modified Annual Report. In addition, the Board adopted a new report form F.R. 2068. The information collected by these reports is designed to assist the Board in assessing the condition of the foreign banking organization as it may affect its U.S. banking operations. Collection of the reports is authorized by the Bank Holding Company Act of 1956 and the International Banking Act of 1978.

The forms will be filed with the Federal Reserve System annually 120 days after the end of the foreign banking organization's fiscal year. A foreign banking organization whose fiscal year ends during the period from October, 1980 through February, 1981 shall file its initial reports by June 30, 1981. All other foreign banking organizations shall file reports within 120 days of their next fiscal year-end. Form F.R. Y-7 shall be filed with the Federal Reserve Bank of the District in which the foreign banking organization's United States banking business is largest. Form F.R. 2068 shall be filed directly with the Board's Division of Banking Supervision and Regulation. While the reports are intended to provide information sufficient to monitor an organization's condition on an ongoing basis, the Board also reserves the right to require the filing of additional statements and information if such would assist the Board in carrying out its responsibilities.

**FOR FURTHER INFORMATION CONTACT:** Stephen M. Lovette, Senior Financial Analyst, Division of Banking Supervision and Regulation (202/452-3622); or Kathleen O'Day, Attorney, Legal Division (202/452-3786), Board of Governors of the Federal Reserve System.

**SUPPLEMENTARY INFORMATION:** The Board proposed the new annual reporting requirement in order to fulfill its supervisory and regulatory responsibilities under the Bank Holding Company Act ("BHCA") and the International Banking Act. The proposed report was intended to enable the Board to determine the organization's compliance with U.S. laws and regulations and to assess the ability of the organization to serve as a source of strength to its U.S. banking operations. The proposed report requested a significant amount of financial and organizational information on the worldwide operations of the foreign banking organization.

Substantial adverse comment was received on the report as proposed. The

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two major areas of criticism were the amount and type of financial and shareholder information requested and the lack of a guarantee of confidentiality for information submitted. In response to the comments received and in an effort to reduce the substantial burden that the proposed report would have imposed, the Board has adopted final report requirements that address these concerns without impairing the supervisory and regulatory usefulness of the reports. Foreign banking organizations will be required to submit two reports on an annual basis, a modified Form F.R. Y-7, and a new report, Confidential Report of Operations, Form F.R. 2068. The reports do not impose additional informational requirements beyond those that were proposed for comment.

*Form F.R. Y-7* - The Annual Report is in two sections. Section I requests financial statements that are prepared for disclosure in the home country of the reporting organization together with an explanation of the accounting principles used in preparation of these statements. There is no requirement that the statements be prepared in accordance with generally accepted accounting principles in the U.S. The reporting organization must also submit an organization chart of its U.S. operations, and financial statements for any U.S. nonbanking company that it controls. The report requests that the foreign banking organization provide information on its voting securities, including the number of such securities issued, a description of the voting rights that attach to those securities, and an explanation of home country requirements with respect to registration of bearer securities. The report also requests a list of all shareholders that control five percent or more of the organization's voting securities. Many foreign banking organizations indicated that they do not know the identity of five percent shareholders where the securities are held in bearer form. The report has been modified to require that, when securities are held in bearer form, shareholders need be identified only to the extent that they are known to the foreign banking organization. The proposed report also requested that the foreign banking organization list all shareholdings of its officers and directors in the foreign banking organization and in any U.S. company in which the foreign banking organization controlled more than five percent of the shares. The report as adopted requires reporting of such shareholdings on an aggregate, rather than an individual, basis.

Section II of the F.R. Y-7 requests information on nonbanking activities conducted by the foreign banking organization in the United States. The amount of information requested has been significantly reduced from that requested by the proposed report, in that the organization need not provide an asset, revenue or income breakdown by individual activity conducted by a U.S. company. The information requested by this section is intended to assist in determining an organization's compliance with the nonbanking provisions of the BHC Act and the Board's Regulation K (12 C.F.R. Part 211).

