

**Supporting Statement for the  
Consolidated Report of Condition and Income for Edge and Agreement Corporations  
(FR 2886b; OMB No. 7100-0086)**

**Summary**

The Board of Governors of the Federal Reserve System (Board), under authority delegated by the Office of Management and Budget (OMB), proposes to extend for three years, with revision, the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b; OMB No. 7100-0086). The FR 2886b reporting form is filed quarterly or annually by Edge and agreement corporations (collectively, Edges or Edge corporations).<sup>1</sup> The Board is responsible for authorizing, supervising, and assigning ratings to Edges. The Board and the Federal Reserve Banks use the data collected by the FR 2886b to supervise Edge corporations and to monitor and develop a better understanding of Edge activities.

The Board proposes to revise the FR 2886b form and instructions to be consistent with adopted changes to U.S. generally accepted accounting principles (GAAP) related to troubled debt restructurings (TDRs), provisions for credit losses on off-balance sheet credit exposures, and expected recoveries of amounts previously charged off included within the allowances for credit losses. The Board also proposes to revise the FR 2886b instructions by (1) specifying when respondents should submit their reports if the submission deadline falls on a weekend or holiday, and (2) adding a recordkeeping requirement for respondents to maintain a record of the data submitted for three years. These revisions are proposed to take effect as of the June 30, 2024, as-of date.

The current estimated total annual burden for the FR 2886b is 1,336 hours and would increase to 1,432 hours. The proposed revisions would result in an increase of 96 hours. The form and instructions are available on the Board's public website at <https://www.federalreserve.gov/apps/reportforms/default.aspx>.

**Background and Justification**

The FR 2886b collects financial data from Edge corporations, which are supervised by the Board.<sup>2</sup> The Federal Reserve uses the FR 2886b data to help plan and target the scope of examinations of Edges and to evaluate applications from Edge corporations. Data from the FR 2886b are also used to monitor aggregate institutional trends, such as growth in assets and the

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<sup>1</sup> Edge corporations are corporations authorized for the purpose of engaging in international or foreign banking or financial operations, which are subject to Federal Reserve supervision. *See* 12 U.S.C. §§ 611, 611a. An agreement corporation is a state-chartered corporation in which a bank or bank holding company may purchase stock, and which has entered into an agreement with the Board that it will not exercise any power that is impermissible for an Edge corporation. 12 CFR 211.5(g)(1). *See also* 12 U.S.C. §§ 601(Third), 603. Note that section 25 of the Federal Reserve Act (12 U.S.C. § 601-04a), which refers to national banking associations, also applies to state member banks of the Federal Reserve System under section 9 of the Federal Reserve Act (12 U.S.C. § 321). *See* 12 CFR 211.1, n.1. Section 25 applies to bank holding companies through section 4(c)(13) of the Bank Holding Company Act (12 U.S.C. § 1843(c)(13)).

<sup>2</sup> *See* Federal Reserve Act § 25A(6), 12 U.S.C. § 615.

number of offices, changes in leverage, and the types and locations of customers, and to monitor and identify present and potential problems with Edge corporations.

Additionally, certain Edges engage in deposit-taking in the United States, and therefore conduct activities that affect the nation's money supply. The Federal Reserve uses the FR 2886b data, in conjunction with data from the Call Reports, in the construction of the monetary aggregates and aggregate statistics on bank credit, non-deposit funds, and assets and liabilities of commercial banks. The Federal Reserve also uses data from the FR 2886b in the construction of the flow of funds accounts and in the compilation of structure data on foreign bank activity. The information collected by the FR 2886b is not available from other sources.

## **Description of Information Collection**

The FR 2886b comprises a balance sheet, income statement, two schedules reconciling changes in capital and reserve accounts, and 11 supporting schedules. An Edge corporation that is engaged in banking<sup>3</sup> must file all supporting schedules; other Edges (investment Edge corporations) must file only four of the 11 supporting schedules. The four supporting schedules that investment Edge corporations must file are: Schedule RC-D, "Trading Assets and Liabilities;" Schedule RC-L, "Derivatives and Off-Balance-Sheet Items;" Schedule RC-M, "Claims on and Liabilities to Related Organizations;" and Schedule RC-N, "Past Due and Nonaccrual Loans, Leases, and Other Assets."

### **Respondent Panel**

The FR 2886b panel comprises all Edge and agreement corporations.

