FR 2951 Reporting Seminar

Mario Leon
Patricia Selvaggi
Brian Goodwin

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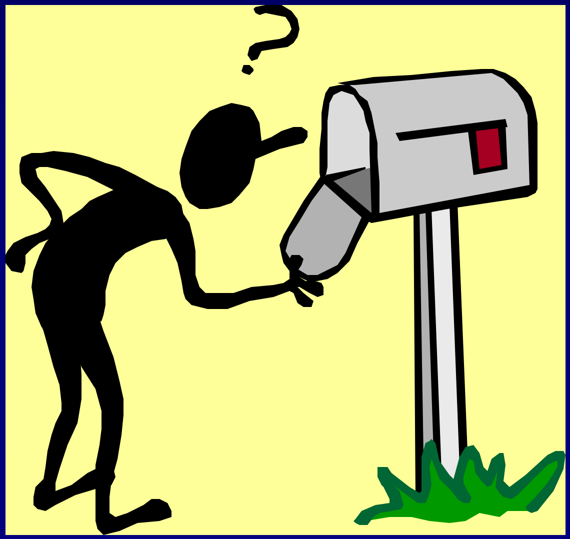
Other FR 2900 Reporting Issues

Mario Leon



Guidelines for Reporting Payment System Problems on the FR 2900/2951 Reports

- Regardless of which party is responsible for the payment error, the holder of the funds incurs a reservable liability that should be reflected on the FR 2900 or FR 2951

- This treatment ensures that reserve requirements and money stock on an aggregate level are unaffected by payment errors

Guidelines for Reporting Payment System Problems on the FR 2900/2951 Reports

- This treatment is applied regardless of the application of as-of adjustments or the payment of compensation from the other depository institution

Types of Payment Errors

There are four different types of payment errors

1. **<u>Duplicate payment</u>**

- Occurs when the sending institution transfers funds more than once
- The receiving institution reports these funds as a demand deposit until the duplicate payment is returned
- The sending institution should not report the duplicate payment either as a Due from bank or a CIPC

Types of Payment Errors

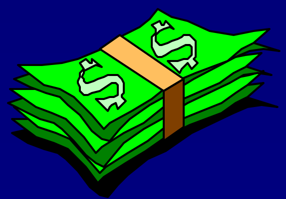
2. <u>Misdirected payment</u>

- Occurs when the sending institution transfers funds to the wrong bank
- The receiving bank reports these funds as a demand deposit until the funds are returned
- The sending bank should not report these funds either as a Due from bank or a CIPC

Types of Payment Errors

2. <u>Misdirected payment</u>

- The institution that did not receive the expected funds does not report these funds either as a Due from bank or a CIPC



Types of Payment Errors

3. <u>Failed payment</u>

- Occurs when an institution fails to make payment requested by a customer because of system problems (e.g., clerical error)
- The institution that retained the funds must report them as a demand deposit until the funds are disbursed
- The institution that did not receive the expected funds does not report these funds either as a Due from bank or a CIPC

Types of Payment Errors

4. Improper payment

- Occurs when a third party payment is made through Fedwire usually between the hours of 6:00 p.m. and 6:30 p.m. (known as the settlement period) when only "settlement transfers" are allowed
- The receiving bank reports these funds as a demand deposit
- The sending bank does not report these funds either as a Due from bank or a CIPC

Payment System Problems

Question 1

- On day 1 Bank A is expecting a $10 million funds transfer from Bank B
- On day 1 Bank B wires the $10 million to Bank A at 12:00 p.m. At 12:30 p.m. Bank B wires another $10 million without realizing that the 12 p.m. transfer was sent
- On day 2 both banks realize the error

How should each institution report these funds on day 1 on its FR 2900?

Payment System Problems

Answer

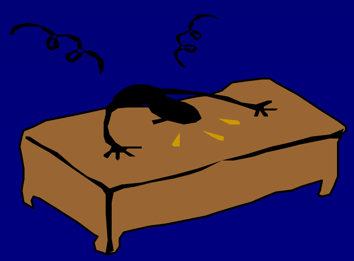
- On day 1 Bank A reports the $10 million received in error in addition to the $10 million it received earlier as a demand deposit due to Bank B in Line A.1.a

- Bank B does not report the $10 million sent in error as either a Due from bank A (Line B.1) or a CIPC (Line B.2)

Payment System Problems

Answer

- On day 2 Bank A may deduct these funds from Line A.1.a when these funds are returned to Bank B



Payment System Problems

Question 2

- On day 1 Bank A was requested to make a payment of $20 million to Bank B. Right before the transfer is made Bank A experiences a power failure and the funds could not be transferred until the next day. On day 2 the funds were transferred to Bank B.

  How should these transactions be reported on day 1 and day 2 for these institutions?

Payment System Problems

Answer

- On day 1 Bank A reports the $20 million as a demand deposit due to Bank B on Line A.1.a
- On day 1 Bank B does not report these funds as either a Due from Bank A (Line B.1) or a CIPC (Line B.2)
- On day 2 Bank A should deduct the $20 million from Line A.1.a if the funds are disbursed

Payment System Problems

Question 3

- On day 1 Bank A transfers $15 million on behalf of a corporate customer to Bank B at 6:15 p.m.

  How should each institution report these on its FR 2900?

Payment System Problems

Answer

- On day 1 Bank B reports the $15 million as a demand deposit due to Bank B in Line A.1.a
- On day 1 Bank A does not report these funds as either a Due from Bank A (Line B.1) or as a CIPC (Line B.2)
- On day 2 Bank B should deduct the $15 million from Line A.1.a if the funds are disbursed into the corporate customer's account

Payment System Problems

<u>Question 4</u>

- On day 1 Bank B is instructed to send a $50 million funds transfer to Bank C. However, due to an error the funds were accidentally sent to Bank A.
- On day 2 the error was discovered and the correct funds transfers were made.

How should each institution report these transactions on each day?

Payment System Problems

Answer

- On day 1 Bank A reports the $50 million as a demand deposit due to Bank B in Line A.1.a
- On day 1 neither Bank B nor Bank C should report these funds either as a Due from bank (Line B.1) or as a CIPC (Line B.2)
- On day 2 Bank A should deduct these funds from Line A.1.a if they were disbursed

Deposits from U.S. Residents Payable at an Office Located Outside the U.S.

- Regulation D exempts from reserve requirements "any deposit that is payable solely at an office located outside the U.S."
- "Any deposit that is payable only outside the U.S." means
  - The depositor is entitled, under the agreement with the institution, to demand payment <u>only outside the U.S</u>., and
  - If the depositor is a U.S. resident, the deposit must be in a denomination of <u>$100 thousand or more</u>

Deposits from U.S. Residents Payable at an Office Located Outside the U.S.

Regulation D defines "United States resident" as

- Any individual residing (at the same time of the transaction) in the U.S.
- Any corporation, partnership, association or other entity organized in the U.S. (domestic corporation)
- Any branch or office located in the U.S. of any entity that is not organized in the U.S.

Funds Swept From U.S. Resident Deposit Accounts Payable at an Office Located Outside the U.S.

However, funds swept out of a deposit account to offshore offices are included on the FR 2951 in Line 2 (due to related foreign offices) if

- The swept funds are booked as a liability to a related foreign office

U.S. Resident Deposits <u>Less than</u> <u>$100 thousand</u> Payable at an Office Located Outside the U.S.

- Regulation D does not exempt any deposit of a U.S. resident in denominations of less than $100 thousand, payable at an office outside the U.S.

- Therefore these deposits must be reported on the FR 2900 if your institution:

U.S. Resident Deposits Less than $100 thousand Payable at an Office Located Outside the U.S.

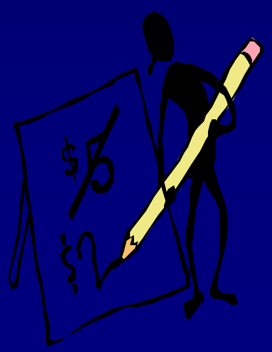
- Takes these deposits from U.S. residents and distributes them to your parent, or any other office of your parent located outside of the U.S., or,
- Solicits these deposits from U.S. residents and the ultimate liability of these deposits is with your parent or any other office of your parent located outside of the U.S.

U.S. Resident Deposits <u>Less than $100 thousand</u> Payable at an Office Located Outside the U.S.

<u>Question</u>

Bank A, NY Branch takes $80 thousand from ABC Corporation in the U.S. and sends the $80 thousand to Bank A, Tokyo Branch. $80 thousand is payable at the foreign branch in Tokyo.

How should this transaction be reported?



U.S. Resident Deposits <u>Less than $100 thousand</u> Payable at an Office Located Outside the U.S.

<u>Answer</u>

Bank A, NY branch takes $80 thousand from ABC Corporation in the U.S. and sends the $80 thousand to Bank A, Tokyo branch. The $80 thousand is payable at the foreign branch in Tokyo.

How should this transaction be reported?

The transaction should be reported as a time deposit in **Line D.1 and Line F.2.**

U.S. Resident Deposits <u>Less than $100 thousand</u> Payable at an Office Located Outside the U.S.

<u>Question</u>

Bank A, NY branch solicits $120 thousand from ABC Corporation in the U.S. and sends the $120 thousand to Bank A, Tokyo branch. The $120 thousand is payable at the foreign branch in Tokyo.

How should this transaction be reported?

U.S. Resident Deposits <u>Less than $100 thousand</u> Payable at an Office Located Outside the U.S.

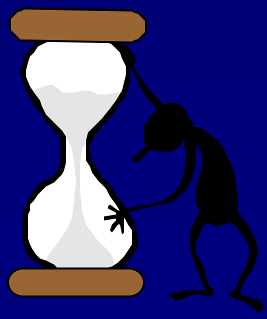
<u>Answer</u>

Bank A, NY branch solicits $120 thousand from ABC Corporation in the U.S. and sends the $120 thousand to Bank A, Tokyo branch. The $120 thousand is payable at the foreign branch in Tokyo.

This transaction is **<u>not</u> reported** on either the FR 2900 or the FR 2951.

Schedule AA

- This schedule includes a breakdown, by maturity, of amounts outstanding of
  - Ineligible banker's acceptances
  - Funds received through the issuance of obligations by nondepository affiliates



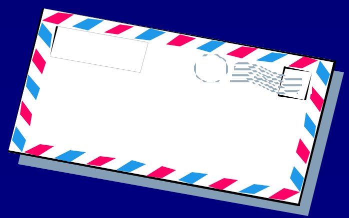
Banker’s Acceptances

- A banker’s acceptance (BA) is a draft or a bill of exchange for which the reporting institution assumes an obligation to make a payment at maturity, as specified in the acceptance.

- The acceptance represents an unconditional promise to pay the amount of the acceptance at maturity, substituting the bank’s own credit on behalf of its customer.

Banker's Acceptances

- Report in Schedule AA only BAs that are ineligible for discount by the Federal Reserve.



