FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-5000

April 3, 2003

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, 2003

Enclosed are two copies of the following report forms and instructions for the March 31, 2003 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) Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11); and
(4) Consolidated Bank Holding Company Report of Equity Investments in Nonfinancial Companies (FR Y-12).

There have been several changes to the FR Y-9C reporting form and instructions, minor changes to the FR Y-9LP report form and instructions and minor clarification to the FR Y-11. Significant accounting updates and revisions to the reports have been provided in this letter and in Attachment 1. There are no revisions to the FR Y-12 for this quarter.

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 FR Y-12 is Thursday, May 15, 2003. Any FR Y-9C, FR Y-9LP, or FR Y-12 reports received after 5:00 p.m. on May 15 will be considered late unless postmarked by Monday, May 12 or sent by overnight service by Wednesday, May 14.

The submission deadline for the FR Y-11 is Friday May 30, 2003. Any reports received after 5:00 p.m. on May 30 will be considered late unless postmarked by Tuesday, May 27 or sent by overnight service by Thursday, May 29.

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

FASB Interpretation No. 45

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This interpretation clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. Among the types of guarantee contracts to which the provisions of Interpretation No. 45 apply are:

- financial standby letters of credit, which are irrevocable undertakings, typically by a financial institution, to guarantee payment of a specified financial obligation, and
- performance standby letters of credit, which are irrevocable undertakings by a guarantor to make payments in the event a specified third party fails to perform under a nonfinancial contractual obligation.

Commercial letters of credit and other loan commitments, and subordinated interests in securitizations, are not considered guarantees under Interpretation No. 45. Bank holding companies (BHCs) should refer to Interpretation No. 45 for further information on the types of guarantee contracts to which the interpretation's initial recognition and measurement provisions do and do not apply.

For financial and performance standby letters of credit and other types of guarantees subject to the interpretation, when a BHC or its subsidiary issues the guarantee, it must recognize on its balance sheet a liability for that guarantee. In general, the initial measurement of the liability is the fair value of the guarantee at its inception. When a BHC or its subsidiary issues a guarantee in an arm's length transaction with a party outside the consolidated BHC, the liability recognized at the inception of the guarantee should be the premium or fee received or receivable by the guarantor. However, if the BHC or its subsidiary issues a guarantee for no consideration, the liability recognized at inception should be an estimate of the guarantee's fair value.

In the unusual circumstance where, at the inception of a guarantee, it is probable that a loss has been incurred and its amount can be reasonably estimated, the liability to be initially recognized for that guarantee should be the greater of the premium or fee received or receivable by the guarantor or the estimated loss from the loss contingency that must be accrued under FASB Statement No. 5, *Accounting for Contingencies*.

Interpretation No. 45 does not prescribe a specific account for the guarantor's offsetting entry when it recognizes the liability at the inception of a guarantee because that offsetting entry depends on the circumstances. If a BHC or its subsidiary issued a standby letter of credit or other guarantee in a standalone transaction for a premium or fee, the offsetting entry would reflect the consideration the BHC or its subsidiary received, such as cash, a receivable, or a reduction of a deposit liability. In contrast, if the BHC or its subsidiary received no consideration for issuing the guarantee, the offsetting entry would be to expense.

The interpretation does not describe in detail how a

BHC's or its subsidiary's liability for its obligations under its guarantees should be measured subsequent to initial recognition. However, the accounting for fees received for issuing standby letters of credit has been, and should continue to be, governed by FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*. Under Statement No. 91, such fees are termed "commitment fees."

For FR Y-9C purposes, BHCs should apply the initial recognition and measurement provisions of Interpretation No. 45 on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the BHC's fiscal year-end. A BHC's previous accounting for guarantees issued prior to January 1, 2003, should not be revised.