### **Frequency and Time Schedule**

Edge and agreement corporations with total consolidated assets of more than \$50 million file the FR 2886b quarterly as of the last calendar day of March, June, September, and December. Edges with assets of \$50 million or less file annually as of December 31. Edges should file the FR 2886b within 30 calendar days after the close of business of the last calendar date of the quarter- or year-end date for annual filers. If necessary, a respondent is permitted to take an additional 15 calendar days to submit its completed report without requesting an extension. Respondents are urged to use the additional time only if absolutely necessary.

## **Proposed Revisions to the FR 2886b**

### *Provisions for Credit Losses on Off-Balance-Sheet Credit Exposures*

On June 16, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, Topic 326, "Financial Instruments – Credit Losses" (ASU 2016-13). Within Topic 326, paragraph 326-20-30-11 states, "[a]n entity shall report in net income (as a credit loss expense) the amount necessary to adjust the liability for credit losses for

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<sup>3</sup> An Edge is engaged in banking if it is ordinarily engaged in the business of accepting deposits in the United States from nonaffiliated persons. 12 CFR 211.2(f).

management’s current estimate of expected credit losses on off-balance-sheet credit exposures.” Off-balance-sheet credit exposures include loan commitments, standby letters of credit, and financial guarantees not accounted for as insurance, and other similar instruments except for those within the scope of Accounting Standards Codification (ASC) Topic 815 on derivatives and hedging.

Throughout Topic 326, the FASB refers to provisions for credit losses as “credit loss expense.” For example, paragraph 326-20-30-1 states, “[a]n entity shall report in net income (as a credit loss expense) the amount necessary to adjust the allowance for credit losses [(ACL)] for management’s current estimate of expected credit losses on financial assets(s).” Thus, Topic 326 does not prohibit recording the adjustment to the liability for expected credit losses on off-balance-sheet credit exposures within the provisions for credit losses reported in the income statement.

To align with GAAP, the Board proposes to revise the FR 2886b instructions to direct Edges to report provisions for expected credit losses on off-balance-sheet credit exposures as part of the total amount of Edges’ provisions for credit losses in Schedule RI, Income Statement, item 4.a. The inclusion of provisions for expected credit losses on off-balance-sheet credit exposures in the provisions for credit losses presented in Schedule RI, item 4.a, would cause a loss of transparency within the overall reported amount of provisions for credit losses between provisions attributable to on- and off-balance-sheet credit exposures. To enhance transparency and differentiate these provisions, the Board proposes adding Memorandum item 3, “Provisions for credit losses on off-balance-sheet credit exposures,” to Schedule RI-B, Changes in Allowances for Credit Losses, which would identify the portion of the overall amount of the provisions for credit losses reported in Schedule RI, item 4.a, attributable to the provisions for expected credit losses on off-balance-sheet credit exposures.

In addition, the Board proposes to revise footnote 3 on Schedule RI-B, item 3, “Provisions,” of the FR 2886b reporting form to reflect that the sum of item 3, Column A through Column C, plus Schedule RI-B, Memorandum items 1 and 3 must equal Schedule RI, item 4.a. These proposed revisions to the FR 2886b would be effective as of December 31, 2024, and would be consistent with revisions adopted<sup>4</sup> for the Consolidated Financial Statements for Holding Companies (FR Y-9C, OMB No. 7100-0128).

*Expected Recoveries of Amounts Previously Charged Off Included within the Allowances for Credit Losses*

Within Topic 326, paragraph 326-20-30-1 states, “[t]he [ACL] is a valuation account that is deducted from, or added to, the amortized cost basis of the financial asset(s) to present the net amount expected to be collected on the financial asset. Expected recoveries of amounts previously written off and expected to be written off shall be included in the valuation account and shall not exceed the aggregate of amounts previously written off and expected to be written off by an entity.” The terms “written off” as used in Topic 326 and “charged off” as used in FR 2886b instructions are used interchangeably in this discussion.

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<sup>4</sup> See 86 Fed. Reg 92 (Jan. 4, 2021).

Under GAAP, before an institution’s adoption of Topic 326, expected recoveries of amounts previously written off would not be included in the measurement of the allowance for loan and lease losses; recoveries would be recorded only when received. Under Topic 326, including expected recoveries of amounts previously written off within allowances for credit losses reduces the overall amount of these allowances. Amounts related to an individual asset are written off or charged off when deemed uncollectible. However, under Topic 326, institutions can, in some circumstances, reduce the amount of the ACL that would otherwise be calculated for a pool of assets with similar risk characteristics that includes charged-off assets on the same day the charge-offs were taken by the estimated amount of expected recoveries of amounts written off on these assets. Reducing the ACL by amounts of expected recoveries prior to collection effectively reverses a charge-off.

