

# FR 2951 Reporting Seminar

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# Other FR 2900 Reporting Issues

Brian Ostehus



## **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(s) involved



# Types of Payment Errors

There are four types of payment errors:

## 1. Duplicate payment

- 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. Misdirected payment

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

# Types of Payment Errors

## 2. Misdirected payment

- 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. Failed payment

- Occurs when an institution fails to make payment requested by a customer because of system problems, clerical errors, or other problems
- 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 PM and 6:30 PM (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

- Bank A is expecting a \$10 million funds transfer from Bank B.
- Bank B wires the \$10 million to Bank A at 12:00 PM. At 12:30 PM Bank B wires another \$10 million without realizing that the 12:00 PM transfer was sent.

How should each institution report this transaction?

# Payment System Problems

## Answer

- Bank A reports the \$10 million received in error in addition to the \$10 million it received earlier as a demand deposit in Line A.1.c
- 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

## Question 2

- Bank A was requested to make a payment of \$20 million to Bank B. But 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 each institution report this transaction?

# Payment System Problems

## Answer

- Bank A reports the \$20 million as a demand deposit on Line A.1.c
- Bank B does not report these funds as either a due from Bank A (Line B.1) or a CIPC (Line B.2)

# Payment System Problems

## Question 3

- Bank A transfers \$15 million on behalf of a corporate customer to Bank B at 6:15 PM.

How should each institution report this transaction?

# Payment System Problems

## Answer

- Bank B reports the \$15 million as a demand deposit in Line A.1.c
- Bank A does not report these funds as either a due from Bank A (Line B.1) or as a CIPC (Line B.2)

# Payment System Problems

## Question 4

- 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.

How should each institution report this transaction?



# Payment System Problems

## Answer

- Bank A reports the \$50 million as a demand deposit in Line A.1.c
- 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)

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

Regulation D defines “United States resident” as:

- Any individual residing in the U.S. (at the time of the deposit)
- 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 not organized in the U.S.

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

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

## **U.S. Resident Deposits Less than \$100 thousand 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.**

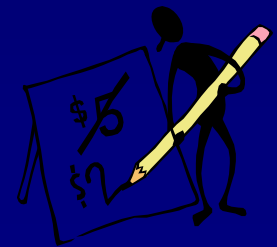
- Solicits these deposits from U.S. residents and the ultimate liability of these deposits is with your parent or any other office of your parent located outside of the U.S.

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

## **Question**

Bank A, NY branch receives \$80 thousand from ABC Corp. in the U.S. Bank A, NY branch transfers the \$80 thousand to Bank A, Tokyo Branch for the credit of ABC Corp.

How should this transaction be reported?



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

**Answer**

Bank A, NY branch receives \$80 thousand from ABC Corp. in the U.S. Bank A, NY branch transfers the \$80 thousand to Bank A, Tokyo branch for the credit of ABC Corp.

How should this transaction be reported?

The transaction should be reported as a deposit on the FR 2900.

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

**Question**

Bank A, NY branch solicits \$120 thousand from ABC Corp. in the U.S. Bank A, NY branch transfers the \$120 thousand to Bank A, Tokyo branch for the credit of ABC Corp.

**How should this transaction be reported?**



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

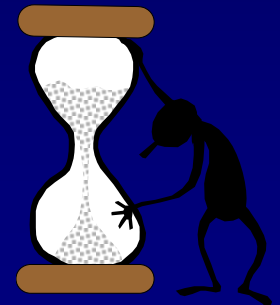
**Answer**

Bank A, NY branch solicits \$120 thousand from ABC Corp. in the U.S. Bank A, NY branch transfers the \$120 thousand to Bank A, Tokyo branch for the credit of ABC Corp.

This transaction is **not** 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

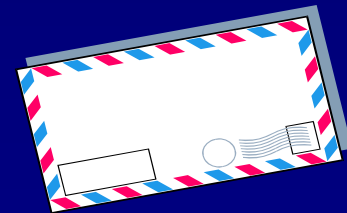


# Banker's Acceptances

- 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 not eligible to be discounted at a Federal Reserve Bank if:
  - It is not 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

Note: An acceptance not eligible for discount at the Federal Reserve Bank 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.
  - Report the **dollar amount** of funds received (for those outstanding ineligible acceptances that resulted in funds being obtained).

# Banker's Acceptances

- Discounting - Ineligible acceptances are not reservable if the issuing bank later holds them in its own portfolio.
- Rediscounting - An ineligible acceptance is only reservable (outstanding) when sold to a non-exempt entity.

# Banker's Acceptances

- Maturing - When a banker's 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 **less than seven days**
- Report in Line AA2 ineligible acceptances with original maturities of **seven days or more**

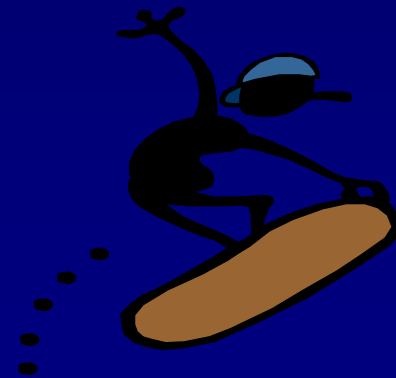
# Other Obligations Reported on Schedule AA

- Report the amount 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.



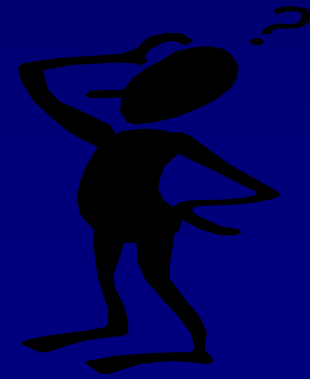
# Other Obligations Reported on Schedule AA