FASB Interpretation No. 46

The FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, in January 2003. This interpretation explains how to identify a "variable interest entity" (previously referred to as a "special purpose entity") (VIE) and how an organization should assess its interests in a VIE to decide whether to consolidate that entity. VIEs often are created for a single specified purpose, for example, to facilitate securitization, leasing, hedging, research and development, and reinsurance. Most small BHCs are unlikely to have any "variable interests" in VIEs.

In general, a VIE is an entity in which either the controlling financial interests are not voting interests or the equity investors do not bear the entity's residual economic risks. A variable interest is a contractual or ownership interest in an entity that changes when the value of the entity's net assets changes. An organization that has a variable interest (or a combination of variable interests) that will absorb a majority of a VIE's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both, is the "primary beneficiary" of the VIE and must consolidate it.

For FR Y-9C purposes, BHCs with variable interests in VIEs created after January 31, 2003, must apply the provisions of Interpretation No. 46 to those entities immediately. A BHC that is a public company and has a variable interest in a VIE created before February 1, 2003, must apply the provisions of

Interpretation No. 46 to that entity no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. A BHC that is not a public company but has a variable interest in a VIE created before February 15, 2003, must apply the provisions of Interpretation No. 46 to that entity no later than the end of the first annual reporting period beginning after June 15, 2003.

Allocated Transfer Risk Reserves

For BHCs that have allocated transfer risk reserves (ATRRs) related to loans and leases, the way in which the ATRR and related provisions should be reported on the FR Y-9C balance sheet and income statement has changed this quarter. Any ATRRs related to loans and leases should be included on the balance sheet in Schedule HC, item 4.c, “Allowance for loan and lease losses.” This means that these ATRRs should no longer be deducted directly from the individual loans to which they relate in the FR Y-9C loan schedule (Schedule HC-C).

The amount of any ATRRs related to loans and leases held for investment should be disclosed in new Memorandum item 1 of Schedule HI-B, part II. In addition, provisions for allocated transfer risk related to loans and leases should be included in Schedule HI, item 4, “Provision for loan and lease losses.” Any ATRRs for assets other than loans and leases held for investment should continue to be deducted directly from the individual assets for FR Y-9C balance sheet purposes.

ATRRs are not eligible for inclusion in either Tier 1 or Tier 2 capital. Therefore, because the allowance for loan and lease losses will include any ATTRs related to loans and leases held for investment, BHCs should ensure that they deduct these ATRRs from the amount of the loan loss allowance reported on the FR Y-9C balance sheet when determining the “Allowance for loan and lease losses includible in Tier 2 capital” and the “Excess allowance for loan and lease losses” to be reported in Schedule HC-R, items 14 and 60, respectively. The entire amount of a bank’s ATRR should be reported in Schedule HC-R, item 61.

Reporting Certain Loans as Held for Sale or Held for Investment

The General Instructions for Part I of the loan schedule (Schedule HC-C) has been revised to identify two situations in which loans should be reported as held for sale or held for investment, based on facts and circumstances.

Loan Commitments That Must Be Accounted for as Derivatives

FASB Statement No. 133 Implementation Issue No. C13 describes the circumstances in which a loan commitment must be accounted for as a derivative. According to Issue No. C13, loan commitments that relate to the origination or purchase of mortgage loans that will be held for sale must be accounted for as derivative instruments in accordance with Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. However, loan commitments that relate to the origination or purchase of mortgage loans that will be held for investment, i.e., loans for which the bank holding company or its subsidiaries has the intent and ability to hold for the foreseeable future or until maturity or payoff, are not considered derivatives. In addition, commitments that relate to the origination of other types of loans (that is, other than mortgage loans) are not considered derivatives.

Mortgage loan commitments that must be accounted for as derivatives are considered over-the-counter written interest rate options. Therefore, because they are derivatives, these commitments should not be reported as unused commitments in item 1 of Schedule HC-L, Derivative and Off-Balance Sheet Items. Instead, mortgage loan commitments that are derivatives must be reported on the balance sheet (Schedule HC) at fair value. In addition, the par value of the mortgage loans to be acquired under these commitments must be reported in Schedule HC-L, item 11.d.(1), column A, and in Schedule HC-L, item 13, column A. The fair value of these mortgage loan commitments must be reported in the appropriate subitem of Schedule HC-L, item 14.b. As written options, mortgage loan commitments that are derivatives are not covered by the agencies' risk-based capital standards.

