FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-5000

April 4, 2002

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 Reporting Requirements for March 31, 2002

Enclosed are two copies of the following report forms and instructions for the March 31, 2002 reporting date:

(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) Quarterly Financial Statements of Nonbank Subsidiaries of Bank Holding Companies (FR Y-11Q); and

(4) Consolidated Bank Holding Company Report of Equity Investments in Nonfinancial Companies (FR Y-12).

There are no revisions to the FR Y-12 for this quarter.

FR Y-9CS Reporting

As of March 31, 2002, the FR Y-9CS will no longer be required to be submitted.

Final Rule on Recourse and Direct Credit Substitutes

On November 29, 2001, the Federal Reserve published a final rule revising the regulatory capital treatment of recourse arrangements and direct credit substitutes, including residual interests, credit-enhancing interest-only strips, asset-backed and mortgage-backed securities. This final rule took effect on January 1, 2002. Any transactions settled on or after that date are subject to the rule. However, for transactions settled before January 1, 2002 that result in increased capital requirements under the final rule, bank holding companies may delay the application of the final rule to those transactions until December 31, 2002. The instructions were revised for Schedule HC-R, Regulatory Capital, incorporating the provisions of the final rule.

Reporting of Funds Invested Through Bentley Financial Services, Inc.

On October 30, 2001, the banking regulatory agencies issued a joint release advising depository institutions that the Securities and Exchange Commission (SEC) had filed suit against Robert L. Bentley, Entrust Group, and Bentley Financial Services, Inc. Specifically, the SEC alleged that the defendants were representing to investors that they were selling federally-insured certificates of deposit when, in fact, they were selling uninsured securities issued by the defendants. In addition, a temporary restraining order was issued against the defendants, freezing the defendants' accounts and appointing a receiver to exercise control over the defendants' assets.

In light of these events, bank holding companies that have invested funds through Bentley Financial Services should report these funds as "Other" assets in Schedule HC-F, item 5, ***not*** as "Interest-bearing balances" due from depository institutions in Schedule HC, item 1.b. In addition, these funds should be placed in nonaccrual status and reported as nonaccrual assets in Schedule HC-N, item 9, column C. Previously accrued but uncollected interest on these funds should be reversed through a charge to interest income (for any amounts accrued in 2002) and a charge to other noninterest expense (for amounts accrued prior to 2002). In addition, these funds should be risk-weighted at 100 percent in item 42, column F, in Schedule HC-R, Regulatory Capital.

FASB Statements 141 and 142

In July 2001, the FASB issued Statement No. 141, *Business Combinations*, and Statement No. 142, *Goodwill and Other Intangible Assets*. Statement No. 141 supersedes the previous accounting standard on business combinations (i.e., mergers and acquisitions), Accounting Principles Board (APB) Opinion

No. 16, and requires that all business combinations initiated after June 30, 2001, (except for combinations between two or more mutual enterprises) be accounted for by the purchase method. The use of the pooling-of-interests method for those business combinations is prohibited.

Statement No. 141 also changes the requirements for recognizing intangible assets apart from goodwill in business combinations accounted for by the purchase method for acquisition after June 30, 2001. The statement specifically identifies core deposit intangibles as one type of intangible that must be recognized as an asset separate from goodwill.

Statement No. 142 supersedes the previous accounting standard on intangible assets, APB Opinion No. 17. This new standard addresses how intangible assets that are acquired individually or with a group of other assets (but not in a business combination) should be accounted for upon their acquisition. It also explains how goodwill and other intangible assets should be accounted for after they have been acquired.

Under Statement No. 142, goodwill acquired in a business combination after June 30, 2001 should not be amortized, but should be tested for impairment in accordance with the provisions of this accounting standard. Goodwill acquired in a business combination for which the acquisition date is before July 1, 2001 should continue to be amortized until an institution applies all of the provisions of Statement No. 142 in accordance with the effective date of the standard. Statement No. 142 is effective for fiscal years beginning after December 15, 2001. Bank holding companies must adopt FASB Statements No. 141 and 142 for FR Y-9C reporting purposes in accordance with the effective dates of these standards based on their fiscal years. For bank holding companies with a calendar year fiscal year, Statement No. 142 takes effect January 1, 2002.

