Instructions for the Preparation of the Country Exposure Report (FFIEC 009)

Effective March 2006

Schedule 1 - Claims, Liabilities, Commitments, and Guarantees

Schedule 1.a – Foreign-Office Liabilities and Memorandum Items

Schedule 2 - Claims from Positions in Derivative Contracts

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I. GENERAL INSTRUCTIONS

A. Introduction and Purpose

This report provides information on the distribution, by country, of claims on foreign residents held by United States banks and bank holding companies. The data collected are used for supervisory purposes and to assess transfer and related risks, such as country risk. The data are also aggregated and released to the public, for analysis of the transfer and related risks in the United States' banking system. Aggregate data are provided to the Bank for International Settlements (BIS), as part of an international cooperative effort to compile and publish global data on claims on foreign residents. The resulting data form the BIS Consolidated Banking Statistics, which are widely used for country risk analysis and the analysis of banking flows.

B. Summary Description of this Report

This report contains three schedules. Schedule 1 collects information on the reporter's claims on residents of foreign countries, except claims resulting from the fair value of derivative contracts. Data are collected on an "immediate-counterparty" basis—i.e., on the basis of the country of residence of the borrower—and an "ultimate-risk" basis—i.e., on the basis of the country of residence of the guarantor or collateral (i.e., the "ultimate obligor"). In Columns 1 through 8, data are collected on an immediate-counterparty basis. In Columns 9 through 14, the redistribution of claims from an immediate-counterparty basis to an ultimate-risk basis is shown. These redistributions arise from arrangements such as formal guarantees and credit derivatives. In Columns 15 through 21, claims are shown on an ultimate-risk basis. For each country row (except the United States) the sum of the claims in Columns 1 through 6 and 8 less the outward risk transfers in Columns 9 through 11, plus the inward risk transfers in Columns 12 through 14, should equal the sum of the cross-border claims and foreign-office local claims in Columns 15 through 20.

The report also collects data on the risk exposure, by country, of U.S. banks and bank holding companies from commitments and guarantees (including credit derivatives) to residents of other countries (Columns 22 and 23, respectively).

Schedule 1.a collects information on foreign-office liabilities and three memorandum columns. Columns 1 and 2 show, by currency, foreign-office liabilities for which no payment is guaranteed at locations outside the country of the office, reported by the country of the foreign office. Column 3 shows all liabilities booked at foreign offices by the country of the creditor. Column 3 is required to be reported only by reporters that meet certain conditions, which are described in Section I.D of these instructions. Column 4 shows positions vis-à-vis own related offices. (These positions are not reported elsewhere on this report, due to the consolidation rules.) Column 5 shows the amount of claims, on an ultimate-risk basis (reported in Columns 15 through 17 of Schedule 1), that are held for trading. Column 6 shows the amount of claims, on an ultimate-risk basis (reported in Columns 15 through 20 and Columns 22 and 23 of Schedule 1), that are trade finance related.

Schedule 2 collects information on the fair value of derivative contracts of the reporter with residents of foreign countries. A sector distribution and the total are collected in Columns 1 through 4. In Column 5, claims on bank branches that are not formally and legally guaranteed by the head office are reported in the country rows corresponding to the country in which the branch is located (instead of the country of the head office). These claims represent transfer risk remaining in the countries in which the branches are located. Columns 6 through 7 are optional; they show the amount of foreign-office claims on local residents and foreign-office liabilities resulting from derivative contracts and are required to be completed only if these positions are not included in Columns 1 through 4.

C. Administrative Issues

Authority

This report is required to be filed by national banks, state member banks, bank holding companies, and insured state nonmember commercial banks pursuant to authority contained in the following statues:

> Board of Governors of the Federal Reserve System – Section 11a of the Federal Reserve Act (12 USC 248a), Section 5c of the Bank Holding Company Act (12 USC 1844c), and Section 907 of the International Lending Supervision Act of 1983 (12 USC 3906); and
>
> Comptroller of the Currency – the National Bank Act, as amended (12 USC 161);
>
> Federal Deposit Insurance Corporation – Section 7 and 10 of the Federal Deposit Insurance Act (12 USC 1817 and 1820)

Confidentiality

The individual reports are regarded as confidential and will not be voluntarily disclosed to the public. However, aggregated data that do not reveal the activities of individual banks will be published. Portions of the aggregated data are also reported to the Bank for International Settlements as part of an international cooperative effort to compile and publish worldwide data on cross-border claims.

Reporting Burden

Public reporting burden for the collection of information is estimated to average 70 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. A federal agency may not conduct or sponsor, and an organization (or a person) is not required to respond to a collection of information, unless it displays a currently valid OMB control number. Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be directed to the Office of Information and Regulatory Affairs, Office of Management and Budget, Paperwork Reduction Project (7100-0035), Washington, D.C. 20503, and to one of the following:

Secretary
Board of Governors of the Federal Reserve System
Washington, D.C. 20551

Assistant Executive Secretary
Federal Deposit Insurance Corporation
Washington, D.C. 20429

Legislative and Regulatory Analysis Division
Office of the Comptroller of the Currency
Washington, D.C. 20219

D. Who Must Report

Reportable Entities

The Country Exposure Report (FFIEC 009) is required to be filed quarterly by commercial banks and/or bank holding companies meeting the criteria listed below:

A Schedule 1 and 1.a must be completed by:

(1) Every U.S. chartered insured commercial bank in the 50 States of the United States, the District of Columbia, Puerto Rico, and U.S. territories and possessions, that has, on a fully consolidated bank basis, total outstanding claims on residents of foreign countries exceeding $30 million in the aggregate, and has at least one of the following:

- a branch in a foreign country;
- a consolidated subsidiary in a foreign country;
- an Edge or Agreement subsidiary;
- a branch in Puerto Rico or in any U.S. territory or possession (except that a bank with its head office in Puerto Rico or any U.S. territory or possession need not report if it meets only this criterion);
- an International Banking Facility (IBF).

(2) Every Edge and/or Agreement corporation that has total outstanding claims on residents of foreign countries exceeding $30 million, *unless* it is majority owned by a bank that is required to file a report.

(3) Every institution that meets the Schedule 2 reporting requirements (see below).

(4) Every U.S. bank holding company that is required to file the FR Y-6 report (Bank Holding Company Annual Report) and has a subsidiary bank that is required to report.

However, to reduce reporting burden:

(1) If a bank holding company has only one subsidiary bank that meets the reporting requirements and that subsidiary bank accounts for less than 90 percent of the consolidated holding company's total claims on foreigners, only the holding company should prepare a Schedule 1. If the only subsidiary bank that is required to report accounts for 90 percent or more of the consolidated holding company's claims, either the holding company or the bank (but not both) should prepare a Schedule 1.

(2) If a bank holding company has two or more subsidiary banks that meet the reporting requirements and these subsidiary banks, together, account for 90 percent or more of the consolidated holding company's total claims on foreigners, the holding company need not file a separate report.

Column 3 of Schedule 1.a—total liabilities booked at foreign offices—is required to be reported by only those reporters that have one or more branches or subsidiaries located outside the fifty states of the United States, the District of Columbia, or a U.S. military facility (regardless of where located) that meet the following criteria:

- branches filing the Foreign Branch Report of Condition (FFIEC 030) whose total assets payable in all currencies amount to $500 million or more on a report date,

- subsidiaries filing the quarterly Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314) that have a banking charter and engage in banking business, and that report $2 billion or more in total assets in Schedule BS, item 10 and $10 million or more in total deposits in Schedule BS-M, item 6.

