FEDERAL RESERVE BANK *of* NEW YORK

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PATRICIA SELVAGGI
STATISTICS OFFICER

April 2, 2010

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

The following report forms and instructions for the March 31, 2010 reporting date have been posted to the Federal Reserve Board's website at www.federalreserve.gov under "Reporting Forms":

- 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 and 019 reporting forms or instructions for the March 31, 2010 report date.

Reporting Purchased Subordinated Securities in Schedule RC-S

In Schedule S, Servicing, Securitization, and Asset Sale Activities, Line 9, the Federal Reserve collects data on the maximum amount of the branch's or agency's credit exposures arising from credit enhancements the branch or agency has provided 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 1 of the schedule). The types of credit enhancements to be reported in Line 9 include purchased subordinated securities. Examples of purchased subordinated securities include, but are not limited to, the mezzanine and subordinate tranches of 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. The branches or agencies should ensure that they report in Schedule S, Line 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 Line 1.a of Schedule S.

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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 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 is 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 FDIC*connect*, the FDIC's e-business portal, as of December 15, 2009.

The branch or agency should record the estimated expense for its 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). As a result of the interaction between the prepaid assessments and the regular quarterly assessments, the amount of the prepaid assessments asset that a branch or agency should report as a prepaid expense in its March 31, 2010, FFIEC 002 report should be:

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

This prepaid expense asset should be reported in Schedule RAL, Line 1h, "Other assets". The year-to-date deposit insurance assessment expense for 2010 should be reported as a component of gross unremitted profits in Schedule M, Line 4, "Net due from head office and other related depository institutions".

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/FFIEC 031_041_suppinst_200909.pdf.

FASB Statements No. 166 and 167

In June 2009, the FASB issued Statement No. 166, *Accounting for Transfers of Financial Assets* (FAS 166), and Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167), which change the way entities account for securitizations and special purpose entities. FAS 166 revises 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 sections), changing the requirements for derecognizing financial assets, and requiring additional disclosures. FAS 167 revises FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, by changing how a branch or agency 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. Under FAS 167, branches and agencies must perform a qualitative assessment to determine whether its variable interest or interests give it a controlling financial interest in a VIE. If a branch or agency's variable interest or interests provide it with the power to direct the most significant activities of the VIE, and the right to receive benefits or the obligation to absorb losses that could potentially be significant to the VIE, the branch or agency is the primary beneficiary of, and therefore must consolidate, the VIE. The assets and liabilities of consolidated VIEs should be reported on the FFIEC 002 balance sheet (Schedule RAL) in the balance sheet category appropriate to the asset or liability.

Both FAS 166 and FAS 167 take effect as of the beginning of each branch or agency'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 branches and agencies with a calendar year fiscal year). Earlier application is prohibited. Branches and agencies are expected to adopt FAS 166 and FAS 167 for FFIEC 002 reporting purposes in accordance with the effective date of these two standards.

Accounting for Loan Participations under FAS 166

FAS 166 (FASB ASC Topic 860) 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. Therefore, branches and agencies with a calendar year fiscal year must account for transfers of loan participations on or after January 1, 2010, in accordance with FAS 166. Loan participations transferred before the effective date of FAS 166 (January 1, 2010, for calendar year branches and agencies) 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. 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.

Under FAS 166, so-called “last-in, first-out” (LIFO) participations in which all principal cash flows collected on the loan are paid first to the party acquiring the participation do not meet the definition of a participating interest. Similarly, so-called “first-in, first-out” (FIFO) participations in which all principal cash flows collected on the loan are paid first to the lead lender do not meet the definition of a participation 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.

The participating interest definition in FAS 166 also applies to transfers of government-guaranteed portions of loans, such as those guaranteed by the Small Business Administration (SBA). In this regard, if a branch or agency transfers the guaranteed portion of an SBA loan at a premium, the "seller" is obligated by the SBA to refund the premium to the “purchaser” if the loan is repaid within 90 days of the transfer. Under FAS 166, this premium refund obligation is a form of recourse, which means that the transferred guaranteed portion of the loan does not meet the definition of a "participating interest" for the 90-day period that the premium refund obligation exists. As a result, the transfer must be accounted for as a secured borrowing during this period. After the 90-day period, assuming the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan now meet the definition of a "participating interest," the transfer of the guaranteed portion can be accounted for as a sale if all of the conditions for sale accounting in FAS 166 area met. In contrast, if the guaranteed portion of the SBA loan is transferred at par in a so-called “par sale” in which the “seller” agrees to pass interest through to the “purchaser” at less than the contractual interest rate and the spread between the contractual rate and the pass-through interest rate significantly exceeds an amount that would fairly compensate a substitute servicer, the excess spread is viewed as an interest-only strip. The existence of this interest-only strip results in a disproportionate sharing of the cash flows on the entire SBA loan, which means that the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan do not meet the definition of a "participating interest," which precludes sale accounting. Instead, the transfer of the guaranteed portion must be accounted for as a secured borrowing.

Upon the completion of a transfer of a participating interest that satisfies the conditions to be accounted for as a sale, the transferor (seller) must allocate the previous carrying amount of the entire financial asset between the participating interests sold and any that are retained based on their relative fair values at the transfer date, derecognize the participating interests sold, recognize and initially measure at fair value servicing assets (or servicing liabilities) and any other assets obtained and liabilities incurred in the sale, recognize in earnings any gain or loss on the sale, and report any retained participating interests as the difference between the previous carrying amount of the entire financial asset and the amount derecognized.