Banker's Acceptances

- A BA is <u>not eligible</u> to be discounted at a Federal Reserve Bank if
  - It is <u>not</u> secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering (collateralized) readily marketable goods, or
  - It has an original maturity of greater than 180 days

<u>Note</u>: An acceptance <u>not eligible</u> for discount at the Federal Reserve is an ineligible acceptance.

Banker's Acceptances

- Issuing - Once issued, the acceptance becomes an obligation of the reporting institution. Therefore, it should be included on Schedule AA if ineligible.
- Discounting - Ineligible acceptances are not reservable if the issuing bank later holds them in their own portfolio.

Banker's Acceptances

- <u>Rediscounting</u> - An ineligible acceptance is only reservable (outstanding) when it is <u>sold to a non-exempt entity</u>.

- <u>Maturing</u> - When a bankers acceptance matures, the holder (bearer) of the BA is paid the face value by the issuing bank and therefore, is excluded from Schedule AA.

Banker's Acceptances

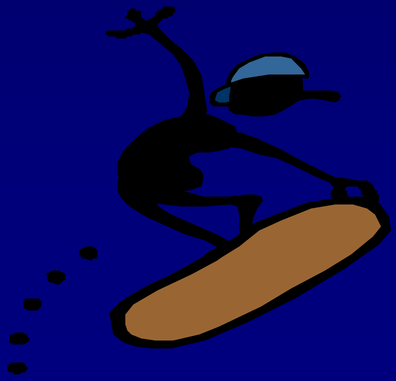
- Report in Line AA1 ineligible acceptances with original maturities of <u>less than</u> seven days
- Report in Line AA2 ineligible acceptances with original maturities of seven days or more

Other Obligations Reported on Schedule AA

- Report the dollar amounts outstanding of funds obtained by the reporting institution when its nondepository affiliates use the proceeds of the obligations that they issue to supply funds to the reporting institution.

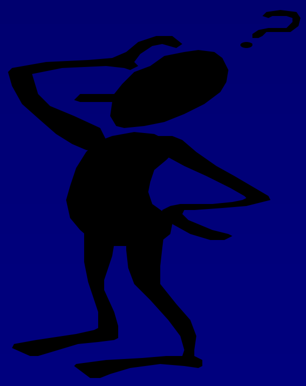
Other Obligations Reported on Schedule AA

- Such obligations may be in the form of promissory notes (including commercial paper), acknowledgments of advance, or due bills



Other Obligations Reported on Schedule AA

- Such obligations should be reported only to the extent that they would have constituted deposits had they been issued by the reporting institution



Other Obligations Reported on Schedule AA

Question 1

- Nondepository affiliate issues an unsecured due bill to Corporation A for $10 million with a maturity of three months. An affiliate funds Bank A, NY $10 million by purchasing a $10 million loan . The loan has a maturity of two months.

  How should Bank A, NY reported the $10 million on the FR 2900?

Other Obligations Reported in Schedule AA

Bank A
Bank Holding Company

Nondepository Affiliate

Affiliate issues $10 million unsecured due bill to Corp. A. Due bill matures in 3 months.

Bank A
Head Office

Corp A

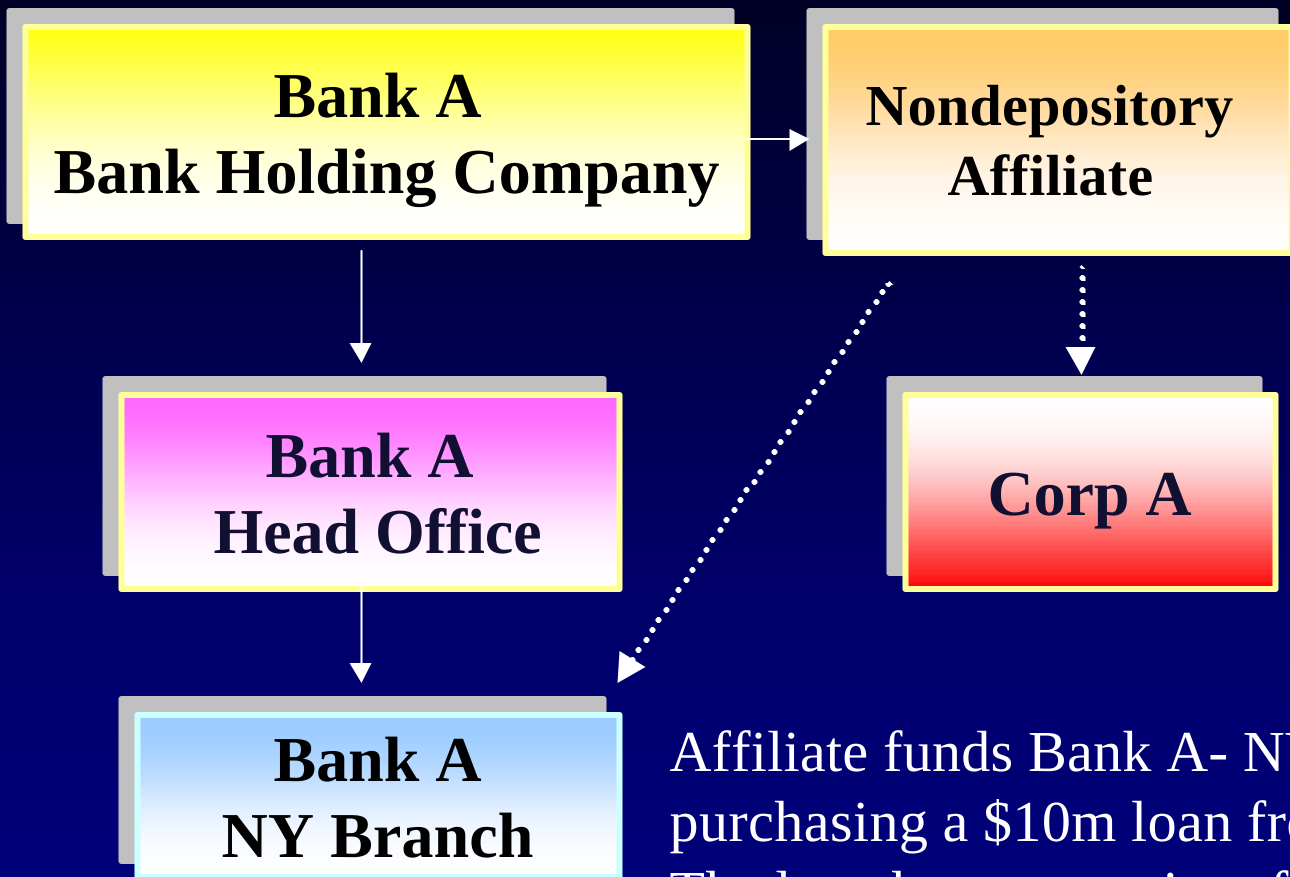
Question 1

Bank A
NY Branch

Affiliate funds Bank A, NY the $10 million by purchasing a $10m loan from Bank A, NY. The loan has a maturity of 2 months.

How should Bank A, NY report the $10 million?

Other Obligations Reported in Schedule AA



Affiliate issues $10 million unsecured due bill to Corp. A. Due bill matures in 3 months.

Answer 1

Affiliate funds Bank A- NY the $10m by purchasing a $10m loan from Bank A, NY. The loan has a maturity of 2 months.

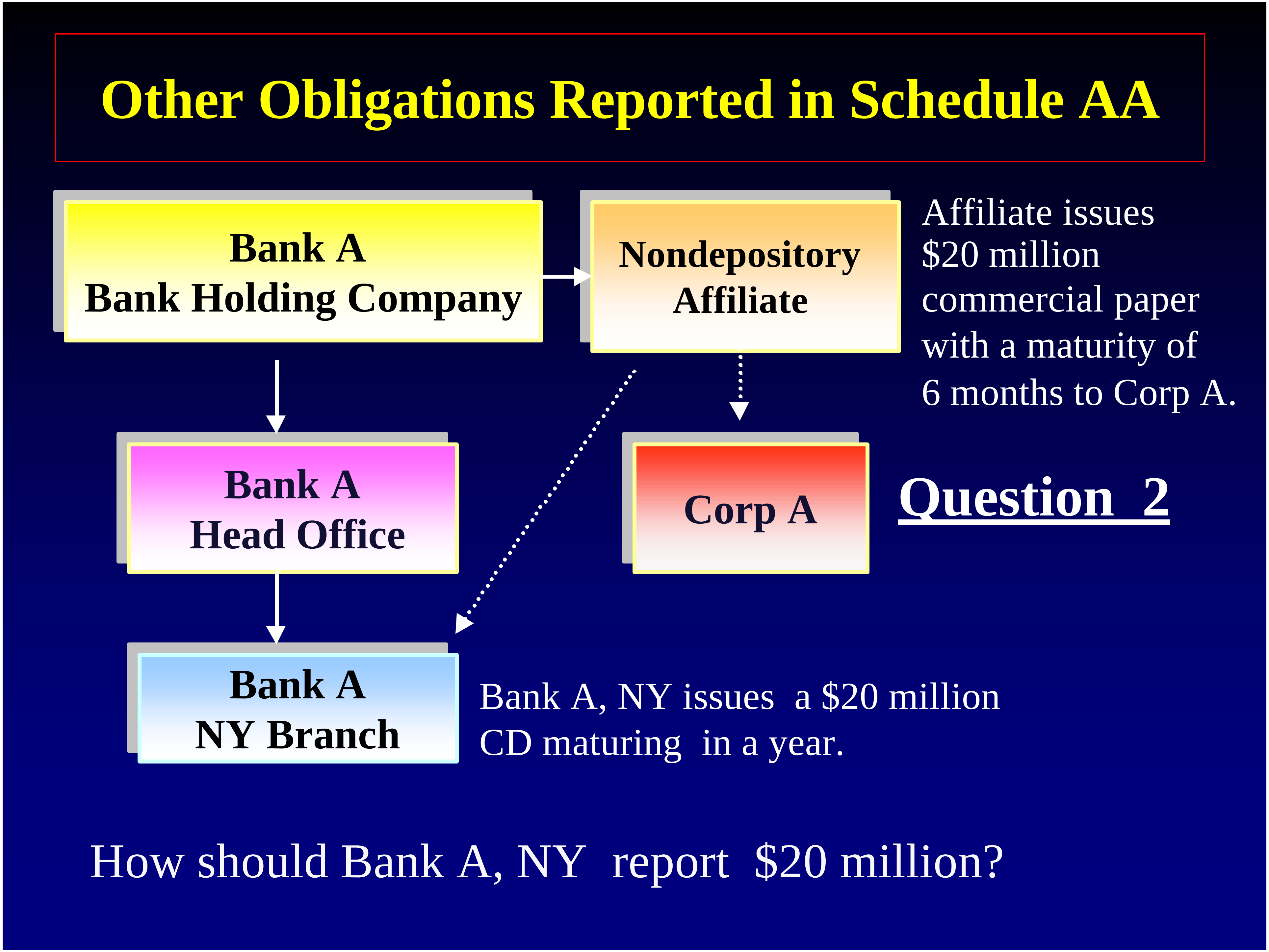
Bank A, NY would report $10 million in Line 2 of Schedule AA on the FR 2900.

