

# FEDERAL RESERVE BANK *of* NEW YORK

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**PATRICIA SELVAGGI**  
STATISTICS OFFICER

October 4, 2010

To: The Individual Responsible for Preparing the Financial Statements for Large Bank Holding Companies (FR Y-9C) Located in the Second Federal Reserve District

Subject: Bank Holding Company (BHC) Reporting Requirements for September 30, 2010

The following report forms and instructions for the September 30, 2010 reporting date has been posted to the Federal Reserve Board's website at [www.federalreserve.gov](http://www.federalreserve.gov) under "Reporting Forms":

- (1) Consolidated Financial Statements for Bank Holding Companies (FR Y-9C);
- (2) Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP);
- (3) Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11);
- (4) Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314); and
- (5) Consolidated Bank Holding Company Report of Equity Investments in Nonfinancial Companies (FR Y-12).

There have been no changes to the FR Y-9C, FR Y-9LP, FR Y-11, FR 2314, and FR Y-12 reporting forms for this quarter. Several clarifications have been made to the FR Y-9C, and FR Y-9LP reporting instructions.

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### **Reports Submission**

All FR Y-9C and FR Y-9LP filers are required to submit electronically. A signed and attested printout of the data submitted must be maintained in the BHCs files. The cover page of the Reserve Bank supplied report forms should be used to fulfill the signature and attestation requirements and should be attached to the printout placed in the BHCs files. For the FR Y-11, FR 2314, and FR Y-12 reports that are not submitted electronically, an original and two copies (one-sided) of each completed report must be returned to this bank by mail or messenger by the dates listed below.

The Federal Reserve continues to monitor the timeliness of receipt of these reports. Earlier submission would aid this Bank in reviewing and processing the reports and is encouraged.

The submission deadline for all **FR Y-9C** filers is Tuesday, November 9, 2010. Any **FR Y-9C** reports received after 5:00 p.m. on November 9 will be considered late. The submission deadline for all **FR Y-9LP** filers is Monday, November 15, 2010. Any **FR Y-9LP** reports received after 5:00 p.m. on November 15 will be considered late. The submission deadline for the **FR Y-12** is Monday, November 15, 2010. Any FR Y-12 reports received after 5:00 p.m. on November 15 will be considered late unless postmarked by Wednesday, November 10 or sent by overnight service on Saturday, November 13. The submission deadline for the **FR Y-11** and **FR 2314** is Monday, November 29, 2010. Any FR Y-11 and FR 2314 reports received after 5:00 p.m. on November 29 will be considered late unless postmarked by Wednesday, November 24 or sent by overnight service on Saturday, November 27.

Submission of initial data via facsimile, even if prior to this deadline does not constitute an official filing. In view of this, please be sure that completed reports are submitted on time to:

Federal Reserve Bank of New York

Statistics Function

Administrative Support Staff

33 Liberty Street, 4<sup>th</sup> Floor

New York, N.Y. 10045

### **Editing of Data by Respondents**

All BHCs must submit their FR Y-9 reports via the Federal Reserve's internet submission facility (IESUB), using either data entry or file transfer. This data collection system will subject a BHC's electronic data submission to the published validity and quality edit checks and transmit the results of such checks to the BHC shortly thereafter. The BHC must resolve any validity edit

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before the data can be accepted. The BHC will also be provided a method for supplying explanations for quality edits. (Guidelines for providing quality explanations can be found at [www.reportingandreserves.org](http://www.reportingandreserves.org)). These explanations will be held confidential. Reports that contain validity edit failures or have quality edit failures that are not explained on or before the filing deadline will be deemed late.

Companies that offer computer software to aid in the preparation of FR Y-9 reports or BHCs that have developed their own reporting software may choose to incorporate validity and quality edit checks into their software.

The Federal Reserve will continue to provide updates about the enhanced IESUB submission process on the web site: [www.reportingandreserves.org](http://www.reportingandreserves.org).

### **Troubled Debt Restructurings and Current Market Interest Rates**

Many institutions are restructuring or modifying the terms of loans to provide payment relief for those borrowers who have suffered deterioration in their financial condition. Such loan restructurings include, but are not limited to, reductions in principal or accrued interest, reductions in interest rates, and extensions of the maturity date. Modifications may be executed at the original contractual interest rate on the loan, a current market interest rate, or a below-market interest rate. Many of these loan modifications meet the definition of a troubled debt restructuring (TDR).