The total assets test defined above applies to the total of the foreign branch's or subsidiary's international and local assets, regardless of the currency in which the assets are payable. If any foreign office of a reporter exceeds the reporting threshold, then column should 3 be completed for the reporter's entire organization and not just for the offices exceeding the threshold.

A Schedule 2 must be completed by every institution whose FFIEC 031 or FR Y-9C (or for Edge and/or Agreement corporations[1] the FR 2886b) as of December 31 of the previous year shows:

(1) total gross notional values of derivative contracts (the sum of items 12(a) through 12(e), Columns A through D on Schedule RC-L of the FFIEC 031 or the sum of items 11(a) through 11(e) Columns A through D on Schedule HC-L of the FR Y-9C) in excess of $10 billion

or

(2) total gross fair values of derivative contracts (the sum of items item 15(a) and 15 (b), Columns A through D on Schedule RC-L of the FFIEC 031 or the sum of items 14(a) and 14(b) Columns A through D on Schedule HC-L of the FR Y-9C) in an amount greater than 5 percent of their total assets.

In addition, the bank regulatory authorities may specifically require a report (Schedules 1 and/or 2) to be filed by other banking organizations that the authorities deem to have significant country exposures.

Consolidation Rules

The information should be reported on a fully consolidated basis. For reports from banks, the scope of coverage and the consolidation of information should be in accordance with the procedures and tests of significance set forth in the instructions for preparation of the FFIEC 031. For reports from bank holding companies, the information should be consolidated in accordance with the principles set forth in the instructions for the preparation of the FR Y-9C. For Edge and/or Agreement corporations, the information should be consolidated in accordance with the principles set forth in the instructions for the preparation of the FR 2886b.

E. Accounting Issues

All amounts should be reported in U.S. dollars regardless of the currencies in which the balances are denominated. The translations should be made on the same basis used to prepare its (or its subsidiary bank's) FFIEC 031 and the FR Y-9C.

Claims and liabilities should be reported using the same accounting basis as used on the FFIEC 031 and FR Y-9C with the exception of available-for-sale securities, which should be reported at amortized cost.

Edge and/or Agreement corporations should reference the instructions for the preparation of the FFIEC 031 for further information on reporting definitions and generally accepted accounting principles.

Round all amounts reported on this form to the nearest million dollars.

F. Submission of Reports

This report is to be prepared quarterly, as of the end of March, June, September and December. All reporters should submit their completed report to the Federal Reserve Bank of New York (FRBNY),

[1] Edge and/or Agreement corporations should reference the instructions for the preparation of the FR Y-9C for corresponding items on the FR 2886b.

via the Federal Reserve System's Internet Electronic Submission (IESUB) system, within 45 days of the reporting date.

The Federal Reserve System Web site *http://www.reportingandreserves.org/req.html* provides additional information on IESUB. The Web site also includes a link that reporters may use to contact FRBNY for technical assistance.

Each reporter should keep a paper copy of each report. This paper copy should be signed and certified by an Executive Officer (as defined in 12 CFR 215.2(e)(1)) of the bank or bank holding company.

II. REPORTING DEFINITIONS

A. Claims

The term “claims” follows the definition in the instructions for preparation of the FFIEC 031 and FR Y-9C including the following types of assets:

- Deposit balances, both interest bearing and non-interest bearing, held at banks in foreign countries, foreign branches of other U.S. banks, foreign branches of foreign banks, and U.S. branches of foreign banks
- Balances with foreign central banks and foreign official institutions
- Foreign securities
- Federal funds sold to foreigners, U.S. branches of foreign banks, or other U.S. entities that are branches of a foreign company
- Loans to or guaranteed by non-U.S. addressees
- Holdings of acceptances of foreign banks
- Foreign direct lease financing
- Investments in unconsolidated foreign subsidiaries and associated companies
- Positive fair value of interest rate, foreign exchange, equity, commodity and other derivative contracts with non-U.S. addressees (Reported in schedule 2)
- Customers’ liability on acceptances outstanding where the account party is foreign
- Accrued income receivables from or guaranteed by non-U.S. addressees (including interest, commissions and income earned or accrued and applicable to current or prior periods, but not yet collected)
- Resale agreements and other financing agreements with non-U.S. addressees
- Asset sales with recourse with non-U.S. addressees
- Participations and syndications of loans to non-U.S. addressees

Premises, Other Real Estate Owned, and Goodwill should be excluded from claims for the purposes of this report.

B. “Immediate-Counterparty” and “Ultimate-Risk” Claims

Claims are to be reported on an “immediate-counterparty” basis in Columns 1 through 8 and on an “ultimate-risk” basis in Columns 15 through 21. The obligor on an immediate-counterparty basis is the entity that issued the security or otherwise incurred the liability. The obligor of a claim on an ultimate-risk basis is any person, business, institution, or instrument that provides any of the types of credit protection described in Section II.D, “Required Risk Transfers” and Section II.G “Reporting Credit Derivatives.” (Note, in particular, the rules given in Section II.D.5 concerning collateral.)

If full credit protection is provided by more than one source, the ultimate-risk claim should be reported in the sector and row of the residence of the highest rated credit enhancer.

C. Sector Definitions

The following sector definitions are used for all columns of this report that provide sectoral distinctions:

(1) Banks (Columns 1, 4, 9, 12, 15 and 18 of Schedule 1 and Column 1 of Schedule 2) - The definition of banks is identical to "Banks, U.S. and Foreign" in the Report of Condition. Banks include commercial banks, savings banks, discount houses, and other similar institutions. Banks also include banking institutions owned by foreign governments, unless such institutions function as central banks or banks of issue, in which case they are treated as "public" institutions.

(2) Public (Columns 2, 5, 10, 13, 16 and 19 of Schedule 1 and Column 2 of Schedule 2) - The definition of the Public sector is identical to "Foreign Governments and Official Institutions" in the Report of Condition. Public sector institutions include:

- central, state, provincial and local governments and their departments, and agencies
- treasuries, ministries of finance, central banks, stabilization funds, exchange authorities, and diplomatic establishments
- those government owned banks, including development banks, that perform as an important part of their activities, the functions of a treasury, central bank, exchange control office, or stabilization fund
- international or regional organizations or subordinate or affiliated agencies thereof, created by treaty or convention between sovereign states, including the International Monetary Fund, the International Bank for Reconstruction and Development (World Bank), the Bank for International Settlements, the Inter-American Development Bank, and the United Nations

Banking institutions owned by a government that do not function as the central bank and/or bank of issue are excluded from the public sector and are to be reported as "Banks." Other corporations that are owned by a government are to be reported as "Other."

(3) Other (Columns 3, 6, 11, 14, 17 and 20 of Schedule 1 and Column 3 of Schedule 2) - All persons, businesses, and institutions other than "banks" and "public," as defined above.