Therefore, to align with GAAP and to provide transparency for expected recoveries of amounts with inherently higher risk, the Board proposes to add a new line item, Memorandum item 4 to Schedule RI-B, “Changes in Allowances for Credit Losses,” to capture the “Estimated amount of expected recoveries of amounts previously written off included within the ACL on loans and leases held for investment (included in item 6, column A, ‘Balance end of current period,’ above).” This proposed revision to the FR 2886b would be effective as of December 31, 2024, and would be consistent with revisions adopted<sup>5</sup> for the FR Y-9C.

#### *Troubled Debt Restructurings and Vintage Disclosures*

On March 31, 2022, the FASB issued ASU 2022-02, “Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures” (ASU 2022-02), which eliminates the TDR recognition and measurement guidance for entities that have adopted ASU 2016-13. Instead of identifying and accounting for TDRs separately from other loan modifications, all loans modified from the beginning of the fiscal year in which the standard is adopted by an Edge would be accounted for in accordance with ASC 310-20-35, “Receivables– Nonrefundable Fees and Other Costs – Subsequent Measurement,” as amended by ASU 2022-02. In addition, the new standard enhances financial statement disclosure requirements for certain loan modifications to borrowers experiencing financial difficulty. These disclosures include qualitative information regarding how initial modifications and subsequent performance of such modifications impact the allowance for credit losses.

Under ASU 2022-02, Edges would only include loans that were modified to borrowers experiencing financial difficulty from the beginning of the fiscal year of adoption and in subsequent periods in their disclosures for financial statement purposes. TDRs or modifications made prior to the beginning of the fiscal year of adoption would not be included in these enhanced financial statement disclosures in the period of adoption or in any subsequent periods. Additionally, per ASU 2022-02, an Edge would not be required to use a discounted cash flow (DCF) approach to measure the allowance for credit loss on the modified loans. However, if an Edge chooses to use a DCF approach, it must use the post-modification expected interest rate to discount expected cash flows. In addition, per ASC 326-20-35-5, “Investments – Financial Instruments-Credit Losses – Measured at Amortized Cost – Subsequent Measurement,” modified

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<sup>5</sup> See 86 Fed. Reg. 92 (Jan. 4, 2021).

<sup>6</sup> ASU 2016-13 was effective for all Edges as of December 31, 2023.

loans for which repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty are considered to be collateral-dependent. For regulatory reporting purposes, the allowance for credit losses for a collateral-dependent loan would continue to be measured using the fair value of collateral (less cost to sell, when appropriate), regardless of whether foreclosure is probable.

ASU 2022-02 was effective for all Edges as of December 31, 2023, and eliminates the recognition and measurement accounting guidance for TDRs. In order to promote consistence with these changes to GAAP, the Board proposes to no longer require Edges to report TDRs on FR 2886b Schedule RC-N. To be consistent with GAAP recognition and disclosure requirements, the Board proposes to revise the FR 2886b form and instructions to align with the definition of loan modifications to borrowers experiencing financial difficulty. Specifically, the Board is proposing to replace, as appropriate, references to “troubled debt restructurings” with “loan modifications to borrowers experiencing financial difficulty” in the FR 2886b form and instructions. These changes would enable the Board to better understand the level of loan modification activity at Edges. The Board would benefit from having reliable data about modification activity that is captured outside of the on-site examination process. This data would provide the Board with information to assess the loan quality and performance of modified loans.

The Board proposes to revise the FR 2886b reporting form and instructions as discussed in detail below:

**Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, Memorandum item 1** - Edges would report detail on loan modifications to borrowers experiencing financial difficulty in Schedule RC-N, “Past Due and Nonaccrual Loans, Leases, and Other Assets,” Memorandum item 1. The modifications reported in Memorandum item 1 would need to meet the definition of “loan modifications to borrowers experiencing financial difficulty” as described in ASU 2022-02, which includes only those modifications that have occurred in the previous 12 months.<sup>7</sup> Loan modifications to borrowers experiencing financial difficulty include financing receivables that have been modified in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay or a term extension, (or a combination thereof). The FR 2886b form and instructions would be updated to include references to “loan modifications to borrowers experiencing financial difficulty” and remove references to the TDR framework.