The TDR accounting and reporting standards are set forth in ASC Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended). This guidance specifies that a restructuring of a debt constitutes a TDR if, at the date of restructuring, the creditor for economic or legal reasons related to a debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The creditor's concession may include a restructuring of the terms of a debt to alleviate the burden of the debtor's near-term cash requirements, such as a modification of terms to reduce or defer cash payments required of the debtor in the near future to help the debtor attempt to improve its financial condition and eventually be able to pay the creditor.

Because the stated interest rate charged the borrower after a loan restructuring may be greater than or equal to interest rates available in the marketplace for similar types of loans at the time of the restructuring, some institutions have concluded that these restructurings are not TDRs. In making this determination, these institutions may not have considered all of the facts and circumstances associated with the loan modification besides the interest rate. When evaluating a loan modification to a borrower experiencing financial difficulties, an analysis of all facts and circumstances is necessary to determine whether the BHC has made a concession to the

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borrower with respect to the market interest rate (or has made some other type of concession that could trigger TDR accounting and disclosure, for example, terms or conditions outside of the bank holding company's policies or common market practices) and, if so, how the modified or restructured loan should be reported.

Generally, a restructured loan yields a current market interest rate if the restructuring agreement specifies an interest rate greater than or equal to the rate that the institution was willing to accept at the time of the restructuring for a new loan with comparable risk. A restructured loan does not yield a market interest rate simply because the interest rate charged under the restructuring agreement has not been reduced. In addition, when a modification results in an increase (either temporary or permanent) in the contractual interest rate, the increased interest rate cannot be presumed to be an interest rate that is at or above market. Therefore, in determining whether a loan has been modified at a market interest rate, an institution should analyze the borrower's current financial condition and compare the rate on the modified loan to rates the institution would charge customers with similar financial characteristics on similar types of loans. This determination requires the use of judgment and should include an analysis of credit history and scores, loan-to-value ratios or other collateral protection, the borrower's ability to generate cash flow sufficient to meet the repayment terms, and other factors normally considered when underwriting and pricing loans.

Likewise, a change in the interest rate on a modified or restructured loan does not necessarily mean that the modification is a TDR. For example, a creditor may lower the interest rate to maintain a relationship with a debtor that can readily obtain funds from other sources. To be a TDR, the borrower must also be experiencing financial difficulties. The evaluation of whether a borrower is experiencing financial difficulties is based upon individual facts and circumstances and requires the use of judgment when determining if a modification of the borrower's loan should be accounted for and reported as a TDR.

An institution that restructures a loan to a borrower experiencing financial difficulties at a rate below a market interest rate has granted a concession to the borrower that results in the restructured loan being a TDR. (As noted above, other types of concessions could also result in a TDR.) In the FR Y-9C report, until a loan that is a TDR is paid in full or otherwise settled, sold, or charged off, the loan must be reported the appropriate loan category in Schedule HC-C, items 1 through 9, and in:

- Schedule HC-C, Memorandum item 1, if it is in compliance with its modified terms, or
- Schedule HC-N, Memorandum item 1, if it is not in compliance with its modified terms.

However, a loan that is a TDR (for example, because of a modification that includes a reduction in principal) that yields a market interest rate at the time of restructuring (and is in compliance with its modified terms) need not continue to be reported as a TDR in

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Schedule HC-C, Memorandum item 1, in calendar years after the year in which the restructuring took place. To be considered in compliance with its modified terms, a loan that is a TDR must not be in nonaccrual status and must be current or less than 30 days past due on its contractual principal and interest payments under the modified repayment terms.

A loan restructured in a TDR is an impaired loan. Thus, all TDRs must be measured for impairment in accordance with ASC Subtopic 310-10, Receivables – Overall (formerly FASB Statement No. 114, “Accounting by Creditors for Impairment of a Loan,” as amended), and the Glossary entry for “Loan Impairment.”

For further information, see the Glossary entry for “Troubled Debt Restructurings” and the instructions for Schedules HC-C and HC-N.

### **Reporting Loans Subject to a Blanket Lien Agreement**

Bank Holding Companies report the amount of pledged loans and leases (not held for trading) in Schedule HC-C, Memorandum item 14. When a BHC is subject to a blanket lien arrangement, or has otherwise pledged an entire portfolio of loans, to secure its Federal Home Loan Bank advances, it should report the amount of the entire portfolio of loans subject to the blanket lien in Memorandum item 14. Any loans within the portfolio that have been explicitly excluded, or specifically released, from the lien, and that the BHC has the right, without constraint, to repledge to another party should not be reported as pledged in Memorandum item 14 unless such loans have been repledged.