D. Required Risk Transfers

Claims are redistributed from an "immediate-counterparty" basis to an "ultimate-risk" basis in Columns 9 through 14. The reporter is required to make the following risk transfers:

(1) Guarantees

Guarantees are formal legally binding commitments by a third party to repay a debt if the direct obligor fails to do so. Guarantees include financial and performance standby letters of credit and acceptances (for the amount of the participation sold). Documents that do not establish legal obligations, such as "comfort" letters, letters of awareness, or letters of intent, are not guarantees for the purpose of this report. Similarly, guarantees on claims on foreign residents that do not cover transfer risk should not be considered a guarantee for the purposes of this report. [Note: If a claim on a U.S. resident is guaranteed by a foreign resident, it should be reported in the row for the United States in columns 9 through 11 (depending on the sector of the immediate counterparty), and in the row for the country of the foreign guarantor in columns 12 through 14 and in columns 15 through 21 (depending on the sector of the foreign guarantor and whether the claim is cross-border or not), as instructed in Section IV.B and as illustrated in examples 11, 12, 13, and 17 in Section IV.C. In such cases, it is not necessary for the guarantee to cover transfer risk, because a loan to a U.S. resident carries no transfer risk.] Guarantees provided by the reporters' head office or other consolidated units of the reporter should not be considered a guarantee for the purposes of this report.

Guarantees providing protection to the respondent should result in the reallocation of the claim to the sector and country row of the provider of the guarantee. (Note: If the reporter provides a guarantee on a foreign credit, the amount of the guarantee should be reported in Column 23.)

(2) Insurance Policies

Insurance policies that guarantee payment of a claim if the borrower defaults or if non-convertibility occurs should be reallocated to the non-bank sector of the country of residence of the entity providing the insurance. However, limited purpose policies, such as "political risk insurance" policies should not be used as a basis for reallocation. (Note: If a reporter issues an insurance policy guaranteeing the payment of a claim if a foreign borrower defaults, the amount of the protection sold should be reported in Column 23.)

(3) Head Offices

For the purposes of this report, claims on a branch (but not on a subsidiary) of a banking organization are considered to be guaranteed by the head office of the organization, even without a legally binding agreement. Therefore, claims on branches should be reallocated to the bank sector in the country of the parent institution.

(4) Credit Derivatives

See Section II.G.

(5) Collateralized Claims

Collateral is treated as a "guarantee" of a claim if the collateral is: (a) tangible, liquid, and readily-realizable and (b) is both held and realizable outside of the country of residence of the borrower. Collateral can include investment grade debt instruments and regularly traded shares of stocks. In cases involving collateral other than stocks and debt securities, the sector and country of the "guaranteeing" party is the sector and country of residence of the institution holding the collateral. If the collateral is stocks or debt securities, the sector and country of the "guaranteeing" party is the sector and country of residence of the party issuing the security. **However, in the case of resale agreements and other similar financing agreements, the claims should be allocated based on the counterparty, not the underlying collateral.**

If the collateral consists of a basket of convertible currencies or investment grade securities of different countries, the exposure may be reported on the "Other" line (for example, "other Latin America") that most closely represents the geographical composition of the basket.

(6) Risk Participations

Loans and acceptances, where the accepting bank has sold a risk participation, are considered to be guaranteed by the purchaser of the participation for the amount of the participation sold.

Assets such as real estate and accounts receivable are not liquid or tangible assets. (Although only liquid, tangible, and readily realizable assets may be the basis of a reported risk transfer, the Federal banking agencies will consider the protection afforded by other assets to the reporting bank's country exposure claims when appraising each bank's country exposures.) In addition, a reporting institution that holds a claim with a repayment structure that insulates repayment from any form of transfer and country risk event, but the claim does not fall under one of the risk transfer categories above should contact their respective supervisory agency to consider if such claim can be redistributed in Columns 9 through 11.

E. Cross-Border and Foreign-Office Claims on Local Residents

<u>Cross-border claims</u> of each reporter cover:

- all claims of its U.S. offices (including IBFs, Edge and Agreement corporations, and offices in Puerto Rico and U.S. territories and possessions) with residents of foreign countries, regardless of the currency in which the claim is denominated; *and*,

- all claims of each of its offices in a foreign country with residents of other foreign countries (i.e., countries other than the country in which the foreign office is located), regardless of the currency in which the claim is denominated.

Since the reports are on a fully consolidated bank (bank holding company) basis, cross-border claims exclude any claims against those foreign branches or foreign subsidiaries that are part of the consolidated bank (bank holding company). However, claims on unconsolidated subsidiaries or associated companies of the reporter should be reported. Thus, a consolidated bank basis report should include claims on foreign subsidiaries of the banks' parent holding company since these subsidiaries should not be included in consolidated reports of the bank. (Note: Net amounts due to or due from own related offices in other countries are shown as a separate memorandum item in Column 4 of Schedule 1.a.)

<u>Foreign-office claims on local residents</u> are all claims of the institution's foreign offices on residents of the country in which the foreign office is located.

Notes: (1) Claims of a foreign office on a resident of the United States should not be reported as a cross-border claim (because the row for the United States should not be completed, except for Columns 9 through 14) nor as a foreign office claim on local residents (because they are not a claim on a resident of country in which a foreign office is located).

(2) The definition of "cross-border claims" and "foreign-office claims on local residents" is the same on an "immediate-counterparty" basis and an "ultimate-risk" basis. However, some claims may be categorized differently, or be placed in different sectors or country rows, because the sector or country of residence of the immediate obligor may differ from that of the ultimate obligor.

F. "Local" vs. "Non-Local" Currency

A currency is considered to be a "local" currency of a country only if the country, directly or through a currency union, has the authority to issue that currency. Thus, U.S. dollars would not be considered to be the local currency of any country other than the United States. Euros would be considered to be the local currency of any country that is a member of the European Monetary Union, but of no other country.

G. Reporting Credit Derivatives

Reporters should treat credit derivative contracts, (including credit default swaps and options, total return swaps and sovereign risk options), as guarantees for purposes of this report, if the institution considers the arrangement to be an effective risk transfer based on its internal criteria and the contract contains provisions to pass the transfer risk to the counterparty. A reporter's internal criteria should, at a minimum, include provisions that ensure the terms of credit derivatives provide an effective guarantee, even in the case of a maturity mismatch, prohibit clauses that reduce the effectiveness of the guarantee in the case of default, contain effectual events of default, and reference the same legal entity as the obligor.

Claims for which credit derivatives form an effective risk transfer should be reallocated to the sector and country of residence of the entity that is providing the protection.

Credit derivatives are reported in three places in this report:

(1) On Schedule 1, <u>the notional value of credit protection purchased</u> by the respondent can result in both inward and outward risk transfers, as the credit risk is shifted from the sector and/or country row of the immediate counterparty to the sector and/or country row of the credit protection seller.

(2) On Schedule 1, <u>the notional value of credit protection sold</u> by the respondent is reported in Column 23 (only). In each country row of Column 23, the reporter should report the notional value of the credit protection sold against the risk of default or other credit event by the ultimate obligor of the referenced credit.

(3) On Schedule 2, claims arising from the fair value of credit derivative contracts (including the fair value of protection purchased and protection sold) are reported against the country of the counterparty, along with claims arising from the fair value of other derivative contracts.