- 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



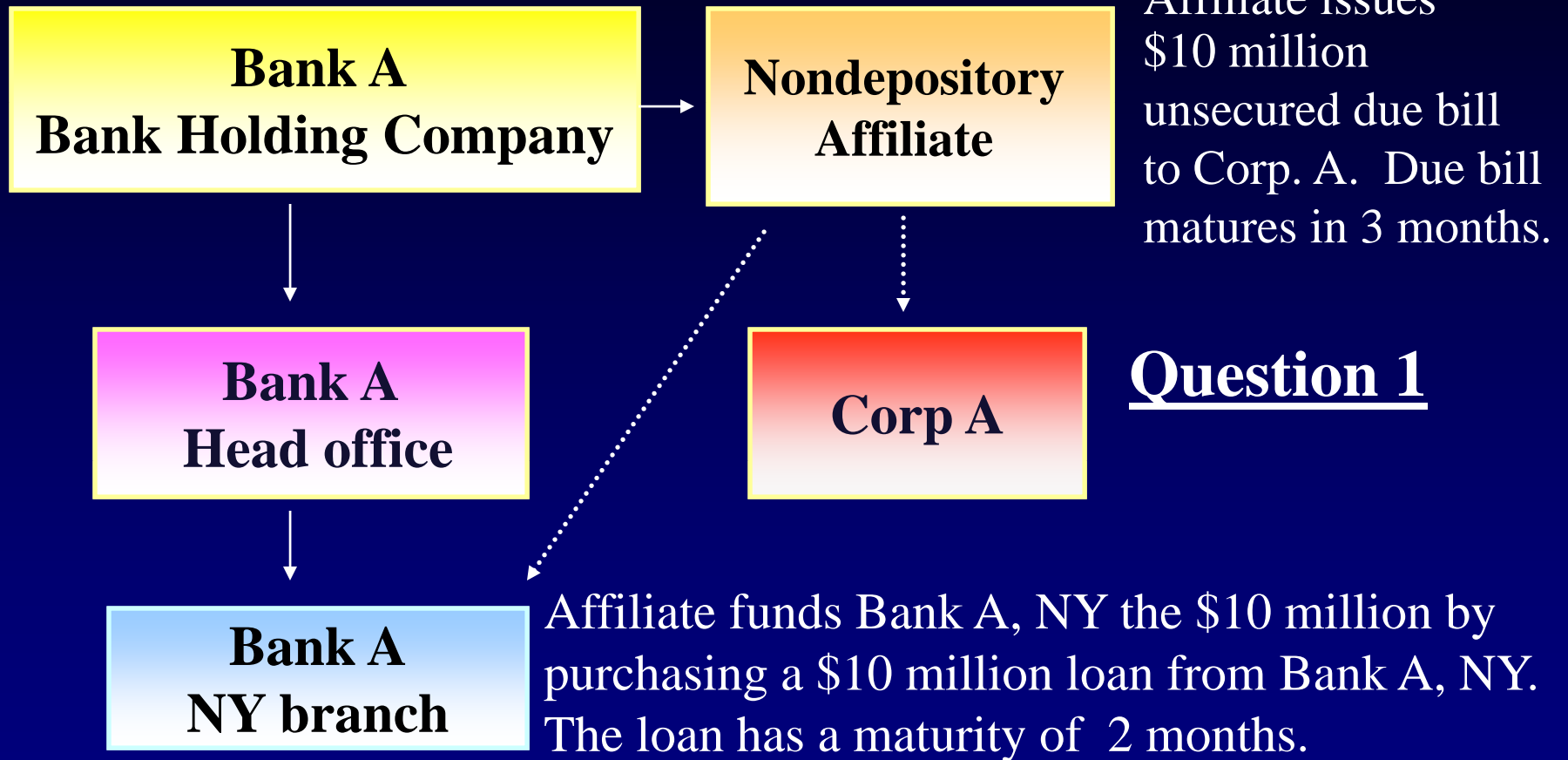
# Other Obligations Reported on Schedule AA

## 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.

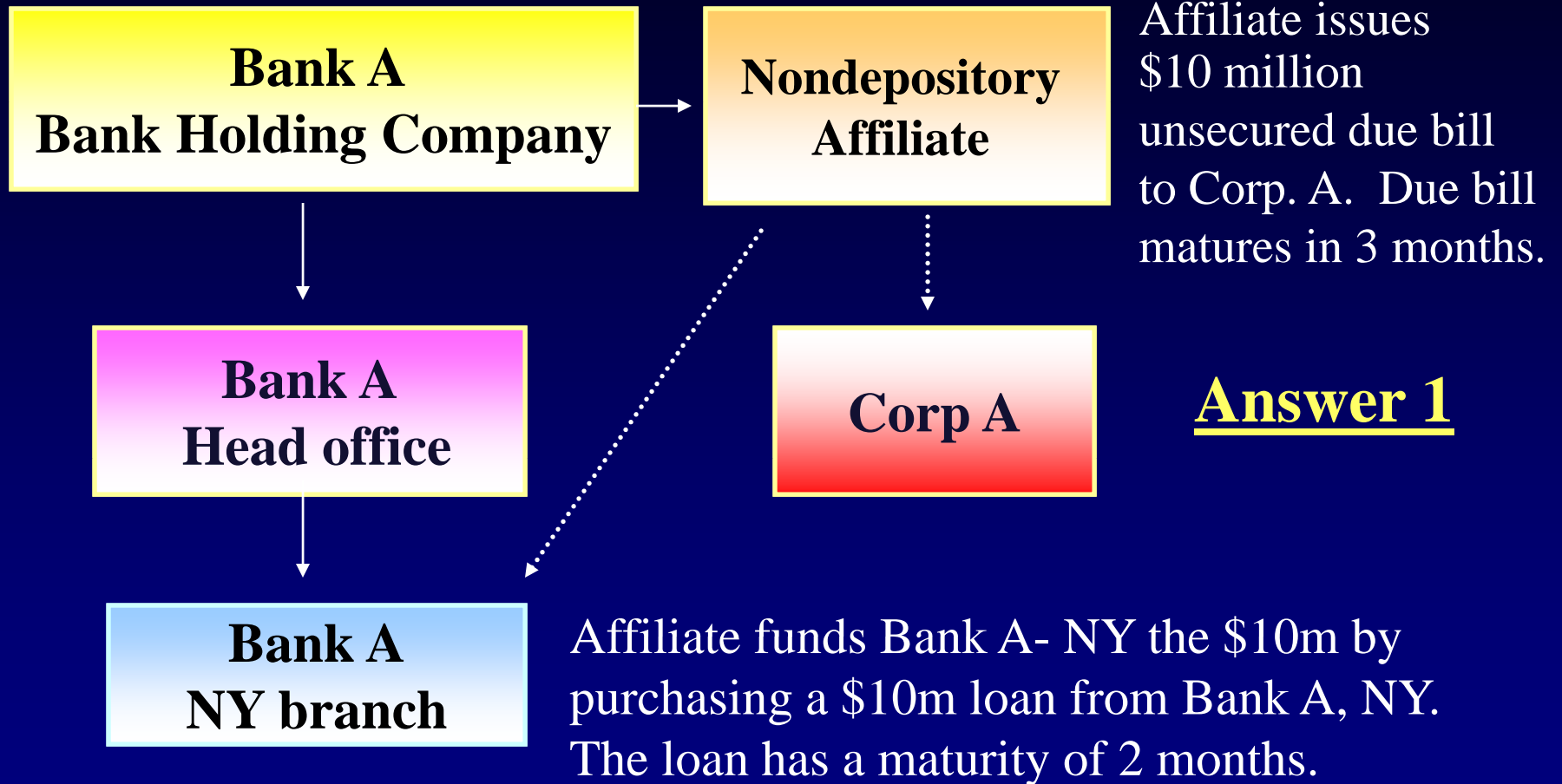
How should Bank A, NY reported the \$10 million on the FR 2900?