### **Reporting Data for Term Deposits**

The Term Deposit Facility (TDF) is a program through which the Federal Reserve Banks offer interest-bearing term deposits to eligible institutions. A term deposit is a deposit with a specific maturity date. For FR Y-9C reporting purposes, term deposits offered through the TDF should be treated as balances due from a Federal Reserve Bank. Accordingly, term deposits should be reported in Schedule HC, item 1.b, “Interest-bearing balances.” The earnings on these term deposits should be reported in Schedule HI, item 1.c, “Interest income on balances due from depository institutions.”

### **Reporting Purchased Subordinated Securities in Schedule HC-S**

In Schedule HC-S, item 9, “Servicing, Securitization, and Asset Sale Activities”, the Federal Reserve collects data on the maximum amount of BHCs’ credit exposures arising from credit enhancements they provide to other institutions’ securitization structures, including those used in structured finance programs (other than asset-backed commercial paper programs, which are covered in Memorandum item 3 of the schedule). The types of credit enhancements to be reported in item 9 include purchased subordinated securities. Examples of purchased subordinated securities include, but are not limited to, the mezzanine and subordinate tranches of

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private-label mortgage-backed securities and collateralized debt obligations. A so-called senior tranche of a securitization or structured finance program is not a subordinated security provided it cannot absorb credit losses prior to another designated senior tranche. BHCs' should ensure they report in Schedule HC-S, item 9, the carrying value of their holdings of purchased subordinated securities issued in connection with other institutions' securitization and structured finance transactions (other than asset-backed commercial paper programs). Holdings of purchased subordinated securities that serve as credit enhancements for asset-backed commercial paper programs should be reported in Memorandum item 3.a of Schedule HC-S.

### **Prepaid Deposit Insurance Assessments**

On November 12, 2009, the FDIC Board of Directors adopted a final rule requiring insured depository institutions (except those that are exempted) to prepay an FDIC-determined estimate of their quarterly risk-based deposit insurance assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, on December 30, 2009. Each institution's regular risk-based deposit insurance assessment for the third quarter of 2009, which is paid in arrears, also was payable on December 30, 2009. The amount of the prepaid assessment was included on the certified statement invoices for the third quarter of 2009, which were available on *FDICconnect*, the FDIC's e-business portal, as of December 15, 2009.

The BHC should record the estimated expense for its bank subsidiary's regular quarterly risk-based assessment for each calendar quarter through a charge to expense during that quarter and a corresponding credit to its prepaid assessments asset (or to an accrued expense payable if it has no prepaid assessments asset). In general, as a result of the interaction between the prepaid assessments and the regularly quarterly assessments, the amount of the prepaid assessments asset that a BHC should report as a prepaid expense in its June 30, 2010, FR Y-9C report should be:

- The total amount of its prepaid deposit insurance assessments (paid December 30, 2009);
- Less the actual amount of its regular quarterly assessments for the fourth quarter of 2009 and the first quarter of 2010 (shown on its certified statement invoices for these two quarters, which were available on *FDICconnect* as of March 15, and June 15, 2010); and
- Less the estimated amount of its regular quarterly assessment for the second quarter of 2010 (which should have been accrued as a charge to expense during the second quarter).

This prepaid expense asset should be reported in Schedule HC-F, item 6, "All other assets". The year-to-date deposit insurance assessment expense for 2010 should be reported in Schedule HI, item 7.d, "Other noninterest expense".

The Federal Reserve's risk-based capital standards permit an institution to apply a zero-percent risk weight to claims on U.S. Government agencies. When completing Schedule HC-R, Regulatory Capital, a BHC may assign a zero-percent risk weight to the amount of its consolidated prepaid deposit insurance assessments asset in Schedule HC-R, item 42, "All other assets" of this schedule.

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For further information on the FDIC's prepaid assessments final rule, refer to FDIC Financial Institution Letter (FIL) 63-2009 at <http://www.fdic.gov/news/news/financial/2009/fil09063.html>. For further guidance on reporting regular quarterly deposit insurance assessments, refer to the Call Report Supplemental Instructions for September 30, 2009, at [http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200909.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200909.pdf).