III. SPECIFIC INSTRUCTIONS FOR ALLOCATING CLAIMS TO THE ROWS

This report form contains rows for: (a) the United States; (b) individual countries; (c) "other" geographic regions (Other Europe, Other Latin America, Other Asia/Middle East, Other Africa and All Other Countries); and (d) international or regional organizations. Data should be allocated to the rows as described below.

A. The United States

The "United States" is defined as the 50 states of the United States, the District of Columbia, the Commonwealth of Puerto Rico, American Samoa, Guam, Johnston Atoll, Kingman Reef, Midway Islands, the U.S. Virgin Islands and Wake Island. Data for the United States are reported only for the outward risk transfers (Schedule 1, Columns 9 through 11) and the inward risk transfers (Schedule 1, Columns 12 through 14).

B. Foreign Countries and "Other" Geographic Regions

A foreign country is any country other than the United States as defined above. For claims reported on an immediate-counterparty basis, report claims in the row corresponding to the country of legal residence (i.e., the country of incorporation or, for a branch, of charter) of the immediate counterparty. For claims reported on an ultimate-risk basis, report claims in the row corresponding to the country of legal residence (i.e., the country of incorporation) of the ultimate obligor. (See Sections II.B and II.D for definitions of immediate counterparty and ultimate obligor.)

The rows for the "other" geographic regions should be used when there is a claim against a resident of a country that is not listed, or when the residence of the obligor or guarantor cannot be readily identified. For example, it may not be easy to allocate to a single country the following types of claims or guarantees: investments in global funds, claims collateralized by a basket of convertible currencies or by a basket of investment grade securities of different countries, claims collateralized by a pool of securities, and guarantees provided by selling protection on multi-name credit default swaps (i.e., basket or portfolio products) in which the ultimate obligors of the referenced credits do not all reside in the same country.

Shipping credits should be allocated to the country in which the primary source of repayment resides. In cases where there is no long-term charter, such as a vessel operating in the spot market or a liner vessel, the allocation should be to the country of residence of the ultimate shipowner. Exceptions may be made where it is judged that the source of repayment of the credit may be other than in the country of residence of the ultimate shipowner. If a shipping credit is repayable principally from the proceeds of the charter assigned to the bank, the allocation should be to the country of residence of the charter.

C. International and Regional Organizations

Claims on international and regional organizations, even if located in the United States, should be reported opposite the appropriate line: (a) International; (b) West European Regional; (c) East European Regional; (d) Latin American Regional; (e) Asian Regional; (f) African Regional; or (g) Middle Eastern Regional. The "International" entry covers most organizations of a global character, such as the International Monetary Fund and the World Bank. However, for purposes of this report, the Bank for International Settlements and the European Central Bank are to be treated as "Other Europe," and not as "International" or "Regional." The regional entries cover organizations that are regional in scope such as the European Coal and Steel Community (Western Europe regional), the Inter-American Development Bank (Latin American regional) or the Asian Development Bank (Asian regional).

All international and regional institutions are considered to be "public" sector organizations.

IV. SPECIFIC INSTRUCTIONS FOR SCHEDULE 1

Report claims (see Section II.A) as described below. Do not report in Schedule 1 the fair value of derivative contracts; these should be reported on Schedule 2. Note that for the United States (see Section III) reporters should report only the risk transfer from the United States (e.g., a transfer due to a claim on a U.S. branch of a foreign bank) or to the United States (e.g., a claim on a foreign subsidiary of a U.S. company that is fully guaranteed by the parent organization).

A. Immediate-Counterparty Claims (Columns 1 through 8)

All data in Columns 1 through 8 should be based only upon the immediate obligor; do not consider any guarantees or other risk transfers.

Claims by Sector

In Columns 1 through 3 report all cross-border claims in any currency.

In Columns 4 through 6 report all foreign-office claims in currencies other than the official currency of the country in which the local office exists, as defined in Sections II.E and II.F. Allocate the claims to each sector (see Section II.C) and each country row (see Section III) based upon the sector and residence/entity type of the direct obligor.

Remaining Maturity of One Year or Less

In Column 7, show all claims reported in Columns 1 through 6 that have 1 year or less to the remaining contractual maturity date except as described below. The definition of "one year" should be consistent with the definition used in the FFIEC 031 and the FR Y-9C.

Marketable equity investments, both trading and available-for-sale, should be reported as maturing under one year, because they are liquid investments.

Debt securities held in the trading account should be reported in the one year and under category. Debt securities held in the available-for-sale portfolio should be reported according to the contractual maturity date.

Foreign-Office Claims on Local Residents in the Local Currency

In Column 8, report all foreign-office claims on local residents in the official currency of the country in which the local office exists (see Sections II.E and II.F).

Note that all claims on residents of another country and claims of the foreign office in a non-local currency on residents of the same country should be reported in Columns 1 through 6 and excluded from this column.

Examples for Columns 1 through 8:

(1) The London branch of the respondent has a real-denominated claim of $10 million and a dollar-denominated claim of $20 million on a bank located in Brazil. The claims mature in 8 months. Entries would be:

	col 1	col 7
Brazil………..	30	30

(2) The Brazilian branch of the respondent has a claim worth $10 million, denominated in currency other than real, on a bank located in Brazil. Entries would be:

	col 4
Brazil………	10

(3) The Brazilian branch of the respondent issued a real-denominated loan worth $10 million to a bank located in Brazil. Entries would be:

	col 4	col 8
Brazil…………..	---	10

B. Redistribution of Claims for Required Risk Transfers (Columns 9 through 14)

Redistribute all claims subject to a required risk transfer (see Sections II.D and II.G) from the sector (see Section II.C) and country row (see Section III) of the immediate counterparty and to the sector and country row of the ultimate obligor. <u>Show the required risk transfers between different sectors in the same country row as well as required risk transfers between different country rows</u>.

Also show transfers to, or from, the United States. Transfers to the United States should always result from claims reported in Columns 1 through 6 and 8. Transfers from the United States will not be reported in Columns 1 through 6 and 8.

The sum of the outward required risk transfers (in Columns 9 through 11) should equal the sum of the inward required risk transfers (in Columns 12 through 14), because all transfers *from* a sector and/or country row (including the United States) must also be transfers *to* another sector and/or country row (including the United States).

<u>Outward Risk Transfers</u>

In Column 9, show (as a positive number), for each country row, all required risk transfers from banks located in that country of claims reported in Columns 1, 4, and 8 or of claims on banks located in the United States.

In Column 10, show (as a positive number), for each country row, all required risk transfers from the public sector located in that country of claims reported in Columns 2, 5, and 8 or of claims on the public sector located in the United States.

In Column 11, show (as a positive number), for each country row, all required risk transfers from all persons, businesses, and institutions other than banks and the public sector located in that country of claims reported in Columns 3, 6, and 8 or of claims on non-bank, non-public-sector entities located in the United States.

<u>Inward Risk Transfers</u>

In Column 12, show, for each country row, all required risk transfers to banks located in that country of claims reported in Columns 9 through 11.

In Column 13, show, for each country row, all required transfers to the public sector located in that country of claims reported in Columns 9 through 11.

In Column 14, show, for each country row, all required transfers to others (i.e., non-bank, non-public-sector entities) located in that country of claims reported in Columns 9 through 11.