This quarter's instruction book update includes a revised Glossary entry for "business combinations," revised instructions for Schedule HC "Goodwill" (item 10.a) and Schedule HC-M "Intangible assets other than goodwill" (item 12) and instructions for new Schedule HI "Goodwill impairment losses" (item 7.c (1)), all of which incorporate relevant provisions of these new standards.

Upon the adoption of Statement No. 142, bank holding companies should report any impairment losses on goodwill and other intangible assets that must be recognized as a result of the standard's required transitional impairment testing as the effect of a change in accounting principle. The effect of the accounting change and related income tax effects should be reported in the income statement, Schedule HI "Extraordinary items, net of applicable taxes and minority interest" (item 12) and disclosed in Schedule HI, Memoranda item 8.

For purposes of reporting in the FR Y-9LP report, goodwill that is recorded on the parent's books and not "pushed down" to the subsidiary or reporting unit level for accounting and reporting purposes should be *tested* for impairment at the appropriate reporting unit level as if the goodwill resides on the books of the reporting unit. Any goodwill impairment losses that result from performing the impairment test should be *recognized* on the parent's books for reporting purposes.

Although the accounting rules for goodwill and other intangible assets are changing, there has been no change in the regulatory capital treatment of these assets. The existing regulatory capital limits on servicing assets and purchased credit card relationships remain in effect, and goodwill and other intangible assets will continue to be deducted from capital and assets in determining a bank holding company's capital ratios.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The *Audit and Accounting Guide – Banks and Savings Institutions*, states that credit losses related to off-balance sheet financial instruments should be accrued and reported separately as liabilities "if the conditions of FASB Statement No. 5 are met." Consistent with this accounting guidance, the FR Y-9C instructions state (on Glossary page GL-3) that "each bank holding company should also maintain, as a separate liability account, an allowance sufficient to absorb estimated credit losses associated with off-balance sheet credit instruments." Off-balance sheet credit instruments include off-balance sheet loan commitments, standby letters of credit, and guarantees.

On the FR Y-9C, a bank holding company must report its allowance for credit losses on off-balance sheet credit exposures in Schedule HC-G "Other Liabilities" (item 3), ***not*** as part of its "Allowance for loan and lease losses" in Schedule HC, item 4.c. However, for risk-based capital purposes, the allowance for credit losses on off-balance sheet credit exposures is combined with the allowance for loan and lease losses and the total of these two allowances is included in Tier 2 capital up to a limit of 1.25 percent of a bank holding company's gross risk-weighted assets. For further information on the reporting of these allowances in Tier 2 capital, please refer to the instructions for FR Y-9C Schedule HC-R, item 14.

Investments in Trust Preferred Securities

Bank holding companies and their subsidiaries may invest in trust preferred securities. Trust preferred securities are hybrid instruments possessing characteristics typically associated with debt obligations. Although each issue of these securities may involve minor differences in terms, under the basic structure of trust preferred securities a corporate issuer, such as another bank holding company, first organizes a business trust or other special purpose entity. This trust issues two classes of securities: common securities (all of which are purchased and held by the corporate issuer) and trust preferred securities (which are sold to investors).

The trust's only assets are deeply subordinated debentures of the corporate issuer, which the trust purchases with the proceeds from the sale of its common and preferred securities. The corporate issuer makes periodic interest payments on the subordinated debentures to the business trust, which uses these payments to pay periodic dividends on the trust preferred securities to the investors. The subordinated debentures have a stated maturity and may also be redeemed under other circumstances. Most trust preferred securities are subject to a mandatory redemption upon the repayment of the debentures.

