FEDERAL RESERVE BANK OF NEW YORK

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KENNETH LAMAR
VICE PRESIDENT

June 30, 2006

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 (BHC) Reporting Requirements for June 30, 2006

The following report forms and instructions for the June 30, 2006 reporting date have been posted to the Federal Reserve Board's website at www.federalreserve.gov under "Reporting Forms":

(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);

(4) Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314); and

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

A number of clarifications have been made to the FR Y-9C reporting form and the FR Y-9C and FR Y-9LP reporting instructions. Minor clarifications have also been made to the FR Y-11 and FR 2314 reporting form and instructions. There have been no changes to the FR Y-12 report for this quarter.

Significant accounting updates have been provided in this letter and in the attachment.

New Subscription Service

We are offering a subscription service which enables you to receive recent news and updates on our reporting forms and instructions and upcoming events. You can sign up for this new service at the following website: http://service.govdelivery.com/service/subscribe.html?code=USFRBNEWYORK_8

Reports Submission

All FR Y-9C and FR Y-9LP filers are required to submit electronically. A signed and attested printout of the data submitted must be maintained in the BHCs files. The cover page of the Reserve Bank supplied report forms should be used to fulfill the signature and attestation requirements and should be attached to the printout placed in the BHCs files. For the FR Y-11, FR 2314 and FR Y-12 reports that are not submitted electronically, 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.

The Federal Reserve continues to monitor the timeliness of receipt of these reports. Earlier submission would aid this Bank in reviewing and processing the reports and is encouraged.

The submission deadline for the all FR Y-9C filers is Wednesday, August 9, 2006. Any FR Y-9C report received after 5:00 p.m. on August 9 will be considered late. The submission deadline for all FR Y-9LP filers is Monday, August 14, 2006. Any FR Y-9LP report received after 5:00 p.m. on August 14 will be considered late. The submission deadline for the FR Y-12 is Monday, August 14, 2006. Any FR Y-12 reports received after 5:00 p.m. on August 14 will be considered late unless postmarked by Saturday, August 12 or sent by overnight service on Sunday, August 13. The submission deadline for the FR Y-11 and FR 2314 is Tuesday, August 29, 2006. Any FR Y-11 and FR 2314 reports received after 5:00 p.m. on August 29 will be considered late unless postmarked by Saturday, August 25 or sent by overnight service on Monday, August 28.

Submission of initial data via facsimile, even if prior to this deadline does not constitute an official 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

Editing of Data by Respondents

All BHCs must submit their FR Y-9 reports via the Federal Reserve's internet submission facility (IESUB), using either data entry or file transfer. This data collection system will subject a BHC's electronic data submission to the published validity and quality edit checks and transmit the results of such checks to the BHC shortly thereafter. The BHC must resolve any validity edit before the data can be accepted. The BHC will also be provided a method for supplying explanations for quality edits. (Guidelines for providing quality explanations can be found at www.reportingandreserves.org). These explanations will be held confidential. Reports that contain validity edit failures or have quality edit failures that are not explained on or before the filing deadline will be deemed late.

Companies that offer computer software to aid in the preparation of FR Y-9 reports or BHCs that have developed their own reporting software may choose to incorporate validity and quality edit checks into their software.

The Federal Reserve will continue to provide updates about the enhanced IESUB submission process on the web site: www.reportingandreserves.org under the heading BHC Modernization project.

FASB Statement No. 156 on Servicing

FASB Statement No. 156, Accounting for Servicing of Financial Assets (FAS 156), issued in March 2006, requires all separately recognized servicing assets and liabilities to be initially measured at fair value. It then permits an entity to choose to subsequently measure each class of servicing assets and liabilities at fair value with changes in fair value recognized in earnings. If fair value is not elected, each class of servicing is subsequently accounted for using the amortization method that applied to all servicing assets and liabilities prior to the issuance of FAS 156. An entity identifies its classes of servicing assets and liabilities based on the availability of market inputs for estimating their fair value, its method for managing the risks of its servicing assets and liabilities, or both. An entity's election of the fair value option for a class of servicing is irreversible. The election can be made for an individual class of servicing assets and liabilities upon adoption of FAS 156 or at the beginning of any subsequent fiscal year.

Bank holding companies must adopt FAS 156 for FR Y-9 series reporting purposes as of the beginning of their first fiscal year that begins after September 15, 2006. Earlier adoption of FAS 156 is permitted as of the beginning of an earlier fiscal year, provided the BHC has not yet issued a financial statement or filed a FR Y-9 report for any period of that fiscal year. Thus, a BHC with a calendar year fiscal year must adopt FAS 156 as of January 1, 2007, unless it elected earlier adoption and applied FAS 156 in its originally filed March 31, 2006 FR Y-9C/ FR Y-9LP.

