

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-5000

March 31, 1999

To: The Individual Responsible for Preparing the
Financial Statement for Large Bank Holding
Companies Located in the Second Federal Reserve
District

Subject: Bank Holding Company Reporting Requirements for
March 31, 1999

Enclosed are two copies of the following report forms and
instructions for the March 31, 1999 reporting date:

The Consolidated Financial Statements for Bank Holding
Companies (FR Y-9C);

The Parent Company Only Financial Statements for Large Bank
Holding Companies (FR Y-9LP); and

The Quarterly Financial Statements of Nonbank Subsidiaries
of Bank Holding Companies (FR Y-11Q).

We have also enclosed the optional worksheets to compute
risk-based capital ratios for the consolidated bank holding
company.

These report forms and instructions have been reissued in
their entirety. Supplemental instructions concerning
accounting, reporting, and regulatory capital issues
affecting the FR Y-9C report are included in Attachment I.
The revisions to the
FR Y9C, FR Y-9LP, and FR Y-11Q report
forms and instructions are summarized in Attachment II.

Reports Submission

An original and two copies (one-sided) of each completed bank holding company report must be returned to this bank by mail or messenger by the dates listed below. Under the Regulatory Reports Monitoring Program, the timeliness of receipt of these reports will be monitored. Earlier submission would aid this Bank in reviewing and processing the reports and is encouraged.

The submission deadline for the FR Y-9C and FR Y-9LP reports is Monday, May 17, 1999. Any FR Y-9C or FR Y-9LP report received after 5:00 p.m. on May 17 will be considered late unless postmarked by Friday, May 14 or sent by overnight service by Sunday, May 16.

The submission deadline for the FR Y-11Q is Tuesday, June 1, 1999. Any FR Y-11Q reports received later than 5:00 p.m. on June 1 will be considered late unless postmarked by Saturday, May 29 or sent by overnight service by Monday, May 31.

Submission of initial data via facsimile, even if prior to this deadline, does not constitute timely filing. In view of this, please be sure that completed reports are submitted on time to:

**Federal Reserve Bank of New York
Statistics Function
Administrative Support Staff
33 Liberty Street, 4th floor
New York, N.Y. 10045**

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

Electronic Submission Option

This Bank offers bank holding companies the option of submitting their FR Y-9C, FR Y-9LP, and FR Y-11Q reports electronically. Any bank holding company interested in submitting these reports electronically should contact Carrie Mitchell, at (212) 720-8027 for information concerning the procedure for electronic transmission. Bank

holding companies choosing to submit these reports electronically must maintain in their files a manually signed and attested printout of the data submitted. The cover page of the Reserve Bank supplied report forms should be used to fulfill the signature and attestation requirement and this page should be attached to the printout placed in the bank holding company=s files.

Website

Report forms and instructions for the FR Y-9C, FR Y-9LP, and FR Y-11Q can also be obtained from the Federal Reserve Board of Governors internet website at the following address: www.federalreserve.gov/boarddocs/reportforms.

Questions regarding these reports should be directed to Ms. Mitchell at (212) 720-8027 or Meredith Miske, Team Leader in the Regulatory Reports Division at (212) 720-1409.

Sincerely,

Signed by Kenneth P. Lamar

Kenneth P. Lamar
Assistant Vice President
Financial Reports Department

ATTACHMENT 1

Supplemental Instructions:

Mortgage and Nonmortgage Servicing Assets

On August 10, 1998, the Federal Reserve along with the other banking 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 includable in 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). This final rule also applies a further sublimit 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. As a result, bank holding companies may recognize NMSAs in accordance with the provisions of the final rule when computing regulatory capital. Because of this change in the regulatory capital treatment of NMSAs, the reporting of these assets in Schedule HC - Consolidated Balance Sheet, has been changed as of March 31, 1999. NMSAs should now be reported in Schedule HC in revised item 10(b)(1), "Purchased credit card relationships and nonmortgage servicing assets." Previously, NMSAs were reported as part of "All other identifiable intangible assets" in Schedule HC, line item 10(b)(2). In addition, Part 1, Memorandum item 7 of Schedule HC-I - Risk-Based Capital, has been revised to report the "Fair value of purchased credit card relationships and nonmortgage servicing assets."