Trust preferred securities meet the definition of a security in FASB Statement No. 115. Because of the mandatory redemption provision in the typical trust preferred securities, investments in trust preferred securities would normally be considered debt securities for financial reporting purposes. Accordingly, bank holding companies should report these investments as debt securities on the FR Y-9C (unless, based on the specific facts and circumstances of a particular issue of trust preferred securities, the securities would be considered equity rather than debt securities under Statement No. 115).

Reports Submission

An original and two copies (one-sided) of each completed bank holding company report must be returned to this bank by mail or messenger by the dates listed below. Under the Regulatory Reports Monitoring Program, the timeliness of receipt of these reports will be monitored. Earlier submission would aid this Bank in reviewing and processing the reports and is encouraged.

The submission deadline for the **FR Y-9C, FR Y-9LP, and Y-12** is Wednesday, **May 15, 2002**. Any FR Y-9C, FR Y-9LP, or FR Y-12 reports received after 5:00 p.m. on May 15th will be considered late unless postmarked by Saturday, May 11th or sent by overnight service by Tuesday, May 14th.

The submission deadline for the **FR Y-11Q** is Thursday**, May 30, 2002**. Any FR Y-11Q report received after 5:00 p.m. May 30th will be considered late unless postmarked by Saturday, May 25th or sent by overnight service by Wednesday, May 29th.

Submission of initial data via facsimile, even if prior to this deadline does not constitute timely 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, 4th Floor
New York, N.Y. 10045

Edit Checklist

The staff of this Bank will monitor whether banking organizations are meeting their basic reporting requirements through the use of “validity edits”. Enclosed are the updates to the monitoring edits. Please note these updates to ensure your institution meets these edit tests. Also, to avoid common reporting errors, we are now providing a list of edit checks which we perform between the FR Y-9LP and FR Y-9C reports.

Electronic Submission Option

This Bank offers bank holding companies the option of submitting their FR Y-9C, FR Y-9LP, FR Y-11Q and FR Y-12 reports electronically. Any bank holding company interested in submitting these reports electronically should contact Carolyn Polite at (212) 720-5415 for information concerning the procedures for electronic transmission. Bank holding companies choosing to submit these reports electronically must maintain in their files a signed printout of the data submitted. The cover page of the Reserve Bank supplied report forms should be used to fulfill the signature and attestation requirement and this page should be attached to the printout placed in the bank holding company's files.

In addition, we now offer distribution of this letter, report forms, and instructions via e-mail. If you are interested in receiving this electronically, please fax the attached form to Vadim Tovshteyn at (212) 720-8465.

Website

Report forms and instructions for the FR Y-9C, FR Y-9LP, FR Y-11Q and FR Y-12 are also available on the Federal Reserve Board’s web site at ***www.federalreserve.gov*** under “Reporting Forms”.

Questions regarding these reports should be addressed to Monica Posen at (212) 720-8239. Questions regarding the capital adequacy guidelines should be directed to Dianne Dobbeck in the Policy and Analysis Department at (212) 720-2610
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Sincerely,

April 4, 2002

Signed by Kenneth P. Lamar

Kenneth P. Lamar
Assistant Vice President
Financial Reports Department

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h 31, **2002:**

Schedule HI – Report of Income

1. "Amortization expense of intangible assets (including goodwill)," (Item 7.c) was replaced with two items: "Goodwill impairment losses" (item 7.c (1)) and

"Amortization expense and impairment losses for other intangible assets" (item 7.c (2)).

2. "Other noninterest income" (Memorandum item 6) and "Other noninterest expense" (Memorandum item 7) were revised to add specific line item captions for the more commonly listed components. Blank text fields like those previously contained in Memoranda items 6 and 7 will be retained for noninterest income and expense items not specifically covered in the preprinted captions. In addition, Memoranda items 6 and 7 will collect all amounts that exceed the 1 percent threshold, not just the three largest amounts.