C. Ultimate-Risk Claims (Columns 15 through 21)

Cross-border Claims

In Columns 15 through 17, report all claims that, on an ultimate-risk basis, are cross-border claims—i.e., claims for which the ultimate obligor, after required risk transfers, is a resident of a country other than the country of the office that holds the claim.

The claims should be allocated to each column based upon the sector of the ultimate obligor (see Section II.C) and to each row based upon the country in which the ultimate obligor is located (see Section III).

Claims for which the ultimate obligor is a U.S. resident should not be shown.

Foreign-Office Claims on Local Residents

In Columns 18 through 20, report all claims that, on an ultimate-risk basis, are foreign-office claims on local residents—i.e., claims for which the ultimate obligor, after required risk transfers, is a resident of the country in which the foreign office is located.

The claims should be allocated to each column based upon the sector of the ultimate obligor (see Section II.C) and to each row based upon the country in which ultimate obligor (and the foreign office) is located (see Section III).

Foreign-Office Claims on Local Residents in Non-Local Currencies

In Column 21, show all claims reported in Columns 18 through 20 that are claims in currencies other than the official currency (see Section II.F) of the country in which the foreign office is located.

Examples for Columns 9 through 21:

(1) The respondent's offices outside of Hong Kong and Japan have $50 million in claims on private manufacturers in Hong Kong that are guaranteed by a bank located in Japan. Entries would be:

	col 3	col 11	col 12	col 15	col 17
Hong Kong…	50	50	---	---	---
Japan……	---	---	50	50	---

(2) The respondent's offices in Japan have $50 million in claims, denominated in Hong Kong dollars, on private manufacturers in Hong Kong that are guaranteed by a bank located in Japan. Entries would be:

	col 3	col 11	col 12	col 15	col 18	col 21
Hong Kong…	50	50	---	---	---	---
Japan……	---	---	50	---	50	50

(3) The respondent's offices in Japan have $50 million in claims, denominated in Japanese yen, on private manufacturers in Hong Kong that are guaranteed by a bank located in Japan. Entries would be:

	col 3	col 11	col 12	col 15	col 18	col 21
Hong Kong…	50	50	---	---	---	---
Japan……	---	---	50	---	50	---

(4) The respondent's offices outside of Denmark and Greece have a total of $100 million in claims on residents of Denmark, $90 million on banks and $10 million on public sector entities. Of the claims on banks, $20 million is explicitly guaranteed by the parent bank located in Greece. Entries would be:

	col 1	col 2	col 9	col 12	col 15	col 16
Denmark	90	10	20	---	70	10
Greece	---	---	---	20	20	---

(5) The respondent's Denmark office has a total of $100 million in claims, not denominated in Danish kroner, on residents of Denmark, $80 million on banks and $20 million on public sector entities. Of the claims on banks, $40 million is explicitly guaranteed by the parent bank located in Greece. Entries would be:

	col 4	col 5	col 9	col 12	col 15	col 18	col 19	col 21
Denmark..	80	20	40	---	0	40	20	60
Greece….	---	---	---	40	40	---	---	---

(6) The respondent's offices outside of the Bahamas have claims worth $10 million, not denominated in Bahamian dollars, on the Nassau, Bahamas, branch of a U.S. bank. Entries would be:

	col 1	col 9	col 12	col 15
Bahamas………	10	10	---	---
United States…	XXX	---	10	XXX

(7) The respondent's offices outside of Denmark and Spain have $10 million in claims on a manufacturing company in Denmark guaranteed by a bank located in Spain. Entries would be:

	col 3	col 11	col 12	col 15
Denmark………	10	10	---	---
Spain………	---	---	10	10

(8) The respondent's office in Spain has non-euro claims worth $10 million on a manufacturing company in Spain, guaranteed by a bank located in Denmark. Entries would be:

	col 6	col 11	col 12	col 15	col 18
Spain……….	10	10	---	---	---
Denmark…..	---	---	10	10	---

(9) The respondent's office in Spain has a $10 million euro claim on a manufacturing company in Spain guaranteed by a bank located in Denmark. Entries would be:

	col 8	col 11	col 12	col 15
Spain……….	10	10	---	---
Denmark…..	---	---	10	10

(10) The Dominican Republic branch of the respondent has a claim worth $10 million, not denominated in Dominican Republic Pesos, on a branch of a United Kingdom bank located in the Dominican Republic. Entries would be:

	col 4	col 9	col 12	col 15	col 18
Dominican Republic….	10	10	---	---	---
United Kingdom…..	---	---	10	10	---

(11) The respondent's U.S. office has a $10 million claim on a U.S. bank that has a parent in United Kingdom. The parent provides a legally binding guarantee of payment. Entries would be:

	col 1	col 9	col 12	col 15
United Kingdom……	---	---	10	10
United States………..	XXX	10	---	XXX

(12) The respondent's Italian office has $10 million claim, not denominated in euros, on a U.S. branch of an Italian bank. Entries would be:

	col 1	col 9	col 12	col 18	col 21
Italy……………….	---	---	10	10	10
United States………..	XXX	10	---	XXX	XXX

(13) The respondent's Italian office has $10 million claim, denominated in euros, on a U.S. branch of an Italian bank. Entries would be:

	col 1	col 9	col 12	col 18	col 21
Italy……………….	---	---	10	10	---
United States………..	XXX	10	---	XXX	XXX

(14) The respondent's U.S. office has a $10 million claim on a private company in France that is guaranteed by a French bank. Entries would be:

	col 3	col 11	col 12	col 15
France…..	10	10	10	10

(15) The respondent's U.S. office has a $10 million claim on a bank in Hong Kong that is a wholly-owned banking subsidiary of a Japanese bank. There is no explicit guarantee. Entries would be:

	col 1	col 9	col 12	col 15
Hong Kong…	10	---	---	10
Japan………	---	---	---	---

(16) The respondent's Hong Kong office has a claim worth $10 million, not denominated in Hong Kong dollars, on a bank in Hong Kong that is a wholly-owned subsidiary of a Japanese bank. There is no explicit guarantee. Entries would be:

	col 4	col 9	col 12	col 18	col 21
Hong Kong…	10	---	---	10	10
Japan………	---	---	---	---	---

(17) The respondent's U.S. office has a $10 million claim on a U.S. private company that is guaranteed by a U.K. bank. Entries would be:

	col 3	col 11	col 12	col 15
United Kingdom..	---	---	10	10
United States…..	XXX	10	---	XXX

(18) The Brazilian branch of the respondent has a claim worth $10 million, not denominated in real, on a Brazilian manufacturer guaranteed by the United States Export-Import Bank. Entries would be:

	col 6	col 11	col 14	col 17
Brazil………..	10	10	---	---
United States….	XXX	---	10	XXX

(19) The Brazilian branch of the respondent has issued real-denominated loans equivalent to $50 million to a Brazilian non-banking subsidiary of a Belgian company. The parent explicitly guarantees only $20 million of the claims. Entries would be:

	col 8	col 11	col 14	col 17	col 20	col 21
Brazil………..	50	20	---	---	30	---
Belgium……..	---	---	20	20	---	---

(20) The Mexican branch of the respondent has a claim worth $10 million, not denominated in pesos, on a Mexican public sector institution. The branch also has a claim worth $40 million, not denominated in pesos, on a private company in Mexico guaranteed by its Japanese parent. Entries would be:

	col 5	col 6	col 11	col 14	col 17	col 19	col 21
Mexico...	10	40	40	---	---	10	10
Japan….	---	---	---	40	40	---	---

