

(1) Financial statements prepared in accordance with home country accounting practices.

(2) Separate financial statements for U.S. nonbanking subsidiaries.

(3) An organization chart reflecting investments in U.S. companies and foreign companies that do business in the United States.

(4) Disclosure of large shareholders of registered shares and disclosure of known large shareholders of bearer shares.

(5) A list of officers and directors.

(6) Information to determine continuing eligibility as a qualified foreign banking organization under sections 2(h) and 4(c)(9) of the Bank Holding Company Act.

FR 2068

FBOs that have a significant presence in the United States also file the FR 2068 annually. Prior to the latest revisions, FBOs with small U.S. banking operations were eligible for a filing exemption. While those exemptions were in effect there were 292 respondents. Elimination of the exemption adds 31 respondents. The FR 2068 collects information that enables the Federal Reserve to carry out its responsibilities by assessing the impact of an FBO's worldwide operations on its U.S. banking business. Prior to the latest revisions, this report required disclosure of revenues and expenses as calculated in accordance with local accounting practices and an explanation or general description of those accounting practices. The report still requires disclosure of loan losses, asset quality, gains and losses on securities, and hidden reserves not disclosed in the FR Y-7. The format calls for beginning balances, additions, deductions, and ending balances. The report provides flexibility that enables an FBO to submit the information in a manner that will minimize burden. Respondents may request permission to report substitute information when the specific reporting requirements would result in undue burden or expense or when the information is unavailable in the requested format.

The FR 2068 also collects financial data on non-U.S. subsidiaries. Financial statements are required on all majority-owned (more than 50 percent), unconsolidated, material foreign subsidiaries. FBOs also must report financial data detailing the total assets, total stockholders' equity, and net income of all material foreign companies in which it owns between 25 percent and 50 percent of the shares or which it otherwise controls.

The FR 2068 requires that reporters provide an organization chart that

details all foreign companies that the FBO directly or indirectly owns, controls, or holds with power to vote 25 percent or more of any class of voting stock. This requirement is broader than the organization chart required by the FR Y-7 in that the latter is limited to all related U.S. companies and foreign companies that engage in business in the United States.

#### Changes Proposed Initially

FR Y-7

Several revisions were initially proposed for the FR Y-7: adding the Nonbank Financial Information Summary (NFIS), financial statements for each of the FBO's U.S. nonbanking subsidiaries, replacing the free-form financial statements currently submitted; adding a new schedule to collect information on risk-based capital; requiring submission of documentation explaining differences in accounting standards in the FBO's home country from U.S. accounting standards; requiring submission of a copy of Securities and Exchange Commission (SEC) Form 20-F for those respondents that report to the SEC; and replacing part of the FR Y-7 with a new report, the FR Y-7A, to collect information on the structure and activities of FBOs.

FR 2068

Initial proposed revisions to the FR 2068 included eliminating the filing exemption for those FBOs with small U.S. operations; eliminating earnings information; filing with the appropriate Federal Reserve Bank rather than directly with the Board; and adding several items to collect information on past due loans to replace similar information previously submitted in a free format. For both the FR Y-7 and FR 2068 it was proposed that the organization chart be expanded to include U.S. and non-U.S. companies owned by individuals who own 25 percent or more of the FBO.

#### Public Comments and Federal Reserve Board Recommendations.

After considering the comments, the Federal Reserve Board made several modifications to the initial proposed changes. Changes and comments are discussed below in detail.

FR Y-7

Commenters addressed several matters regarding the FR Y-7, including confidentiality, accounting standards, the organization chart, bearer shareholdings, and the Nonbank Financial Information Summary (NFIS.) There were no comments on the proposed new schedule for risk-based capital.

Confidentiality procedures. Several commenters asked for advance guarantee of confidentiality for the FR Y-7. If this request were to be granted, commenters stated that certain affiliates may be more willing to disclose information. Other commenters suggested that, although they had no expectation that a request for confidential treatment would be denied, the Board's existing procedure places them in an awkward position when seeking information from affiliates. They also asked that confidentiality be granted "on request" for NFIS information. However, it is not possible to guarantee the confidentiality of this information in light of the Freedom of Information Act, since ultimately a court may be called on to decide the matter. Under the applicable statutes and regulations, a foreign banking organization can make a case for confidentiality by showing that disclosure is likely to result in competitive harm or an invasion of personal privacy. The Board will agree to grant a request for confidential treatment that is properly supported with the understanding that if a Board decision to deny a formal request for access to such information is challenged in court, the court will decide the matter. In view of these considerations, the Board decided to retain the current procedures regarding confidentiality.

Explanation of national accounting standards. The Federal Reserve Board initially recommended that a respondent include a detailed explanation of national accounting standards and terminology with the FR Y-7 in the first year it files and thereafter in every year ending in "5" or "0." This information would supplement the Board's understanding of the differences in accounting standards. Commenters requested that the Board clarify the scope of this proposed report item. Several commenters stated that they were not aware of any complete explanation of foreign accounting terminology and standards. Another commenter requested that the Federal Reserve accept explanations of the type filed with securities offerings statements with the Securities and Exchange Commission (SEC.) Another suggested that FBOs be permitted to submit a statement of material differences between Generally Accepted Accounting Principles (GAAP) and home country accounting requirements. After reviewing these comments, the Federal Reserve decided to drop the proposed report item, and will instead collect this information on an ad hoc