3. The preprinted caption item in 8.a (1) was revised to "Effect of adopting FAS 142, *Goodwill and Other Intangible Assets*."

4. The criteria for the reporting of "Trading revenue" (Memoranda item 9) was revised to state that this item is to be completed by bank holding companies that reported average trading assets (Schedule HC-K, item 4.a) of $2 million or more for any quarter of the preceding calendar year, rather than as of the March 31st report date of the current calendar year.

5. Existing Memorandum item "Premiums" (item 12(b)) was separated into two separate items: "Premiums on insurance related to extension of credit" (item 12(b)(1)) and "All other insurance premiums" (item 12(b)(2)).

Schedule HI-B, Part I – Charge-offs and Recoveries on Loans and Leases

The amount of charge-offs and recoveries for closed-end loans on 1-4 family residential properties (in domestic offices) was separated into closed-end loans secured by first mortgages charged-off and recovered (item 1.c (2)(a)) and closed-end loans secured by junior liens on such properties charged-off and recovered (item 1.c (2)(b)).

Schedule HI-B, Part II – Changes in Allowance for Loan and Lease Losses

Notes to the Income Statement (item 1) was moved to Schedule HI-B, part II "LESS: Write-downs arising from transfers of loans to a held-for-sale account" (item 4) and existing items 4 through 6 were renumbered as items 5 through 7.

Schedule HC – Consolidated Balance Sheet

1. The reporting of federal funds sold was separated from securities purchased under agreements to resell and the reporting of federal funds purchased was separated from securities sold under agreements to repurchase. The revised balance sheet now has separate asset and liability items for federal funds transactions in domestic offices (items 3.a and 14.a) and for all securities resale/repurchase agreements in domestic and foreign offices, regardless of maturity (items 3.b. and 14.b).

2. Immediately available funds borrowed from a Federal Home Loan Bank for one business day are no longer reported as federal funds purchased. Accordingly, these overnight advances should be reported on the balance sheet in Schedule HC, “Other borrowed money” (item 16) and in Schedule HC-M, “Other borrowed money with a remaining maturity of one year or less” (item 14.b).

Schedule HC-D – Trading Assets and Liabilities

The criteria for the filing of Schedule HC-D was revised to state that this schedule is to be completed by bank holding companies that reported average trading assets (Schedule HC-K, item 4.a) of $2 million or more for any quarter of the preceding calendar year, rather than as of the March 31st report date of the current calendar year.

Schedule HC-I – Insurance-Related Activities

1. The schedule was retitled as "Insurance-Related Underwriting Activities (including reinsurance)" and instructions were revised to state that all top-tier bank holding companies (rather than just top-tier financial holding companies) must complete this schedule.
2. New line items were added to Part I, Property and Casualty, and Part II, Life and Health, for the separate reporting of (1) total assets, (2) total equity, and (3) net income, for

each of these two types of underwriting activities.

3. A new item was added to Part II, Life and Health, for the reporting of reinsurance recoverables.
4. Part III, All Insurance-Related Activities was deleted.

Schedule HC-L – Derivatives and Off-Balance-Sheet Items

1. Four new items were added to capture the gross positive and gross negative fair values of credit derivatives where the bank holding company is the guarantor (items 7.a (1) and (2)) and where the bank holding company is the beneficiary (items 7.b (1) and (2)).

2. "All other off-balance-sheet items" (item 9) was revised to add line item captions for some of the more commonly listed significant components for each item. Blank text fields like those previously contained in item 9 were retained for other off-balance-sheet items not specifically covered in the new line item captions.

Schedule HC-M – Memoranda

1. The yes/no question asked in item 8 was revised to ask if a business combination occurred during the calendar year that was accounted for by the purchase method of accounting.