Other Obligations Reported in Schedule AA

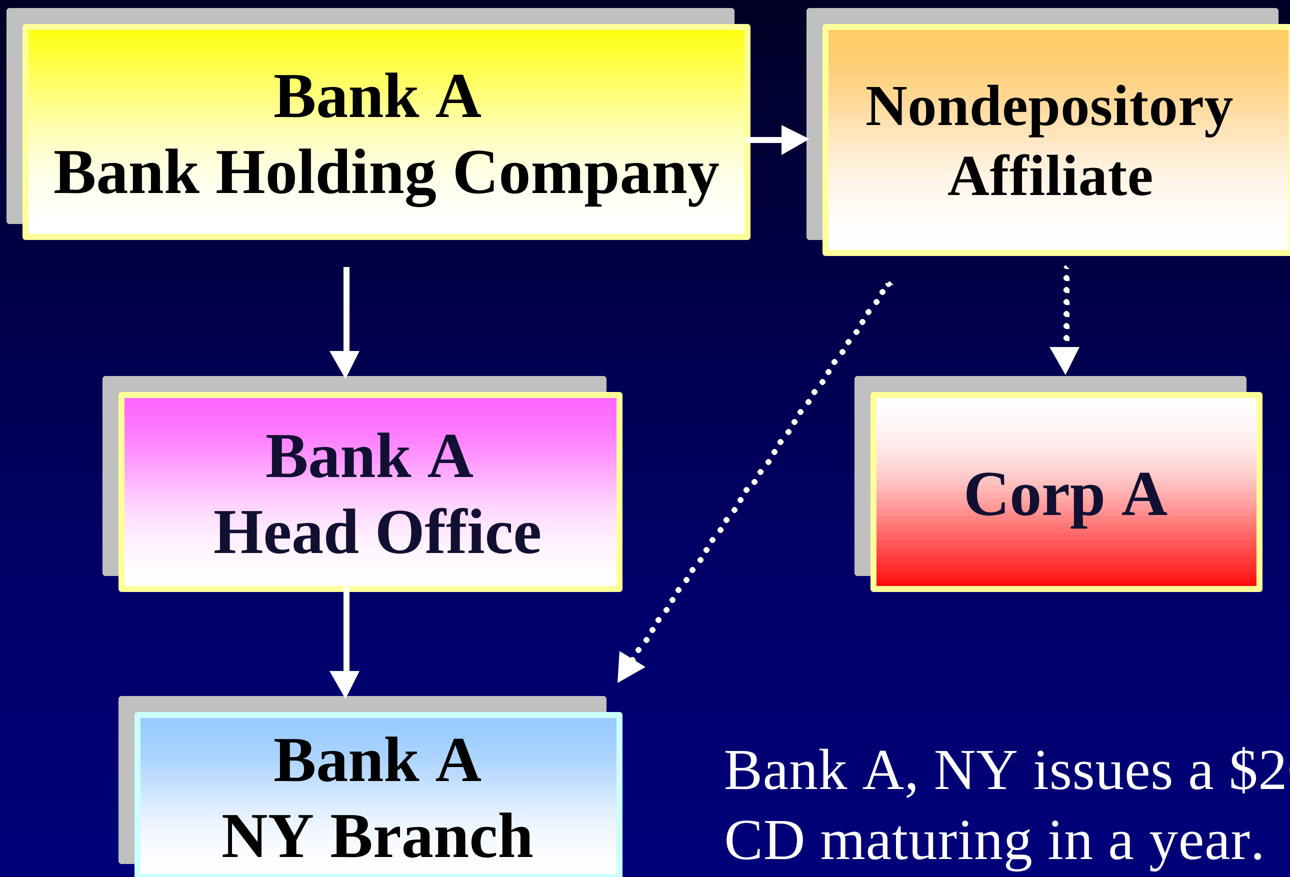
Question 2

- Nondepository affiliate issues a $20 million commercial paper to Corporation A with a maturity of six months. Bank A, NY is funded the $20 million by issuing a $20 million CD to its affiliate. CD has a maturity of one year.

  How should this transaction be reported on the FR 2900?


Other Obligations Reported in Schedule AA
Bank A
Bank Holding Company
Nondepository
Affiliate
Affiliate issues
$20 million
commercial paper
with a maturity of
6 months to Corp A.
Bank A
Head Office
Corp A
Question 2
Bank A
NY Branch
Bank A, NY issues a $20 million
CD maturing in a year.
How should Bank A, NY report $20 million?

Other Obligations Reported in Schedule AA



Affiliate issues $20 million commercial paper with a maturity of 6 months to Corp A.

Answer 2

Bank A, NY issues a $20 million CD maturing in a year.

Bank A, NY would report $20 million as a six month nonpersonal CD in **Lines D.1, F.1, and F.2.**

Schedule AA

In summary, report in Schedule AA

- Ineligible banker's acceptances
- Funds received through the issuance of obligations by affiliates

Report obligations with maturities of less than 7 days in Line 1 of Schedule AA.

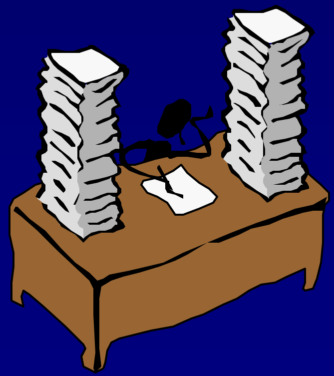
Report obligations with maturities equal to or greater than 7 days and if the counter party is nonpersonal, in Line 2 of Schedule AA.

Summary

- ☞ Payment System Problems
  - Duplicate
  - Misdirected
  - Failed
  - Improper
- ☞ Deposits from U.S. residents < $100 thousand payable outside the U.S.
- ☞ Ineligible BAs

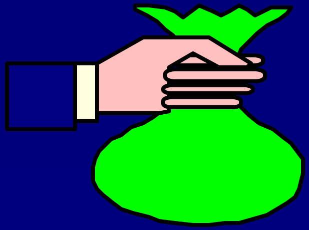
Report of Certain Eurocurrency Transactions

Patricia Selvaggi

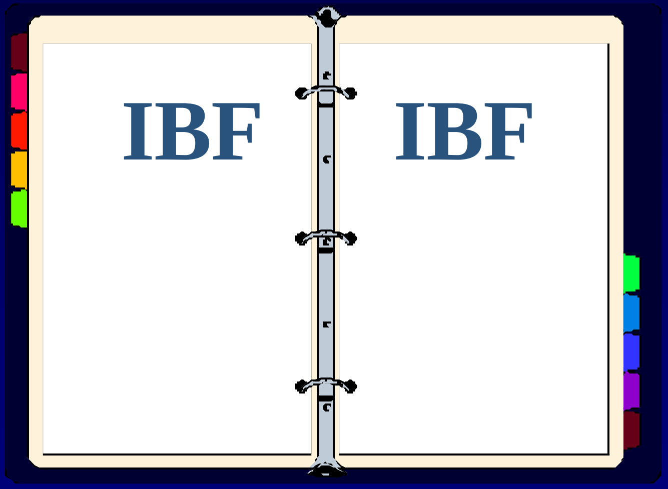


Report of Certain Eurocurrency Transactions (FR 2951)

- The main purpose of the "Report of Certain Eurocurrency Transactions" (FR 2951) is to capture the sources of funds depository institutions in the U.S. receive from outside the U.S.



International Banking Facilities (IBF)



International Banking Facilities (IBF)

- IBFs were first permitted in 1981 to enable depository institutions located in the U.S. to compete more effectively for overseas deposits and loans

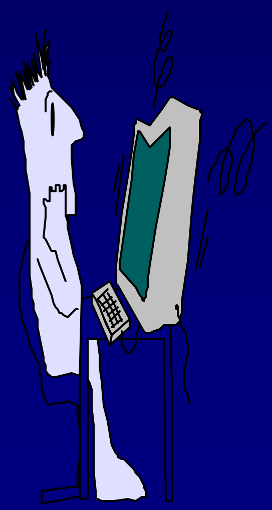
- An IBF is simply a separate set of books maintained by a depository institution for a "shell" institution that is chartered in the U.S., but is treated like a related foreign branch

International Banking Facilities (IBF)

- IBFs are treated as non-U.S. offices and are exempted from certain U.S. laws, including
  - Reserve requirements
  - FDIC insurance assessments
  - Some state and local income taxes

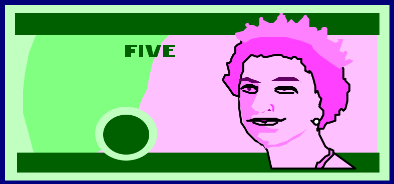
IBF Restrictions

- IBFs are only allowed to extend credit or accept deposits with the following customers:
  - Foreign residents (including banks)
  - Other IBFs
  - The establishing entity



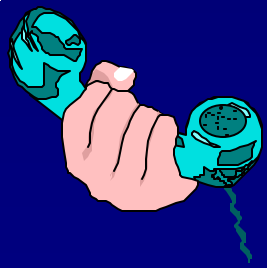
IBF Restrictions

- IBFs may only extend credit to and accept deposits from a nonbank customer only if such funds are used to finance the borrower's operations located outside the U.S.



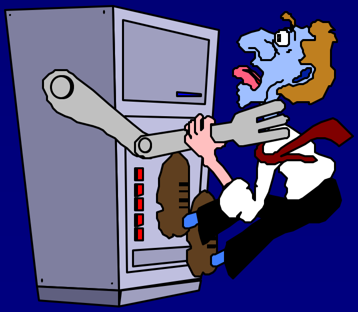
IBF Restrictions

- In order to determine that the use-of-proceed requirement has been met, it is necessary for the IBF to
  - Ascertain that the applicable IBF notices and acknowledgments have been provided



IBF Deposit Maturities

- IBF deposits must have a minimum maturity
  - Overnight for foreign banks, other IBFs and the establishing entity
  - Two business days for non-bank foreign residents



IBF Deposit Maturities

- Deposits and withdrawals of nonbank customers must be in the amount of at least $100 thousand, and

- IBFs are prohibited from issuing negotiable instruments including Eurodollar CDs and banker acceptances

Review

IBF's cannot issue a loan to which of the following?

a) Other IBFs

b) The establishing entity

c) U.S. residents

d) Foreign residents

Review

Which of the following statements concerning IBF deposits are true?

a) Deposits by non-bank foreign residents must be at least overnight

b) Foreign bank deposits must be for at least two business days

☑ c) Deposits by non-bank foreign residents must be at least two business days

d) None of the above

Review

Which of the following is not a permissible IBF activity?