When reporting the carrying amount of mortgage servicing assets (FR Y-9C: Schedule HC-M, item 12.a; FR Y-9LP: Schedule PC, item 7.b;) and nonmortgage servicing assets in FR Y-9C Schedule HC-M, item 12.b, BHCs should include all classes of servicing accounted for under the amortization method as well as all classes of servicing accounted for at fair value. The fair value of all recognized mortgage servicing assets should be reported in FR Y-9C Schedule HC-M, item 12.a.(1), regardless of the measurement method applied to these assets. The servicing asset carrying amounts reported in Schedule HC-M, items 12.a and 12.b, even if these amounts include fair values, should be used when determining the lesser of 90 percent of the fair value of these assets and 100 percent of their carrying amount for regulatory capital calculation purposes in Schedule HC-R. Changes in the fair value of any class of servicing assets to which the fair value option is applied should be included in earnings in Schedule HI, item 5.f, "Net servicing fees."

FASB Statement No. 155 on Hybrid Financial Instruments

FASB Statement No. 155, Accounting for Certain Hybrid Financial Instruments (FAS 155), issued in February 2006, requires bifurcation of certain derivatives embedded in interests in securitized financial assets and permits fair value measurement (i.e., a fair value option) for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation under FASB Statement No. 133 (FAS 133) on derivatives. Bifurcation is required when the economic characteristics and risks of the embedded derivative are not clearly and closely related economically to the economic characteristics and risks of the host contract and certain other conditions are met. Under the fair value option in FAS 155, a BHC may irrevocably elect to initially and subsequently measure an eligible hybrid financial instrument in its entirety at fair value, with changes in fair value recognized in earnings. The election can be made on an instrument-by-instrument basis, but must be supported by appropriate documentation. In addition, FAS 155 clarifies which interest-only and principal-only strips are not subject to FAS 133.

For FR Y-9 reporting purposes, FAS 155 must be applied to all financial instruments acquired, issued, or subject to a remeasurement event (as defined in the standard) occurring after the beginning of a BHC's first fiscal year that begins after September 15, 2006. The fair value option may also be applied upon adoption of FAS 155 to a BHC's existing hybrid financial instruments that had been bifurcated prior to adoption. Earlier adoption of FAS 155 is permitted as of the beginning of an earlier fiscal year, provided the BHC has not yet issued a financial statement or filed a FR Y-9 series report for any period of that fiscal year. Thus, a BHC with a calendar year fiscal year must adopt FAS 155 as of January 1, 2007, unless it elected earlier adoption and applied FAS 155 in its originally filed March 31, 2006 FR Y-9C/FR Y-9LP report.

Following a BHC's adoption of FAS 155, hybrid financial instruments to which the fair value option has been applied should not be reclassified as trading assets or trading liabilities for FR Y-9 reporting purposes solely due to the election of this option. Such hybrid financial instruments should continue to be reported in the asset or liability category appropriate to the instrument. If a hybrid financial instrument to which the fair value option has been applied is a security, it should be included in available-for-sale securities on the balance sheet (FR Y-9C: Schedule HC, item 2.b; FR Y-9LP: Schedule PC, item 2) and the security's fair value should be reported in (FR Y-9C: columns C and D of Schedule HC-B, Securities; FR Y-9LP: Schedule PC-B, item 11.a). Changes in the fair value of hybrid financial instruments to which the fair value option is applied should be reported consistently in the income statement either as "Other noninterest income" (FR Y-9C: Schedule HI, item 5.l; FR Y-9LP: Schedule PI, item 1.e) or "Other noninterest expense" (FR Y-9C: Schedule HI, item 7.d; FR Y-9LP: Schedule PI, item 2.d).

The Federal Reserve is currently reviewing the regulatory capital implications of FAS 155, and more broadly, the use of the fair value option. In the interim, for a hybrid financial instrument to which the fair value option is applied that is an asset, the embedded derivative should not be bifurcated from the host contract for risk-based capital purposes in FR Y-9C Schedule HC-R. For a hybrid financial instrument to which the fair value option is applied that is a liability, a BHC should exclude the portion of the change in the fair value of the instrument that is attributable to a change in the BHC's own creditworthiness from Tier 1 capital in Schedule HC-R, item 10.

Reporting Securities Borrowing and Lending Transactions on the Balance Sheet

Bank holding companies are permitted to offset assets and liabilities in the FR Y-9C balance sheet (Schedule HC) when a "right of setoff" exists. FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts, defines "right of setoff" and specifies what conditions must be met to have that right. FASB Interpretation No. 41 modifies Interpretation No. 39 to permit offsetting in the balance sheet of payables and receivables that represent repurchase agreements and reverse repurchase agreements when the agreements meet specified conditions. According to the AICPA Audit and Accounting Guide for Depository and Lending Institutions, Interpretation No. 41 does not apply to securities borrowing or lending transactions. Therefore, for FR Y-9C purposes, BHCs should not offset securities borrowing and lending transactions in the balance sheet unless all the conditions set forth in Interpretation No. 39 are met.