*Foreign Banking Organization Confidential Report of Operations Form F.R. 2068.* - The new Confidential Report of Operations requests much of the information that was requested in Section II of the original proposal. The proposed report received substantial adverse comment from foreign banking organizations and foreign bank supervisory authorities concerning the lack of assurances with respect to confidentiality. Much of the information requested by the proposed report is not made available by foreign banking organizations to shareholders or to the public, and in some instances is not provided routinely even to home country supervisors. In recognition of the nature of the information requested and the fact that it is not available to the public from any source, the Board has determined to collect the information in the form of a report of operations. The information will be used to enable the Board to carry out its supervisory responsibilities by allowing the Board to assess the impact of the worldwide operations of a foreign banking organization on its U.S. banking business. The Board is of the opinion that the F.R. 2068 is exempt from disclosure under section (b)(8) of the Freedom of Information Act (5 U.S.C. § 552(b)(8)). Board staff has consulted with the Director of the Office of Information Law and Policy of the Department

of Justice who concurs in the opinion that the Confidential Report of Operations may be withheld under exemption (b)(8). The material collected in the report will be used solely by the Board in its supervisory capacity. However, the Board may, when requested, provide information from the report to another federal or a state banking authority that has supervisory responsibilities with respect to a foreign banking organization. The Board has determined to amend its Rules Regarding Availability of Information to ensure that any information that is shared with another supervisory authority is held strictly confidential.

The Confidential Report of Operations requests an organization chart detailing all foreign companies in which the foreign banking organization directly or indirectly owns, controls, or holds with power to vote 25 percent or more of any class of voting stock. The proposal requested foreign banking organizations to provide an earnings statements in a fixed format. This reporting requirement was proposed because many foreign banks report a single net income figure and do not disclose any revenue or expense items. The Board considers that minimum disclosure of significant revenue and expense items is necessary for any financial analysis that will be done by the Federal Reserve. The new proposal requires disclosure of revenues and expenses as calculated in accordance with local accounting practices. This will meet the objections raised by those foreign banks that use overdraft accounting and cannot provide interest revenue on a gross basis. The proposal also requests an explanation or general description of the accounting practices used in the recognition and the timing of revenue and expense items.

The reporting requirements with regard to loan loss experience, gains and losses on securities, and hidden reserves, are essentially unchanged. However, greater flexibility has been introduced by requesting that the information be provided in a suggested format rather than a fixed format. The suggested format calls for beginning balances, additions, deductions, and ending balances. The intent of the suggested format is to avoid the submission of net figures, which obscure the magnitude of the transactions and may distort any trend analysis. The report provides flexibility to enable a foreign banking organization to submit requested information in a manner that will not impose any undue burden.

The remaining information requested by the Confidential Report of Operations is financial data on foreign subsidiaries. In the initial proposal, the foreign banking organization was requested to furnish balance sheets, income statements, and statements of changes in capital accounts for all material foreign companies in which the foreign banking organization directly or indirectly owns, controls, or holds with power to vote 25 percent or more of any class of shares. A company was considered "material" if (1) the investment and advances to the company exceeded 5 percent of the foreign banking organization's equity capital accounts; (2) the company's gross income or revenue exceeded 5 percent of the foreign banking organization's consolidated gross operating income or revenue; or (3) the company's operations resulted in net income or net loss exceeding 5 percent of the consolidated net income of the foreign banking organization. The comments received on this proposal indicated that substantial problems exist with respect to providing this information, particularly with respect to companies in which the foreign banking organization owns between 25 and 50 percent of the shares. The foreign organizations indicated that, as minority shareholders, they did not have access to full financial statements. The Confidential Report of Operations as adopted addresses these objections while maintaining the Board's ability to assess the overall financial condition of the foreign banking organization. The final report requires financial statements on all majority owned, unconsolidated, material foreign companies. The submission of financial statements of unconsolidated, material investments is necessary to allow an analysis of the strength of the foreign banking organization. An additional change deletes the requirement that the foreign banking organization convert the statement to U.S. dollars. The definition of "material" is unchanged from the proposal.



With respect to investments of between 25 and 50 percent in material foreign companies, the report requires the foreign banking organization to provide financial data detailing the companies' total assets, total stockholders' equity and net income. This information should be readily available to a minority shareholder, and will provide an adequate basis for assessing the exposure to the consolidated operations of the foreign banking organization by the investment.