# Other Obligations Reported in Schedule AA



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

# Other Obligations Reported in Schedule AA



**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

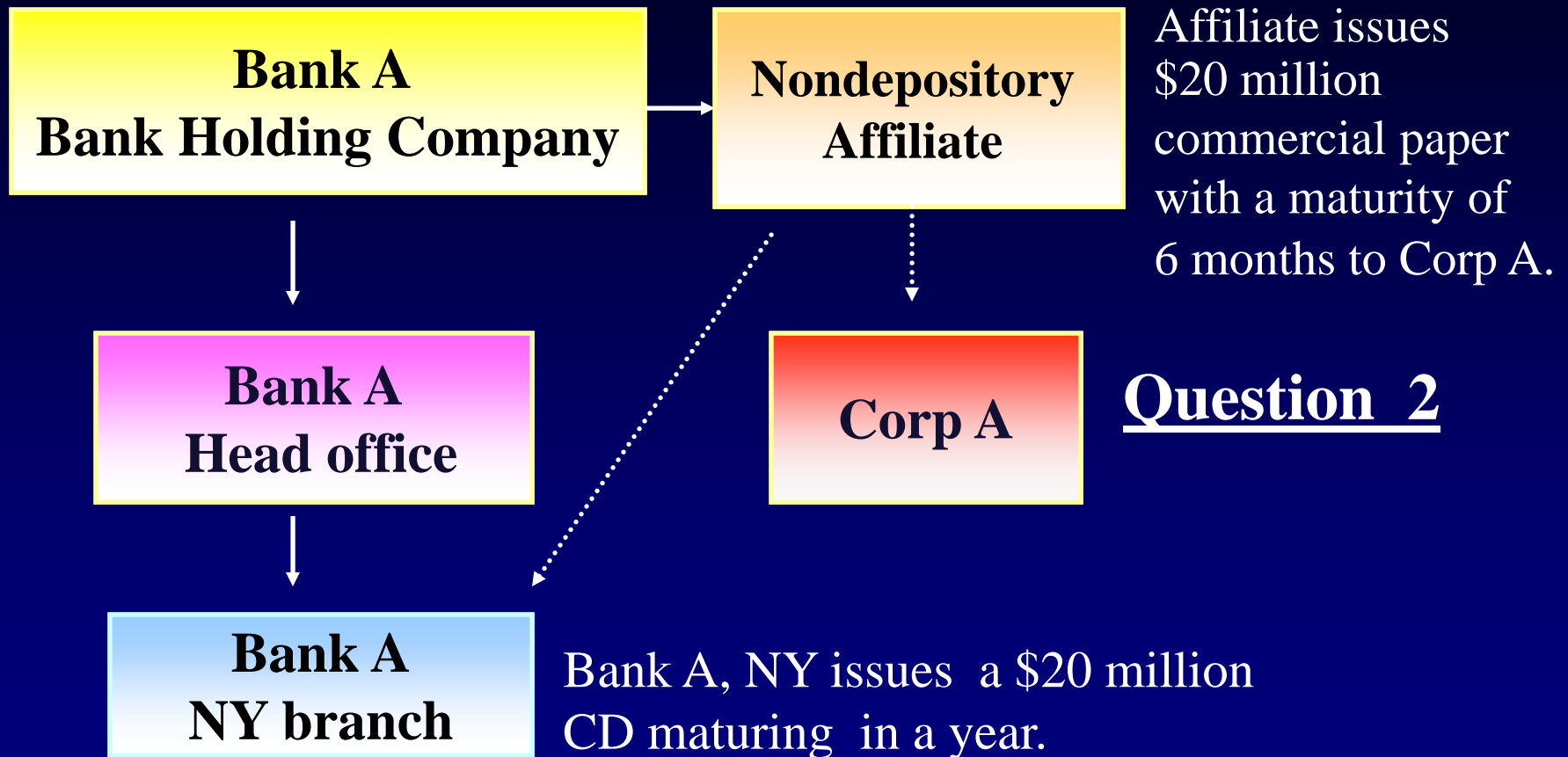
- Nondepository affiliate issues a \$20 million commercial paper to Corporation A with a maturity of six months. Bank A, NY is funded the \$20 million by issuing a \$20 million CD to its affiliate. CD has a maturity of one year.

How should this transaction be reported on the FR 2900?



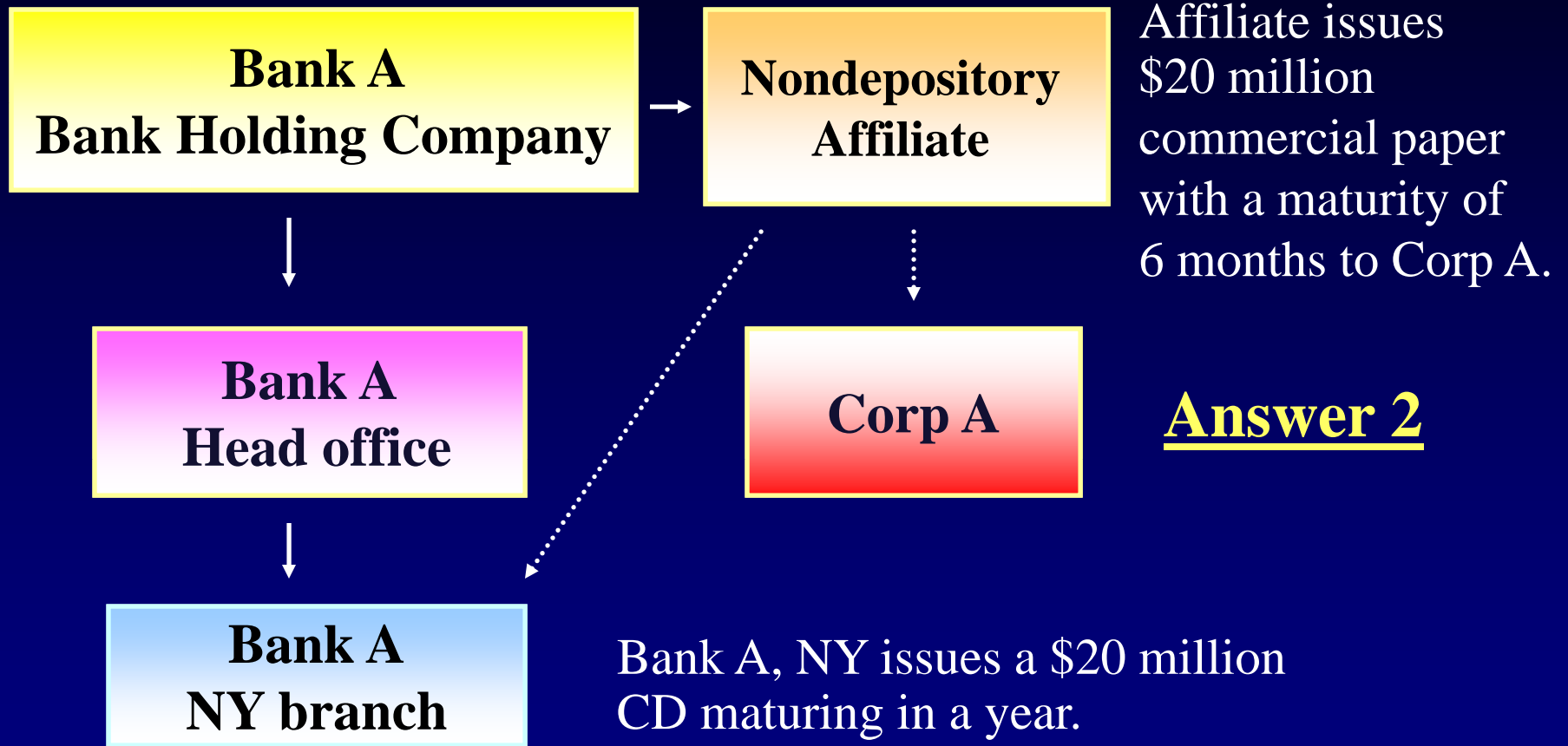


# Other Obligations Reported in Schedule AA



How should Bank A, NY report \$20 million?