(21) The respondent's U.S. office has a $20 million claim on a Malaysian financial company. The respondent purchased credit protection from a German bank against the risk of default by the Malaysian financial company through a credit derivative. The credit derivative has a notional value of $20 million. The arrangement is considered an effective risk transfer based on the respondent's internal criteria. Entries would be:

	Col 3	Col 11	Col 12	Col 15
Malaysia…	20	20	---	---
Germany …	---	---	20	20

(22) The respondent's U.S. office has a $20 million claim on a Brazilian financial company. The respondent purchased credit protection from a German bank against the risk of default by the Brazilian financial company through a credit derivative. The credit derivative has a notional value of $30 million, exceeding the value of a guaranteed claim. The arrangement is considered an effective risk transfer based on the respondent's internal criteria. Entries would be:

	Col 3	Col 11	Col 12	Col 15
Brazil …	20	20	---	---
Germany …	---	---	30	30

Note regarding Schedule 2 (applies to examples 21 and 22):
If the credit derivative has a positive fair value of $2 million, the positive fair value would be reported in Schedule 2 in the country row of the country of residence of the counterparty to the credit derivative contract. Entries would be:

	Schedule 2	
	col 1	col 4
Germany …	2	2

D. Unused Commitments (Column 22)

In Column 22, report, on an "ultimate-risk" basis (i.e., after risk transfers due to head offices of bank branches or credit protection provided by third parties), the unused portions of all outstanding cross-border and local office commitments to provide credit. Include the unused portion of all outstanding letters of credit and amounts outstanding of purchases of risk participations. Commitments are legally binding agreements for which the reporter has charged a commitment fee or other consideration. Exclude "best efforts" letters and letters in which the pricing is indicative and not determined until launch date, or for which the banking institution has no commitment to buy the assets for its own account. Exclude any such commitments that cover obligations of U.S. residents. Exclude cross-border commitments (such as those under commercial letters of credit) that can be cancelled, at the option of the reporter, upon the occurrence of a sovereign event. Also exclude financial and performance standby letters of credit. (Outstanding and unused financial and performance standby letters of credit should be reported as guarantees in Column 23).

In case of commitments for syndicated loans, the lead underwriter should report only the underwriter's proportional share of the unused commitment. Similarly, contractual underwriting commitments (e.g., revolving underwriting facilities) and other underwriting agreements may be shown net of firm commitments from other parties to purchase the assets without recourse within a short and specific period of time. Accordingly, the reporter should also include its unused obligations to participate in syndicated loans and underwritings managed by other institutions.

Commitments of foreign offices to local residents should be included. Commitments that the ultimate obligor is a resident of the United States should not be reported.

E. Guarantees and Credit Derivatives (Column 23)

In Column 23, report, by country row of the underlying ultimate obligor, all legally binding guarantees and insurance contracts (see Section II.D.1 and II.D.2) issued by the reporter's U.S. or foreign offices for which the ultimate obligor is not a U.S. resident. Because this report is on a consolidated basis, do not include guarantees which provide protection only between consolidated units of the reporter. Include the full amount of outstanding and unused financial and performance standby letters of credit in Column 23. Guarantees and insurance contracts of foreign offices to local residents should also be included.

Also report in this column, by country row of the ultimate obligor of the referenced credit, all credit derivatives where the respondent is a protection seller (see Section II.F) and the ultimate obligor of the referenced credit is not a U.S. resident. For example, if a reporter is a guarantor providing credit risk protection to a U.K. bank for a $10 million claim on an Argentinean bank, by means of a credit derivative, the reporter would report $10 million in Column 23 in the row for Argentina.

Guarantees provided by selling protection on multi-name credit derivatives (such as basket or portfolio credit default swaps) in which the ultimate obligors of the referenced credits do not all reside in the same country may be difficult to allocate to a single country and may be reported in the row for the appropriate "other" geographic region. If there is no single region that is the residence for most of the credits guaranteed in a multi-name credit derivative, then report the guaranteed amount in the row for "All Other Countries" (code 63908).

Examples for Columns 22 and 23:

(1) The respondent (through any office) issued a $10 million loan commitment, which has not yet been drawn to a manufacturing company located in Ireland. Entry would be:

	col 22
Ireland……………	10

(2) The respondent (through any office) has provided credit protection to a German bank, against the risk of default by a French non-financial company through a credit derivative. The credit derivative has a notional value of $10 million. Entry would be:

	col 23
France……….	10

<u>Note regarding Schedule 2:</u>
If the credit derivative has a positive fair value of $5 million, the positive fair value would be reported in Schedule 2 in the country row of the country of residence of the counterparty to the credit derivative contract. Entries would be:

	Schedule 2	
	col 1	col 4
Germany……………..	5	5

(3) The respondent's U.S. office has a provided a company in Brazil with a $20 million line of credit and has provided a bank in the United Kingdom with a $30 million (notional value) credit derivative, based upon the credit of a German industrial company. Entries would be:

	col 22	col 23
Brazil	20	----
United Kingdom	-----	----
Germany	-----	30

<u>Note regarding Schedule 2:</u>
If the credit derivative has a positive fair value of $2 million, the positive fair value would be reported in Schedule 2 in the country row of the country of residence of the counterparty to the credit derivative contract. Entries would be:

	Schedule 2	
	col 1	col 4
United Kingdom	2	2

(4) The Brazilian branch of the respondent has a loan commitment of $10 million to a Brazilian manufacturer. The United States Export-Import Bank has written a guarantee that would guarantee $5 million of the loan, should it be extended. Entries would be:

	col 22
Brazil……………	5
United States……	XXX

V. SPECIFIC INSTRUCTIONS FOR SCHEDULE 1.a

A. Foreign-Office Liabilities by Country of Foreign Office (Columns 1 and 2)

Report in Columns 1 and 2, the liabilities of the reporter's foreign offices <u>by country of each foreign office</u> that represent liabilities of the foreign offices for which no payment is guaranteed at locations outside the country of the office. For example, deposits of a foreign branch are assumed to be the liabilities of the foreign branch, unless they are explicitly redeemable outside the country in which the branch is located. Exclude the negative fair value of derivative contracts, which may be reported in Schedule 2.

In Column 1, report foreign-office liabilities that are in a currency other than one which the country's government has authority to issue. (See Section II.F.)

In Column 2, report foreign-office liabilities that are in a currency which the country's government has authority to issue. (See Section II.F.)

B. Foreign-Office Liabilities by Country of Creditor (Column 3)

Column 3—total liabilities booked at foreign offices—is required to be reported by only those reporters meeting certain conditions described in Section I.D of these instructions.

In Column 3, report <u>by country of the creditor</u>, all liabilities that are booked at <u>any</u> of the reporter's foreign offices, regardless of the currency and regardless of whether payment is guaranteed at locations outside the country of the office. Liabilities in Column 3, should be reported against the country where the counterparty is located (i.e., on an immediate-counterparty basis) and not the location of the parent of the creditor. Exclude the negative fair value of derivative contracts, which may be reported in Schedule 2.

If the country of the creditor cannot be determined—because the customer was not known to the bank (as would be the case with negotiable certificates of deposit) or because the nature of the liability makes it difficult to allocate by customer—then these liabilities should be reported in the row for "All Other Countries" (country code 63908).

