

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

PATRICIA SELVAGGI
STATISTICS OFFICER

April 2, 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 March 31, 2010

The following report forms and instructions for the March 31, 2010 reporting date has been posted to the Federal Reserve Board's website at 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).

The FR Y-9C reporting form has been revised to collect information on: (1) unused commitments and other loans, (2) other than temporary impairment required under generally accepted accounting principles (GAAP), (3) FDIC loss-sharing agreements, and (4) quarterly average schedule to reformat the loan information section. The FR Y-12 has been revised to collect information on (1) the pretax impact of management fee income and (2) direct investments in nonpublic entities.

Several clarifications have been made to the FR Y-9C, FR Y-11, FR 2314, and FR Y-12 reporting instructions. There have been no changes for the FR Y-9LP for this quarter. Significant accounting updates have been provided in this letter.

Subscription Service

We are offering a subscription service, which enables you to receive recent news and updates on our reporting forms and instructions and upcoming events. You can sign up for this new service at the following website:

<http://service.govdelivery.com/service/subscribe.html?code=USFRBNEWYORK> 8.

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 Monday, May 10, 2010. Any **FR Y-9C** reports received after 5:00 p.m. on May 10 will be considered late. The submission deadline for all **FR Y-9LP** filers is Monday, May 17, 2010. Any **FR Y-9LP** reports received after 5:00 p.m. on May 17 will be considered late. The submission deadline for the **FR Y-12** is Monday, May 17, 2010. Any FR Y-12 reports received after 5:00 p.m. on May 17 will be considered late unless postmarked by Thursday, May 13 or sent by overnight service on Saturday, May 15. The submission deadline for the **FR Y-11** and **FR 2314** is Tuesday, June 1, 2010. Any FR Y-11 and FR 2314 reports received after 5:00 p.m. on June 1 will be considered late unless postmarked by Thursday, May 27 or sent by overnight service on Saturday, May 29.

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, 4th 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 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). 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.

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 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 March 31, 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 assessment for the fourth quarter of 2009 (shown on its certified statement invoice for the fourth quarter, which was available on *FDICconnect* 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 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.

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.

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 (now codified in FASB Accounting Standards Codification (ASC) Topic 860, Transfers and Servicing) 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 (now codified in FASB ASC Topic 810, Consolidation) revises 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. Under FAS 167, a BHC must perform a qualitative assessment to determine whether its variable interest or interests give it a controlling financial interest in a VIE. If a BHC’s variable interest or interests provide it with the power to direct the most significant activities of the VIE, and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, the BHC is the primary beneficiary of, and therefore must consolidate, the VIE.

Both FAS 166 and FAS 167 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 FAS 166 and FAS 167 for FR Y-9 reporting purposes in accordance with the effective date of these two standards. The Glossary entry for “Transfers of Financial Assets” in the FR Y-9C instruction book will be revised to incorporate the provisions of FAS 166 and FAS 167 later in 2010.

The assets and liabilities of consolidated VIEs should be reported on the FR Y-9C balance sheet (Schedule HC) in the balance sheet category appropriate to the asset or liability. Because Schedule HC does 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 and (b) the liabilities of a consolidated VIE for which creditors do not have recourse to the general credit of the primary beneficiary, a BHC that consolidates a VIE may wish to report on such assets and liabilities in the FR Y-9C’s “Notes to the Balance Sheet – Other”.

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.cfm>. This guidance is expected to be posted to the site in the near future.

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.

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 BHC 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 BHC lead lender must continue to report the transferred participation (as well as the retained portion of the loan) as a loan asset on its balance sheet (Schedule HC), normally in item 4.b, "Loans and leases, net of unearned income", and in the appropriate loan category in Schedule HC-C, Loans and Leases. The BHC lead lender should report the transferred loan participation as a secured borrowing on the balance sheet in Schedule HC, item 16, "Other borrowed money". The transferred loan participation should also be reported in the appropriate subitem or subitems in Schedule HC-M, item 14, "Other borrowings", in Schedule HC-M, item 23.b, "Amount of 'Other borrowings' that are secured", and in Schedule HC-C, Memorandum item 14, "Pledged loans and leases". As a consequence, the transferred nonqualifying participation should be included in the BHC's loans and leases for purposes of determining the appropriate level for the BHC's allowance for loan and lease losses.

From the standpoint of the BHC that acquires the nonqualifying loan participation, it should normally report the participation in item 4.b, "Loans and leases, net of unearned income", on the FR Y-9C balance sheet. For purposes of Schedule HC-C, 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 item 4 or as a "loan secured by real estate" in item 1 of Schedule HC-C. Furthermore, for risk-based capital purposes, the BHC that acquired the nonqualifying participation should assign it to the risk-weight category appropriate to the underlying borrower or, if relevant, the guarantor or the nature of the collateral.

