FEDERAL RESERVE BANK OF NEW YORK

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KENNETH LAMAR
VICE PRESIDENT

June 30, 2003

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, 2003

Enclosed are two copies of the following report forms and instructions for the June 30, 2003 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) Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11); and

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

There have been several updates and clarifications made to the FR Y-9C and FR Y-9LP reporting instructions. The reporting forms remain unchanged. Significant accounting updates and revisions to the instructions have been provided in this letter and in Attachment 1. There are no revisions to the FR Y-11 and FR Y-12 for this quarter.

Reports Submission

Effective with the June 30, 2003 report date, all FR Y-9C and FR Y-9LP filers are required to submit these reports electronically by the dates listed below. Bank holding companies submitting 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 requirements and this page should be attached to the printout placed in the bank holding company's files. For the FR Y-11 and FR Y-12, 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.

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 Thursday, August 14, 2003. Any FR Y-9C, FR Y-9LP, or FR Y-12 reports received after 5:00 p.m. on August 14 will be considered late unless postmarked by Monday, August 11 or sent by overnight service by Wednesday, August 13.

The submission deadline for the **FR Y-11** is Friday August 29, 2003. Any reports received after 5:00 p.m. on August 29 will be considered late unless postmarked by Tuesday, August 26 or sent by overnight service by Thursday, August 28.

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

June 30, 2003

FASB Statement No. 149 and Loan Commitments That Must Be Accounted for as Derivatives

FASB Statement No. 133 Implementation Issue No. C13 provides guidance on the circumstances in which a loan commitment must be accounted for as a derivative. This guidance applies to commitments issued before July 1, 2003. **Commitments issued after June 30, 2003, are addressed by FASB Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities.*** Bank holding companies must follow the guidance in Issue No. C13 and Statement No. 149 for FR Y-9 reporting purposes.

According to Issue No. C13, loan commitments that relate to the origination or purchase of mortgage loans that will be held for sale must be accounted for as derivative instruments in accordance with Statement No. 133. However, loan commitments that relate to the origination or purchase of mortgage loans that will be held for investment, i.e., loans for which the BHC or its subsidiaries has the intent and ability to hold for the fore-seeable future or until maturity or payoff, are not considered derivatives. In addition, commitments that relate to the origi-nation of other types of loans (that is, other than mortgage loans) are not considered derivatives.

FASB Statement No. 149 differs somewhat from Issue No. C13. Under Statement No. 149, loan commitments that relate to the origination of mortgage loans that will be held for sale must be accounted for as derivatives by the issuer of the commitment. Commitments to originate mortgage loans that will be held for investment purposes and other types of loans are not derivatives. However, for commitments to purchase or sell existing loans, the definition of a derivative in Statement No. 133 (see page GL-20 of the Glossary section of the FR Y-9C instructions) should be applied to these commitments to determine whether they meet this definition and are subject to the provisions of Statement No. 133.

Mortgage loan commitments that must be accounted for as derivatives are considered over-the-counter written interest rate options. Therefore, because they are derivatives, these commit-ments should not be reported as unused commitments in item 1 of Schedule HC-L, Derivative and Off-Balance Sheet Items.

Instead, mortgage loan commitments that are derivatives must be reported on the balance sheet (Schedule HC) at fair value. In addition, the par value of the mortgage loans to be acquired under these commitments must be reported in Schedule HC-L, item 11.d.(1), column A, and in Schedule HC-L, item 13, column A. The fair value of these mortgage loan commitments must be reported in the appropriate subitem of Schedule HC-L, item 14.b. As written options, mortgage loan commitments that are derivatives are not covered by the Federal Reserve's risk-based capital standards. However, if the fair value of these mortgage loan commitments is positive and therefore reported as an asset, this positive fair value is subject to the risk-based capital standards and must be risk weighted as an on-balance sheet asset.

The unused portion of loan commitments that are not derivatives should continue to be reported in Schedule HC-L, item 1. Unused commitments with an original maturity exceeding one year are subject to the risk-based capital standards and must be reported in Schedule HC-R, item 53.

FASB Interpretation No. 45

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This interpretation clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. Among the types of guarantee contracts to which the provisions of Interpretation No. 45 apply are:

- financial standby letters of credit, and
- performance standby letters of credit.

Commercial letters of credit and other loan commitments, and subordinated interests in securitizations, are not guarantees under Interpretation No. 45. BHCs should refer to Interpretation No. 45 for further information on the types of guarantee contracts to which the interpretation's initial recognition and measurement provisions do and do not apply.

For financial and performance standby letters of credit and other types of guarantees subject to the interpretation, when a BHC or its subsidiary issues the guarantee, it must recognize on its balance sheet a liability for that guarantee. In general, the initial measurement of the liability is the fair value of the guarantee at its inception. When a BHC or its subsidiary issues a guarantee in an arm's length transaction with a party outside the consolidated BHC, the liability recognized at the inception of the guarantee should be the premium or fee received or receivable by the guarantor. However, if the BHC or its subsidiary issues a guarantee for no consideration, the liability recognized at inception should be an estimate of the guarantee's fair value.

In the unusual circumstance where, at the inception of a guarantee, it is probable that a loss has been incurred and its amount can be reasonably estimated, the liability to be initially recognized for that guarantee should be the greater of the premium or fee received or receivable by the guarantor or the estimated loss from the loss contingency that must be accrued under FASB Statement No. 5, *Accounting for Contingencies*.