Note that for any row, the amount in Column 3 (which is by country of creditor) may not equal the sum of amounts in Column 1 and 2 (which are by country of foreign office).

C. Memorandum Items (Columns 4 through 6)

<u>Net Due to Own Related Offices in Other Countries (Column 4)</u>

Report for each country in which the reporter has an office or offices, the net liabilities (or claims) of that office or those offices on all other offices of the respondent that are located in other countries (e.g., the net amount a German branch has "due to" or "due from" the head office and all other consolidated non-German offices of the parent). Only a single net figure should be reported for all the offices of the reporter in a given country. If the offices in a given country taken together have a net "due to" position with all related offices in all other countries combined, a positive figure should be reported; a net "due from" position should be indicated by a negative sign. For the purposes of this report, the computation of net due to or due from should include unremitted profits and capital contribution accounts of branch offices and the equity investment in consolidated subsidiaries. Include all claims and liabilities that are reflected as balance sheet items (e.g., loans, borrowings, derivative contracts).

The amounts reported in Column 4 represent the internal position of offices within the consolidated bank or the consolidated holding company. They are, therefore, not reflected in any other columns of the report.

Assets Held for Trading (Column 5)

In Column 5, report the fair value of the reporter's trading account assets that are included in Columns 15 through 17 of Schedule 1. Exclude from this column available-for-sale securities, any loans or leases that are held for sale, and any claims reported in Schedule 2.

Trade Finance (Column 6)

In Column 6, report total extensions of credit with maturities one year and under that are included in Columns 15 through 20 and 22 through 23 *and* that: (1) are directly related to imports or exports and (2) will be liquidated through the proceeds of international trade. Provided these two conditions are met, such credit extensions may include customers' liability on acceptances outstanding, own acceptances discounted, acceptances of other banks purchased, pre-export financing where there is a firm export sales order, commercial letters of credit, as well as other loans and advances whenever such extensions directly relate to international trade. Include credit extensions for pre-export financing when there is a firm export sales order and the proceeds of the order will pay off indebtedness.

VI. SPECIFIC INSTRUCTIONS FOR SCHEDULE 2

Report by country of the counterparty, the positive fair value of all derivative contracts. Positive fair values can be offset against negative fair values if, and only if, the transactions were executed with the same counterparty under a legally enforceable master netting agreement under FIN 39. When contracts are covered by master netting agreements, the net residual amount, if positive, is reported in the country of residence of the counterparty. No entries on Schedule 2 should be made for the United States; the country line for the United States is blocked out on the schedule.

All claims reported on Schedule 2 are to be reported on an ultimate-risk basis (see Sections II.D and II.G). Therefore, amounts that are guaranteed are reported in the sector and country of the guarantor. Similarly, if collateral is held, amounts that are collateralized are reported in the sector and country of the institution holding the collateral, except when securities are held as collateral, in which case the exposure is reported in the sector and country of the issuer of the securities.

A. Positive Fair Value of Derivative Contracts (Columns 1 through 4)

Report the positive fair value of derivative contracts by sector (see Section II.C) in Columns 1 through 3, and the total in Column 4. If reporter chooses to report separately foreign-office claims in Columns 6 and foreign-office liabilities in Column 7, report only cross-border claims in Columns 1 through 4 (refer to instructions for Columns 6 and 7). Otherwise, report in Columns 1 through 4 both cross-border claims and foreign-office claims on local residents that result from the positive fair value of derivative contracts.

Contracts not covered by a master netting agreement must be reported gross.

For contracts covered by a multi-branch or multi-jurisdiction master agreement with a non-U.S. addressee, the net positive residual amount (i.e., the larger of zero or the gross positive fair value less the gross negative fair value of those contracts covered by the same master agreement) must be reported in Columns 1 through 3, as appropriate, as well as in Column 4. (The term multi-jurisdiction or multi-branch agreement refers to a master netting agreement that covers the head office and other offices of the reporter.)

For contracts covered by a single netting agreement (a master agreement entered into by a single office of the reporter with another party), the net positive residual amount qualifies to be reported in Columns 1 - 4, but may also qualify for reporting in Columns 6 and 7 (see below) if the reporter chooses that option.

When a contract is entered into with a branch of a commercial bank, a claim (i.e., positive fair value) is reported in the country of the head office because claims on a bank's branches are assumed to have an implicit credit guarantee of the head office. Claims on (i.e., contracts having positive fair value) U.S. branches of foreign banks are reported in the country of the head office. (Refer also to instructions for memorandum Column 5, which treats claims on bank branches differently.)

B. Claims on Branches with No Guarantee from Parent (Memorandum Column 5)

In memorandum Column 5, reporters are asked to identify claims on bank branches according to the country of residence of the branch in those instances in which the claim is not formally and legally guaranteed by the head office of the branch (and in which the country of residence of the branch is different than the country of residence of the head office). Amounts reported in Column 5 are also reported in Columns 1 and 4 (although in Columns 1 and 4 they are reported in the country row of the head office), except when the head office is in the United States, in which case the claim is reported in Column 5, but not in Columns 1 or 4. If the claims on a bank branch are formally and legally guaranteed by the head office of the branch (or if the branch is located in the same country as the head office) then the claims are not reported in column 5. Contracts covered by master netting agreements are deemed to carry the legal guarantee of the head office and are therefore not reported in Column 5.

For example, an unguaranteed claim on a branch of a foreign bank would be reported in Columns 1 and 4 in the country of the head office and in Column 5 in the country of the branch. A claim on a foreign branch of a U.S. bank, however, would be reported only in Column 5.

Example: The German office of the respondent has a contract with a positive fair value of $100 million with the German branch of a U.S. bank.

	col 1	col 4	col 5
Germany	----	----	100
United States	na	na	na

• Refer also to examples 1, 2 and 4.

If parties to a multi-branch agreement specify that transactions with branches in certain jurisdictions are subject to transfer risk, any exposure in that jurisdiction is reported in memorandum Column 5 in order to reflect the transfer risk in that location.

• Refer to example 3.

C. Foreign-Office Claims on Local Residents and Foreign-Office Liabilities (Columns 6 and 7)

OPTIONAL: To be reported only by banks that choose to identify foreign-office claims on local residents and foreign-office liabilities separately, as opposed to reporting foreign-office claims on local residents in Columns 1 through 4, together with cross-border claims. This choice must be applied consistently to all contracts covered by this report.

Report in Column 6, on each country line, claims arising from derivative contracts of a foreign office of the respondent that are claims on residents of the country in which the office is located. Such claims may be denominated in either local or non-local currency. Entries would be made in Column 6 for a particular country line only if the reporter has a branch or subsidiary in that country.

Do not report in Column 6 foreign-office claims on local residents that are:

- guaranteed by residents of other countries;
- claims on local branches of U.S. banks or other banks with head offices outside the country in which the respondent's foreign office is located;
- claims on a local office covered by a multi-jurisdiction master agreement with a counterparty whose head office is outside the country in which the respondent's foreign office is located.

All of the claims described above are cross-border claims on an ultimate-risk basis, and should be reported in Columns 1 through 4.