### **Accounting for Financial Asset Transfers and Variable Interest Entities**

Amendments to FASB ASC Topics 860, Transfers and Servicing, and 810, Consolidation, resulting from Accounting Standards Update (ASU) No. 2009-16 (formerly FASB Statement No. 166, *Accounting for Transfers of Financial Assets* (FAS 166)) and ASU No. 2009-17 (formerly FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167)), respectively, have changed the way entities account for securitizations and special purpose entities. ASU No. 2009-16 (formerly FAS 166) revised former FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, by eliminating the concept of a "qualifying special-purpose entity," creating the concept of a "participating interest" (which is discussed more fully in the following section), changing the requirements for derecognizing financial assets, and requiring additional disclosures. ASU No. 2009-17 (formerly FAS 167) revised former FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, by changing how a BHC or other company determines when an entity that is insufficiently capitalized or is not controlled through voting or similar rights, i.e., a "variable interest entity" (VIE), should be consolidated.

In general, amended Topics 860 and 810 both take effect as of the beginning of each BHC's first annual reporting period that begins after November 15, 2009, for interim periods therein, and for interim and annual reporting periods thereafter (i.e., as of January 1, 2010, for BHCs with a calendar year fiscal year). Earlier application is prohibited. BHCs are expected to adopt amended Topics 860 and 810 for FR Y-9C reporting purposes in accordance with the effective date of these two standards. Revised Glossary entries for "Transfers of Financial Assets" and "Servicing Assets and Liabilities" that incorporated the provisions of amended Topics 860 and 810 and a new Glossary entry for "Variable Interest Entities" were included in the FR Y-9C instruction book update for September 2010.

The assets and liabilities of consolidated VIEs should be reported on the balance sheet (Schedule HC) in the balance sheet category appropriate to the asset or liability. Similarly, the interest and noninterest income and expenses of consolidated VIEs, including provisions for loan and lease losses, should be reported on the income statement (Schedule HI) in the category appropriate to the income or expense. Because Schedules HC and HI do not enable a BHC to present separately (a) the assets of a consolidated VIE that can be used only to settle obligations of the consolidated VIE, (b) the liabilities of a consolidated VIE for which creditors do not have recourse to the general credit of the primary beneficiary, and (c) the related income and expenses, a BHC that consolidates a VIE may wish to report on such items in the FR Y-9C's "Notes to the Balance Sheet—Other."

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On January 28, 2010, the federal banking agencies published a final rule amending their risk-based capital standards related to the FASB's adoption of FAS 166 and FAS 167 (<http://edocket.access.gpo.gov/2010/pdf/2010-825.pdf>). The final rule eliminates the exclusion of certain consolidated asset-backed commercial paper programs from risk-weighted assets. It also provides an optional four-quarter transition mechanism related to the implementation of the consolidation requirements under FAS 167 for certain VIEs that were used in securitization and structured finance transactions that took place before the effective date of the new accounting standards. In general, the transition mechanism applies to qualifying VIEs and consists of an optional two-quarter delay in implementation followed by an optional two-quarter partial implementation of the effect of FAS 167 on risk-weighted assets and the allowance for loan and lease losses (ALLL) includable in Tier 2 capital. The transition mechanism does not apply to the leverage capital ratio nor does it apply to loan participations. For guidance on reporting risk-weighted assets and the ALLL in Schedule HC-R, Regulatory Capital, in accordance with the optional transition mechanism, BHCs electing to adopt this mechanism should refer to "Optional Transition Mechanism for Risk-Based Capital Requirements Associated with the Implementation of FAS 166 and FAS 167" on the Federal Reserve's Web site at [http://www.federalreserve.gov/reportforms/supplemental/FRY9C\\_201003\\_TransitionGuidance.pdf](http://www.federalreserve.gov/reportforms/supplemental/FRY9C_201003_TransitionGuidance.pdf).

### **Accounting for Loan Participations under FAS 166**

FAS 166 (FASB ASC Topic 860) has modified the criteria that must be met in order for a transfer of a portion of a financial asset, such as a loan participation, to qualify for sale accounting. These changes apply to transfers of loan participations on or after the effective date of FAS 166 (which is discussed above), including advances under lines of credit that are transferred on or after the effective date of FAS 166 even if the line of credit agreements were entered into before the effective date of FAS 166. Therefore, BHCs with a calendar year fiscal year must account for transfers of loan participations on or after January 1, 2010, in accordance with FAS 166. In general, loan participations transferred before the effective date of FAS 166 (January 1, 2010, for calendar year BHCs) are not affected by this new accounting standard and pre-FAS 166 participations that were properly accounted for as sales under FASB Statement No. 140 will continue to be reported as having been sold.