Capital Treatment of Unrealized Holding Gains on Certain Equity Securities

On August 26, 1998, the Federal Reserve along with the other banking agencies announced a final rule amending the capital treatment of unrealized holding gains on certain equity securities.

The final rule permits bank holding companies to include in supplementary (Tier 2) capital up to 45 percent of the pretax net unrealized holding gains (that is, the excess, if any, of fair value over historical cost) on available-for-sale equity securities with readily determinable fair values. This is an optional designation for bank holding companies. However, if an institution 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 for calculating all of its capital ratios. A new item has been added to Schedule HC-A - Securities, for bank holding companies that choose to include an amount under this option. Memorandum line item 4(c), "Amount of net unrealized holding gains on available-for-sale equity securities (included in Tier 2 and total capital ratios)," has been added.

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, bank holding companies 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 "fair value hedge," a "cash flow hedge," or a hedge of a foreign currency exposure of a net investment in a foreign operation. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation.

Statement No. 133 is effective for all quarters of fiscal years beginning after June 15, 1999. Statement No. 133 contains further guidance on the initial application of this accounting standard. Piecemeal adoption of Statement No. 133 is not permitted. Bank holding companies must adopt Statement No. 133 for FR Y-9C report purposes upon its effective date. Early application is permitted in the FR Y-9C report in accordance with the transition guidance in Statement No.

133. Bank holding companies are encouraged to consult with their outside accountants as they plan to implement this new standard.

The Federal Reserve has revised the FR Y-9C in 1999 in response to Statement No. 133. Bank holding companies 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 HC) in new item 27(f). The year-to-date change in these accumulated net gains (losses) on cash flow hedges should be reported in the changes in equity capital schedule (Schedule HI-A) in new item 13(b). In addition, any transaction adjustments at the date of initial application of Statement No. 133 that must be reported as a cumulative-effect-type adjustment of net income should be included in the income statement (Schedule HI) in line item 12, "Extraordinary items, net of applicable income taxes and minority interest," and disclosed separately in memorandum item 8(a)(1), "Extraordinary items and other adjustments," with the applicable income tax effect reported in memorandum item 8(a)(2). Memorandum item 8(a)(1) has been specifically designated for reporting the income statement effect of adopting Statement No. 133.

The transition provisions of Statement No. 133 provide that at the date of initial application, a bank holding company may transfer any debt security categorized as held-to-maturity into the available-for-sale category or the trading category without calling into question the bank holding company's intent to hold other debt securities to maturity in the future. The transition provisions further require that the unrealized gain (loss) on a transferred held-to-maturity debt security be reported as part of the cumulative-effect-type adjustment of net income if transferred to the trading category or as part of the adjustment to the change in net unrealized holding gains (losses) on available-for-sale securities if transferred to the available-for-sale category. Any security transferred from the held-to-maturity category as of the date of adoption of Statement No. 133 and sold in the same fiscal quarter should have been transferred to the trading category, not the available-for-sale category. Thus, any unrealized gain (loss) on the security that exists on the date of transfer would be reported in the FR Y-9C report income statement in Schedule HI, item 12, "Extraordinary items, net of applicable taxes and minority interest," and

would not be included in the gain (loss) on the sale of the security in Schedule HI, item 6.b, "Realized gains (losses) on available-for-sale securities."

The banking agencies have issued interim regulatory capital guidance for FASB Statement No. 133. We have enclosed a copy of this guidance for your information.

AICPA Statements of Position 98-1 and 98-5

The American Institute of Certified Public Accountants (AICPA) has recently issued Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, and SOP 98-5, Reporting on the Costs of Start-Up Activities.

