FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-5000

July 1, 2002

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 Reporting Requirements for June 30, 2002

Enclosed are two copies of the following report forms and instructions for the June 30, 2002 reporting date:

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

(4) Consolidated Bank Holding Company Report of Equity Investments in Nonfinancial Companies (FR Y-12).

There are no revision to the FR Y-9LP, FR Y-11Q and FR Y-12 for this quarter.

FR Y-9C Instructions

Instructional clarifications were made to conform with changes made to the commercial bank Call Report instructions (FFIEC 031/041). Such changes include the clarification of the following: the reporting of trust preferred securities (Schedule HC-B, item 6, and Glossary entry for Trust Preferred Securities); the risk weighting of claims of qualifying securities firms (Schedule HC-R); the reporting of nonfinancial equity investments in regulatory capital

(Schedule HC-R); and a revised Glossary entry for Sales of Assets for Risk-Based Capital Purposes. In addition other corrections and clarifications were made to the reporting instructions. The more significant changes include clarifications in the reporting of income tax benefits versus income tax expense (Schedule HI, item 8) and clarifying that the reporting of net assets of insurance underwriting subsidiaries only applies to newly authorized underwriting activities permitted under the Gramm-Leach-Bliley Act (Schedule HC-M, item 21).

Final Rule on Recourse and Direct Credit Substitutes

On November 29, 2001, the Federal Reserve published a final rule revising the regulatory capital treatment of recourse arrangements and direct credit substitutes, including residual interests, credit-enhancing interest-only strips, asset-backed and mortgage-backed securities. This final rule took effect on January 1, 2002. Any transactions settled on or after that date are subject to the rule. However, for transactions settled before January 1, 2002 that result in increased capital requirements under the final rule, bank holding companies may delay the application of the final rule to those transactions until December 31, 2002. The instructions were revised for Schedule HC-R, Regulatory Capital, incorporating the provisions of the final rule.

FASB Statements 141 and 142

In July 2001, the FASB issued Statement No. 141, *Business Combinations*, and Statement No. 142, *Goodwill and Other Intangible Assets*. Statement No. 141 supersedes the previous accounting standard on business combinations (i.e., mergers and acquisitions), Accounting Principles Board (APB) Opinion No. 16, and requires that all business combinations initiated after June 30, 2001, (except for combinations between two or more mutual enterprises) be accounted for by the purchase method. The use of the pooling-of-interests method for those business combinations is prohibited.

Statement No. 141 also changes the requirements for recognizing intangible assets apart from goodwill in business combinations accounted for by the purchase method for acquisition after June 30, 2001. The statement specifically identifies core deposit intangibles as one type of intangible that must be recognized as an asset separate from goodwill.

Statement No. 142 supersedes the previous accounting standard on intangible assets, APB Opinion No. 17. This new standard addresses how intangible assets that are acquired individually or with a group of other assets (but not in a business combination) should be accounted for upon their acquisition. It also explains how goodwill and other intangible assets should be accounted for after they have been acquired.

Under Statement No. 142, goodwill acquired in a business combination after June 30, 2001 should not be amortized, but should be tested for impairment in accordance with the provisions of this accounting standard. Goodwill acquired in a business combination for which the acquisition date is before July 1, 2001 should continue to be amortized until an institution applies all of the provisions of Statement No. 142 in accordance with the effective date of the standard. Statement No. 142 is effective for fiscal years beginning after December 15, 2001. Bank holding companies must adopt FASB Statements No. 141 and 142 for FR Y-9C reporting purposes in accordance with the effective dates of these standards based on their fiscal years. For bank holding companies with a calendar year fiscal year, Statement No. 142 takes effect January 1, 2002.

This quarter's instruction book update includes a revised Glossary entry for "business combinations," revised instructions for Schedule HC "Goodwill" (item 10.a) and Schedule HC-M "Intangible assets other than goodwill" (item 12) and instructions for new Schedule HI "Goodwill impairment losses" (item 7.c (1)), all of which incorporate relevant provisions of these new standards.

Upon the adoption of Statement No. 142, bank holding companies should report any impairment losses on goodwill and other intangible assets that must be recognized as a result of the standard's required transitional impairment testing as the effect of a change in accounting principle. The effect of the accounting change and related income tax effects should be reported in the income statement, Schedule HI "Extraordinary items, net of applicable taxes and minority interest" (item 12) and disclosed in Schedule HI, Memoranda item 8.

For purposes of reporting in the FR Y-9LP report, goodwill that is recorded on the parent's books and not "pushed down" to the subsidiary or reporting unit level for accounting and reporting purposes should be *tested* for impairment at the appropriate reporting unit level as if the goodwill resides on the books of the reporting unit. Any goodwill impairment losses that result from performing the impairment test should be *recognized* on the parent's books for reporting purposes.