Interpretation No. 45 does not prescribe a specific account for the guarantor's offsetting entry when it recognizes the liability at the inception of a guarantee because that offsetting entry depends on the circumstances. If a BHC or its subsidiary issued a standby letter of credit or other guarantee in a standalone transaction for a premium or fee, the offsetting entry would reflect the consideration the BHC or its subsidiary received, such as cash, a receivable, or a reduction of a deposit liability. In contrast, if the BHC or its subsidiary received no consideration for issuing the guarantee, the offsetting entry would be to expense.

The interpretation does not describe in detail how a BHC's or its subsidiary's liability for its obligations under its guarantees should be measured subsequent to initial recognition. However, the accounting for fees received for issuing standby letters of credit has been, and should continue to be, governed by FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial*

Direct Costs of Leases. Under Statement No. 91, such fees are termed "commitment fees."

FASB Interpretation No. 46

The FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, in January 2003. This interpretation explains how to identify a "variable interest entity" ("VIE") (previously referred to as a "special purpose entity") and how an organization should assess its interests in a VIE to decide whether to consolidate that entity. VIEs often are created for a single specified purpose, for example, to facilitate securitiza-tion, leasing, hedging, research and development, and reinsurance. Most small BHCs are unlikely to have any "variable interests" in VIEs.

In general, a VIE is an entity in which either the controlling financial interests are not voting interests or the equity investors do not bear the entity's residual economic risks. A variable interest is a contractual or ownership interest in an entity that changes when the value of the entity's net assets changes. An organization that has a variable interest (or a combination of variable interests) that will absorb a majority of a VIE's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both, is the "primary beneficiary" of the variable interest entity and must consolidate it.

For FR Y-9C purposes, BHCs with variable interests in VIEs created after January 31, 2003, must apply the provisions of Interpretation No. 46 to those entities immediately. A BHC that is a public company and has a variable interest in a VIE created before February 1, 2003, must apply the provisions of Interpreta-tion No. 46 to that entity no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. A BHC that is not a public company but has a variable interest in a VIE created before February 15, 2003, must apply the provisions of Interpretation No. 46 to that entity no later than the end of the first annual reporting period beginning after June 15, 2003.

Stock-Based Employee Compensation

Bank holding companies should report stock-based employee compensation cost, net of related tax effects, as outlined in FASB Statement No. 123, *Accounting for Stock-Based Compensation* as amended by FASB Statement No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure* in Line 14. The amount reported in this item corresponds to the FASB requirements for interim disclosure.

For institutions that voluntarily adopt a fair value based method, the stock-based employee compensation cost, net of related tax effects, that would have been included in the determination of net income if the fair value based method had been applied to all awards, in conformity with FASB Statement No. 123 as amended by FASB Statement No. 148 is reported in Line 15. This amount corresponds to the FASB requirements for interim disclosure. If the fair value method has not been adopted, respondents should report zero in this item. The term “all awards” refers to awards granted, modified, or settled in fiscal periods beginning after December 15, 1994.

Accelerated Filing Deadline

The Board approved the acceleration of the filing deadline for top-tier FR Y-9C filers and will follow the SEC’s phased-in approach by implementing a 40-day deadline in June 2004 and a 35-day deadline in June 2005. The new filing deadlines apply for the March, June, and September report dates. The December filing deadline for top-tier FR Y-9C filers will remain at 45 days after the report date.

The 35-day deadline is defined as “5 business days after the 30th day after the report date” to allow time for integration of bank data in the event that the 30th day falls on a weekend.

The FR Y-9LP, FR Y-9SP, FR Y-9ES and all lower-tier BHCs that file the FR Y-9C are not subject to the accelerated deadline. The deadline for these reports will remain at 45 days after the report date.

June 30, 2003

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

This Bank offers bank holding companies the option of submitting their FR Y-11 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 Hilda Hyman at (212) 720-2364.

Website

Report forms and instructions for the FR Y-9C, FR Y-9LP, FR Y-11 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
Vice President
Financial Reports Department

Enclosures

ATTACHMENT 1

FR Y-9C Instruction Changes for June 2003

1. The General Instructions section was revised to reflect required electronic filing.

2. Schedule HI, item M14 was revised to clarify that employee stock options expensed, whether calculated using the intrinsic value method or fair value method should be included.

3. Schedule HI-A, item 14 was revised to clarify that opening equity capital for bank holding companies opened since January 1 of the year-to-date reporting period should be reported in Schedule HI-A, item 1.

4. The General Instructions for Schedule HC-E was revised to clarify that nonrefundable stock subscription payments should be reported as other liabilities.

5. A footnote was added to Schedule HC-S to provide guidance regarding interest-only strips receivable not in the form of a security.

6. The General Instructions for Schedule HC-S was revised to include a reference to interest-only strips as credit-enhancing interest-only strips.

7. Guidance was added to Schedule HC-S, item 6(a) regarding interest-only strips receivable not in the form of a security.

8. The Glossary entry for "Premiums and Discounts" was revised to clarify the reporting of the amortization of premiums and accretion of discounts.

FR Y-9LP Instruction Changes for June 2003

The General Instructions section was reorganized into four main topics: Who Must Report, Where to Submit the Reports, When to Submit the Reports, and How to Prepare the Reports. Existing language was also modified to reflect required electronic filing.