FEDERAL RESERVE BANK OF NEW YORK

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KENNETH LAMAR
VICE PRESIDENT

March 31, 2005

To: The Chief Executive Officer of Each U.S Branch and Agency of a Foreign Bank Located in the Second Federal Reserve District

Enclosed are copies and forms for the following reports for the quarter ending March 31, 2005:

- Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002);
- Supplemental Report of Assets and Liabilities of a Non-U.S. Branch that is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank (FFIEC 002s); and
- The Country Exposure Report for U.S. Branches and Agencies of Foreign Banks (FFIEC 019).

There are no changes to the FFIEC 002, 002S or 019 reporting forms or instructions for the March 31, 2005 report date. However, there is Supplemental Guides for the FFIEC 002 addressing the reporting treatment of the Financial Accounting Standards Board Interpretation No. 46 and Standard No. 149, EITF Issue No. 03-1, and AICPA Statement of Position 03-3.

FASB Interpretation No. 46 (Revised)

The FASB issued Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities*, in December 2003. Revised Interpretation No. 46 replaces Interpretation No. 46, which was issued in January 2003. This interpretation explains how to identify a "variable interest entity" (VIE) and how an institution 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.

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 fair value of the entity's net assets (exclusive of variable interests) 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 FFIEC 002 purposes, branches and agencies with variable interests in VIEs must apply the provisions of Interpretation No. 46 (Revised) to those entities in accordance with the interpretation's effective date and transition provisions, a summary of which follows. Special provisions of the revised interpretation apply to organizations that have fully or partially applied Interpretation No. 46 prior to the issuance of the revision. Otherwise, application of the revised interpretation (or Interpretation No. 46) was required of banks that are public companies, or subsidiaries of public companies, that have interests in VIEs or potential VIEs commonly referred to as special-purpose entities beginning December 31, 2003. Application of Interpretation No. 46 (Revised) by banks that are public companies (other than small business issuers), or subsidiaries of such public companies, for all other types of VIEs was required beginning March 31, 2004. Application of Interpretation No. 46 (Revised) by banks that are small business issuers, or subsidiaries of small business issuers, to VIEs other than special-purpose entities was required beginning December 31, 2004. Application of Interpretation No. 46 (Revised) by banks that are neither public companies nor subsidiaries of public companies was required immediately for VIEs created after December 31, 2003, and for all other VIEs at the beginning of the first fiscal year beginning after December 15, 2004 (January 1, 2005, for calendar year banks). A foreign branch or agency is considered a U.S. public company if its parent bank's equity securities are traded in a public market either on a U.S. stock exchange or in the over-the-counter market, including securities quoted only locally or regionally.

The assets and liabilities of a consolidated VIE should be reported on the FFIEC 002 balance sheet (Schedule RAL) on a line-by-line basis according to the asset and liability categories shown on the balance sheet.

Other-Than-Temporary Impairment of Securities and EITF Issue No. 03-1

Under FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, an institution must determine whether an impairment of an individual available-for-sale or held-to-maturity security is other-than-temporary. An impairment occurs whenever the fair value of a security is less than its (amortized) cost basis. If an impairment is judged to be other-than-temporary, the cost basis of the individual security must be written down to fair value through earnings, thereby establishing a new cost basis for the security.

In March 2004, the FASB ratified the consensus reached by its Emerging Issues Task Force (EITF) on EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. The EITF's consensus applies to debt and equity securities accounted for under FASB Statement No. 115, i.e., held-to-maturity securities and available-for-sale securities, and to equity securities that do not have readily determinable fair values that are accounted for at cost. The consensus was intended to provide additional guidance for determining whether investments in these securities have incurred an other-than-temporary impairment.

On September 30, 2004, the FASB delayed the effective date for the measurement and recognition guidance contained in EITF Issue No. 03-1. This delay will last until additional impairment guidance is issued by the FASB. However, the delay in the effective date does not suspend the requirement to recognize other-than-temporary impairments as required by existing authoritative literature, including FASB Statement No. 115, EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*, and Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 59, *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities* (Topic 5.M. in the Codification of Staff Accounting Bulletins).

AICPA Statement of Position 03-3 on Purchased Impaired Loans

In December 2003, the AICPA issued Statement of Position (SOP) 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. In general, this Statement of Position applies to purchased impaired loans, i.e., loans that a bank has purchased, including those acquired in a purchase business combination, when there is evidence of deterioration of credit quality since the origination of the loan and it is probable, at the purchase date, that the bank will be unable to collect all contractually required payments receivable. The SOP applies to loans acquired in fiscal years beginning after December 15, 2004, with early adoption permitted. Banks must follow SOP 03-3 for FFIEC 002 purposes in accordance with its effective date based on their fiscal years. The SOP does not apply to the loans that a bank has originated.