Under FAS 166, if a transfer of a portion of an entire financial asset meets the definition of a "participating interest", then the transferor (normally the lead lender) must evaluate whether the transfer meets all of the conditions in this accounting standard to qualify for sale accounting. (In summary, these conditions are the isolation of the transferred assets from the transferor, the transferee's right to pledge or exchange the assets received, and the transferor's lack of effective control over the transferred assets.) In general, in order for a loan participation, whether retained by the lead lender or transferred to another party, to meet the definition of a participating interest in FAS 166, it must have all of the following characteristics:

- It must represent a proportionate (pro rata) ownership interest in an entire financial asset;
- All cash flows received from the entire financial asset, except any cash flows allocated as compensation for servicing or other services performed (which must not be subordinated and must not significantly exceed an amount that would fairly compensate a substitute service provider should one be required), must be divided proportionately among the participating interest holders in an amount equal to their share of ownership;
- The rights of each participating interest holder (including the lead lender) must have the same priority, no interest is subordinated to another interest, and no participating interest holder has recourse to the lead lender or another participating interest holder other than standard representations and warranties and ongoing contractual servicing and administration obligations; and
- No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

If a transfer of a portion of a financial asset does not meet the definition of a participating interest, both the lead lender transferring the nonqualifying participation and the party acquiring the nonqualifying participation must account for the transaction as a secured borrowing with a pledge of collateral. On the income statement (Schedule HI), the lead lender should report the interest earned on the entire financial asset (subject to the nonaccrual guidance in the FR Y-9C reporting instructions) as interest income and the interest on the transferred nonqualifying participation, which is reported as a secured borrowing, as interest expense. This interest income and interest expense should not be reported net. In addition, when the financial asset in which a nonqualifying participation has been transferred is reported as a held-for-investment loan, the lead lender should include the entire loan in its determination of an appropriate level for the allowance for loan and lease losses and the related provision for loan and lease losses expense.

Under FAS 166, so-called “last-in, first-out” (LIFO) and “first-in, first-out” (FIFO) participations in which all principal cash flows collected on the loan are paid first to one of the participants do not meet the definition of a participating interest. As a result, neither LIFO nor FIFO participations transferred after the effective date of FAS 166 will qualify for sale accounting and instead must be reported as secured borrowings.

A revised discussion of loan participations in the Glossary entry for “Transfers of Financial Assets” that incorporates the provisions of amended ASC Topic 860 and addresses related reporting issues was included in the FR Y-9C instruction book update for September 2010.

### **Accounting Standards Codification**

In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (FAS 168), to establish the FASB Codification as the single source of authoritative nongovernmental U.S. generally accepted accounting principles (U.S. GAAP). The FASB Codification reorganizes

existing U.S. accounting and reporting standards issued by the FASB and other related private-sector standard setters, and all guidance contained in the FASB Codification carries an equal level of authority. All previously existing accounting standards documents are superseded as described in FAS 168. All other accounting literature not included in the FASB Codification is nonauthoritative. The FASB Codification can be accessed at <http://asc.fasb.org/>.

The FASB Codification is effective for interim and annual periods ending after September 15, 2009. Therefore, effective for the September 30, 2009, and subsequent FR Y-9 reports, references in the reporting instructions (including these Supplemental Instructions) to specific pre-Codification standards under U.S. GAAP (e.g., FASB Statements of Financial Accounting Standards, FASB Interpretations, Emerging Issues Task Force Issues, and Accounting Principles Board Opinions) should be understood to mean the corresponding reference in the FASB's Accounting Standards Codification.

### **Calculation of Disallowed Deferred Tax Assets**

The amount of deferred tax assets that do not qualify for inclusion in Tier 1 capital based on the capital guidelines are reported in Schedule HC-R, item 9.b, "LESS: Disallowed deferred tax assets". Generally, deferred tax assets that are dependent upon future taxable income are limited to the lesser of: (i) the amount of such deferred tax assets that the BHC expects to realize within one year of the calendar quarter-end date, based on its projected future taxable income for that year or (ii) 10% of the amount of the BHC's Tier 1 capital.