# Other Obligations Reported in Schedule AA



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

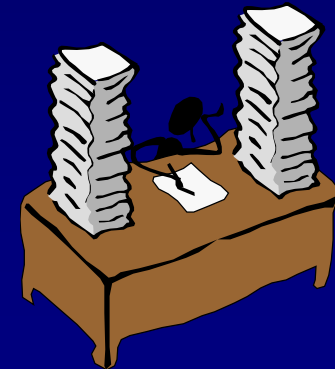
- Duplicate
- Misdirected
- Failed
- Improper

☰ Deposits from U.S. residents < \$100 thousand payable outside the U.S.

☰ Ineligible BAs

# Report of Certain Eurocurrency Transactions

Evelyn Castillo



# **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.
- The FR 2951 should be submitted until an institution surrenders its license

# International Banking Facility (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

# IBF

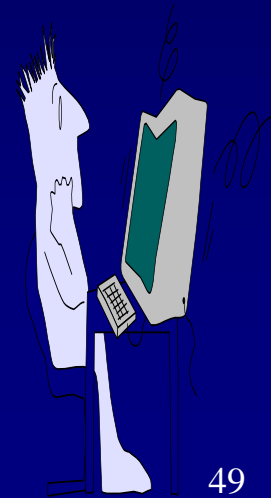
- IBFs are treated as non-U.S. offices and are exempt from certain U.S. laws, including:
  - Reserve requirements
  - FDIC insurance assessments
  - Some state and local income taxes





# 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



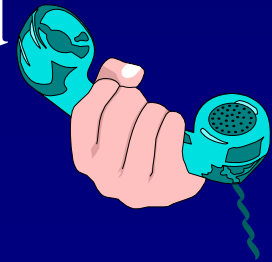
# IBF Restrictions

- 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.



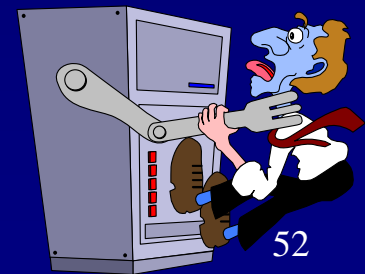
# IBF Restrictions

- 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 is 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

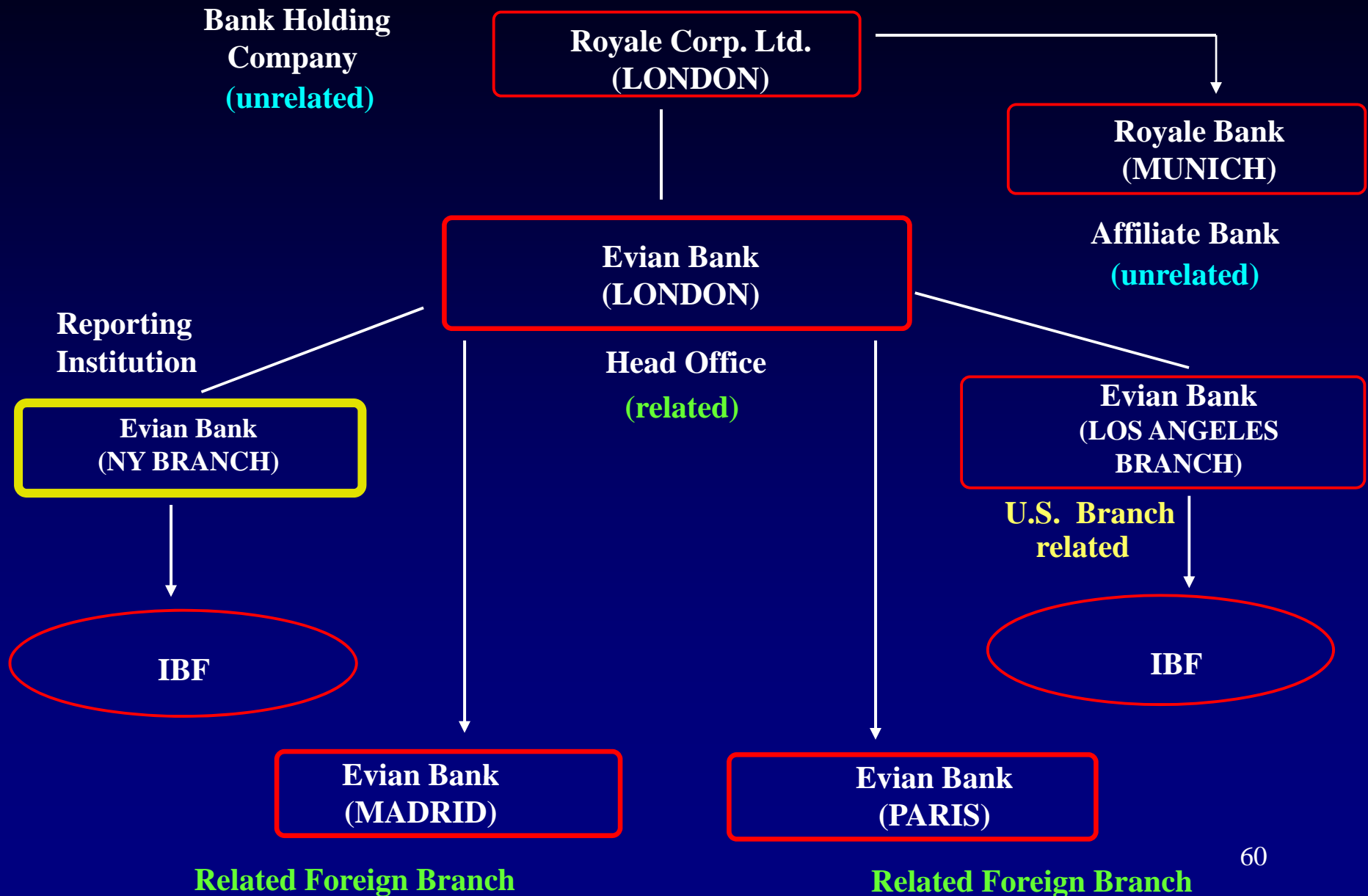
- For FR 2951 reporting, related institutions are
  - Foreign (direct) Parent Bank
  - Offices of the same foreign (direct) Parent Bank