A foreign banking organization is exempt from filing the Confidential Report of Operations if its U.S. branches and agencies have neither total aggregate liabilities to nonrelated parties that exceed \$100 million nor total aggregate nonbank deposits, credit balances and liabilities on acceptances that exceed \$10 million. Any foreign banking organization that owns or controls a U.S. commercial bank or maintains a branch insured by the Federal Deposit Insurance Corporation must file the Confidential Report of Operations.

#### Adoption of Uniform Accounting Principles

The proposal required a foreign banking organization to submit both consolidated and parent-only financial statements including balance sheets, income statements, statements of changes in capital accounts, and statements of changes in financial position. The comments received from the foreign banks focused on the burden imposed by the requirements. While the proposal did not establish uniform criteria for consolidating majority-owned investments, the comments indicated that this reporting requirement implied that the Board was imposing U.S. generally accepted accounting principles on foreign banking organizations in requiring consolidated statements.

In revising these reporting requirements, the Board believes that the establishment of uniform accounting criteria is unnecessary if supplemental data is reported on earnings and reserves, and separate financial statements for unconsolidated, material foreign subsidiaries are requested. This financial information is needed to assist in the analysis of financial statements that are not prepared on a uniform basis.

#### Timing Requirements

The comments received on the proposal stated that the filing deadline of 90 days after an organization's fiscal year-end did not allow sufficient time to collect financial and other information on worldwide operations and/or translate the information into English. Some foreign banks indicated that financial statements are not available until after the annual shareholder meeting which is usually held from four to six months after the fiscal year-end. The comments generally recommended a filing date of six months after fiscal year-end.

The Board modified the instructions to require submission within four months of the end of the organization's fiscal year. The instructions provide for extensions of time to be granted only on an item-by-item basis. The length of the extension would be based on an assessment of the earliest date when the information can be provided without undue burden or hardship. Experience with current filings by both domestic and foreign organizations indicates that reports are not received until the filing deadline, irrespective of whether the information is available at an earlier date. As adopted, the procedures for granting extensions of time should promote the receipt of some data within a reasonably short period of time.

#### Tiered Foreign Organizations

In the proposal, a separate report was required of each member of a tiered banking organization. The reports as revised treat a tiered banking organization as a single entity for reporting purposes. The instructions in the reports describe the specific procedures to be followed by tiered foreign banking

organizations in filing the Annual Report and the Confidential Report of Operations.

Attached are copies of the reports.

Board of Governors of the Federal Reserve System, February 9, 1981.

(signed) James McAfee

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James McAfee  
Assistant Secretary of the Board

[SEAL]

APPENDIX II-B

FEDERAL RESERVE SYSTEM  
REPORT REQUIREMENTS

REPORT OF INTERCOMPANY TRANSACTIONS FOR  
FOREIGN BANKING ORGANIZATIONS AND  
THEIR U.S. BANK SUBSIDIARIES

[Docket No. R-0257]

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Report Form.

SUMMARY: The Board of Governors has adopted a Report of Intercompany Transactions for Foreign Banking Organizations and Their U.S. Bank Subsidiaries (F.R. Y-8f) for implementation in the second quarter of 1981. The report is intended to provide information on transactions between a United States subsidiary bank and its foreign parent company and certain affiliates of the foreign parent. The F.R. Y-8f is to be filed on a quarterly basis by foreign banking organizations that have consolidated assets of \$300 million or more and that own or control commercial banks in the United States.

FOR FURTHER INFORMATION CONTACT: Susannah M. Lawrence, Financial Analyst, Division of Banking Supervision and Regulation (202/452-2741) or Kathleen M. O'Day, Attorney, Legal Division (202/452-3786), Board of Governors of the Federal Reserve System.

SUPPLEMENTARY INFORMATION: The F.R. Y-8f requests information on transactions between a United States bank and its subsidiaries in the United States bank's foreign parent company and its majority-owned subsidiaries (termed "other BHC members") [1]. The information will assist the Board in monitoring intercompany transactions that may have adverse effects on the safety and soundness of a U.S. bank subsidiary of a foreign banking organization and will aid in determining whether a foreign banking organization serves as a source of strength to its U.S. subsidiary bank.