Report foreign-office liabilities arising from derivative contracts in Column 7. Foreign-office liabilities are the liabilities (i.e., contracts having negative fair value) of the reporter's foreign office that represent legal obligations of the foreign office and for which no payment is guaranteed at locations outside of the country of that office. Foreign-office liabilities may be to residents or non-residents and payable in local or non-local currencies.

D. Examples for Schedule 2

I. A U.S. bank, the respondent, enters into various derivative contracts with a Japanese bank. The balances with the various branches of the Japanese bank on the books of U.S. bank's various locations as of the reporting date are shown below, in millions of dollars:

	Gross Positive Fair Value	Gross Negative Fair Value	Net by Location	Net Aggregate Residual Amount
US Hong Kong with:				
Japan Hong Kong	15	11	4	
Japan London	45	75	-30	
Japan Tokyo	60	40	20	
Total	**120**	**126**	**-6**	**-6**
US London				
Japan Hong Kong	190	70	120	
Japan London	79	41	38	
Japan Tokyo	67	34	33	
Total	**336**	**145**	**191**	**191**
US New York				
Japan London	57	75	-18	
Japan New York	10	85	-75	
Japan Tokyo	41	40	1	
Total	**108**	**200**	**-92**	**-92**
US Tokyo				
Japan Hong Kong	115	225	-110	
Japan London	75	25	50	
Japan New York	15	100	-85	
Japan Tokyo	144	64	80	
Total	**349**	**414**	**-65**	**-65**
Grand Total	**913**	**885**		
Total Net Aggregate Residual				**28**

Example 1: Assumes the respondent has no master agreement and elects to report Columns 7 and 8.

	col 1	col 4	Memo col 5	col 6	col 7
Japan	564	564	0	349	414
Hong Kong	0	0	320	0	126
United Kingdom	0	0	256	0	145

- Since respondent elects to report to Columns 6 and 7, report only cross-border positive fair value in Column 4: total gross cross-border claims of $564 million (in millions: $913 - $349) on Japan bank. Because, on an ultimate-risk basis, claims on bank branches are always allocated to the country of the parent bank, only the claims of the US bank's Tokyo office on the Japanese bank are not cross-border claims. Similarly, the claims of the US bank's Tokyo office on all offices of the Japanese bank are, on an ultimate-risk basis, foreign-office claims on local residents.

- Since claims on Japan bank's Hong Kong and London branches are not legally guaranteed by the head office or covered by a master agreement, report in memorandum Column 5 gross positive fair value of the branches of Japan bank for the countries in which the branches are located, i.e., $320 million (in millions: $15 + $190 + $115) on the Hong Kong country line and $256 million (in millions: $45 + $79 + $57 + $75) on the United Kingdom country line.

• The positive fair value of $349 million at US bank's Tokyo branch with Japan bank's offices qualify as local country claims on an ultimate-risk basis and are reported in Column 6. If documentation states that the negative fair value booked at the foreign branches of US bank represent legal obligations of the foreign office and for which no payment is guaranteed at locations outside of the country of that office, then these amounts may be reported as local country liabilities in column 7.

Example 2: Assumes the respondent has a master netting agreement with the Japanese bank. Reporting in Columns 7 and 8 is not appropriate for these claims.

	col 1	col 4	Memo col 5	col 6	col 7
Japan	28	28	0	0	0
Hong Kong	0	0	0	0	0
UK	0	0	0	0	0
United States	na	na	na	na	na

• Report the net positive residual amount of $28 million in Column 4 as exposure in Japan.

Example 3: Same as example 2, except that parties have also agreed to a bilateral collateralization agreement under which exposures greater than $10 million are collateralized with cash or liquid U.S. Government securities. Assume that collateral is pledged in minimum incremental amounts of $5 million.

	col 1	col 2	col 4	Memo col 5	col 6	col 7
Japan	8	0	8	0	0	0
Hong Kong	0	0	0	0	0	0
UK	0	0	0	0	0	0
United States	na	na	na	na	na	na

• Under the bilateral collateralization agreement, Japanese bank would have to pledge $20 million in collateral (in 4 increments of $5 million). Report the uncollateralized exposure of $8 million in Japan. Since the collateral is U.S. Government securities, it is not reported.

II. US bank, the respondent, enters into various derivative contracts with foreign corporate customers and banks. The balances with these parties on the books of US bank's various locations as of the reporting date are shown below, in millions of dollars:

	Gross Positive Fair Value	Gross Negative Fair Value	Net by Location	Net Aggregate Residual Amount
US Hong Kong with:				
Hong Kong Corporate	15	11	4	
Singapore Corporate	45	75	-30	
UK Bank, Hong Kong branch	60	40	20	
Total	**120**	**126**	**-6**	**-6**
US London				
UK Corporate	190	70	120	
Hong Kong Bank, London branch	79	41	38	
Total	**269**	**111**	**158**	**158**

US New York				
Argentine Corporate	57	75	-18	
Venezuela Bank	10	85	-75	
Total	**67**	**160**	**-93**	**-93**
Grand Total	**456**	**397**		
Total Net Aggregate Residual				**59**

Example 4: Assumes the respondent has no master agreement and does not elect to report Columns 6 and 7.

	col 1	col 3	col 4	Memo col 5
Hong Kong	79	15	94	60
UK	60	190	250	79
Argentina	0	57	57	0
Venezuela	10	0	10	0
Singapore	0	45	45	0

• Report gross the positive fair value in column 4 (and in Columns 1 and 3, as appropriate): in Hong Kong, $94 million—$15 million to the Hong Kong Corporate and $79 million to the London branch of Hong Kong Bank; in the United Kingdom, $250 million—$60 million to the Hong Kong branch of UK Bank and $190 million to the UK Corporate; in Argentina, $57 million to Argentine Corporate; in Venezuela, $10 million to Venezuela Bank; and in Singapore, $45 million to Singapore Corporate.

• Report in memorandum Column 5 claims on the Hong Kong branch of UK bank ($60 million) and on the London branch of Hong Kong bank ($79 million) in the countries in which the branches are located, since these claims are not formally guaranteed by their head offices or covered by a master agreement.

Example 5: Assumes the respondent has no master agreement and elects to report Columns 6 and 7. Assume also that its U.S. parent legally guarantees the liabilities of the Argentine corporate customer.

	col 1	col 3	col 4	Memo col 5	col 6	col 7
Hong Kong	79	0	79	60	15	126
UK	60	0	60	79	190	111
Argentina	0	0	0	0	0	0
Venezuela	10	0	10	0	0	0
Singapore	0	45	45	0	0	0

• Report in Column 4 (and in Columns 1 and 3, as appropriate) cross-border exposures: in Hong Kong, $79 million to the London branch of Hong Kong Bank; in the United Kingdom, $60 million to the Hong Kong branch of UK Bank; in Argentina, $0 (the exposure to Argentine corporate customer is formally guaranteed by its U.S. parent); in Venezuela, $10 million; and in Singapore, $45 million.

• Report in Column 5 claims on branches of UK bank ($60 million) and Hong Kong bank ($79 million) in the countries of these particular branches.

• Report in Columns 6 and 7 local country assets of $15 million in Hong Kong and $190 million in the United Kingdom and, if appropriately documented, local country liabilities to both residents and nonresidents of $126 million in Hong Kong and $111 million in the United Kingdom.