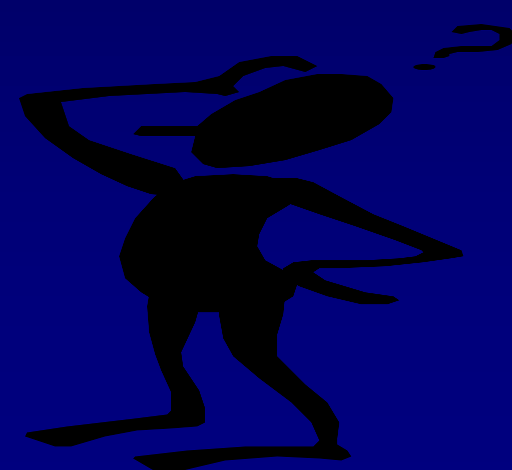
a) Issue a negotiable CD to a foreign bank

b) Issue a $99 thousand CD to a non-bank customer

c) Issue a loan to a foreign non-bank customer for purchasing a building in the U.S.

d) All of the above

Related
vs
Unrelated Institutions



Related vs Unrelated Institutions

- For FR 2951 reporting, related institutions are
  - Foreign (direct) Parent Bank
  - Offices of the same foreign (direct) Parent Bank

Related vs. Unrelated Institutions

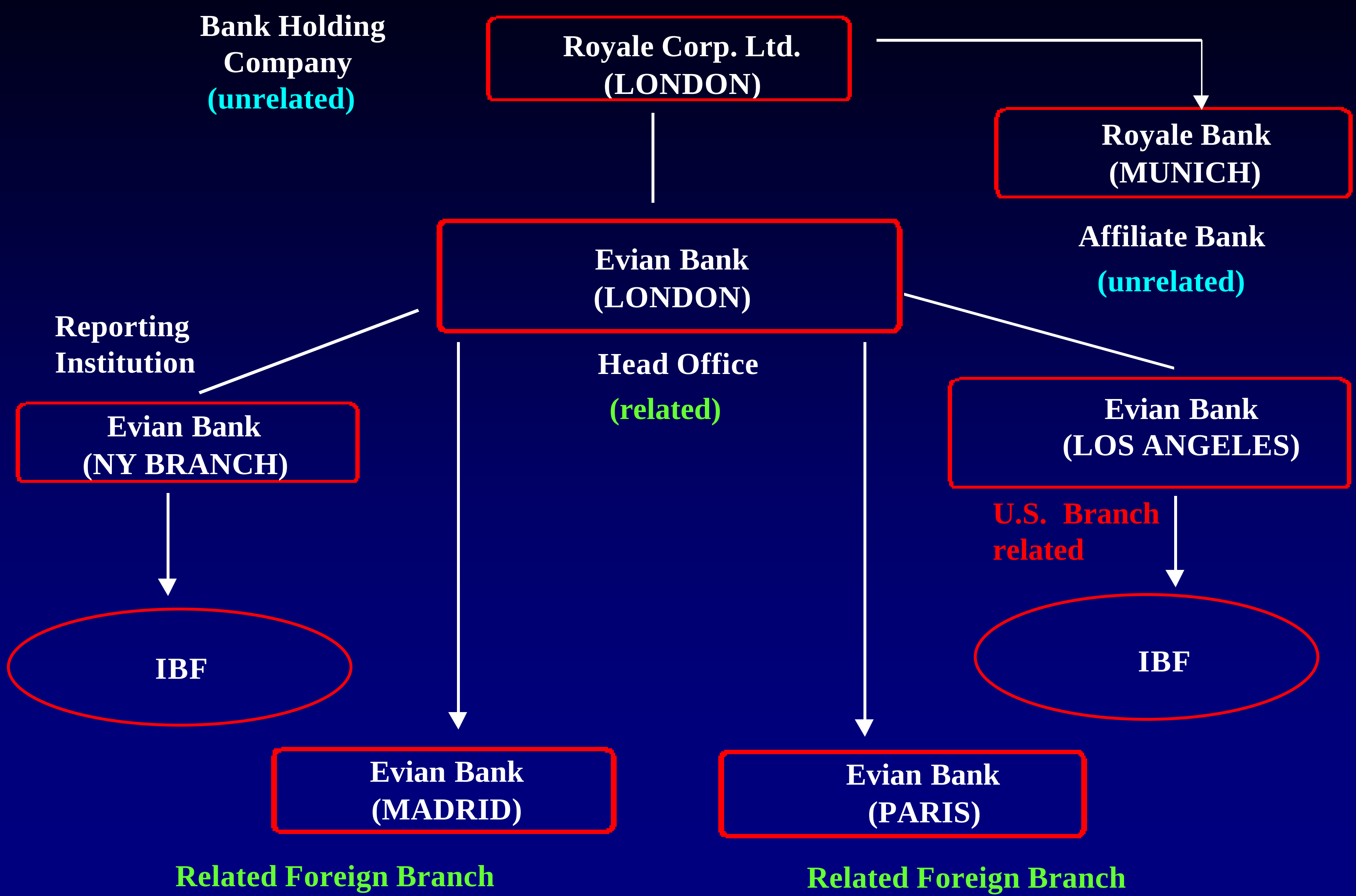
- Affiliates and subsidiaries of the foreign (direct) parent bank are treated as unrelated institutions for purposes of Regulation D, therefore

- Deposits, borrowings, and claims from these affiliate and subsidiaries are treated like those from unrelated institutions

Related vs Unrelated Institutions

- In summary, the following are true
  - Line 1 is the only line item on the FR 2951 that records borrowings from your foreign <u>banking</u> affiliates and subsidiaries
  - Any due from or loans to your banking and <u>non-banking</u> affiliates and subsidiaries are included in line 4 on the FR 2951

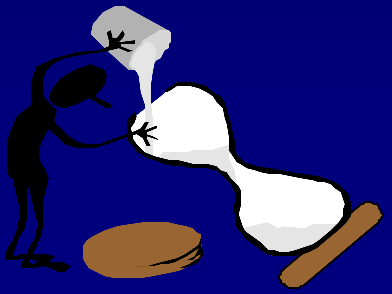
Foreign Bank Organizational Chart



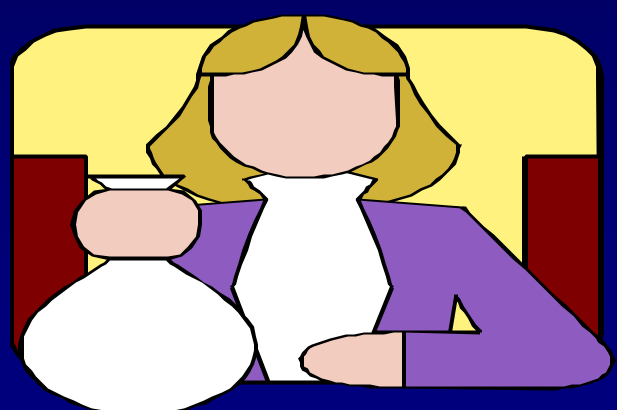
Review

<u>True or False</u> False

Based on the organization chart on the previous screen, deposits from the L.A. Branch would appear on the reporting institutions FR 2900 and 2951?

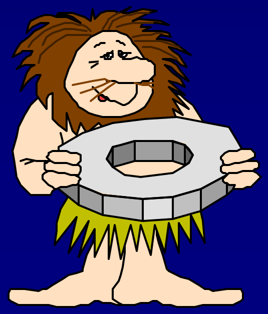


Line 1: Borrowings From Non-U.S. Offices of Other Depository Institutions and From Certain Designated Non-U.S. Entities



Line 1: Borrowings From Non-U.S. Offices of Other Depository Institutions and From Certain Designated Non-U.S. Entities

- Depository institutions must report any borrowings from unrelated banking institutions located outside of the U.S.

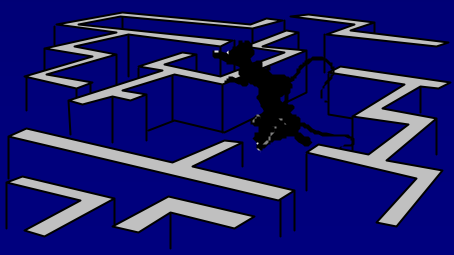


Line 1: Borrowings From Non-U.S. Offices of Other Depository Institutions and From Certain Designated Non-U.S. Entities

- Borrowings from the following depository institutions are reported in Line 1
  - Non-U.S. Banks (located overseas)
  - Overseas branches of U.S. depository institutions
  - International institutions
  - Overseas banking subsidiaries and affiliates of the parent bank

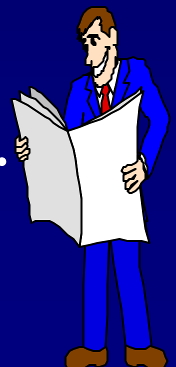
Line 1: Borrowings From Non-U.S. Offices of Other Depository Institutions and From Certain Designated Non-U.S. Entities

- **<u>Exclude</u>** borrowings from the reporting institution's non-U.S. branches or non-U.S. offices of the parent bank from Line 1



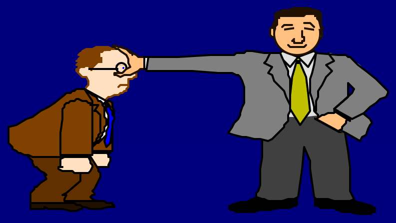
Line 1: Common Borrowings Reported

- Include as borrowings on Line 1
  - Federal funds or any overnight borrowing from depository institutions located outside the U.S. (including the World Bank)
  - Overdrafts
  - Repurchase agreements not backed by U.S. government securities