The F.R. Y-8f may be filed on the basis of each U.S. bank subsidiary's intercompany transactions with other BHC members or a consolidated report may be filed on the basis of aggregate transactions between a foreign banking organization's U.S. subsidiary banks and other BHC members. The report should be filed by or on behalf of only the top tier foreign parent company in order to avoid duplicate reporting by intermediate holding companies.

*Asset transfers.* Section I of the F.R. Y-8f requests information on asset transfers of more than \$100,000 between the U.S. subsidiary bank and other BHC members effected during the reporting period. Asset transfers involving loans that were delinquent, nonperforming, or renegotiated at the time of transfer are to be reported separately. In addition, descriptive detail is required on any

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[1] "Other BHC members" is defined to include (1) the foreign banking organization parent company (or companies) and (2) all of that company's majority-owned subsidiaries that are neither U.S. banks nor direct or indirect subsidiaries of U.S. banks.

U.S. transfer that is equal to one percent of the total equity of the bank participating in the transfer or \$2 million, whichever is less. This section of the report did not receive extensive comment and remains essentially unchanged. However, comments received indicated that a foreign banking organization would be unable to gather requested information on transactions effected by foreign companies in which the foreign banking organization owned less than 50 percent of the shares or that the organization did not otherwise control. The proposed form defined "other BHC members" to include all companies, through the first three tiers, in which the foreign banking organization owned or controlled 25 percent or more of the shares. In response to the comments, the definition of "other BHC members" has been modified to include all majority-owned companies of the foreign banking organization.

Specific comment was requested on whether the other major organizational grouping, "U.S. bank subsidiaries and their subsidiaries," should be expanded to include U.S. branches and agencies of a foreign bank. Comments on this issue were mixed. Some commenters stated that because the purpose of the report is to monitor transactions between U.S. banking operations and all other operations, in order to assure the safety and soundness of the U.S. banking operation, all U.S. banking business conducted by a U.S. bank, branch or agency should be included within one grouping. Other commenters indicated that a U.S. branch or agency is an integral part of a foreign bank and to include its operations with those of a U.S. subsidiary bank would impair the Board's ability to monitor the transactions of the U.S. bank. After consideration of the comments, the Board concluded that it would be appropriate to continue to include the U.S. bank and its subsidiaries as one major grouping since the primary purpose of the F.R. Y-8f is to isolate transactions between U.S. banks and all other members of the foreign banking organization.

*Other Intercompany Transactions and Balances.* Section II of the proposed F.R. Y-8f requested information on five types of intercompany transactions and balances: (1) U.S. bank subsidiary expenses recognized during the period associated with amounts paid or owed to other BHC members; (2) intercompany liabilities and claims; (3) U.S. bank subsidiary participation in loans originated or syndicated by other BHC members; (4) U.S. bank subsidiary loans or commitments made in connection with credit extended by third parties to other BHC members; and (5) compensating balances. After review of the burden imposed and the purposes of the report, the Board has eliminated the requirement for submission of information on loan participations. The proposal also required that average balances be calculated using weekly balances as of the close of business on each Wednesday falling in the reporting period. As revised, the report requires that average balances be calculated using the last 30 calendar days of the reporting period.

*Foreign Exchange Transactions.* Intercompany foreign exchange information is to be reported in Section III of the F.R. Y-8f. Under this section, the respondent is asked to report (1) whether any U.S. bank subsidiary (or any of its subsidiaries) has experienced a net realized loss or a net unrealized loss on foreign exchange transactions during the period; and (2) whether during the period any U.S. bank subsidiary (or any of its subsidiaries) was a party to foreign exchange transactions with other BHC members at nonmarket rates.

In the original proposal, the Board requested comment on whether, in order to reduce reporting burden, there should be established an amount below which realized or unrealized loss need not be reported. Most comments addressed this issue by suggesting various cutoff points. After considering all comments received, the Board has revised the report to require reporting of a foreign exchange loss only if the loss is greater than one percent of the total equity of the U.S. bank subsidiary, or one million dollars, whichever is less.

A copy of Form F.R. Y-8f and instructions is attached.

Board of Governors of the Federal Reserve System, February 9, 1981.

(signed) James McAfee

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James McAfee  
Assistant Secretary of the Board

[SEAL]