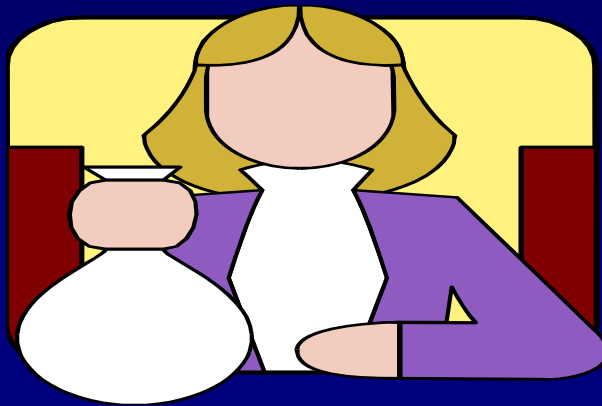
## **Related vs. Unrelated Institutions**

- U.S. and non-U.S. affiliates and subsidiaries of the foreign (direct) parent bank are treated as unrelated institutions for purposes of Regulation D, therefore
- Deposits, borrowings, loans, and claims from these affiliate and subsidiaries are treated like those from unrelated institutions

# Foreign Bank Organizational Chart

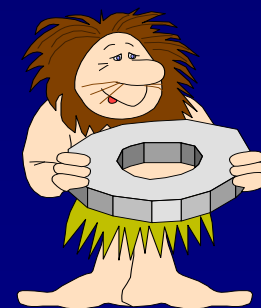


**Line 1: Borrowings From Non-U.S. Offices  
of Other Depository Institutions and From  
Certain Designated Non-U.S. Entities**



## **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.

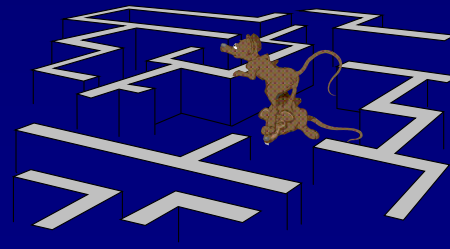


## **Line 1: Borrowings From Non-U.S. Offices of Other Depository Institutions and From Certain Designated Non-U.S. Entities**

- Borrowings from the following depository institutions are reported on 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**

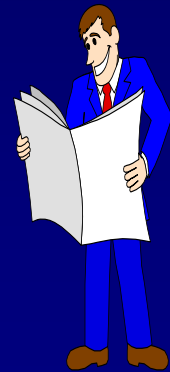
- **Exclude** borrowings from the reporting institution's non-U.S. branches or non-U.S. offices of the parent bank from Line 1





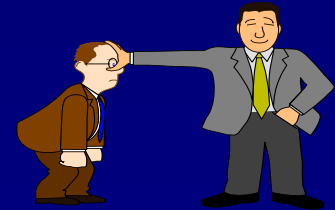
# Line 1: Common Borrowings Reported

- Include as borrowings on Line 1
  - Federal funds or any overnight borrowing from depository institutions located outside the U.S., including international institutions (refer to the FR 2900/2951 Glossary)
  - Overdrafts
  - Repurchase agreements not backed by U.S. government securities

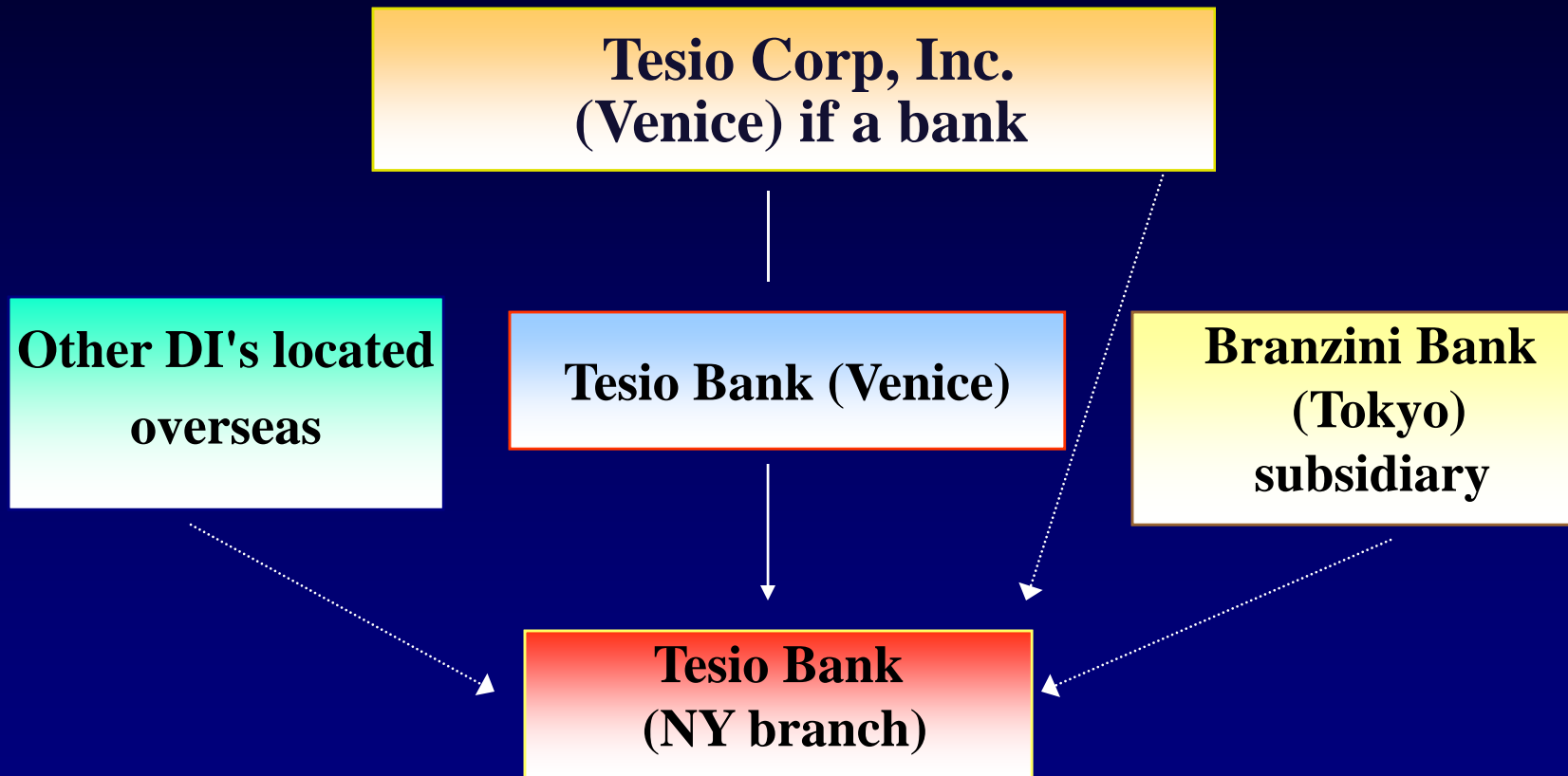


# Line 1: Common Borrowings Reported

**Note:** A depository institution should exclude 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 from which of the following institutions is not reported in Line 1 of the FR 2951?