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 bank holding company 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 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*.

On January 12, 2009, the FASB issued FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*. This FSP amended EITF Issue No. 99-20 to align its impairment guidance with the guidance in paragraph 16 of FASB Statement No. 115 and related implementation guidance. The FSP is effective for "interim and annual reporting

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periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted". All bank holding companies, both public *and* nonpublic, that hold beneficial interests that fall within the scope of EITF Issue No. 99-20 must adopt FSP EITF 99-20-1 for FR Y-9 reporting purposes in accordance with the FSP's effective date. Thus, both public and nonpublic BHCs should have applied this FSP beginning in their December 31, 2008, reports. BHCs should not apply the guidance in this FSP to the September 30, 2008, or earlier reporting periods.

On April 9, 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2). This FSP amended the other-than-temporary impairment (OTTI) guidance in several standards (including FASB Statement No. 115, FSP FAS 115-1 and FAS 124-1, and EITF Issue No. 99-20) that applies to investments in debt securities FSP FAS 115-2 does not apply to investments in securities that meet the definition of an equity security in FASB Statement No. 115. Under FSP FAS 115-2, if a BHC intends to sell a debt security or it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis, an OTTI has occurred and the entire difference between the security's amortized cost basis and its fair value at the balance sheet date must be recognized in earnings. In these cases, the fair value of the debt security would become its new amortized cost basis. The FSP also provides that if the present value of cash flows expected to be collected on a debt security is less than its amortized cost basis, a credit loss exists. In this situation, if a BHC does not intend to sell the security and it is not more likely than not that the bank holding company will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, an OTTI has occurred. The amount of the total other-than-temporary impairment related to the credit loss must be recognized in earnings, but the amount of the total impairment related to other factors must be recognized in other comprehensive income, net of applicable taxes.

FSP FAS 115-2 is effective for interim and annual reporting periods ending after June 15, 2009. Early adoption of this FSP is permitted for periods ending after March 15, 2009, in accordance with the FSP's effective date and transition provisions. BHCs were expected to adopt FSP FAS 115-2 for FR Y-9 reporting purposes in accordance with the FSP's effective date.

For OTTI losses on held-to-maturity and available-for-sale debt securities that occur during the current calendar year-to-date reporting period, BHCs should report the total amount of such losses, the portion recognized in other comprehensive income (before income taxes), and the net impairment losses recognized in earnings in Schedule HI, Memorandum items 17.a, 17.b, and 17.c, respectively. OTTI losses on held-to-maturity and available-for-sale debt securities that must be recognized in earnings should be included in items 6.a and 6.b, of the FR Y-9C income statement (Schedule HI), respectively. OTTI losses that are to be recognized in other comprehensive income, net of applicable taxes, should be reported in item 12 of Schedule HI-A, Changes in Bank Equity Capital, and included in item 26.b, "Accumulated other comprehensive income", on the FR Y-9C balance sheet (Schedule HC). For a held-to-maturity debt security on

which the BHC has recognized an OTTI loss related to factors other than credit loss in other comprehensive income, the BHC should report the carrying value of the debt security, as defined in FSP FAS 115-2, in item 2.a of Schedule HC and in column A of Schedule HC-B, Securities. Under the FSP, this carrying value should be the fair value of the debt security as of the date of the most recently recognized OTTI loss adjusted for subsequent accretion of the impairment loss related to factors other than credit loss.

For regulatory capital purposes, any OTTI 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 OTTI 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 OTTI 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 the FSP, this amortized cost is the security’s previous amortized cost as of the date of the most recently recognized OTTI 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). Therefore, 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

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.” 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”).

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”. (For the FR Y-9LP, Schedule PC, item 16). For regulatory capital purposes, report in Schedule HC-R, 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 prudential 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, which has been revised for the June 2009 instruction update, for further information.

Treatment of Purchased Subordinated Securities That Are Direct Credit Substitutes Not Eligible for the Ratings-Based Approach

Additional guidance on this topic has been included in the FR Y-9C reporting instructions in June 2009. BHCs should refer to the guidance presented in Schedule HC-R beginning on page HC-R-21.

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 periods of market stress, 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 between market participants at the balance sheet date under current market conditions. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g., a forced liquidation or distress sale). This fair value objective is generally applicable to all fair value measurements, whether or not a BHC has early adopted FASB Statement No. 157, *Fair Value Measurements* (FAS 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://www.fasb.org/news/2008-FairValue.pdf>). These clarifications are based on the fair value measurement guidance in FAS 157. BHCs should consider these clarifications when measuring fair value for FR Y-9 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*, which is discussed in an earlier section of these Supplemental Instructions, 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. BHCs are expected to adopt FSP FAS 157-4 for FR Y-9 reporting purposes in accordance with the FSP's effective date.