As mentioned above, when a portion of a financial asset is transferred, but the transferred portion does not meet the definition of a participating interest, the transaction must be reported as a secured borrowing with a pledge of collateral. In this situation, because the transferred loan participation does not qualify for sale accounting under FAS 166, the branch or agency lead lender must continue to report the transferred participation (as well as the retained portion of the loan) as a loan asset on the balance sheet in Schedule RAL, Line 1.e, “Loans and leases, net of unearned income,” and in the appropriate loan category in Schedule C, Part I, Loans and Leases. The branch or agency lead lender should report the transferred loan participation as a secured borrowing on the balance sheet in Schedule RAL, Line 4.c, “Other borrowed money.” The transferred loan participation should also be reported in the appropriate Line in Schedule P.
From the standpoint of the branch and agency that acquires the nonqualifying loan participation, it should normally report the participation in Line 1.e, “Loans and leases, net of unearned income,” on the FFIEC 002 balance sheet. For purposes of the loan schedule (Schedule C, Part I, Loans and Leases), the nonqualifying participation should be reported in the loan category appropriate to the underlying loan, e.g., as a “Commercial and industrial loan” in Line 4 or as a “Loan secured by real estate” in Line 1.

Measurement of Fair Values in Stressed Market Conditions

The valuation of various assets and liabilities on the balance sheet – including trading assets and liabilities, available-for-sale securities, loans held for sale, assets and liabilities accounted for under the fair value option (which is discussed in the following section), and foreclosed assets – involves the use of fair values. During recent market stress events, the fair values of some financial instruments and nonfinancial assets may decline.

Institutions are reminded that the objective of a fair value measurement is to determine the price that would be received to sell an asset or transfer a liability in an orderly transaction (e.g., not a forced or distressed sale) at the balance sheet date. Accordingly, fair values should reflect current market conditions and consider recent transaction prices, where available. This fair value objective is generally applicable to all fair value measurements effective for fiscal years beginning after November 15, 2007 with the adoption of FASB Statement No. 157, which is discussed in the following section.

On September 30, 2008, the SEC's Office of the Chief Accountant and the FASB staff jointly issued clarifications that address several fair value measurement questions that have arisen in the current market environment (http://wvvwfasb.orginews/2008-FairValue.pdf). These clarifications are based on the fair value measurement guidance in FAS 157. Branches and agencies should consider these clarifications when measuring fair value for FFIEC 002 reporting purposes.

On April 9, 2009, the FASB issued FASB Staff Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4. This FSP provides additional guidance on determining fair value in accordance with FAS 157 when the volume and level of activity have significantly decreased when compared with normal market activity for an asset or liability (or similar assets or liabilities). According to FSP FAS 157-4, a significant decrease in the volume and level of activity for the asset or liability is an indication that transactions or quoted prices may not be determinative of fair value because in such market conditions there may be increased instances of transactions that are not orderly. In those circumstances, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value in accordance with Statement 157.

FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption of this FSP is permitted for periods ending after March 15, 2009, provided FSP FAS 115-2, *Recognition and Presentation of Other-Than-Temporary Impairments,* and, if applicable, FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* are adopted at the same time. Branches and agencies are expected to adopt FSP FAS 157-4 for FFIEC 002 reporting purposes in accordance with the FSP's effective date.

Below is supplemental guidance for the FFIEC 002 addressing the reporting treatment of the Financial Accounting Standards 157 and 159.

Fair Value Measurement and Fair Value Option

FASB Statement No. 157, Fair Value Measurements (FAS 157), issued in September 2006, defines fair value, establishes a framework for measuring the fair value of assets and liabilities based on a three level hierarchy, and expands disclosures about fair value measurements. The FASB's three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting branch or agency has the ability to access at the measurement date (e.g., the FFIEC 002 reporting date). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

According to FAS 157, observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. In contrast, unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159), issued in February 2007, would allow to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings. In general, a branch or agency may elect the fair value option for an eligible financial asset or liability when it first recognizes the instrument on its balance sheet or enters into an eligible firm commitment. A branch or agency may also elect the fair value option for eligible items that exist on the effective date of FAS 159. A branch or agency's decision to elect the fair value option for an eligible item is irrevocable. A branch or agency that elects the fair value option is expected to apply sound risk management and control practices to the assets and liabilities that will be accounted for at fair value under the option. A branch or agency is also expected to meet the principals and objectives of FAS 159 when applying the fair value option.

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 FFIEC 002 reports, references in the reporting 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.

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http://service.govdel ivery.com/service/subscribe.html?code=USFRBNEWYORK 8

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 April 30, 2010. Any FFIEC 002/002S report received after 5:00 p.m. on April 30, 2010 will be considered late unless postmarked by April 27 or sent overnight service by April 29.

An original and one copy of the completed FFIEC 019 must be returned to this Bank, by mail or messenger by May 17, 2010. Any FFIEC 019 received after 5:00 p.m. on May 17, 2009 will be considered late unless postmarked by May 12 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, 2010 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 were sent to you in a previous mailing.

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.

Website

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

Questions regarding the FFIEC 002, FFIEC 002S and FFIEC 019 reports should be directed to Gigi Bitton, Senior Reports Analyst in the Regulatory Reporting Division at (212) 720-8478, or Henry Castillo, Team Leader in the Division at (212) 720-1318.

Sincerely,

Signed by Patricia Selvaggi

Patricia Selvaggi
Statistics Officer
Statistics Function