FEDERAL RESERVE BANK OF NEW YORK

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KENNETH LAMAR
VICE PRESIDENT

June 30, 2004

To: The Chief Executive Officer of Each U.S. Branch and Agency of a Foreign Bank Located in the Second Federal Reserve District

Enclosed are copies of forms for the following reports for the quarter ending June 30, 2004:

- Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002);
- Supplemental Report of Assets and Liabilities of a Non-U.S. Branch that is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank (FFIEC 002S); and
- The Country Exposure Report for U.S. Branches and Agencies of Foreign Banks (FFIEC 019).

There are no changes to the FFIEC 002, 002S or 019 reporting forms or instructions for June 30, 2004 report date. However, there is Supplemental Guidance for the FFIEC 002 addressing the reporting treatment of the Financial Accounting Standards Board Interpretations No. 46, EITF Issue No. 03-1, and AICPA Statement of Position 03-3.

Accounting Issues

FASB Interpretation No. 46

The FASB issued Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities,* in December 2003. Revised interpretation No. 46 replaces interpretation No. 46, which was issued 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 securitization, leasing, hedging, research and development, and reinsurance.

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 FFIEC 002 purposes, U.S. branches and agencies with variable interests in VIEs must apply the provisions of Interpretation No. 46 (Revised) to those entities in accordance with the interpretation's effective date and transition provisions, a summary of which follows. (This applies only to VIEs of the U.S. branch or agency and not to the VIEs of the parent bank or any of the parent bank’s other offices).

Special provisions of the revised interpretation apply to organizations that have fully or partially applied Interpretation No. 46 prior to the issuance of the revision. Otherwise, application of the revised interpretation (or Interpretation No. 46) was required of U.S. branches or agencies whose parents are U.S. public companies that have interests in VIEs or potential VIEs commonly referred to as special-purpose entities beginning December 31, 2003. Application of Interpretation No. 46 (Revised) by U.S. branches or agencies whose parents are U.S. public companies, for all other types of variable interest entities is required beginning March 31, 2004. Application of Interpretation No. 46 (Revised) for a U.S. branch or agency whose parent is not a U.S. public company is required immediately for VIEs created after December 31, 2003, and for all other VIEs at the beginning of the first fiscal year beginning after December 15, 2004.

Reporting Asset-Backed Commercial Conduits

U.S. branches or agencies must report data on credit enhancements and liquidity facilities provided to asset-backed commercial paper conduits regardless of their accounting treatment for the conduit on Memorandum item 1 of Schedule S, Servicing, Securitization, and Asset Sale Activities. Thus, whether or not a U.S. branch or agency must consolidate the conduit for reporting purposes in accordance with FASB Interpretation No. 46, the U.S. branch or agency must report its maximum credit exposure arising from and its unused commitments to conduit structures in Memorandum items 1.a and 1.b, respectively on Schedule S.

For those asset-backed commercial paper programs that a U.S. branch or agency consolidates, any credit enhancements and liquidity facilities the bank provides to the conduit should not be reported in Schedule L, Derivatives, and Off-Balance Sheet Items. In contrast, for programs that are not consolidated, the bank should report the credit enhancements and liquidity facilities it provides to the programs in the appropriate items of Schedule L.

EITF Issue No. 03-1 on Other-Than-Temporary Impairment

In March 2004, the FASB ratified the consensus reached by its Emerging Issues Task Force (EITF) on EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. The EITF's consensus applies to debt and equity securities accounted for under FASB Statement No. 115, i.e., held-to-maturity securities and available-for-sale securities, and to equity securities that do not have readily determinable fair values that are accounted for at cost. The consensus establishes a three-step process for determining when an investment is impaired, whether that impairment is other than temporary, and how to measure the impairment loss if the impairment is deemed to be other than temporary. This process is to be applied to individual securities. An individual security is considered impaired if its fair value is less than its cost. If, upon evaluation, the impairment of an individual security is determined to be other than temporary (which does not mean permanent), an impairment loss must be recognized in earnings for the difference between the security's cost and its fair value.

The recognition and measurement guidance in EITF Issue No. 03-1 should be applied in reporting periods beginning after June 15, 2004. U.S. branches and agencies must follow this guidance in their quarterly FFIEC 002 report beginning with the reports for September 30, 2004.