2. Schedule HC-M was revised to incorporate two of the items previously reported on the FR Y-9CS. Only top-tier financial holding companies (FHCs) will continue to report these items. Top-tier FHCs will report in Memoranda items 20 and 21 the net assets of (1) Broker-Dealer subsidiaries engaged in underwriting or dealing securities pursuant to Section 4(k)(4)(E) of the Bank Holding Company Act and (2) Insurance underwriting subsidiaries. In addition, these two items will no longer be considered confidential.

Schedule HC-N – Past Due and Nonaccrual Loans, Leases, and Other Assets

1. The amount of closed-end loans secured by first mortgages on 1-4 family residential properties (in domestic offices) that are past due 30 days or more or in nonaccrual status (item 1.c (2)(a)) was separated from past due and nonaccrual

closed-end loans secured by junior liens on such properties (in domestic offices) (item 1.c (2)(b)).

2. A new Memorandum “Loans and leases held for sale (included in Schedule HC-N, items 1 through 8, above)” (item 5) was added to report these loans that are past due 30 through 89 days and still accruing, past due 90 days or more and still accruing, or in nonaccrual status.

Schedule HC-R – Regulatory Capital

1. Existing items 8 and 9 were renumbered as items 9.a and 9.b and item 8 was added as the subtotal of items 1 through 7 (i.e., the sum of items 1 and 6, less items 2, 3, 4, 5, and 7).

2. Schedule HC-R, item 50 was revised to include all recourse and direct credit substitutes (other than financial standby letters of credit) subject to the low-level exposure rule and residual interests subject to a dollar-for-dollar risk-based capital requirement.

3. The caption to Memorandum item 3 was revised to eliminate the term “perpetual” from the caption. In addition, existing Memorandum item 3(a)(3) was renumbered as Memorandum item 3(b) to distinguish between the reporting of perpetual preferred stock (in Memorandum items 3(a)(1) and 3(a)(2)) and trust preferred securities that are reported in minority interest on the balance sheet. The line item caption for Memorandum item 3(b) will not change – only the line item number to provide clarity for the reporting of these types of securities.

4. Examples were added to the end of the instructions for Schedule HC-R to assist respondents in determining the amount of cumulative preferred stock and trust preferred securities that qualify for inclusion in Tier 1 capital.

Instructions

Instructional revisions and clarifications were made to correspond to the reporting form changes described above, and to conform with changes made to the commercial bank Call Report instructions (FFEIC 031/041). Such changes include incorporating into the line item instructions supplemental guidance issued in December 2001 regarding: servicing, securitization, and asset sale activities; impairment of servicing assets; reporting income from insurance-related income in the income statement; and standby letters of credit issued by a Federal Home Loan Bank. In addition, the glossary was expanded to provide new entries for the following insurance-related terms: contractholder; insurance commissions; insurance premiums; insurance underwriting; policyholder; reinsurance; reinsurance recoverables; and separate accounts.

April 4, 2002

Significant Revisions to the FR Y-9LP for March 2002:

Schedule PI – Parent Company Only Income Statement

A new item "Interest expense paid to special-purpose subsidiaries that issued trust preferred securities" (Memorandum item 4) was added.

Schedule PC-B – Memoranda

A new item "Notes payable to special-purpose subsidiaries that issued trust preferred securities" (Item 16) was added.

Instructions

Instructional revisions and clarifications were made to correspond to the reporting form changes described above, and to conform with certain changes made to the FR Y-9C instructions.

Significant Revisions to the FR Y-11Q for March 2002:

Instructions

1. Under the General Instructions' section entitled "Who Must Report", the instructions were revised to clarify that bank holding companies should not submit a FR Y-11Q for subsidiaries that are inactive as of the end of the reporting period.
2. Income Statement item "Other noninterest expense," (item 7(b)(3)) was revised to conform to the new accounting standards for goodwill and other intangible assets.
3. Balance Sheet items "Intangible Assets" (item 9) and "All other liabilities" (item 17) were revised to conform to the new accounting standards for goodwill and other intangible assets.