SOP 98-1 provides guidance on whether costs of internal-use software should be capitalized (and then amortized) or expensed as incurred. Internal-use software has the following characteristics: (a) the software is acquired, internally developed, or modified solely to meet the entity's internal needs, and (b) during the software's development or modification, no substantive plan exists or is being developed to market the software externally.

SOP 98-5 requires costs of start-up activities and organization costs to be expensed as incurred. SOP 98-5 defines start-up activities broadly as "those one-time activities related to opening a new facility, introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer or beneficiary, initiating a new process in an existing facility, or commencing some new operation."

Both of these SOPs are effective for financial statements for fiscal years beginning after December 15, 1998, with earlier application encouraged. For FR Y-9C report purposes, bank holding companies must adopt these two SOPs upon their effective date. Glossary entries in the FR Y-9C instruction book and other instructions affected by these SOPs have been updated.

ATTACHMENT 2

Significant Revisions to the FR Y-9C for March 1999:

General Instructions:

Revised the listing of report items for which negative entries can be made.

Schedule HC - Balance Sheet:

The caption for line 10(b)(1) was changed to "Purchased credit card relationships and nonmortgage servicing assets" as a result of amended capital standards regarding the regulatory capital treatment for servicing assets. Nonmortgage servicing assets should no longer be reported in "All other identifiable intangible assets" (Line 10(b)(2)).

Revised the instructions for "All other identifiable intangible assets" (Line 10(b)(2)) to exclude organization costs. Organization costs should be expensed as incurred in accordance with AICPA SOP 98-5, Reporting on the Costs of Start-Up Activities.

Revised the instructions for "Goodwill" (Line 10(c)).

Revised the instructions for "Other assets" (Line 11) and "Other liabilities" (Line 23) to include the fair value of derivatives held for purposes other than trading for bank holding companies adopting FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities.

A new item, "Accumulated net gains (losses) on cash flow hedges" (Line 27(f)) was added as a new component of equity capital in accordance with the disclosure requirements of FASB Statement No. 133.

Schedule HC-A - Securities:

A new item, "Amount of net unrealized holding gains on available-for-sale equity securities (included in Tier 2 and total capital ratios)" (Line M4(c)), was added allowing 45 percent of the pretax net unrealized holding gains on available-for-sale equity securities with readily determinable fair values in supplemental (Tier 2) and total capital ratios.

(2) Eliminated the reporting requirement for "High-risk mortgage securities" (Line M5).

Schedule HC-E - Quarterly Averages:

Revised the instructions for "Equity capital (excludes limited-life preferred stock)" (Line 11) to exclude the accumulated net gains (losses) on cash flow hedges when calculating average equity capital.

Schedule HC-I - Risk-Based Capital:

Eliminated the reporting requirements of "Purchased credit card relationships: Discounted value" (Part I, Line M7(a)).

Revised the reporting for "Purchased credit card relationships: Fair market value" (Part I, Line M7(b)) to and include the reporting of the "Fair value of purchased credit card relationships and nonmortgage servicing assets" (Line M7) resulting from amended capital standards regarding the regulatory capital treatment of servicing assets.

Revised the instructions to "Assets sold with recourse" (Part II, Line 4) to clarify the reporting for low level recourse transactions when using either the "direct reduction method" or the "gross-up method".

Notes to the Balance Sheet:

Expanded the number of footnotes that can be used from 5 to 20 and repaginated the FR Y-9C report from this point forward.

Schedule HI - Income Statement:

Revised the general instructions regarding the reporting of income and expenses relating to "start-up activities."

(2) "Hard-coded" Memorandum item 8(a)(1), "Extraordinary items and other adjustments (from Schedule HI, item 12)" to disclose the income effect of adopting FASB Statement No. 133.