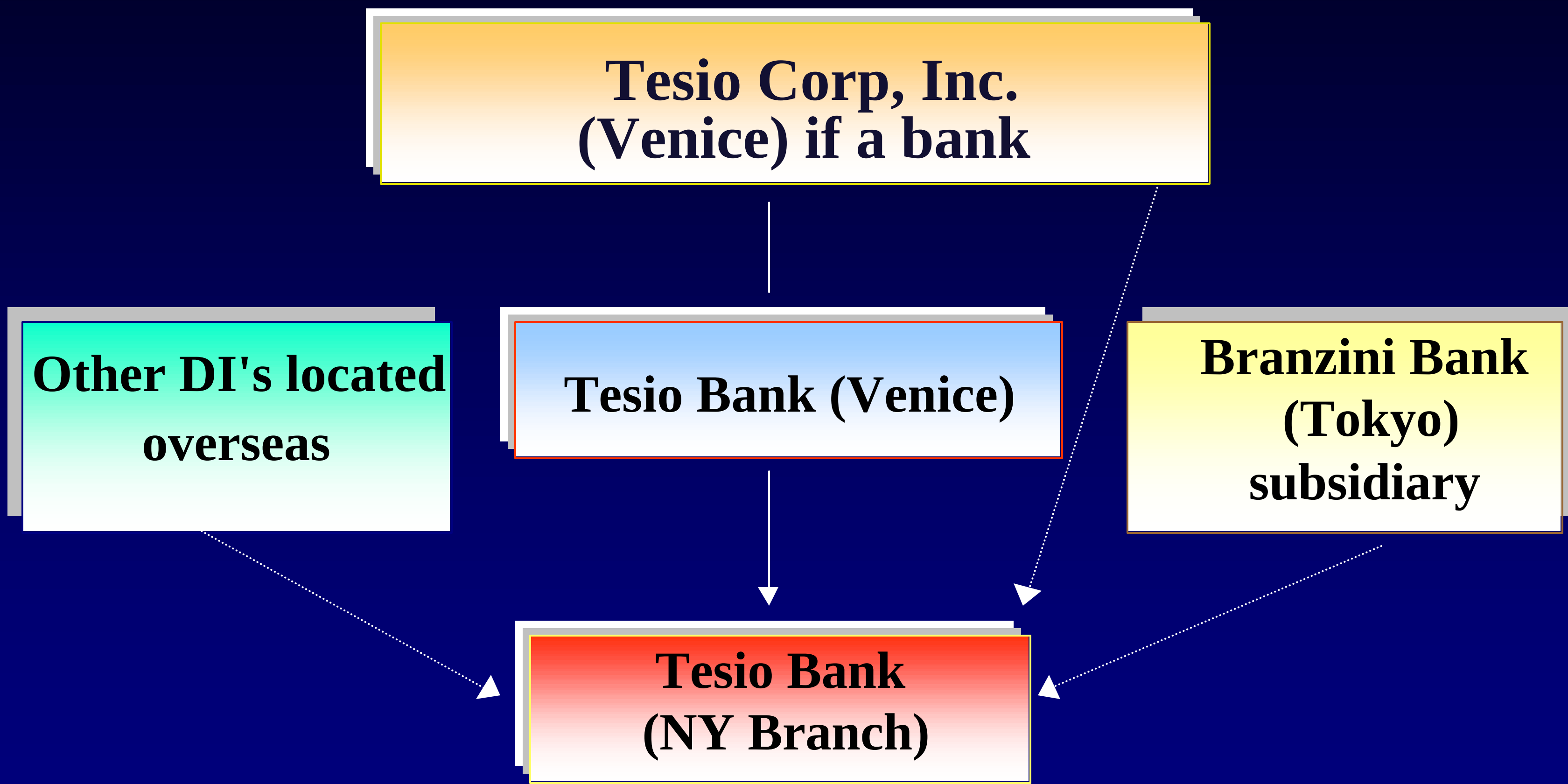


Line 1: Common Borrowings Reported

<u>Note</u>: A depository institution should <u>exclude</u> any items reported on the FR 2900 such as CDs, MMDAs and time open accounts.



Line 1: FR 2951



Dotted lines represent borrowings to be reported in Line 1.

Review

Which of the following instruments should be reported on Line 1 of the FR 2951?

a) Overdraft with U.S. correspondent

b) Repurchase agreement (backed by U.S Gov’t securities) with non-U.S. bank

c) Overnight loan from the World Bank

d) None of the above

Review

Which of the following instruments should be reported on Line 1 of the FR 2951?

a) Overdraft with U.S. correspondent

b) Repurchase agreement (backed by U.S Gov’t securities) with non-U.S. bank

c) Overnight loan from the World Bank

d) None of the above

Review

A borrowing with a thirty day maturity from which of the following institutions is not reported in Line 1 of the FR 2951?

a) Foreign subsidiary of the parent

b) Foreign parent's Cayman Branch

c) World Bank

d) Reporting institution's foreign non-bank holding company

Hint: More than one answer!

Review

A borrowing with a thirty day maturity from which of the following institutions is not reported in Line 1 of the FR 2951?

a) Foreign subsidiary of the parent

b) Foreign parent's Cayman Branch

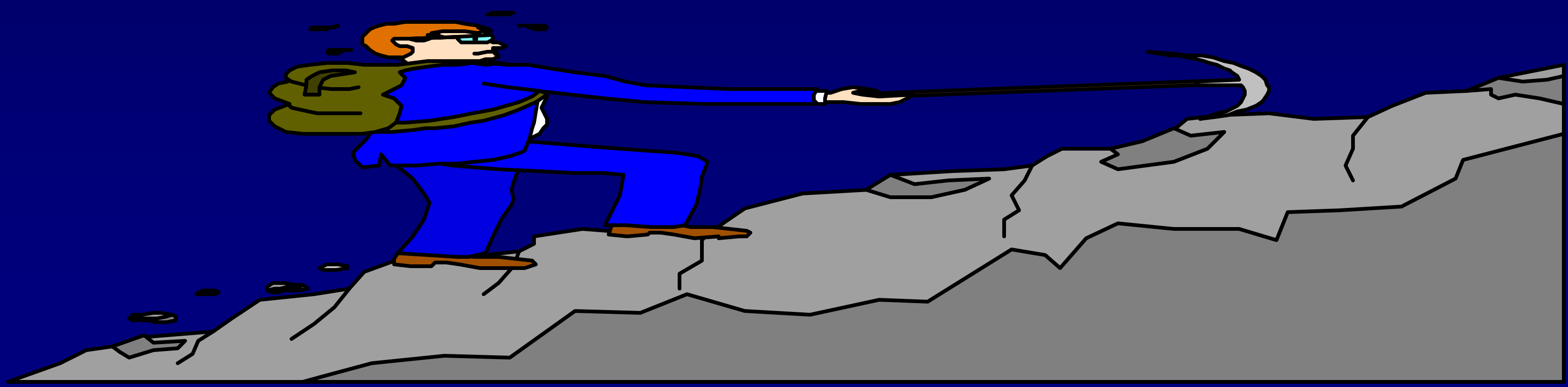
c) World Bank

d) Reporting institution's foreign non-bank holding company

Hint: More than one answer!

Gross Liabilities to and Gross Claims on Non-U.S. Parent Bank and Its Non-U.S. Offices Plus Net IBF

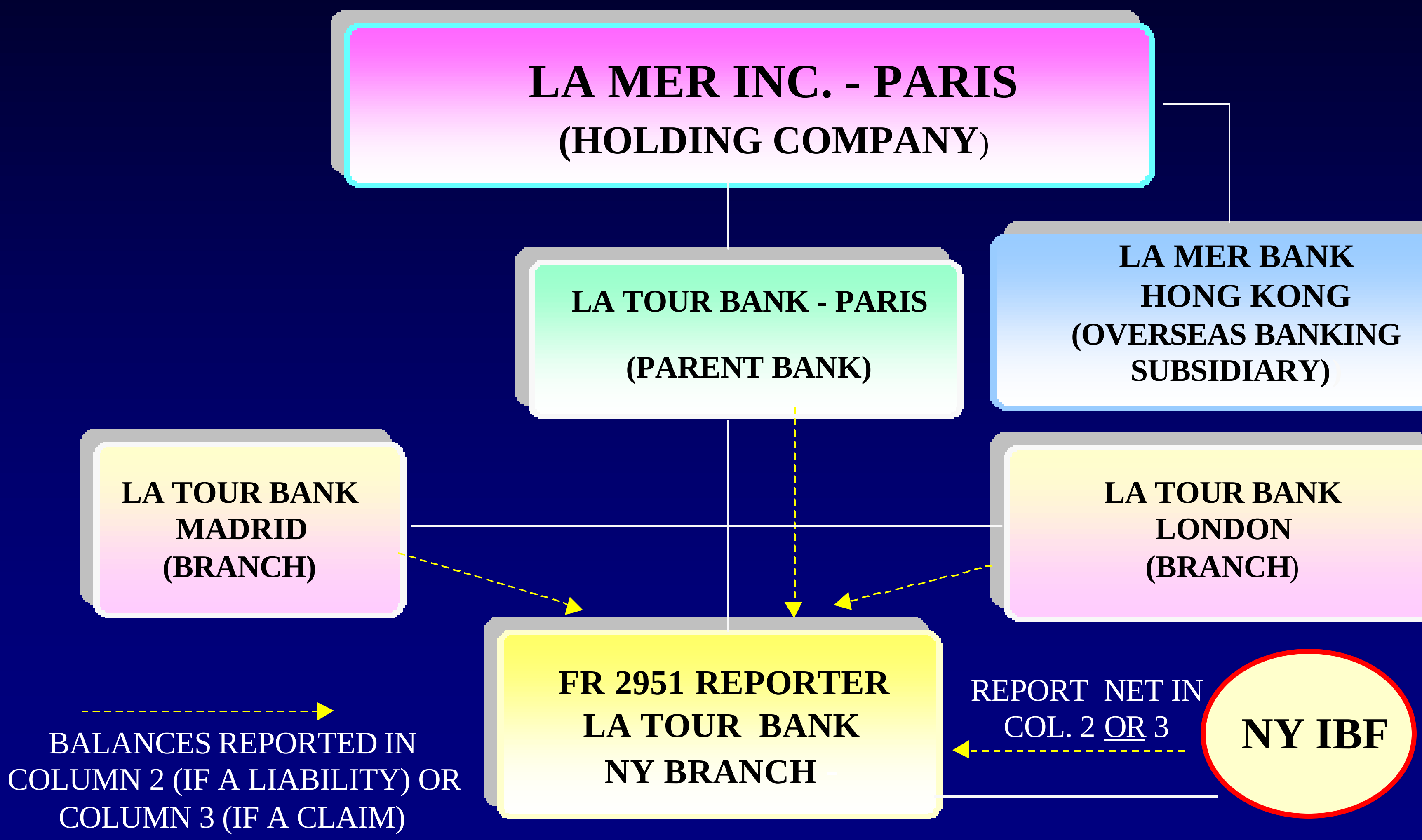
Brian Goodwin



Gross Liabilities to and Gross Claims on Non-U.S. Parent Bank and Its Non-U.S. Offices Plus Net IBF

- Lines 2 and 3
  - Depository institutions report any liabilities or claims they have with their non-U.S. parent and the parent's non-U.S. offices on a <u>gross</u> basis

Lines 2 & 3 for a FR 2951 Reporter

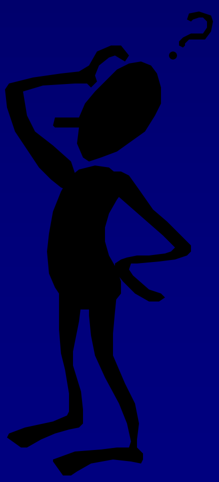


Gross Liabilities to Non-U.S. Parent Bank and Its Non-U.S. Offices Plus Net Liabilities to Own IBF (Line 2)

- Liabilities due to related parties include
  - Funds placed on deposit by related parties
  - Borrowings
  - Overdrawn balances held with related parties

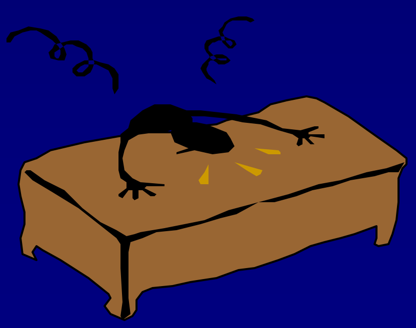
Gross Liabilities to Non-U.S. Parent Bank and Its Non-U.S. Offices Plus Net Liabilities to Own IBF (Line 2)

- Liabilities due to related parties include
  - Accounts payable
  - Capital contribution, adjusted for
    - Unremitted earnings (losses)
    - Provision for loan loss reserves
- Exclude
  - Gross liabilities to own IBF



Gross Liabilities to Non-U.S. Parent Bank and Its Non-U.S. Offices Plus Net Liabilities to Own IBF (Line 2)

Based on the balance sheet on the proceeding page, what would be reported in line 2?