The reporting instructions for Schedule HC-R, item 9.b includes a section describing the calculation for determining the amount of deferred tax assets that do not qualify for inclusion in Tier 1 capital. Step (a) of the calculation indicates to start with the amount of Tier 1 capital reported in Schedule HC-R, item 8, "Subtotal". However, for purposes of this calculation, until March 31, 2011, BHCs may include (i.e., in addition to the amount reported in Schedule HC-R, item 8) in step (a) the amount of excess restricted core capital elements included in Schedule HC-R, item 10, "Other additions to (deductions from) Tier 1 capital" and reported separately in Notes to the Balance Sheet -- Other, item 1, "Amount of excess restricted core capital elements included in Schedule HC-R, item 10".

### **Other-Than-Temporary Impairment**

When the fair value of an investment is less than its cost basis, the impairment is either temporary or other-than-temporary. To determine whether the impairment is other-than-temporary, a BHC must apply other pertinent guidance such as paragraph 16 of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*; FASB Staff Position (FSP) FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*; FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*; paragraph 6 of Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*; Emerging Issues Task Force (EITF) Issue No. 99-20, *Recognition of Interest Income and*

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*Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*; and FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*. Guidance on recently issued accounting standards on other-than-temporary impairment was incorporated in a revised Glossary entry for “Securities Activities” that was included in the FR Y-9C instruction book update for September 2010.

For regulatory capital purposes, any other-than-temporary impairment losses on both held-to-maturity and available-for-sale debt securities related to factors other than credit loss that are reported, net of applicable taxes, in Schedule HC, item 26.b, “Accumulated other comprehensive income,” should be included in Schedule HC-R, item 2, together with the net unrealized gains (losses) on available-for-sale securities that are reported in item 2. Furthermore, when determining the regulatory capital limit for deferred tax assets, a BHC may, but is not required to, adjust the reported amount of its deferred tax assets for any deferred tax assets arising from other-than-temporary impairment losses reported, net of applicable taxes, in Schedule HC, item 26.b in accumulated other comprehensive income. A BHC must follow a consistent approach over time with respect to this adjustment to the reported amount of deferred tax assets.

In addition, when risk-weighting a held-to-maturity debt security for which an other-than-temporary impairment loss related to factors other than credit loss was previously recognized in other comprehensive income, include the carrying value of the debt security, as described above, in column A of Schedule HC-R, item 35. Then include the pre-tax amount of this impairment loss that has not yet been accreted from accumulated other comprehensive income to the carrying value of the security as a negative number in column B of Schedule HC-R, item 35, and include the amortized cost of the security, as defined in FSP FAS 115-2, in the appropriate risk-weight category column of item 35 (provided the security is not a purchased subordinated security that is not eligible for the ratings-based approach). Under FAS 115-2, amortized cost is the security’s previous amortized cost as of the date of the most recently recognized other-than-temporary impairment loss less the amount of impairment loss recognized in earnings adjusted for subsequent accretion of interest income and payments received on the security.

### **Extended Net Operating Loss Carryback Period**

The Business Assistance Act of 2009, which was enacted on November 6, 2009, permits banking organizations and other businesses, excluding those banking organizations that received capital from the U.S. Treasury under the Troubled Asset Relief Program, to elect a net operating loss carryback period of three, four, or five years instead of the usual carryback period of two years for any one tax year ending after December 31, 2007, and beginning before January 1, 2010. This extended carryback period applies to either the 2008 or 2009 tax year. The amount of the net operating loss that can be carried back to the fifth carryback year is limited to 50 percent of the available taxable income for that fifth year, but this limit does not apply to other carryback years.

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Under GAAP, BHCs may not record the effects of this tax change in their balance sheets and income statements for financial and regulatory reporting purposes until the period in which the law was enacted (i.e., the fourth quarter of 2009). BHCs should recognize the effects of this fourth quarter 2009 tax law change on their current and deferred tax assets and liabilities, including valuation allowances for deferred tax assets, in their FR Y-9C report for December 31, 2009. BHCs should not amend their FR Y-9C report for prior quarters for the effects of the extended net operating loss carryback period.

