

old FR Y-7 in a stand-alone report, the FR Y-7A, which would consist of two items: "U.S. Banking Activities" and "U.S. Nonbanking Activities." The Board further proposed that existing reporters complete both items in the first year and that new reporters complete both items at the time of their first filing. Subsequent changes in the information originally provided would be reported to the appropriate Federal Reserve Bank on a flow basis; that is, within thirty calendar days of such changes.

However, commenters objected to the burden associated with flow-basis reporting and asked that current reporting requirements be continued. They stated that the proposed reporting requirements would be very burdensome, particularly since FBOs would need to poll their affiliates regularly to determine organizational changes. They stated that not every structure and activity change is regularly reported to the parent organization. In addition, although the statutory control threshold is 25 percent or more in the United States, the control threshold in many other nations is 50 percent. Under U.S. statutes, when ownership of an affiliate reaches 25 percent, the affiliate would normally be considered a subsidiary, but in other countries it might be considered an "investment". The FBO may not have the legal authority to require information from an affiliate in which its ownership is only 25 percent.

Although the Federal Reserve would prefer to have this information reported as changes occur, the burden on the reporters outweighs the benefits to the Federal Reserve of receiving it within thirty calendar days of each change. Accordingly, the Board dropped the proposal to require flow-basis reporting. However, structure changes that require monitoring for compliance with the Bank Holding Company Act must continue to be reported within thirty days of the end of each quarter on the FR 4002, as required by Regulation K; all other changes must be reported annually on the FR Y-7A.

**Request to modify Regulation K.** A commenter stated that the costs of flow basis reporting would exceed the benefits of discontinuing the FR 4002, and requested modification of section 211.23(h) of Regulation K. Section 211.23(h) requires reporting, within thirty days of the end of a quarter, of all newly acquired shares of companies engaging in activities in the United States or of any U.S. activities commenced by companies in which the FBO already owns shares. Thus, this section requires the FBO to report

information collected in the FR 4002. The requested modification would exempt respondents from reporting investments or activities permitted under section 211.23(f)(5), activities that are not incidental to international banking.

Reporting of non-voting equity interests in excess of 25 percent of any class of non-voting shares. The Federal Reserve initially recommended that FBOs report on the FR Y-7A investments of 25 percent or more of any class of non-voting equity of banks, bank holding companies, and other companies. Commenters said that reporting should not be required since the statutory control indicia normally do not apply to non-voting shares. The Board disagreed and remains concerned with foreign ownership of U.S. financial institutions of this magnitude, irrespective of the non-voting status of the shares. Several commenters indicated that reporting such non-voting interests in U.S. companies, other than banks and bank holding companies, would represent a significant increase in burden. In the interest of reducing burden, reporting will be limited to U.S. banks and bank holding companies, including all types of non-voting interests such as "equity kickers". This conforms to the reporting requirements of the Bank Holding Company Report of Changes in Investments and Activities (FR Y-6A; OMB No. 7100-0124) for domestic bank holding companies. One commenter requested that if non-voting equity interests must be reported then the requirement not be made retroactive. The Board decided to make the requirement retroactive so that the Federal Reserve will be cognizant of all such control situations. If an FBO cannot produce this information in a timely manner, a reasonable extension of time may be granted.

Reporting of shares held as a result of debts previously contracted. Comments were made on two revisions to how DPCs are reported. One commenter objected to the amount of information required about each DPC and proposed that the Board require only a listing of such holdings. The Board did not agree that a simple listing would provide sufficient information for monitoring these holdings. Another commenter stated that lowering the threshold for reporting DPCs, from ownership or control of 25 percent of any class of voting shares to ownership or control of 5 percent, is burdensome, especially when non-U.S. companies are involved, and asked that the 5 percent threshold be applied to only U.S. banking and nonbanking offices and subsidiaries. The commenters noted that in addition

to the increase in the number of reportable holdings, the information would be difficult to obtain because these companies may be located worldwide. Further, the FBO may not have the authority to require these companies to share information. The Board decided to lower the threshold to 5 percent to ensure consistent treatment of domestic and foreign banking organizations ("national treatment") and to maintain consistency with FR Y-6A reporting requirements.

**General Instructions.** A commenter recommended clarifying the General Instructions to the FR Y-7A to distinguish companies that do business in the United States from those that have no U.S. presence, suggesting that the reporting requirements apply only to all U.S. companies and those non-U.S. companies that engage in business in the United States. The Board agreed and made the clarification. Another commenter noted that the list of reportable companies on page 1 of the instructions to the FR Y-7A is confusing and asked that it be eliminated. The Board has clarified the instructions. Two other commenters asked that the term "manages" be deleted from the definition of control since the term's definition differs from the statutory definition. In considering this comment, the Board determined that the instruction was redundant and deleted it.

**Instructions on shares held in a fiduciary capacity.** A commenter suggested that the Board modify the General Instructions to the FR Y-7A so the instructions state more explicitly the requirement that FBOs disclose fiduciary holdings of shares only under either of the following two conditions:

(1) More than 5 percent of the shares of a company are held in a fiduciary capacity for the benefit of the foreign banking organization, its shareholders, or its employees; or

(2) More than 5 percent of the shares in U.S. banks and bank holding companies are held in a fiduciary capacity by a subsidiary of the foreign banking organization that has the sole discretion to vote the shares. This commenter also asked that the Board revise the instructions so that fiduciary holdings held for the benefit of employees or shareholders are reported only if they are held for the employees or shareholders as a class. The Board believes that the instructions adequately address the statutory and regulatory factors regarding fiduciary holdings. These instructions are similar to those provided for bank holding company reporters and therefore are consistent with the policy of national treatment.