Mt. Vernon Bank, NY Branch

Assets

Cash and Due From	195,000	
CIPC		2,000
Vault Cash		1,000
Due from (demand)		
U.S. Banks		10,000
FRB Balances		25,000
Mt. Vernon London		10,000
Mt. Vernon San Fran		2,000
Nonbanking Affiliate		5,000
Head Office Paris		10,000
NY IBF		130000
Securities	35,000	
U.S. Treasury		35,000
Loans	548,000	
Commercial and Industrial		225,000
U.S. Banks		26,000
Foreign Banks		75,000
Head Office Paris		19,000
Mt. Vernon San Fran		3,000
N.Y. IBF		200,000
Total Assets	778,000	

Liabilities

Demand Deposits	296,000	
IPC		10,000
U.S. Banks		1,000
Foreign Banks		75,000
Foreign Official Institutions		50,000
Head Office Paris		15,000
Mt. Vernon London		10,000
Mt. Vernon Cayman		25,000
IBF		100,000
Nonbanking Affiliate		10,000
Time and Savings Deposits	248,000	
IPC		220,000
U.S. Banks		2,000
Foreign Banks		1,000
Foreign Official Institutions		25,000
Borrowings	234,000	
U.S. Banks		3,000
Foreign Banks		5,000
Head Office Paris		10,000
Mt. Vernon London		9,000
Mt. Vernon San Fran		4,000
Mt. Vernon Cayman		2,000
Foreign Official Institution		1,000
N.Y. IBF		200,000
Total Liabilities	778,000	

Mt. Vernon Bank, NY Branch

Assets

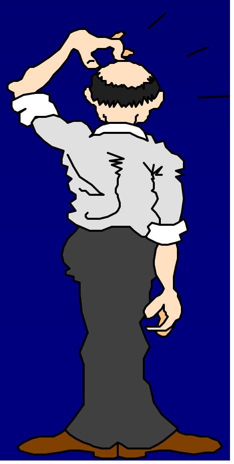
Cash and Due From	195,000	
CIPC		2,000
Vault Cash		1,000
Due from (demand)		
U.S. Banks		10,000
FRB Balances		25,000
Mt. Vernon London		10,000
Mt. Vernon San Fran		2,000
Nonbanking Affiliate		5,000
Head Office Paris		10,000
NY IBF		130000
Securities	35,000	
U.S. Treasury		35,000
Loans	548,000	
Commercial and Industrial		225,000
U.S. Banks		26,000
Foreign Banks		75,000
Head Office Paris		19,000
Mt. Vernon San Fran		3,000
N.Y. IBF		200,000
Total Assets	778,000	

Liabilities

Demand Deposits	296,000	
IPC		10,000
U.S. Banks		1,000
Foreign Banks		75,000
Foreign Official Institutions		50,000
Head Office Paris		15,000
Mt. Vernon London		10,000
Mt. Vernon Cayman		25,000
IBF		100,000
Nonbanking Affiliate		10,000
Time and Savings Deposits	248,000	
IPC		220,000
U.S. Banks		2,000
Foreign Banks		1,000
Foreign Official Institutions		25,000
Borrowings	234,000	
U.S. Banks		3,000
Foreign Banks		5,000
Head Office Paris		10,000
Mt. Vernon London		9,000
Mt. Vernon San Fran		4,000
Mt. Vernon Cayman		2,000
Foreign Official Institution		1,000
N.Y. IBF		200,000
Total Liabilities	778,000	

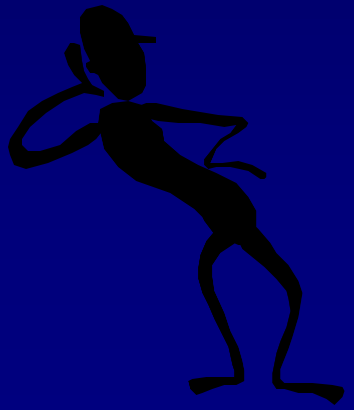
Gross Claims on Non-U.S. Parent Bank and Its Non-U.S. Offices Plus Net Claims on Own IBF (Line 3)

- Claims due from related parties include
  - Funds deposited with related parties
  - Loans



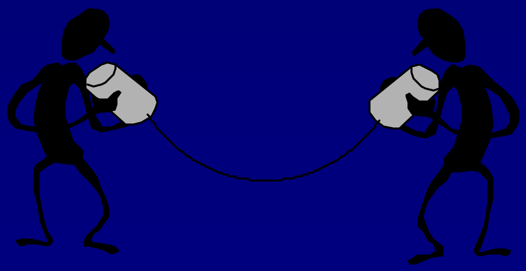
Gross Claims on Non-U.S. Parent Bank and Its Non-U.S. Offices Plus Net Claims on Own IBF (Line 3)

- Claims due from related parties include
  - Overdrawn balances of related parties
  - Accounts receivable
- Exclude
  - Gross claims on own IBF



Gross Claims on Non-U.S. Parent Bank and Its Non-U.S. Offices Plus Net Claims on Own IBF (Line 3)

Based on the balance sheet on the proceeding page, what would be reported in line 3?



Mt. Vernon Bank, NY Branch

Assets			**Liabilities**		
Cash and Due From	195,000		Demand Deposits	296,000	
CIPC		2,000	IPC		10,000
Vault Cash		1,000	U.S. Banks		1,000
			Foreign Banks		75,000
Due from (demand)			Foreign Official Institutions		50,000
U.S. Banks		10,000	Head Office Paris		15,000
FRB Balances		25,000	Mt. Vernon London		10,000
Mt. Vernon London		10,000	Mt. Vernon Cayman		25,000
Mt. Vernon San Fran		2,000	IBF		100,000
Nonbanking Affiliate		5,000	Nonbanking Affiliate		10,000
Head Office Paris		10,000			
NY IBF		130000	Time and Savings Deposits	248,000	
			IPC		220,000
Securities	35,000		U.S. Banks		2,000
U.S. Treasury		35,000	Foreign Banks		1,000
			Foreign Official Institutions		25,000
Loans	548,000				
Commercial and Industrial		225,000	Borrowings	234,000	
U.S. Banks		26,000	U.S. Banks		3,000
Foreign Banks		75,000	Foreign Banks		5,000
Head Office Paris		19,000	Head Office Paris		10,000
Mt. Vernon San Fran		3,000	Mt. Vernon London		9,000
N.Y. IBF		200,000	Mt. Vernon San Fran		4,000
			Mt. Vernon Cayman		2,000
			Foreign Official Institution		1,000
			N.Y. IBF		200,000
Total Assets	778,000		Total Liabilities	778,000	

Mt. Vernon Bank, NY Branch

Assets			Liabilities		
Cash and Due From	195,000		Demand Deposits	296,000	
CIPC		2,000	IPC		10,000
Vault Cash		1,000	U.S. Banks		1,000
			Foreign Banks		75,000
Due from (demand)			Foreign Official Institutions		50,000
U.S. Banks		10,000	Head Office Paris		15,000
FRB Balances		25,000	Mt. Vernon London		10,000
Mt. Vernon London		10,000	Mt. Vernon Cayman		25,000
Mt. Vernon San Fran		2,000	IBF		100,000
Nonbanking Affiliate		5,000	Nonbanking Affiliate		10,000
Head Office Paris		10,000			
NY IBF		130000	Time and Savings Deposits	248,000	
			IPC		220,000
Securities	35,000		U.S. Banks		2,000
U.S. Treasury		35,000	Foreign Banks		1,000
			Foreign Official Institutions		25,000
Loans	548,000				
Commercial and Industrial		225,000	Borrowings	234,000	
U.S. Banks		26,000	U.S. Banks		3,000
Foreign Banks		75,000	Foreign Banks		5,000
Head Office Paris		19,000	Head Office Paris		10,000
Mt. Vernon San Fran		3,000	Mt. Vernon London		9,000
N.Y. IBF		200,000	Mt. Vernon San Fran		4,000
			Mt. Vernon Cayman		2,000
			Foreign Official Institution		1,000
			N.Y. IBF		200,000
Total Assets	778,000		Total Liabilities	778,000	

Net
IBF Position

Net IBF Position

- The net IBF position is the net credit or debit position that is reflected on the IBF books with the establishing entity.

- This should be the difference between the IBF's assets and liabilities excluding the U.S. offices of the establishing entity.

Net IBF Position

- The net IBF position should be reported in either Line 2 (if a net due to) or Line 3 (if a net due from)

Net IBF Position

IBF Balance Sheet

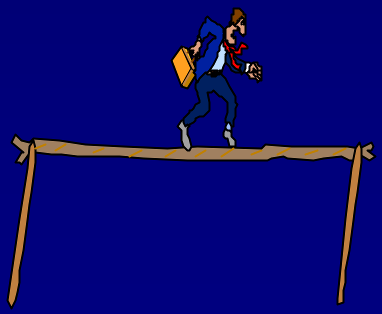
Assets	**Liabilities**
Third-party Assets	Third-party Liabilities
Due From NY Branch	Due To NY Branch
	Net Profit
Total Assets	**Total Liabilities**

Net Calculation

Liabilities to parties other than U.S. offices of the establishing entity **Minus** Assets DF parties other than U.S. offices of the establishing entity

Net IBF Position

Which items on the proceeding balance sheet would be considered third party assets or third party liabilities?