The Federal Reserve's regulatory capital standards limit the amount of deferred tax assets that are dependent upon future taxable income that can be included in regulatory capital. Deferred tax assets that are dependent upon future taxable income are:

- (a) Deferred tax assets arising from deductible temporary differences that exceed the amount of taxes previously paid that a BHC could recover through loss carrybacks if the BHC's temporary differences (both deductible and taxable) fully reverse at the report date and
- (b) Deferred tax assets arising from operating loss and tax credit carryforwards.

A BHC with a calendar year fiscal year could have considered the recoverability of taxes paid during the extended carryback period when determining the amount of its deferred tax assets dependent upon future taxable income for regulatory capital calculation purposes as of December 31, 2009, but may not do so for regulatory capital reporting purposes in its March 31, 2010, and subsequent FR Y-9C reports. In addition, any recognized income tax refund receivable resulting from a net operating loss carryback that remains outstanding as of March 31, 2010, should be reported in Schedule HC-F, item 6, "Other" assets, not in Schedule HC-F, item 2, "Net deferred tax assets".

### **Treasury Department's Capital Purchase Program**

On October 14, 2008, the U.S. Treasury Department announced a Capital Purchase Program (CPP) under the Troubled Asset Relief Program mandated by the Emergency Economic Stabilization Act of 2008 (<http://www.treas.gov/press/releases/hp1207.htm>). The CPP is designed to encourage U.S. financial institutions to build capital to buttress the financial strength of the banking system, increase the flow of financing to U.S. businesses and consumers and support the U.S. economy. Under this program, the Treasury will purchase up to \$250 billion of securities issued by qualifying financial institutions.

For BHCs (other than those that are Subchapter S) that are approved for participation in the CPP, the Treasury Department will purchase senior perpetual preferred stock and warrants to purchase common stock or senior perpetual preferred stock, depending on whether the BHC's common stock is "publicly traded". For such BHCs that are not publicly traded, the Treasury Department intends to immediately exercise the warrants for senior perpetual preferred stock ("warrant preferred stock"). The senior perpetual preferred stock issued to the Treasury Department, including warrant preferred stock, should be reported on the FR Y-9C balance sheet

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Schedule HC-M, item 24.a, "Issuances associated with the U.S. Department of Treasury Capital Purchase Program: Senior perpetual preferred stock or similar items", and included in balance sheet (Schedule HC) item 23, "Perpetual preferred stock and related surplus". (For the FR Y-9LP, Schedule PC, item 20.a) Senior perpetual preferred stock issued by BHCs to the Treasury Department is cumulative. For regulatory capital purposes, these instruments are treated the same as noncumulative perpetual preferred stock as an unrestricted core capital element included in Tier 1 capital. It will be included in the amount reported for "Total equity capital" in item 1 of Schedule HC-R, Regulatory Capital and included in Schedule HC-R, memoranda item 3.a, "Noncumulative perpetual preferred stock".

Warrants issued by a publicly traded BHC should be included in equity capital on the balance sheet provided the BHC has sufficient authorized but unissued shares of the common stock to allow exercise of the warrants and any other necessary shareholder approvals have been obtained. If the BHC does not have required shareholder approval, including shareholder approval for sufficient authorized but unissued shares of the common stock subject to the warrants that may be required for settlement, the warrants may be included in equity capital on the balance sheet provided that the BHC takes the necessary action to secure sufficient approvals prior to the end of the fiscal quarter in which the warrants are issued. The amount assigned to warrants classified as equity capital should be reported in Schedule HC-M, item 24.b, "Issuances associated with the U.S. Department of Treasury Capital Purchase Program: Warrants to purchase common stock or similar items", and included in Schedule HC, item 25, "Surplus". (For the FR Y-9LP, Schedule PC, item 20.c) Warrants that are not eligible to be classified as equity capital should also be reported in Schedule HC-M, item 24.b and included in balance sheet item 20, "Other liabilities". (For the FR Y-9LP, Schedule PC, item 17).

Proceeds from a BHC's issuance to the Treasury Department of noncumulative perpetual preferred stock during the calendar year-to-date reporting period should be included in Schedule HI-A, item 5.a, "Sale of perpetual preferred stock, gross." (For the FR Y-9LP, Schedule PI-A, part III, item 9, "Proceeds from issuance of preferred stock"). Proceeds from warrants eligible to be classified as equity capital during the calendar year-to-date reporting period should be included in Schedule HI-A, item 6.a, "Sale of common stock, gross". (For the FR Y-9LP, Schedule PI-A, part III, item 7, "Proceeds from issuance of common stock"). The accretion of any applicable discount (par or liquidation value of preferred stock less the carrying value) is treated as quarterly dividend payments until the 5 year discounted dividend period is over. The quarterly accretion of the discount is reported in Schedule HI-A, item 10, "LESS: Cash dividends declared on preferred stock."

