FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-5000

March 31, 1999

TO: The Chief Executive Officer of Each State Member Bank
Located in the Second Federal Reserve District

As part of a joint mailing with other supervisory agencies, state member banks received their Report of Condition and Income materials for the March 31, 1999 report date from the Federal Financial Institutions Examination Council. However, the completed report must be submitted to this Bank.

Listed below are three regulatory and accounting changes that affect the Call Reports and are outlined in more detail in the supplementary instructions.

Mortgage and Nonmortgage Servicing Assets

On August 10, 1998 the federal agencies published a final rule amending their regulatory capital treatment of servicing assets. This rule increases the maximum amount of servicing assets (when combined with purchased credit card relationships (PCCRs)) that are included in the definition of regulatory capital from 50 percent to 100 percent of Tier 1 capital. Servicing assets include the aggregate amount of mortgage servicing assets (MSAs) and nonmortgage servicing assets (NMSAs). The final rule also applies a further limit of 25 percent of Tier 1 capital to the aggregate amount of NMSAs and PCCRs. In addition, the rule subjects the valuation of MSAs, NMSAs, and PCCRs to a 10 percent discount.

One effect of the final rule is that NMSAs are now recognized, rather than deducted, for regulatory capital purposes. Therefore, when completing Schedule RC-R -- Regulatory Capital, banks may recognize NMSAs in accordance with the provisions of the final rule. In addition, because of this change in the regulatory capital treatment of NMSAs, the reporting of these assets in Schedule RC-M -- Memoranda has been changed as of March 31, 1999. NMSAs should now be reported in Schedule RC-M in revised item 6.b.(1) APurchased credit card relationships and nonmortgage servicing assets.@ Previously, NMSAs were reported as part of AAll other identifiable assets@ in Schedule RC-M, item 6.b(2).

Capital Treatment of Unrealized Holding Gains on Certain Equity Securities

On August 26, 1998, the banking agencies announced a final rule amending the capital treatment of unrealized holding gains on certain equity securities. The final rule permits banks to include in supplementary (Tier 2) capital up to 45 percent of the pretax net unrealized holding gains (that is, of the fair value over historical cost) on available-for-sale equity securities with readily determinable fair values. However, if a the bank opts to include an amount of unrealized holding gains in its Tier 2 capital, it must also include that same amount in its risk-weighted assets.

FASB Statement No. 133

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under Statement No. 133, banks must recognize all derivatives as either assets or liabilities on the balance sheet and must measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a Afair value hedge,@ a Acash flow hedge,@ or a hedge of a foreign currency exposure of a net investment in a foreign operation.

Statement No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Banks must adopt Statement No. 133 for Call Report purposes upon its effective date based on their fiscal year. Early application is permitted in the Call Report in accordance with the transition guidance in Statement No. 133. Piecemeal adoption of Statement No. 133 is not permitted.

The Call Report for this quarter has been revised in response to Statement No. 133. Banks that have elected to adopt Statement No. 133 prior to its effective date should include any accumulated net gains (losses) on cash flow hedges on the balance sheet (Schedule RC) in new item 26.c. The year-to-date change in these accumulated net gains (losses) on cash flow hedges should be reported in the changes in equity capital

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schedule (Schedule RI-A) in the new item 11.b. Any transition adjustments as the date of initial application of Statement No. 133 that must be reported as cumulative-effect type adjustments of net income should be included in the income statement (Schedule RI) in item 11, AExtraordinary items and other adjustments, net of income taxes,@ and disclosed in Schedule RI-E -- Explanations, item 3.a.(1).

Proper Reporting of Sweep Arrangements Between Deposit Accounts

For Call Report purposes the transaction subaccount and savings subaccount must be treated separately when a bank reports its quarter-end deposit information in Schedules RC, RC-E, and RC-O, its quarterly averages in Schedule RC-K, and its interest expense (if any) in Schedule RI. Thus, when reporting quarterly averages in Schedule RC-K, a bank should include the amounts held in the transaction subaccounts (if interest-bearing) and the savings subaccounts each day or each week in the appropriate separate items for average deposits. In addition, if the bank pays interest on the accounts involved in sweep arrangements, the interest expense reported in Schedule RI should be allocated between the transaction subaccount and the savings subaccount based on the balances in these subaccounts during the reporting period.

A completed Call Report must be electronically submitted no later than **April 30, 1999**. Earlier submission would aid the Federal Reserve in reviewing and processing the report and is encouraged.

Please note that, under the Regulatory Reports Monitoring Program, the timeliness of receipt of the Call Report will be monitored. Any report received after 5:00 p.m. on April 30 will be considered late. Submission of initial data will only be accepted electronically.

The staff of this bank will monitor whether banking organizations are meeting their basic reporting requirements through the use of Avalidity edits.@ Enclosed are updates to the monitoring edits. Please note the updates to ensure your institution meets these edit tests.

Website

Report forms and instructions for the Call Report can also be obtained from the FFIEC internet website at the following address:
www.ffiec.gov/ffiec_report_forms.htm

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Copies of this letter and its enclosures have been sent to the report liaison designated by your institution. Any questions about this report may be directed to the Regulatory Reports staff at (212) 720-7991.

Sincerely,

Signed by Kenneth P. Lamar

Kenneth P. Lamar
Assistant Vice President
Financial Reports Department

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