These proposed new items to the FR 2886b would be effective as of December 31, 2024, and are consistent with items currently proposed to be added to the FR Y-9C.<sup>8</sup>

*Revisions to Submission Deadline and Recordkeeping Requirement*

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<sup>7</sup> ASU 2022-02 requires disclosures on modifications to borrowers experiencing financial difficulty made “within the previous 12 months preceding the payment default when the debtor was experiencing financial difficulty at the time of the modification”. See ASC 310-10-50-44, “Receivables – Overall – Disclosure – Modifications to Debtors Experiencing Financial Difficulty.”

<sup>8</sup> See [TBD].

The Board proposes to revise the FR 2886b instructions to specify when respondents should submit their reports when the submission deadline falls on a weekend or holiday. The instructions would be revised to state the following, “[i]f the submission deadline falls on a weekend or holiday, the report must be received on the first business day after the Saturday, Sunday, or holiday.” The Board also proposes to revise the FR 2886b instructions to require respondents to maintain in their files a physical or electronic copy of the manually signed submitted report for three years after submission, for reasons discussed in the Legal Status section, below.

## **Public Availability of Data**

Aggregate data from the FR 2886b report are included in three Board statistical releases: the weekly H.6 release, *Money Stock Measures*; the weekly H.8 release, *Assets and Liabilities of Commercial Banks in the United States*; and the quarterly Z.1 release, *Financial Accounts of the United States*. These statistical releases are available on the Board’s public website: <https://www.federalreserve.gov/data.htm>.

## **Legal Status**

For purposes of this section, the term “Edge corporation” does not encompass agreement corporations. The reporting requirements contained in the FR 2886b are authorized pursuant to sections 25(7) and 25A(17) of the Federal Reserve Act (12 U.S.C. §§ 601, 625). Section 25A(17) of the Federal Reserve Act provides that Edge corporations must provide reports to the Board at such times as the Board may require.<sup>9</sup> Under section 25(7) of the Federal Reserve Act, banks and bank holding companies investing in agreement corporations authorized under section 25(1) must, upon demand, furnish the Board with reports of condition regarding the investing banks or BHCs or the agreement corporations.<sup>10</sup> The Board also typically includes a provision in the agreement for an agreement corporation that requires the agreement corporation itself to provide reports to the Board upon the Board’s demand.<sup>11</sup>

The newly added recordkeeping requirement related to the retention of records is authorized under sections 25 and 25A of the Federal Reserve Act. Section 25A(17) of the Federal Reserve Act requires an Edge corporation to retain copies of all reports that it makes to the Board.<sup>12</sup> There is no similar provision for agreement corporations. However, in its agreement with the Board, an agreement corporation typically agrees to do everything necessary to facilitate the Board’s examinations of the corporation and to make available to examiners all information which they may require.<sup>13</sup> A requirement to retain copies of the reports the corporations submit to the Board is consistent with these aspects of the agreement.

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<sup>9</sup> 12 U.S.C. § 625.

<sup>10</sup> 12 U.S.C. §§ 601, 602.

<sup>11</sup> Such agreements are a condition of approval of the agreement corporation under section 25(8) of the Federal Reserve Act (12 U.S.C. § 603).

<sup>12</sup> 12 U.S.C. § 625.

<sup>13</sup> As stated *supra* n.4, such agreements are authorized under section 25(8) of the Federal Reserve Act (12 U.S.C. § 603).

The obligation to respond is mandatory.

The Federal Reserve System generally regards Schedule RC-M, “Claims on and Liabilities to Related Organizations” (except item 3, the total) as confidential. It also regards Schedule RC-V, “Branch Schedule of Selected Items—Non-Consolidated,” as confidential for respondents engaged in banking. The rest of the information submitted in the form is not considered confidential, but respondents may request confidential treatment. A respondent’s request for confidential treatment is itself considered public information.

A request for confidential treatment of the portions of the form that are not generally considered confidential may be granted if the relevant information falls within the scope of an exemption from the Freedom of Information Act’s (FOIA’s) disclosure requirements. Submitted information may be exempt from disclosure under exemption 4 of the FOIA.<sup>14</sup> Exemption 4 covers confidential commercial or financial information that is customarily and actually treated as private by its owner and provided to the government under an assurance of privacy.<sup>15</sup> To the extent a respondent firm does customarily and actually keep the information it submits to the Board confidential and the information falls within one of the schedules the Board has stated that it views as confidential, this information would be exempt from disclosure under exemption 4.