AICPA Statement of Position 03-3 on Purchased Loans

In December 2003, the AICPA issued Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. In general, this Statement of Position (SOP) applies to purchased impaired loans, i.e., loans that a banking organization has purchased, including those acquired in a purchase business combination, when there is evidence of deterioration of credit quality since the origination of the loan and it is probable, at the purchase date, that the branch or agency will be unable to collect all contractually required payments receivable. The SOP does not apply to the loans that a branch or agency has originated.

Under this SOP, a purchased impaired loan is initially recorded at its purchase price (in a purchase business combination, the present value of amounts to be received). The SOP limits the yield that may be accreted on the loan (the accretable yield) to the excess of the branch or agency's estimate of the undiscounted principal, interest, and other cash flows expected at acquisition to be collected on the loan over the banking organization's initial investment in the loan. The excess of contractually required cash flows over the cash flows expected to be collected on the loan, which is referred to as the nonaccretable difference, must not be recognized as an adjustment of yield, loss accrual, or valuation allowance. Neither the accretable yield nor the nonaccretable difference may be shown on the balance sheet. After acquisition, increases in the cash flows expected to be collected generally should be recognized prospectively as an adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as an impairment.

The SOP prohibits "carrying over" or creating valuation allowances in the initial accounting for purchased impaired loans. This prohibition applies to the purchase of an individual impaired loan, a pool or group of impaired loans, and impaired loans acquired in a purchase business combination.

The SOP applies to loans acquired in fiscal years beginning after December 15, 2004, with early adoption permitted. U.S. branches or agencies must follow this SOP for FFIEC 002 reporting purposes in accordance with its effective date based on their fiscal years.

Reports Monitoring

Please note that, under the Regulatory Reports Monitoring Program, the timeliness of receipt of each of these reports will be monitored. Submission of initial data via facsimile, even if prior to the deadline, does not constitute timely filing.

An original and one copy of the completed FFIEC 002 and FFIEC 002S report(s) (if applicable) must be returned to this Bank, by mail or messenger, no later than July 30, 2004. Any FFIEC 002/002S report received after 5:00 p.m. on July 30, 2004 will be considered late unless postmarked by July 28 or sent by overnight service by July 29.

An original and one copy of the completed FFIEC 019 must be returned to this Bank, by mail or messenger by Monday, August 16, 2004. Any FFIEC 019 received after 5:00 p.m. on August 16 will be considered late unless postmarked by August 15 or sent by overnight service by August 16. Completed reports should be submitted to:

Federal Reserve Bank of New York
Statistics Function
33 Liberty Street, 4th Floor
New York, NY 10045

We will also continue to monitor the accuracy of the periodic regulatory reports submitted for the June 30, 2004 report date. The staff of this Reserve Bank will monitor whether banking organizations are meeting their basic reporting requirements through the use of "validity edits." The current edits for the FFIEC 002/002S and FFIEC 019 reports that are subject to monitoring are also enclosed.

Electronic Submission Option

Electronic submission of the FFIEC 002/002S reports is available to all U.S. branches and agencies. We encourage you to take advantage of this method of reporting submission.

Vendors have developed a software package that provides the means to submit the FFIEC 002/002S electronically. Submitting reports electronically using the software package provides the following key benefits:

- A timely and efficient alternative to sending the report forms by mail;
- Data are checked automatically for miscalculated totals and blank fields; and
- A printed report is generated that can serve as your institution's permanent record of the report.

For information on filing the FFIEC 002/002S report electronically, please contact Carolyn Polite at (212) 720-5415.

Website

The FFIEC 002/002S and the FFIEC 019 forms and instructions are available on the FFIEC web site at http://www.ffiec.gov/ffiec_report_forms.htm.

Questions regarding the FFIEC 002, FFIEC 002S & FFIEC 019 reports should be directed to Brian Goodwin at (212) 720-8316, Doug Herold at (212) 720-8591 or Peter Drake, Team Leader in the Regulatory Reports Division at (212) 720-2695.

Sincerely,

-Signed by Kenneth Lamar-

Kenneth P. Lamar
Vice President
Financial Reports Department