The unused portion of loan commitments that are not considered derivatives should continue to be reported in Schedule HC-L, item 1. Unused commitments with an original maturity exceeding one year are subject to the risk-based capital standards and must be reported in Schedule HC-R, item 53.

Accelerated Filing Deadline

The Board approved the acceleration of the filing deadline for top-tier FR Y-9C filers and will follow the SEC's phased-in approach by implementing a 40-day deadline in June 2004 and a 35-day deadline in June 2005. The new filing deadlines apply for the March, June, and September report dates. The December filing deadline for top-tier FR Y-9C filers will remain at 45 days after the report date.

The 35-day deadline is defined as "5 business days after the 30th day after the report date" to allow time for integration of bank data in the event that the 30th day falls on a weekend.

The FR Y-9LP, FR Y-9SP, FR Y-9ES and all lower-tier BHCs that file the FR Y-9C are not subject to the accelerated deadline. The deadline for these reports will remain at 45 days after the report date.

Mandatory Electronic Submission

Effective with the June 30, 2003 report date, all FR Y-9C and FR Y-9LP filers are required to submit these reports electronically. Any Bank Holding Company currently not submitting these reports electronically should contact Carolyn Polite at (212) 720-5415 for information concerning the procedures for electronic submission.

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-11 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 Hilda Hyman at (212) 720-2364.

Website

Report forms and instructions for the FR Y-9C, FR Y-9LP, FR Y-11 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.

Sincerely,

Signed by Kenneth P. Lamar

Kenneth P. Lamar
Vice President
Financial Reports Department

ATTACHMENT 1

Significant FR Y-9C Instructions March 2003

Report Form and Corresponding Instructions

1. Split Schedule HI, “Insurance commissions and fees” (Item 5.h) into two new items, “Insurance and reinsurance underwriting income” (Item 5.h(1)) and “Income from other insurance and reinsurance activities” (Item 5.h(2)).

2. Modified “no” response to “0” on Income Statement, memoranda Item 13.

3. Added two new items, “Stock-based employee compensation expense (net of tax effect)” (Item M.14) and “Stock-based employee compensation expense (net of tax effects) calculated for all awards under the fair value method” (Item M.15) to Schedule HI memorandum section.

4. Added two new items, “Uncollectible retail credit card fees and finance charges reversed against income” (Item M.3) to Schedule HI-B, part I, memoranda.

5. Added a new item, “Allocated transfer risk reserve included in Schedule HI-B, part II, item 7” to Schedule HI-B, part II, memoranda.

6. Added two new items, “Separate valuation allowance for uncollectible retail credit card fees and finance charges” (Item M.2) and “Amount of allowance for loan and lease losses attributable to retail credit card fees and finance charges” (Item M.3) to Schedule HI-B, part II, memoranda.

7. Added a new business combination schedule, “Notes to the Income Statement-Predecessor Financial Items.”

8. Deleted references to netting allocated transfer risk reserve from items on Schedule HC-C.

9. Added a new item, “Outstanding credit card fees and finance charges” (Item M.4) to Schedule HC-C, memoranda.

10. Revised the captions on Schedule HC-D, items 11 and 14. The caption for item 11 now reads “Revaluation gains on derivative contracts” and the caption for item 14 now reads “Revaluation losses on derivative contracts.” Also, the instructions were clarified to include credit derivatives in these items.