Vario Bank, NY IBF's Books

Assets			Liabilities		
Cash and Due From :		121,500	Deposits :		368,000
Foreign Banks	10,000		Foreign Banks	10,000	
Vario N.Y.	100,000		Vario N.Y.	250,000	
Foreign Official Inst.	500		Foreign Official Inst.	75,000	
Vario San Fran IBF	1,000		IPC	33,000	
Vario London	5 ,000				
Vario Cayman	5 ,000				
Securities		22,000	Borrowings:		265,500
Foreign Treasury	20,000		Foreign Banks	25,000	
Other Bonds and notes	2,000		Vario N.Y.	200,000	
			Vario London	7,000	
			Vario Cayman	3,000	
			Other IBFs	25,500	
Loans :		490,000			
Comm. and Indus	292,000				
Foreign Banks	51,000		Net profit (due to NY Branch)	5,000	
Foreign Official Inst	20,000				
Vario London	25,000				
Vario Cayman	25,000				
Vario San Fr IBF	20,000				
Vario N.Y.	57,000				
Total Assets		633,500	Total Liabilities		633,500

Vario Bank, NY IBF's Books

Assets			Liabilities		
Cash and Due From :		121,500	Deposits :		368,000
Foreign Banks	10,000		Foreign Banks	10,000	
Vario N.Y.	100,000		Vario N.Y.	250,000	
Foreign Official Inst.	500		Foreign Official Inst.	75,000	
Vario San Fran IBF	1,000		IPC	33,000	
Vario London	5 ,000				
Vario Cayman	5 ,000				
Securities		22,000	Borrowings:		265,500
Foreign Treasury	20,000		Foreign Banks	25,000	
Other Bonds and notes	2,000		Vario N.Y.	200,000	
			Vario London	7,000	
			Vario Cayman	3,000	
			Other IBFs	25,500	
Loans :		490,000			
Comm. and Indus	292,000				
Foreign Banks	51,000		Net profit (due to NY Branch)	5,000	
Foreign Official Inst	20,000				
Vario London	25,000				
Vario Cayman	25,000				
Vario San Fr IBF	20,000				
Vario N.Y.	57,000				
Total Assets		633,500	Total Liabilities		633,500

Net IBF Position

IBF Balance Sheet

Assets		**Liabilities**	
Third-party Assets	476,500	Third-party Liabilities	178,500
Due From NY Br.	157,000	Due To NY Br.	450,000
		Net Profit	5,000
Total Assets	633,500	**Total Liabilities**	633,500

Net Calculation

Liabilities to parties other than U.S. offices of the establishing entity	**Minus**	Assets due from parties other than U.S. offices of the establishing entity
178,500		476,500

(298,000)

Net IBF Position

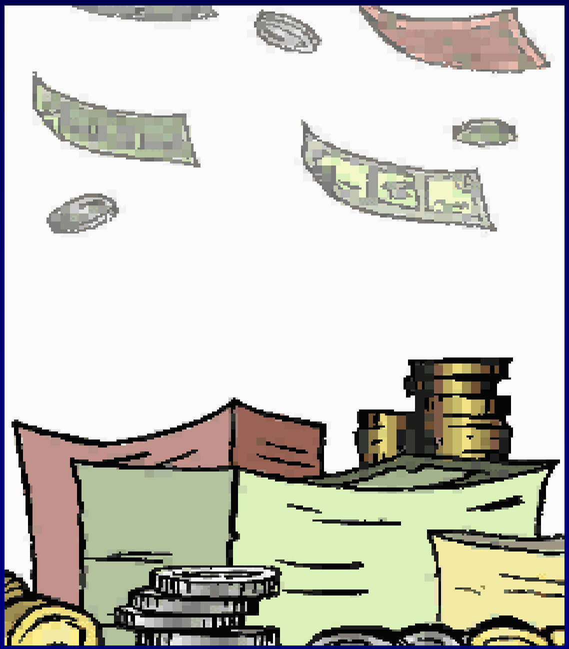
- Because the difference calculated is negative, its absolute value represents, on the books of the IBF, net balances due to U.S. offices of the establishing entity.

- For purposes of this report, its absolute value represents the establishing entity's net claims on its own IBF and should be included in Line 3.

IBF Profit and Loss

- If your institution maintains separate profit/loss accounts on the books of the IBF
  - The net profit or loss of the IBF should be included on the IBF's balance sheet as a due to (if a net profit) or a due from (if a net loss) the establishing entity
  - Any unremitted profit or loss of your IBF should also be included in the calculation of the total net profit or loss of the New York branch

Capital Contribution



Reporting of Capital Contribution

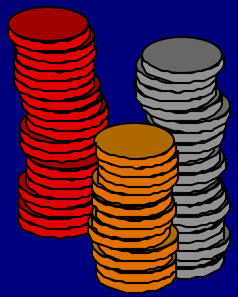
- Capital
  - Funds advanced by the foreign parent bank
  - Usually given once to a U.S. branch of a foreign bank at the start of the branch

Reporting of Capital Contribution

- In calculating Line 2, this amount should be adjusted for
  - Unremitted profits (losses). However, accrued income and expenses should not be included in this calculation until they are posted to the institution's net income account.

Adjustments to Capital Contribution

- Unremitted profits (losses)
  - The reporting institution's net unremitted profit should be added to the reporting institution's capital contribution reported in Line 2



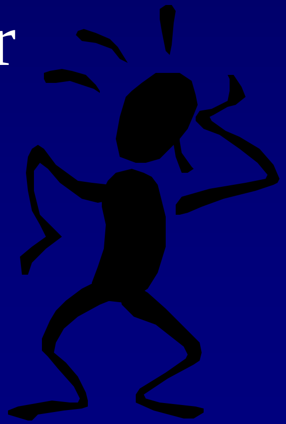
Adjustments to Capital Contribution

- If a net unremitted loss is incurred, this amount should be subtracted from the capital contribution

- If the net loss exceeds the capital contribution, report that amount which exceeds the capital contribution in Line 3

Adjustments to Capital Contribution

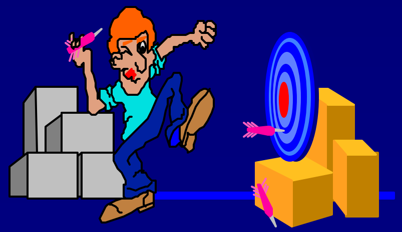
- Provision for loan loss is an expense item charged to a bank's earnings
  - If this expense is allocated immediately through profit or loss accounts no other adjustments are necessary



Adjustments to Capital Contribution

- Provision for loan losses (if maintained as a separate account on an office level) should be subtracted from the capital contribution.

- If the amount of the provision exceeds the capital contribution, report that amount which exceeds the contribution in Line 3.



Adjustments to Capital Contribution

Example 1

Gross Liabilities to Related Parties		6
Net DT IBF		4
Capital Contribution	3	
Net loss (Branch)	(7)	
IBF profit	3	
Provision for loan loss	(1)	
Adjusted Capital Contribution		
Report in Line 2		
Gross Claims with related parties		2
Portion of net unremitted loss which exceeds capital contribution		
Report in Line 3		

Adjustments to Capital Contribution

Example 1

Gross Liabilities to Related Parties		6
Net DT IBF		4
Capital Contribution	3	
Net loss (Branch)	(7)	
IBF profit	3	
Provision for loan loss	(1)	
Adjusted Capital Contribution		(2)
Report in Line 2		10
Gross Claims with related parties		2
Portion of net unremitted loss which exceeds capital contribution		2
Report in Line 3		**4**

Adjustments to Capital Contribution

<u>Example 2</u>

Gross Liabilities to Related Parties		6
Capital Contribution	3	
Net loss (Branch)	(1)	
IBF loss	(1)	
Adjusted Capital Contribution		

<u>Report in Line 2</u>

Gross Claims with related parties	4
Net DF IBF position	2

<u>Report in Line 3</u>

Adjustments to Capital Contribution

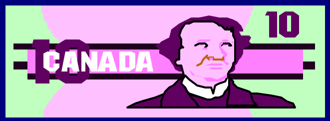
Example 2

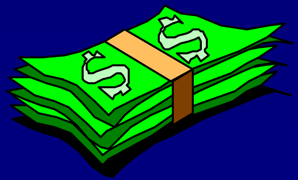
Gross Liabilities to Related Parties		6
Capital Contribution	3	
Net loss (Branch)	(1)	
IBF loss	(1)	
Adjusted Capital Contribution		1
Report in Line 2		7
Gross Claims with related parties		4
Net DF IBF position		2
Report in Line 3		**6**

Line 4: Total Assets Minus Certain Assets and Positive Net Balances Due From Own IBF and the Parent Bank's U.S. and Non-U.S. Offices

Line 4: Total Assets Minus Certain Assets and Positive Net Balances Due From Own IBF and the Parent Bank's U.S. and Non-U.S. Offices

- U.S. branches and agencies report their risk adjusted assets on this line
- The purpose of this column is to give U.S. branches and agencies a deduction to their reservable eurocurrency liabilities for funds placed by their parent as capital contribution





Line 4: Total Assets Minus Certain Assets and Positive Net Balances Due From Own IBF and the Parent Bank's U.S. and Non-U.S. Offices

- U.S. depository institution's capital is exempt from reserve requirements, therefore, the capital equivalency allows for reserve requirements to be imposed evenly on both U.S. banks and branches and agencies

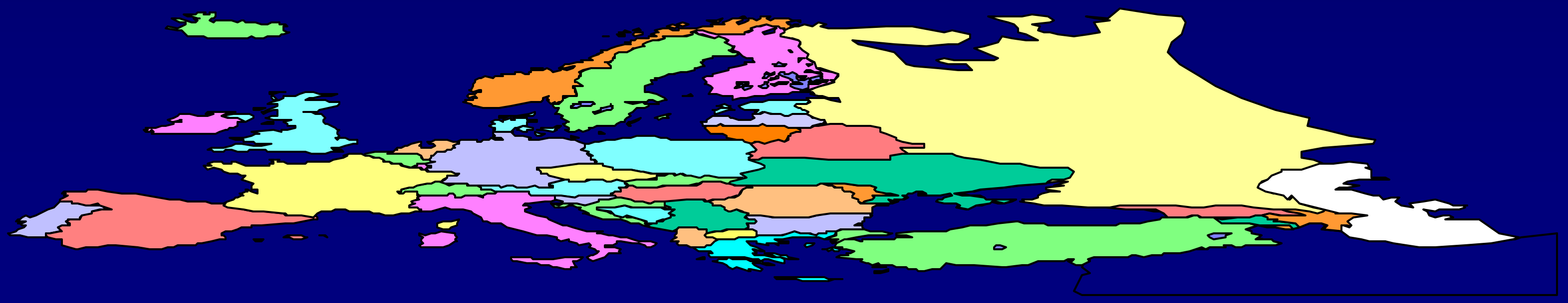
Line 4 Deductions

- Total assets are adjusted to calculate "risk” assets by deducting certain assets from the institutions total assets. These are
  - Demand balances due from depository institutions in the U.S. (Line B.1)
  - Cash items in the process of collection (Line B.2)

Line 4 Deductions

- Demand balances due from non-U.S. offices of U.S depository institutions and overseas banks

- Balances due from foreign official institutions



Line 4 Deductions

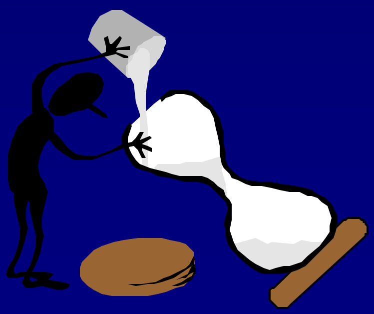
- Gross claims on related institutions are not included in the total assets used to calculate Line 4

Line 4 "Total Assets"

- In general the definition of "total assets" corresponds to the total assets reported on Schedule RAL on the FFIEC 002.
- The total assets to be used in Line 4 will vary from the total assets on the FFIEC 002 due to the following
  - Affiliates and subsidiaries are considered unrelated for purposes of the FR 2900/2951 and related for the FFIEC 002