FASB Interpretation No. 48 on Uncertain Tax Positions

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), was issued in June 2006 as an interpretation of FASB Statement No. 109, *Accounting for Income*

Taxes. Under FIN 48, the term “tax position” refers to “a position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities”. The term “tax position” also encompasses an entity’s status as a pass-through entity, such as a Subchapter S Corporation for federal income tax purposes. FIN 48 further states that a “tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets”.

According to FIN 48, a BHC should initially recognize the effects of a tax position in its financial statements when, based on the technical merits, it is more likely than not (i.e., a likelihood of more than 50 percent) that the position will be sustained upon examination by the taxing authority, including the resolution of any related appeals or litigation. The more-likely-than-not evaluation must consider the facts, circumstances, and information available at the report date. When a tax position meets the more-likely-than-not recognition threshold, it should initially and subsequently be measured as the largest amount of tax benefit greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. FIN 48 also provides guidance on subsequent recognition, derecognition, and measurement of tax positions, including the effect of changes in judgment, and on the recognition of interest and penalties. The June 2007 FR Y-9C reporting instructions were updated to include a revised Glossary entry for “Income Taxes” that includes guidance on FIN 48.

BHCs must adopt FIN 48 for FR Y-9 reporting purposes in accordance with the interpretation’s effective date. As originally issued, FIN 48 was effective for fiscal years beginning after December 15, 2006. However, for eligible nonpublic enterprises the FASB Board has decided to defer the effective date of FIN 48 to the annual financial statements for fiscal years beginning after December 15, 2008. A nonpublic enterprise is eligible for this deferral provided it (a) has not issued a full set of annual financial statements incorporating the recognition, measurement, and disclosure requirements of FIN 48 and (b) is not a subsidiary of a public enterprise. A nonpublic enterprise that meets these conditions is eligible for the deferral even if it issued interim or quarterly financial information in 2007 that reflected the adoption of FIN 48.

Thus, eligible nonpublic BHCs must adopt FIN 48 for FR Y-9 reporting purposes for annual periods beginning after December 15, 2008, based on their respective fiscal years. For example, an eligible nonpublic BHC with a calendar year fiscal year must adopt FIN 48 as of January 1, 2009, but is not required to reflect the effect of its adoption of FIN 48 for FR Y-9 reporting purposes until it prepares its FR Y-9 for the December 31, 2009, report date. An eligible nonpublic BHC that applied the recognition and measurement provisions of FIN 48 in its FR Y-9 reports for 2007 report dates can either: (a) choose not to adopt the effective date deferral and continue to apply FIN 48 in its FR Y-9 reports going forward; or (b) choose to adopt the effective date deferral and its December 2007 FR Y-9 report should have been prepared without reflecting the application of FIN 48. As noted above, a nonpublic BHC that is a

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subsidiary of a public company does not meet the eligibility conditions for the deferral of the effective date of FIN 48 and at present should be preparing its FR Y-9 reports in accordance with FIN 48.

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.

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 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 Katherine Tilghman in the Policy and Analysis Department at (212) 720-5935.

Sincerely,

**Signed by Patricia Selvaggi*

Patricia Selvaggi
Statistics Officer
Statistics Function

Attachment**Revisions to the FR Y-9C for March 31, 2010**Report Form*Income Statement*

1. New memoranda items were added for other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities. Specifically, “Total other-than-temporary impairment losses” (item 17.a), “Portion of losses recognized in other comprehensive income (before income taxes)” (item 17.b), and “Net impairment losses recognized in earnings” (item 17.c) were added.

Loans (Schedule HC-C)

1. The caption “Loans to nondepository financial institutions and other loans” (item 9) was added and separated into three items: (1)Loans to nondepository financial institutions (item 9.a), (2)Loans for purchasing or carrying securities (item 9.b(1) formerly item 9.a), and (3)All other loans (exclude consumer loans) (item 9.b(2) formerly item 9.b).

Quarterly Averages (Schedule HC-K)

1. “Loans and leases” (item 3) was revised to “Total loans and leases in domestic offices” and renumbered as item 3.a and “All other loans in domestic offices” (item 3.c) was deleted. “Total loans in foreign offices, Edge and agreement subsidiaries, and IBFs” (item 3.b) was added. In addition, the previous existing items were renumbered as follows: “Loans secured by 1-4 family residential properties in domestic offices” (item 3.a(1) formerly item 3.a) and “All other loans secured by real estate in domestic offices” (item 3.a(2) formerly item 3.b).