11. Added a new item, “Cash surrender value of life insurance” (Item 5.a) to Schedule HC-F.

12. Revised “no” response to “0” for Schedule HC-M, items 8, 9, 10, 11, 15, 17, 18, and 19.

13. On Schedule HC-M, renumbered item 20 to item 20.a with the caption “Net assets.” Added the following items: “Balances due from the bank holding company (parent company only), gross” (Item 20.b(1)), “Balances due from subsidiary banks of the bank holding company, gross” (Item 20.b.(2), “Balances due from nonbank subsidiaries of the bank holding company, gross” (Item 20.b(3), “Balances due to the bank holding company (parent company only), gross” (Item 20.c(1)), “Balances due to subsidiary banks of the bank holding company, gross” (Item 20.c(2)), “Balances due to nonbank subsidiaries of the bank holding company, gross” (Item 20.c(3)), and “Intercompany liabilities reported in items 20.c(1), 20.c(2), and 20.c(3) above that qualify as liabilities subordinated to claims of general creditors” (Item 20.d).

14. Added two new items “Additions to nonaccrual assets during the quarter” (Item M.7) and “Nonaccrual assets sold during the quarter” (Item M.8) to Schedule HC-N, memoranda.

15. Deleted footnote reference on Schedule HC-R, item 39.

16. On Schedule HC-S, revised the caption for Item 2.a to read “Credit enhancing interest-only strips.” Revised the caption for item 2.b, splitting out standby letters of credit and other enhancements. The caption now reads “Subordinated securities and other residual interests.”

17. Added a new item, “Standby letters of credit and other enhancements” (Item 2.c) to Schedule HC-S.

18. Added a new item, “Outstanding credit card fees and finance charges” (Item M.4) to Schedule HC-S, memoranda.

Instructions Only

1. The General Instructions section was entirely reorganized into four main topics: Who Must Report, Where to Submit the Reports, When to Submit the Reports, and How to Prepare the Reports.

2. Revised instructions regarding the treatment of allocated transfer risk related to loans and leases was added.

3. Revised instructions to reflect FASB Statement No. 144 provisions were added to the instruction for Schedule HI, item 12.

4. The instructions were clarified to reference credit derivative contracts along with other derivative contracts in Schedule HC-D, items 9, 11 and 14 and the Glossary “Trading Account” entry.

5. Revised instructions were added regarding credit card fees and finance charges.

6. Added an entry for “Accrued Interest Receivable Related to Credit Card Securitiztion” to the Glossary.

7. The Glossary entry for “Derivatives Contracts-Reporting Derivative Contracts” was clarified regarding freestanding derivatives held for purposes other than trading and embedded derivatives that must be accounted for separately under FASB Statement No. 133.

8. The Glossary entry for “Foreclosed Assets” was modified regarding SOP 92-3.

Significant Revisions to the FR Y-9LP for March 2003

Report Form and Corresponding Instructions

1. Added two new items, “Total combined loans and leases of nonbank subsidiaries” (Item 15.b) and “Total aggregate operating revenue of nonbank subsidiaries” (Item 15.c) to Schedule PC-B.

2. On Schedule PC-B, items 15.b, 15.c, 15.d, 15.e, and 15.f were renumbered to items 15.d, 15.e, 15.f, 15.g, and 15.h, respectively.

Significant Revisions to the FR Y-11 for March 2003

Instructions Only

1. Clarified the reporting criteria on the General Criteria Chart in the General Instructions to indicate that for annual filers of the abbreviated report, FR Y-11S, the subsidiary’s total assets are greater than 1% of the top tier consolidated assets.

2. Revised the instructions for Schedule IS, “Pertaining to nonrelated organizations” (Item 7(a)) to clarify that all other noninterest expense pertaining to nonrelated organizations should be included in this item.

3. Corrected the instructions for Schedule BS-M, “Commercial paper issued” (Item 9) to indicate that this item should include the commercial paper reported in Schedule BS, “Other borrowed money with a remaining maturity of one year or less” (item 12).

4. Corrected the parenthetical instruction in the caption of Schedule BS-M, “Balances due to related institutions, gross” (Item 12) to indicate that this item should include balances included in Schedule BS, item 16.