Although the accounting rules for goodwill and other intangible assets are changing, there has been no change in the regulatory capital treatment of these assets. The existing regulatory capital limits on servicing assets and purchased credit card relationships remain in effect, and goodwill and other intangible assets will continue to be deducted from capital and assets in determining a bank holding company's capital ratios.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The *Audit and Accounting Guide – Banks and Savings Institutions*, states that credit losses related to off-balance sheet financial instruments should be accrued and reported separately as liabilities "if the conditions of FASB Statement No. 5 are met." Consistent with this accounting guidance, the FR Y-9C instructions state (on Glossary page GL-3) that "each bank holding company should also maintain, as a separate liability account, an allowance sufficient to absorb estimated credit losses associated with off-balance sheet credit instruments." Off-balance sheet credit instruments include off-balance sheet loan commitments, standby letters of credit, and guarantees.

On the FR Y-9C, a bank holding company must report its allowance for credit losses on off-balance sheet credit exposures in Schedule HC-G "Other Liabilities" (item 3), *not* as part of its "Allowance for loan and lease losses" in Schedule HC, item 4.c. However, for risk-based capital purposes, the allowance for credit losses on off-balance sheet credit exposures is combined with the allowance for loan and lease losses and the total of these two allowances is included in Tier 2 capital up to a limit of 1.25 percent of a bank holding company's gross risk-weighted assets. For further information on the reporting of these allowances in Tier 2 capital, please refer to the instructions for FR Y-9C Schedule HC-R, item 14.

Investments in Trust Preferred Securities

Bank holding companies and their subsidiaries may invest in trust preferred securities. Trust preferred securities are hybrid instruments possessing characteristics typically associated with debt obligations. Although each issue of these securities may involve minor differences in terms, under the basic structure of trust preferred securities a corporate issuer, such as another bank holding company, first organizes a business trust or other special purpose entity. This trust issues two classes of securities: common securities (all of which are purchased and held by the corporate issuer) and trust preferred securities (which are sold to investors).

The trust’s only assets are deeply subordinated debentures of the corporate issuer, which the trust purchases with the proceeds from the sale of its common and preferred securities. The corporate issuer makes periodic interest payments on the subordinated debentures to the business trust, which uses these payments to pay periodic dividends on the trust preferred securities to the investors. The subordinated debentures have a stated maturity and may also be redeemed under other circumstances. Most trust preferred securities are subject to a mandatory redemption upon the repayment of the debentures.

Trust preferred securities meet the definition of a security in FASB Statement No. 115. Because of the mandatory redemption provision in the typical trust preferred securities, investments in trust preferred securities would normally be considered debt securities for financial reporting purposes. Accordingly, bank holding companies should report these investments as debt securities on the FR Y-9C (unless, based on the specific facts and circumstances of a particular issue of trust preferred securities, the securities would be considered equity rather than debt securities under Statement No. 115).

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, FR Y-9LP, and FR Y-12** is Wednesday, **August 14, 2002**. Any FR Y-9C, FR Y-9LP, or FR Y-12 reports received after 5:00 p.m. on August 14th will be considered late unless postmarked by Saturday, August 10th or sent by overnight service by Tuesday, August 13th.

The submission deadline for the **FR Y-11Q** is Thursday, **August 29, 2002**. Any FR Y-11Q report received after 5:00 p.m. August 29th will be considered late unless postmarked by Monday, August 26th or sent by overnight service by Wednesday, August 28th.

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

Edit Checklist

The staff of this Bank will monitor whether banking organizations are meeting their basic reporting requirements through the use of “validity edits”. Enclosed are the updates to the monitoring edits. Please note these updates to ensure your institution meets these edit tests. Also, to avoid common reporting errors, we are now providing a list of edit checks which we perform between the FR Y-9LP and FR Y-9C reports.

Electronic Submission Option

July 1, 2002

This Bank offers bank holding companies the option of submitting their FR Y-9C, FR Y-9LP, FR Y-11Q and FR Y-12 reports electronically. Any bank holding company interested in submitting these reports electronically should contact Carolyn Polite at (212) 720-5415 for information concerning the procedures for electronic transmission. Bank holding companies choosing to submit these reports electronically must maintain in their files a signed 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.

In addition, we now offer distribution of this letter, report forms, and instructions via e-mail. If you are interested in receiving this electronically, please fax the attached form to Erica Baker at (212) 720-7300.

Website

Report forms and instructions for the FR Y-9C, FR Y-9LP, FR Y-11Q and FR Y-12 are also 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 Dianne Dobbeck in the Policy and Analysis Department at (212) 720-2610.

Sincerely,

Signed by Kenneth P. Lamar

Kenneth P. Lamar
Assistant Vice President
Financial Reports Department