- a) Foreign banking 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 from which of the following institutions is not reported in Line 1 of the FR 2951?

- a) Foreign banking 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!

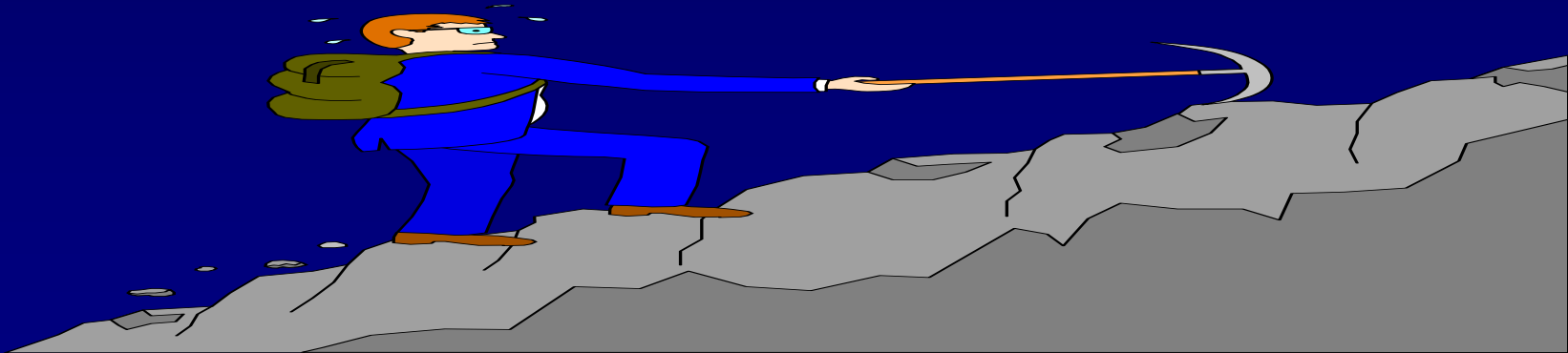
# Summary

- IBFs
- Related vs. unrelated institutions
- Line 1 - captures borrowings from foreign entities (including banking subsidiaries of foreign parent's bank holding company)
- Deposits should be excluded from Line 1 and reported on the FR 2900



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

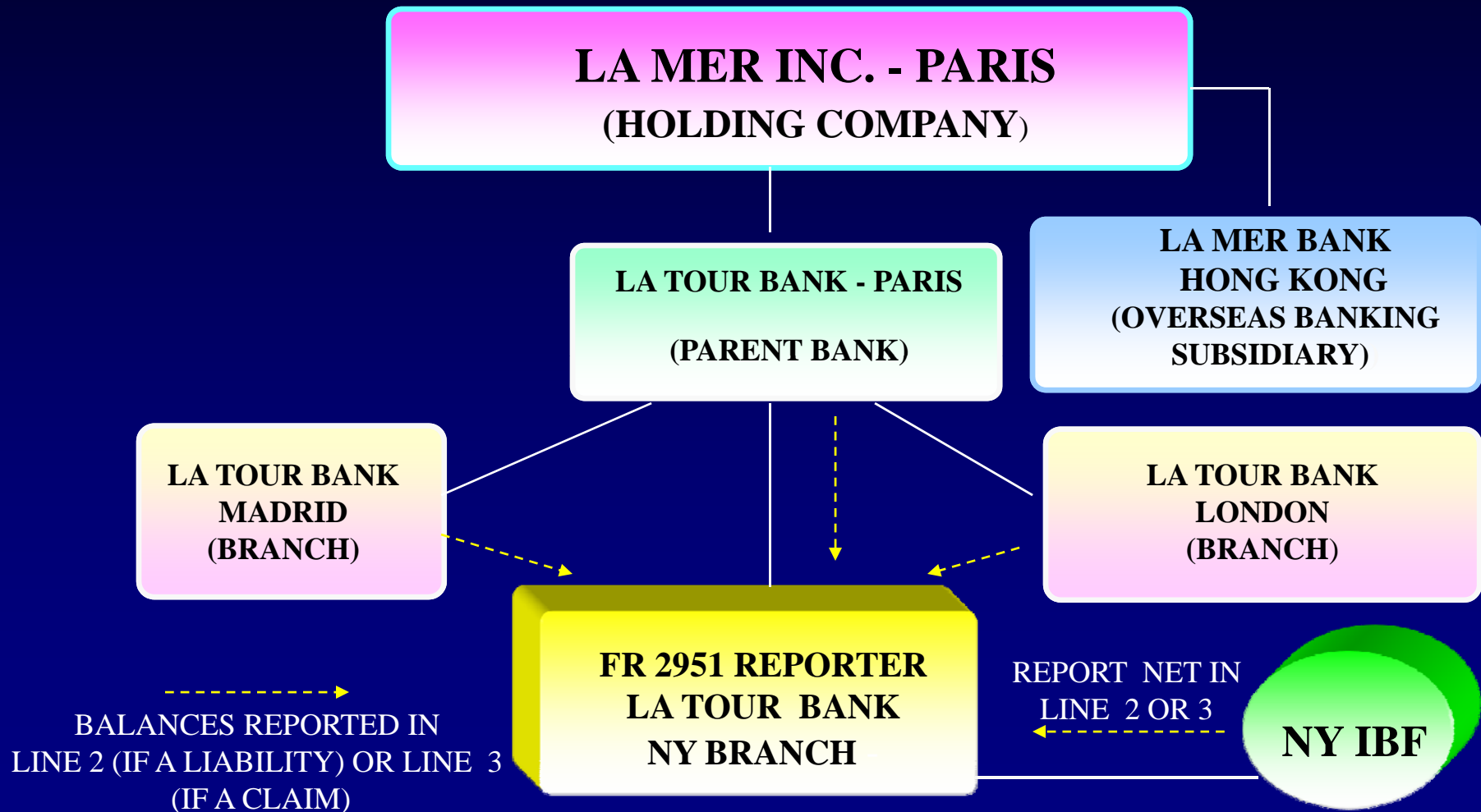
Brian Goodwin



## **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 gross basis

# Lines 2 and 3 for a FR 2951 Reporter

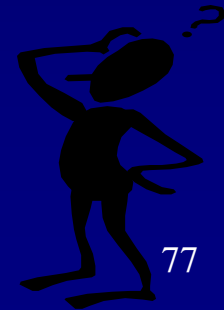


## **Gross Liabilities to Non-U.S. Parent Bank and Its Non-U.S. Offices Plus Net Liabilities to Own IBF (Line 2)**

- Liabilities due to related parties include:
  - Deposits
  - Borrowings
  - Overdrawn balances
  - A net due to position with own IBF
  - Revaluation losses from derivative products