Schedule HI-A - Changes in Equity Capital:

Renumbered existing Line 13, "Change in net unrealized holding gains (losses) on available-for-sale securities," to Line 13(a) and added Line 13(b), "Change in accumulated net gains (losses) on cash flow hedges," as part of the disclosure requirements of FASB Statement No. 133.

(2) Revised the instructions to "Other adjustments to equity capital" (Line 17) for the reporting of "start-up activities." Bank holding companies open since January 1 should report opening (original) equity in this item. In addition, the net amount of pre-opening income and expenses for the period of the bank holding company's inception until the beginning of the calendar year in which it commenced operations may be reported in this line.

Notes to the Income Statement:

Expanded the number of footnotes that can be used by bank holding companies from 5 to 20.

Glossary:

Revisions to existing glossary entries for "Allowance for Loan and Lease Losses," "Goodwill," and "Servicing Assets and Liabilities" were made to clarify reporting requirements for these items under U.S. GAAP.

New glossary entries were added for "Internal-Use Computer Software" (replaces the entry for "Internally Developed Computer Software") and "Start-Up Activities" as a result of the new AICPA SOPs.

Optional Risk-Based Capital Worksheets:

Revisions to the worksheets relating to nonmortgage servicing assets, and the option to include in Tier 2 and total capital up to 45 percent of the net unrealized holding gains on available-for-sale equity securities with readily determinable fair values were made. Also excluded from equity capital the "accumulated net gains (losses) on cash flow hedges" in accordance with the interim capital guidance regarding FASB Statement No. 133.

Significant Revisions to the FR Y-9LP for March 1999:

General Instructions:

Revised the listing of report items for which negative entries can be made.

Schedule PC - Parent Company Only Balance Sheet:

Revised the instructions for "Other identifiable intangibles" (Line 7(b)) to exclude organization costs. Organization costs should be expensed as incurred in accordance with AICPA SOP 98-5, Reporting on the Costs of Start-Up Activities.

Revised the instructions for "Other identifiable intangibles" (Line 7(b)) to include the reporting of servicing assets other than mortgage servicing assets for FR Y-9LP purposes only.

A new item, "Accumulated net gains (losses) on cash flow hedges," (Line 20(f)) was added as new component of equity capital in accordance with the disclosure requirements of FASB Statement No. 133.

Schedule PC-A - Investments in Subsidiaries and Associated Companies:

Revised the instructions for "Other identifiable intangibles" (Lines 1(a)(2)(b), 2(a)(2)(b), and 3(a)(2)(b)) to exclude organization costs. Organization costs should be

expensed as incurred in accordance with AICPA SOP 98-5, Reporting on the Costs of Start-Up Activities.

Significant Revisions to the FR Y-11Q for March 1999:

Balance Sheet:

Revised the instructions for "Other identifiable intangibles" (Line 9(b)) to exclude organization cost. Organization costs should be expensed as incurred in accordance with AICPA SOP 98-5, Reporting on the Costs of Start-Up Activities.

Revised the instructions for "All other assets" (Line 10) and "All other liabilities" (Line 17) to include the fair value of all derivatives held for purposes other than trading as required by FASB Statement No.133.

A new item, "Accumulated net gains (losses) on cash flow hedges" (Line 20f) was added as a new component of equity in accordance with the disclosure requirements of FASB Statement No.133. Also, balance sheet items 20.f through 20.h were renumbered.

Changes in Equity:

(1) Revised "Other adjustments" (Line 6) to include change in accumulated net gains (losses) on cash flow hedges due to the disclosure requirements of FASB Statement No. 133.

Notes to the Financial Statements:

(1) Added a section "Notes to the Quarterly Financial Statements of Nonbank Subsidiaries of Bank Holding Companies," to allow bank holding companies the opportunity to provide additional explanations of the content of specific items in the nonbank subsidiary's financial statements.

Checklist:

(1) Revised the following edits (based on FRS EDCK numbers): 110, 120, and 375.