Derivatives and Off-Balance Sheet items (Schedule HC-L)

1. “Credit card lines” (item 1.b) was separated into two items: (1)Unused consumer credit card lines, and (2)Other unused credit card lines.
2. “Other unused commitments” (item 1.e) was separated into three items: (1) Commercial and industrial loans, (2)Loans to financial institutions, and (3)All other unused commitments.

Miscellaneous

1. A preprinted caption item was added to Schedule HI, “Gains on bargain purchases” (Memoranda item 6.h).
2. New items were added to Schedule HC-M for assets covered by loss-sharing agreements with the FDIC. Specifically, “Loans and leases (item 6.a), “Other real estate owned” (item 6.b), “Debt securities” (item 6.c), and “other assets” (item 6.d) were added.

3. A preprinted caption was added to the Notes to the Income Statement-Other for “Cumulative effect of the initial application of FAS 167 related to newly consolidated variable interest entities” (item 1).
4. Two preprinted captions were added to Notes to the Balance Sheet-Other for “Amounts of assets included in Schedule HC-R, item 43, Column B, that were booked on-balance-sheet on the implementation date as a result of the bank holding company’s implementation of FAS 167” (item 2), and “Amount of ALLL recognized on the implementation date for assets that were booked on-balance sheet as a result of the bank holding company’s implementation of FAS 167” (item 3).

Instructions

1. Schedule HI was revised to update the cross-references and to clarify the list of inclusions.
2. Schedule HC-D, “Other trading assets: (Memoranda item 9.a(2) was revised to clarify the values that should be reported in “other trading assets” (item 9).
3. Schedule HC-E, “Brokered deposits less than \$100,000 with a remaining maturity of one year or less” (Memoranda item 1) and “Brokered deposits less than \$100,000 with a remaining maturity more than one year” (Memoranda item 2) were revised to replace the phrase “that are issued in denominations of” with “with balances of”.
4. Schedule HC-F, “Equity securities that do not have readily determinable fair values” (item 4) was revised to update the inclusions and exclusion (1) that reference “investments in real estate ventures”.
5. Schedule HC-F, “Other” (item 6) was revised to clarify the inclusions related to prepaid deposit insurance assessments, accrued interest on securities purchased, and retained interests in accrued interest receivable related to securitized credit cards.
6. Schedule L, “Unused commitments” (item 1) was revised to clarify the definition of unused commitments.
7. Schedule R was revised to delete the section for the “Treatment of Asset-Backed Commercial Paper Conduits”.

Revisions to the FR Y-11 for March 31, 2010

Instructions

1. The general instructions and line item instructions were revised to clarify the reporting of negative amounts when negative entries are allowed.
2. Schedule IS, “Noninterest expense pertaining to related organizations” (item 7.b) was revised to indicate that negative amounts reported for this item should not be reported as net credit balances in “Noninterest income from related organizations” (item 5.b).
3. Schedule BS, “Unused commitments on securities underwriting” (item 20) and “Unused commitments on loans and all other unused commitments” (item 21) were revised to clarify the reporting of unused commitments.

Revisions to the FR 2314 for March 31, 2010

Instructions

1. The general instructions and line item instructions were revised to clarify the reporting of negative amounts when negative entries are allowed.
2. Schedule IS, “Noninterest expense pertaining to related organizations” (item 7.b) was revised to indicate that negative amounts reported for this item should not be reported as net credit balances in “Noninterest income from related organizations” (item 5.b).
3. Schedule BS, “Unused commitments on securities underwriting” (item 20) and “Unused commitments on loans and all other unused commitments” (item 21) were revised to clarify the reporting of unused commitments.

Revisions to the FR Y-12 for March 31, 2010

Report Form

Type of Investments (Schedule A)

1. A new memoranda item was added for pre-tax impact of management fee income (item M.5).

Nonfinancial Investments Transactions During Reporting Period (Schedule D)

1. New columns were added to collect the acquisition cost and carrying values for all transactions involving all direct nonpublic investments. Specifically, “Acquisition cost” (Column C) and “Carrying value” (Column D) were added. In addition, the previous existing columns for indirect (fund) investments were re-labeled as follows: “Acquisition cost” (Column E formerly Column C) and “Carrying value” (Column F formerly Column D).

Instructions

1. The general instructions for nonfinancial equity investments was revised to clarify the reporting for BHCs to exclude only equity securities in a trading account that are short term in nature.
2. The general instructions for negative entries was revised to clarify the reporting of negative amounts when negative entries are allowed.