Under this SOP, a purchased impaired loan is initially recorded at its purchase price (in a purchase business combination, the present value of amounts to be received). The SOP limits the yield that may be accreted on the loan (the accretable yield) to the excess of the bank's estimate of the undiscounted principal, interest, and other cash flows expected at acquisition to be collected on the loan over the bank's initial investment in the loan. The excess of contractually required cash flows over the cash flows expected to be collected on the loan, which is referred to as the nonaccretable difference, must not be recognized as an adjustment of yield, loss accrual, or valuation allowance. Neither the accretable yield nor the nonaccretable difference may be shown on the balance sheet. After acquisition, increases in the cash flows expected to be collected generally should be recognized prospectively as an adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as an impairment.

The SOP prohibits a bank from "carrying over" or creating loan loss allowances in the initial accounting for purchased impaired loans. This prohibition applies to the purchase of an individual impaired loan, a pool or group of impaired loans, and impaired loans acquired in a purchase business combination.

In Schedule C, Part I, Loans and Leases, banks should report the carrying amount (before any loan loss allowance) of a purchased impaired loan in the appropriate loan category (items 1 through 8). Neither the accretable yield nor the nonaccretable difference associated with a purchased impaired loan should be reported as unearned income in Schedule C, Part I, item 10.

Reports Monitoring

Please note that the timeliness of receipt of each of these reports will be monitored and the submission of initial data via facsimile, even if prior to the deadline, does not constitute timely filing.

An original and one copy of the completed FFIEC 002 and FFIEC 002S report(s) (if applicable) must be returned to this Bank, by mail or messenger, no later than May 2, 2005. Any FFIEC 002/002S report received after 5:00 p.m. on May 2, 2005 will be considered late unless postmarked by April 29 or sent overnight service by April 30.

An original and one copy of the completed FFIEC 019 must be returned to this Bank, by mail or messenger by May 16, 2005. Any FFIEC 019 received after 5:00 p.m. on May 16, 2005 will be considered late unless postmarked by May 13 or sent by overnight service by May 14. Completed reports should be submitted to:

Federal Reserve Bank of New York
Statistics Function
33 Liberty Street, 4th Floor
New York, NY 10045

We will also continue to monitor the accuracy of the periodic regulatory reports submitted for the March 31, 2005 report date. The staff of this Reserve Bank will monitor whether banking organizations are meeting their basic reporting requirements through the use of "validity edits." The current edits for the FFIEC 002/002S and FFIEC 019 reports that are subject to monitoring are enclosed.

Electronic Submission Option

Electronic submission of the FFIEC 002/002S reports is available to all U.S. branches and agencies. We encourage you to take advantage of this method of reporting submission. Vendors have developed a software package that provides the means to submit the FFIEC 002/002S electronically. Submitting reports electronically using the software package provides the following benefits:

- A timely and efficient alternative to sending the report forms by mail; and

- A printed report is generated that can serve as your institution's permanent record of the report.

For information on filing the FFIEC 002/002S report electronically, please contact Carolyn Polite at (212) 720-5415.

Reporting Seminars

As we previously communicated to your institution, the Statistics Function of the Federal Reserve Bank of New York will host presentations on the Report of Transaction Accounts, Other Deposits, and Vault Cash (FR 2900) on June 1, 2005 and Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002) on August 2, 2005. For additional information and registration, please visit: http://www.newyorkfed.org/registration/stats/usba/usba05/form.cfm If you have any questions, please contact Patricia Maone at (212) 720-7871 or at patricia.maone@ny.frb.org.

Website

The FFIEC 002/002S and the FFIEC 019 forms and instructions are available on the FFIEC website at: http://www.ffiec.gov/ffiec_report_forms.htm.

Questions regarding the FFIEC 002, FFIEC 002S and FFIEC 019 reports should be directed to Brian Goodwin at (212) 720-8316, Doug Herold at (212) 720-8591 or Peter Drake, Team Leader in the Regulatory Reports Division at (212) 720-2695.

Sincerely,

\- *Signed by Kenneth Lamar* -

Kenneth P. Lamar
Vice President
Statistics Function

Enclosures