Line 4 "Total Assets"

- IBF assets due from parties other than U.S. offices of the establishing entity and IBF liabilities due to parties other than U.S. offices of the establishing entity are excluded from the calculation of the amount reported in Item 4, but are included on the FFIEC 002



Common Problems Found With Line 4

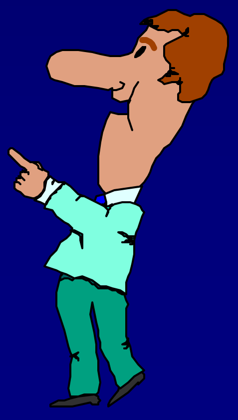
- The following are common errors associated with Line 4
  - IBF assets are included in total assets
  - Reserve balances and vault cash are excluded from total assets
  - Failure to reduce total assets figure by the deduction items
  - Related party claims are included in the calculation

Steps to Calculate Line 4 on the FR 2951

Step 1

Deduct the Gross Due From related parties figure from the total assets figure on the balance sheet

Total Assets - Gross Due From Related =
Third Party Assets



Steps to Calculate Line 4 on the FR 2951

<u>Step 1</u>

Calculate gross due from related parties (including IBF)

Due from:

Loans to:

<u>Gross due from:</u>

Mt. Vernon Bank, NY Branch

Assets			Liabilities		
Cash and Due From	195,000		Demand Deposits	296,000	
CIPC		2,000	IPC		10,000
Vault Cash		1,000	U.S. Banks		1,000
			Foreign Banks		75,000
Due from (demand)			Foreign Official Institutions		50,000
U.S. Banks		10,000	Head Office Paris		15,000
FRB Balances		25,000	Mt. Vernon London		10,000
Mt. Vernon London		10,000	Mt. Vernon Cayman		25,000
Mt. Vernon San Fran		2,000	IBF		100,000
Nonbanking Affiliate		5,000	Nonbanking Affiliate		10,000
Head Office Paris		10,000			
NY IBF		130,000	Time and Savings Deposits	248,000	
			IPC		220,000
Securities	35,000		U.S. Banks		2,000
U.S. Treasury		35,000	Foreign Banks		1,000
			Foreign Official Institutions		25,000
Loans	548,000				
Commercial and Industrial		225,000	Borrowings	234,000	
U.S. Banks		26,000	U.S. Banks		3,000
Foreign Banks		75,000	Foreign Banks		5,000
Head Office Paris		19,000	Head Office Paris		10,000
Mt. Vernon San Fran		3,000	Mt. Vernon London		9,000
N.Y. IBF		200,000	Mt. Vernon San Fran		4,000
			Mt. Vernon Cayman		2,000
			Foreign Official Institution		1,000
			N.Y. IBF		200,000
Total Assets	778,000		Total Liabilities	778,000	

Mt. Vernon Bank, NY Branch

Assets

Cash and Due From	195,000	
CIPC		2,000
Vault Cash		1,000
Due from (demand)		
U.S. Banks		10,000
FRB Balances		25,000
Mt. Vernon London		10,000
Mt. Vernon San Fran		2,000
Nonbanking Affiliate		5,000
Head Office Paris		10,000
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Securities	35,000	
U.S. Treasury		35,000
Loans	548,000	
Commercial and Industrial		225,000
U.S. Banks		26,000
Foreign Banks		75,000
Head Office Paris		19,000
Mt. Vernon San Fran		3,000
N.Y. IBF		200,000
Total Assets	778,000	

Liabilities

Demand Deposits	296,000	
IPC		10,000
U.S. Banks		1,000
Foreign Banks		75,000
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IBF		100,000
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Foreign Banks		1,000
Foreign Official Institutions		25,000
Borrowings	234,000	
U.S. Banks		3,000
Foreign Banks		5,000
Head Office Paris		10,000
Mt. Vernon London		9,000
Mt. Vernon San Fran		4,000
Mt. Vernon Cayman		2,000
Foreign Official Institution		1,000
N.Y. IBF		200,000
Total Liabilities	778,000	

Steps to Calculate Line 4 on the FR 2951

Step 1

Due from:		**$152,000**
London	$10,000	
SF	$2,000	
HO	$10,000	
NY IBF	$130,000	
Loans to:		**$222,000**
SF	$3,000	
HO	$19,000	
NY IBF	$200,000	

Steps to Calculate Line 4 on the FR 2951

Step 1

Deduct the Gross Due From related parties balance from the total assets figure on the balance sheet

Total Assets - Gross Due From Related
= Third Party Assets

778,000 - 374,000 = 404,000

Steps to Calculate Line 4 on the FR 2951

Step 2

Calculate other deductions

1) Cash items in the process of collection
2) Demand balances due from U.S. banks
3) Demand balances due from foreign banks
4) Foreign official institutions

Total Other Deductions =

Mt. Vernon Bank, NY Branch

Assets

Cash and Due From	195,000	
CIPC		2,000
Vault Cash		1,000
Due from (demand)		
U.S. Banks		10,000
FRB Balances		25,000
Mt. Vernon London		10,000
Mt. Vernon San Fran		2,000
Nonbanking Affiliate		5,000
Head Office Paris		10,000
NY IBF		130000
Securities	35,000	
U.S. Treasury		35,000
Loans	548,000	
Commercial and Industrial		225,000
U.S. Banks		26,000
Foreign Banks		75,000
Head Office Paris		19,000
Mt. Vernon San Fran		3,000
N.Y. IBF		200,000
Total Assets	778,000	

Liabilities

Demand Deposits	296,000	
IPC		10,000
U.S. Banks		1,000
Foreign Banks		75,000
Foreign Official Institutions		50,000
Head Office Paris		15,000
Mt. Vernon London		10,000
Mt. Vernon Cayman		25,000
IBF		100,000
Nonbanking Affiliate		10,000
Time and Savings Deposits	248,000	
IPC		220,000
U.S. Banks		2,000
Foreign Banks		1,000
Foreign Official Institutions		25,000
Borrowings	234,000	
U.S. Banks		3,000
Foreign Banks		5,000
Head Office Paris		10,000
Mt. Vernon London		9,000
Mt. Vernon San Fran		4,000
Mt. Vernon Cayman		2,000
Foreign Official Institution		1,000
N.Y. IBF		200,000
Total Liabilities	778,000	

Mt. Vernon Bank, NY Branch

Assets			Liabilities		
Cash and Due From	195,000		Demand Deposits	296,000	
CIPC		2,000	IPC		10,000
Vault Cash		1,000	U.S. Banks		1,000
			Foreign Banks		75,000
Due from (demand)			Foreign Official Institutions		50,000
U.S. Banks		10,000	Head Office Paris		15,000
FRB Balances		25,000	Mt. Vernon London		10,000
Mt. Vernon London		10,000	Mt. Vernon Cayman		25,000
Mt. Vernon San Fran		2,000	IBF		100,000
Nonbanking Affiliate		5,000	Nonbanking Affiliate		10,000
Head Office Paris		10,000			
NY IBF		130000	Time and Savings Deposits	248,000	
			IPC		220,000
Securities	35,000		U.S. Banks		2,000
U.S. Treasury		35,000	Foreign Banks		1,000
			Foreign Official Institutions		25,000
Loans	548,000				
Commercial and Industrial		225,000	Borrowings	234,000	
U.S. Banks		26,000	U.S. Banks		3,000
Foreign Banks		75,000	Foreign Banks		5,000
Head Office Paris		19,000	Head Office Paris		10,000
Mt. Vernon San Fran		3,000	Mt. Vernon London		9,000
N.Y. IBF		200,000	Mt. Vernon San Fran		4,000
			Mt. Vernon Cayman		2,000
			Foreign Official Institution		1,000
			N.Y. IBF		200,000
Total Assets	778,000		Total Liabilities	778,000	

Steps to Calculate Line 4 on the FR 2951

<u>Step 2</u> Calculate other deductions

1) Cash items in the process of collection	$2,000
2) Demand balances due from U.S. banks	$10,000
3) Demand balances due from fgn. banks	0
4) Balances due from from fgn. official inst.	0

Total Other Deductions = $12,000

Steps to Calculate Line 4 on the FR 2951

Step 3 Calculate Total Adjusted Assets

Step 1 - Step 2 =

Total Assets reported in Line 4 on the FR 2951

Steps to Calculate Line 4 on the FR 2951

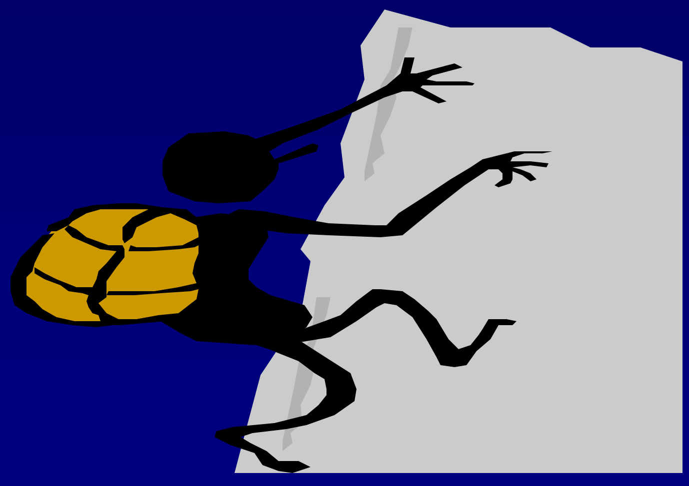
Step 3 Calculate Total Adjusted Assets

Step 1 - Step 2 =

Total Assets reported in Line 4 on the FR 2951

$404,000 - $12,000 = $392,000

Line 5: Asset held by own IBF and Non-U.S. Offices Acquired from U.S. Offices



Line 5: Asset held by own IBF and Non-U.S. Offices Acquired from U.S. Offices

- Depository institutions report in this item funds that are supplied to them by foreign related institutions or its own IBF through the sale of assets

Line 5: Asset held by own IBF and Non-U.S. Offices Acquired from U.S. Offices

- Funds received by the depository institution will continue to be reported in this item until the foreign related institution disposes of the asset

- Assets given to the IBF to start its operations for the first two fourteen day computation periods from its opening should be excluded from this line

Example of an Asset Sale that Would be Reported on the FR 2951

Mt. Vernon Bank, NY branch sells loans to Mt. Vernon Bank, Paris at a book value of $10 million for $5 million.

$10 million →

← $5 million

What should be reported on line 5?

Example of an Asset Sale that Would be Reported on the FR 2951

Answer

Mt. Vernon Bank, Paris pays $5 million for the loans.
Mt. Vernon Bank, NY reports $5 million in line 5.

Summary

- What is an IBF?
- Related vs Non-related
- Borrowings - Line 1 (include subsidiaries and affiliates)

Summary

- Liabilities and Claims with Non-U.S. Parent and its Non-U.S. offices Plus Net IBF Position
- Net IBF Position
- Capital Contribution
- Total Assets