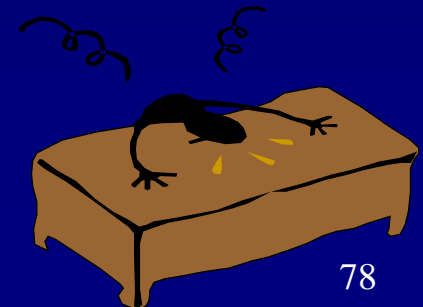
## **Gross Liabilities to Non-U.S. Parent Bank and Its Non-U.S. Offices Plus Net Liabilities to Own IBF (Line 2)**

- Liabilities due to related parties include:
  - Accounts payable
  - Funds swept out of a deposit account to offshore offices booked as a liability to a related foreign office
  - Capital contribution, adjusted for:
    - Unremitted earnings (losses)
    - Provision for loan loss reserves



**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 following 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		130,000
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	79

# 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
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Nonbanking Affiliate		5,000
Head Office Paris		10,000
NY IBF		130,000
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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	

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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	80

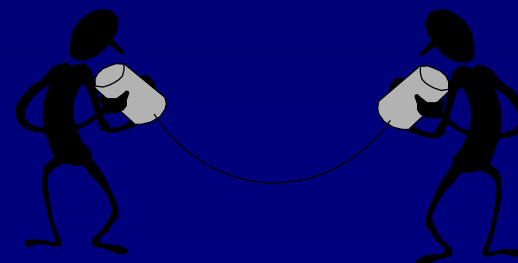


## **Gross Claims on Non-U.S. Parent Bank and Its Non-U.S. Offices Plus Net Claims on Own IBF (Line 3)**

- Claims due from related parties include:
  - Placements
  - Loans
  - A net due from position with own IBF
  - Overdrawn balances
  - Accounts receivable
  - Revaluation gains from derivative products

**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 following page, what would be reported on Line 3?



# 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	130,000
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
<b>Total Assets</b>	<b>778,000</b>

## 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
<b>Total Liabilities</b>	<b>778,000</b>

# Mt. Vernon Bank, NY branch

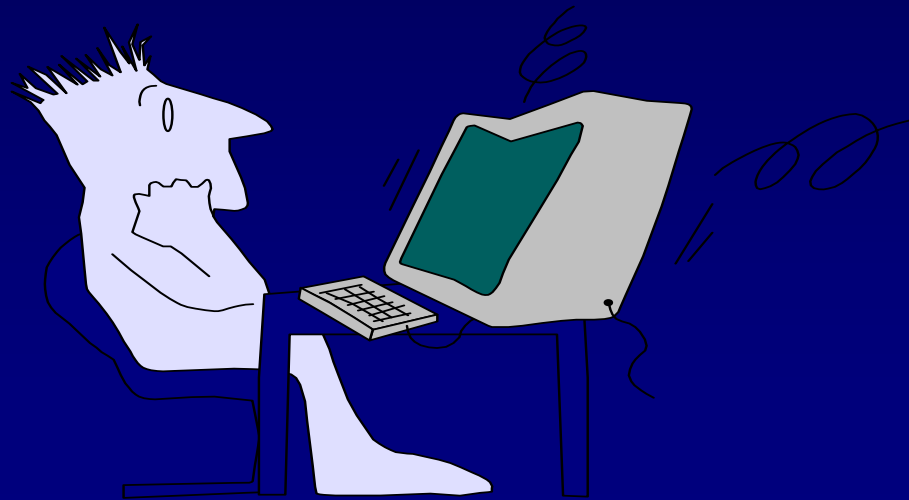
## Assets

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		<b>10,000</b>
Mt. Vernon San Fran		2,000
Nonbanking Affiliate		5,000
Head Office Paris		<b>10,000</b>
NY IBF		130,000
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		<b>19,000</b>
Mt. Vernon San Fran		3,000
N.Y. IBF		200,000
<b>Total Assets</b>	<b>778,000</b>	

## 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
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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
<b>Total Liabilities</b>	<b>778,000</b>	

# 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 those with 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

Third-party Assets  
Due From NY Branch

**Total Assets**

### Liabilities

Third-party Liabilities  
Due To NY Branch  
Net Profit

**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

Cash and Due From :		121,500
Foreign Banks	10,000	
Vario N.Y.	100,000	
Foreign Official Inst.	500	
Vario San Fran IBF	1,000	
Vario London	5,000	
Vario Cayman	5,000	
Securities		22,000
Foreign Treasury	20,000	
Other Bonds and notes	2,000	
Loans :		490,000
Comm. and Indus	292,000	
Foreign Banks	51,000	
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

## Liabilities

Deposits :		368,000
Foreign Banks	10,000	
Vario N.Y.	250,000	
Foreign Official Inst.	75,000	
IPC	33,000	
Borrowings:		265,500
Foreign Banks	25,000	
Vario N.Y.	200,000	
Vario London	7,000	
Vario Cayman	3,000	
Other IBFs	25,500	
Net profit (due to NY Branch)		5,000
Total Liabilities		633,500

# Vario Bank, NY IBF's Books

## Assets

Cash and Due From :		121,500
<i>Foreign Banks</i>	<i>10,000</i>	
Vario N.Y.	100,000	
<i>Foreign Official Inst.</i>	<i>500</i>	
<i>Vario San Fran IBF</i>	<i>1,000</i>	
<i>Vario London</i>	<i>5,000</i>	
<i>Vario Cayman</i>	<i>5,000</i>	
Securities		22,000
<i>Foreign Treasury</i>	<i>20,000</i>	
<i>Other Bonds</i>	<i>2,000</i>	
<i>and notes</i>		
Loans :		490,000
<i>Comm. and Indus</i>	<i>292,000</i>	
<i>Foreign Banks</i>	<i>51,000</i>	
<i>Foreign Official Inst</i>	<i>20,000</i>	
<i>Vario London</i>	<i>25,000</i>	
<i>Vario Cayman</i>	<i>25,000</i>	
<i>Vario San Fr IBF</i>	<i>20,000</i>	
Vario N.Y.	57,000	
Total Assets		633,500

## Liabilities

Deposits :		368,000
<i>Foreign Banks</i>	<i>10,000</i>	
Vario N.Y.	250,000	
<i>Foreign Official Inst.</i>	<i>75,000</i>	
<i>IPC</i>	<i>33,000</i>	
Borrowings:		265,500
<i>Foreign Banks</i>	<i>25,000</i>	
Vario N.Y.	200,000	
<i>Vario London</i>	<i>7,000</i>	
<i>Vario Cayman</i>	<i>3,000</i>	
<i>Other IBFs</i>	<i>25,500</i>	
Net profit (due to NY Branch)		5,000
Total Liabilities		633,500

# Net IBF Position

## IBF Balance Sheet

<u>Assets</u>		<u>Liabilities</u>	
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
<b>Total Assets</b>	<b>633,500</b>	<b>Total Liabilities</b>	<b>633,500</b>

### Net Calculation

Liabilities to parties other than U.S. offices of the establishing entity	<b>Minus</b>	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 on 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
  - Provided once to a U.S. branch of a foreign bank (usually at the licensing of the branch)