For BHCs that have elected to be taxed under Subchapter S or are organized in mutual form, the full amount of all subordinated debt securities issued to the Treasury Department under the CPP should be reported in Schedule HC, item 19.a, "Subordinated notes and debentures," and in Schedule HC-M, item 24.a, "Issuances associated with the U.S. Department of Treasury Capital Purchase Program: Senior perpetual preferred stock or similar items." (For the FR Y-9LP, Schedule PC, item 16). For regulatory capital purposes, report in Schedule HC-R,

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item 6.b, “Qualifying restricted core capital elements (other than cumulative perpetual preferred stock)”, and in Schedule HC-R, memoranda item 8.d, “Qualifying trust preferred securities”, the portion of such subordinated debt securities that qualify for inclusion in Tier 1 capital based on the risk-based capital guidelines.

### **Trust Preferred Securities and Limits on Restricted Core Capital Elements**

On March 10, 2005, the Federal Reserve announced the amendment of its risk-based capital standards for BHCs to allow the continued inclusion of outstanding and prospective issuances of trust preferred securities in the tier 1 capital of BHCs, subject to stricter quantitative limits and qualitative standards. The Federal Reserve also revised the quantitative limits applied to the aggregate amount of qualifying cumulative perpetual preferred stock, qualifying trust preferred securities, and Class B and Class C minority interest (collectively, restricted core capital elements) included in the tier 1 capital of BHCs. These new quantitative limits were scheduled to become effective on March 31, 2009. However, on March 23, 2009, the Federal Reserve adopted a rule extending the compliance date for the tighter limits to March 31, 2011 in light of the current stressful financial conditions and the severely constrained ability of BHCs to raise additional capital in the markets. Nevertheless, it is also prudent and appropriate to recognize the large percentage of BHCs currently in compliance with the tighter limits on capital components adopted by the 2005 Board rule and to encourage such BHCs to continue to comply with the tighter limits and for other BHCs to come into compliance as quickly as feasible in the current financial environment.

Accordingly, and consistent with the new and revised items implemented on FR Y-9C Schedule HC-R for the first quarter of 2009, the instructions for these new and revised items require reporting in accordance with the revised limits to become effective on March 31, 2011, but only requires the exclusion of amounts from Tier 1 or Tier 2 capital that are subject to such exclusion under the quantitative limits under the Board’s risk-based capital rule applicable until March 31, 2011. A BHC’s amount of restricted core capital elements that are includable in Tier 1 capital under the limits applicable until March 31, 2011, but that would be excluded from Tier 1 capital and included in Tier 2 capital under the limits applicable on March 31, 2011, are reported on Schedule HC-R, line item 10, “Other additions to (deductions from) Tier 1 capital”. Refer to the section “Reporting of Qualifying Restricted Core Capital Elements in Tier 1 Capital” beginning on page HC-R-3 of the FR Y-9C reporting instructions for further information.

### **Electronic Submission Option**

This Bank offers BHCs the option of submitting their FR Y-11, FR 2314, and FR Y-12 reports electronically. Any BHC interested in submitting these reports electronically should contact Gloria Scott at (212) 720-7348 for information concerning the procedures for electronic transmission. BHCs choosing to submit these reports electronically must maintain in their files a signed printout of the data submitted.

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**Website**

Report forms and instructions for the FR Y-9C, FR Y-9LP, FR Y-11, FR 2314 and FR Y-12 are available on the Federal Reserve Board's web site at [www.federalreserve.gov](http://www.federalreserve.gov) under "Reporting Forms".

Questions regarding these reports should be addressed to Vadim Tovshteyn at (212)720-8465. Questions regarding the capital adequacy guidelines should be directed to Katherine Tilghman in the Policy and Analysis Department at (212) 720-5935.

Sincerely,

- *Signed by Patricia Selvaggi* -

Patricia Selvaggi  
Statistics Officer

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**Revisions to the FR Y-9LP for September 30, 2010**

Instructions

1. Schedule PC-B, item 10 was revised to clarify that only assets classified as securities should be reported as pledged securities.