In addition, regardless of whether a respondent requests confidential treatment of the information submitted, such information may be excluded from disclosure under exemption 8 of the FOIA.<sup>16</sup> Exemption 8 covers matters contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of an agency responsible for the regulation or supervision of financial institutions. As documents related to Edge corporations’ condition prepared for the use of the Board, an agency responsible for the regulation and supervision of financial institutions, the information submitted to the Board in the FR 2886b reporting form would also be exempt from disclosure under exemption 8.

The FR 2886b’s recordkeeping requirements apply to copies of the reports submitted to the Board. This information will therefore be available to the Board and subject to the confidentiality analysis described above.

### **Consultation Outside the Agency**

There has been no consultation outside the Federal Reserve System.

### **Public Comments**

On June 7, 2024, the Board published an initial notice in the *Federal Register* (89 FR 48644) requesting public comment for 60 days on the extension, with revision, of the FR 2886b. The comment period for this notice expires on August 6, 2024.

### **Estimate of Respondent Burden**

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<sup>14</sup> 5 U.S.C. § 552(b)(4).

<sup>15</sup> See *Food Marketing Institute v. Argus Leader Media*, 139 S. Ct. 2356, 2364 (2019).

<sup>16</sup> 5 U.S.C. § 552(b)(8).

As shown in the table below, the current estimated total annual burden for the FR 2886b is 1,336 hours, and would increase by 96 hours to 1,432 hours with the proposed revisions. The estimated number of quarterly respondents is based on the number of respondents that submitted data for the June 30, 2023, as-of date, and the estimated number of annual respondents is based on the number of respondents that submitted data for the December 31, 2022, as-of date. These reporting requirements represent less than 1 percent of the Board’s total paperwork burden.

<b>FR 2886b</b>	<i>Estimated number of respondents<sup>17</sup></i>	<i>Estimated Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<b>Current Reporting</b>				
<b>Banking</b>				
Edge and agreement corporations (quarterly)	5	4	15.77	315
Edge and agreement corporations (annual)	0	1	15.87	0
<b>Investment</b>				
Edge and agreement corporations (quarterly)	20	4	11.81	945
Edge and agreement corporations (annual)	7	1	10.82	<u>76</u>
	<i>Current Total</i>			1,336
<b>Proposed Reporting</b>				
<b>Banking</b>				
Edge and agreement corporations (quarterly)	5	4	16.47	329
Edge and agreement corporations (annual)	0	1	16.57	0
<b>Investment</b>				
Edge and agreement corporations (quarterly)	20	4	12.51	1,001
Edge and agreement corporations (annual)	7	1	11.52	81

<sup>17</sup> Of these respondents, 15 are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$850 million in total assets). Size standards effective March 17, 2023. See <https://www.sba.gov/document/support--table-size-standards>.



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**Recordkeeping****Banking**

Edge and agreement corporations (quarterly)	5	4	.2	4
Edge and agreement corporations (annual)	0	1	.2	0

**Investment**

Edge and agreement corporations (quarterly)	20	4	.2	16
Edge and agreement corporations (annual)	7	1	.2	<u>1</u>

*Proposed Total* 1,432

*Change* 96

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The current estimated total annual cost to the public for the FR 2886b is \$93,320 and would increase to \$100,025.<sup>18</sup>

**Sensitive Questions**

These collections of information contain no questions of a sensitive nature, as defined by OMB guidelines.

**Estimate of Cost to the Federal Reserve System**

The estimated cost to the Federal Reserve System for collecting and processing the FR 2886b is \$3,300 for one-time costs, and \$94,996 for ongoing costs.

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<sup>18</sup> Total cost to the responding public is estimated using the following formula: total burden hours, multiplied by the cost of staffing, where the cost of staffing is calculated as a percent of time for each occupational group multiplied by the group's hourly rate and then summed (30% Office & Administrative Support at \$23, 45% Financial Managers at \$84, 15% Lawyers at \$85, and 10% Chief Executives at \$124). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor Statistics (BLS), Occupational Employment and Wages, May 2023, published April 3, 2024, <https://www.bls.gov/news.release/ocwage.t01.htm#>. Occupations are defined using the BLS Standard Occupational Classification System, <https://www.bls.gov/soc/>.