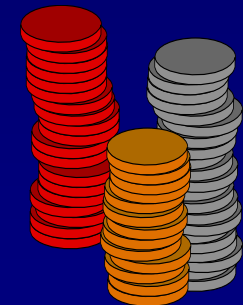


# Reporting of Capital Contribution

- 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

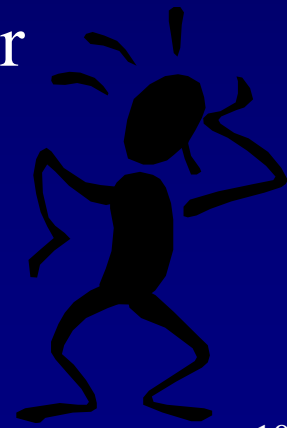


# Adjustments to Capital Contribution

- 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		<b>(2)</b>
<b>Report in Line 2</b>		<b>10</b>
Gross Claims with related parties		2
Portion of net unremitted loss which exceeds capital contribution		<b>2</b>
<b>Report in Line 3</b>		<b>4</b>

# 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		

## Report in Line 2

Gross Claims with related parties		4
Net DF IBF position		2

## Report in Line 3



# 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 for their reservable eurocurrency liabilities (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**

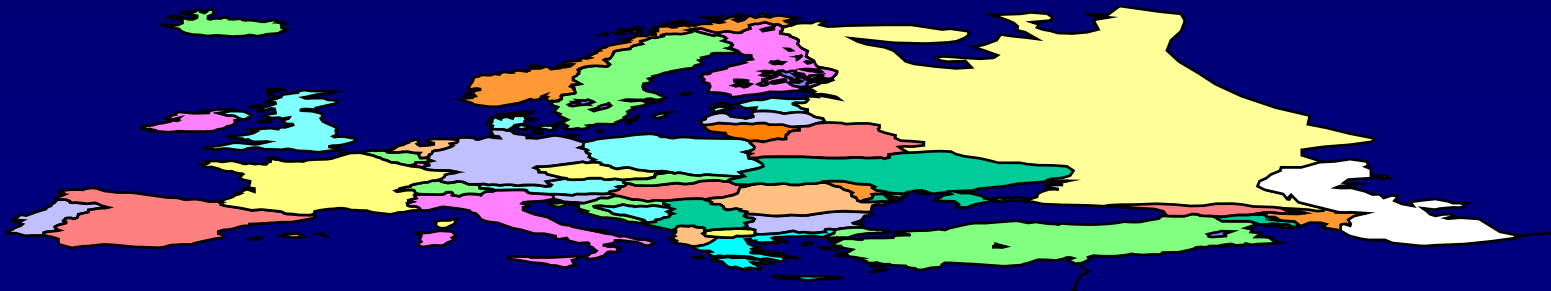
- U.S. depository institution's capital is exempt from reserve requirements
- The capital equivalency deduction allows for reserve requirements to be imposed evenly on U.S. banks and U.S. branches and agencies of foreign banks

## 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. (FR 2900, Line B.1)
  - Cash items in the process of collection (FR 2900, 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



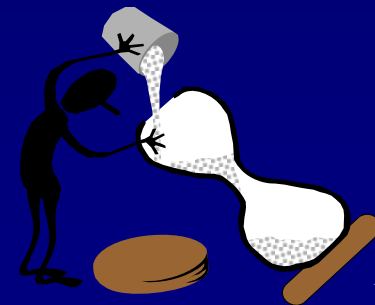
## Line 4 "Total Assets"

- 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 differ from the total assets on the FFIEC 002 due to the following
  - U.S. and non-U.S. 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 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

## Step 1

Calculate gross due from related parties (including IBF)

Due from:

Loans to:

Gross due from:



# 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		130,000
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	<b>10,000</b>	
Mt. Vernon San Fran	<b>2,000</b>	
Nonbanking Affiliate	5,000	
Head Office Paris	<b>10,000</b>	
NY IBF	<b>130,000</b>	
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	<b>19,000</b>	
Mt. Vernon San Fran	<b>3,000</b>	
N.Y. IBF	<b>200,000</b>	
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
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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	

# Steps to Calculate Line 4 on the FR 2951

## Step 1

**Due from:** **\$152,000**

London \$10,000

SF \$2,000

HO \$10,000

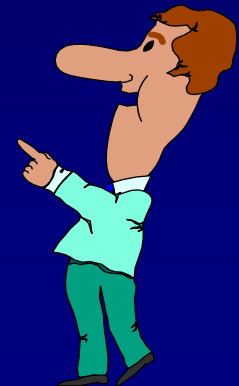
NY IBF \$130,000

**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		130,000
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
<b>Total Assets</b>	<b>778,000</b>	

## 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
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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
<b>Total Liabilities</b>	<b>778,000</b>	

# 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	130,000	
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	
<b>Total Assets</b>	<b>778,000</b>	

## 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
<b>Total Liabilities</b>	<b>778,000</b>	

# Steps to Calculate Line 4 on the FR 2951

## Step 2 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**

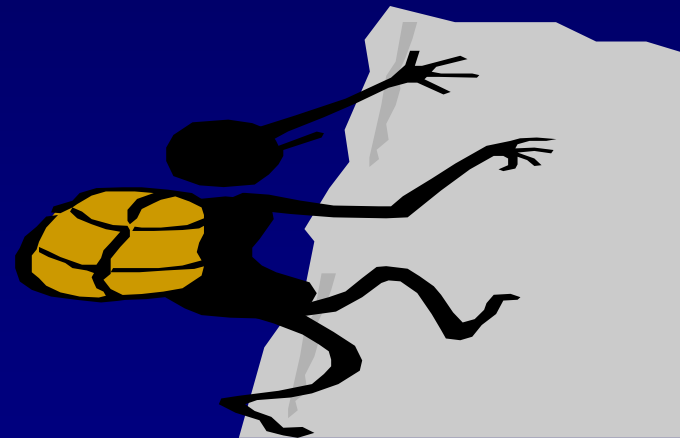
**Step 3** Calculate Total Adjusted Assets

Step 1 - Step 2 =

Total Assets reported in Line 4 on the FR 2951

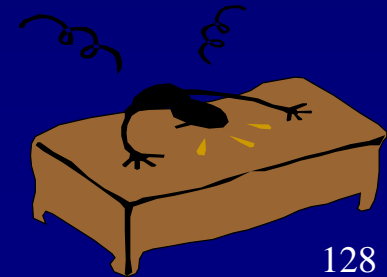
**\$404,000 - \$12,000 = \$392,000**

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



## **Line 5: Assets 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: Assets 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

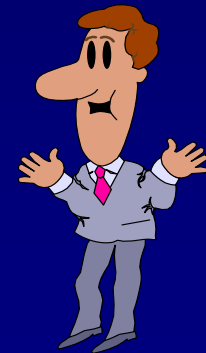


What should be reported on line 5?

## **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

- 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