FASB Statement No. 123 (Revised 2004) and Share-Based Payments

FASB Statement No. 123 (Revised 2004), Share-Based Payment (FAS 123(R)), requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments, e.g., stock options and restricted stock, granted to employees. Bank holding companies must adopt FAS 123(R) for FR Y-9C purposes in accordance with the standard's effective date and transition provisions. Public companies other than small business issuers, including BHCs, must adopt FAS 123(R) as of the beginning of their first fiscal year beginning after June 15, 2005. All other companies, including small business issuers and BHCs that are not subsidiaries of public companies, must adopt FAS 123(R) as of the beginning of their first fiscal year beginning after December 15, 2005. Thus, all BHCs with a calendar year fiscal year must implement FAS 123(R) as of January 1, 2006.

Under FAS 123(R), the "compensation cost for an award of share-based employee compensation classified as equity shall be recognized over the requisite service period," which is typically the same as the vesting period, "with a corresponding credit to equity (generally, paid-in capital)." The recording of the compensation cost also gives rise to deferred tax consequences, i.e., a deferred tax asset, that must be recognized (and evaluated for realizability).

The compensation expense should be included in Schedule HI, item 7.a, "Salaries and employee benefits," with the corresponding credit included in Schedule HC, item 25, "Surplus" on the FR Y-9C. In Schedule HI-A, Changes in Equity Capital, this credit should be included in item 5, "Sale of perpetual preferred stock," or in item 6, "Sale of common stock." This reporting treatment applies regardless of whether the shares awarded to the employee are shares of bank stock or shares of the bank's parent holding company.

Privatization of the Student Loan Marketing Association

On December 29, 2004, the Student Loan Marketing Association (SLMA), a government-sponsored enterprise created in 1972, was dissolved. On that date, SLMA defeased its remaining debt obligations by transferring them into a special and irrevocable trust and depositing U.S. Treasury securities with the trustee in amounts sufficient to pay the principal of and interest on its debt obligations. For FR Y-9C purposes, BHCs should continue to report SLMA debt obligations held for purposes other than trading as securities issued by U.S. Government-sponsored agencies in Schedule HC-B, item 2.b. Similarly, SLMA debt obligations held for trading purposes (in domestic offices) should continue to be reported as U.S. Government agency obligations in Schedule HC-D, item 2. Bank holding companies should refer to the guidance in the Federal Reserve's risk-based capital standards on the treatment of collateralized claims to determine the appropriate risk weight for these SLMA debt securities.

SLM Corporation, the successor to SLMA, is a private-sector corporation that has issued debt securities, including commercial paper. Bank holding companies should report SLM Corporation debt securities held for purposes other than trading as "Other domestic debt securities" in Schedule HC-B, item 6.a. SLM Corporation debt securities held for trading purposes (in domestic offices) should be reported as "Other debt securities" in Schedule HC-D, item 5. Bank holding companies should report holdings of securitized student loans issued by SLM Corporation (or its affiliates) as asset-backed securities in Schedule HC-B, item 5, unless held for trading purposes. Holdings of SLM Corporation common stock and preferred stock should be reported in Schedule HC-B, item 7, unless held for trading purposes. SLM Corporation debt securities, common stock, and preferred stock should be risk-weighted 100 percent. Its asset-backed securities should be risk-weighted in accordance with the ratings-based approach described on page HC-R-13 of the FR Y-9C instructions.

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.

In November, 2005, the FASB issued FASB Staff Position Nos. FAS 115-1 and FAS 124-1 to nullify the measurement and recognition guidance contained in EITF Issue No. 03-1, the effective date of which the FASB had previously delayed. The guidance in this FASB Staff Position is to be applied beginning in 2006 and references existing other-than-temporary impairment guidance, which institutions were already expected to apply. Such guidance includes FASB Statement No. 115, EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets," and Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 59, "Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities."

GNMA Mortgage Loan Optional Repurchase Program

A seller-servicer must report all delinquent residential mortgage loans backing Government National Mortgage Association mortgage-backed securities that must be rebooked as assets in accordance with FASB Statement No. 140 (GNMA loans), whether they have been repurchased or are eligible for repurchase, as loans held for sale (Schedule HC, item 4.a) or loans held for investment (Schedule HC, item 4.b), based on facts and circumstances, in accordance with generally accepted accounting principles. In addition, if a BHC services GNMA loans, and was not the transferor of the loans that have been securitized, and purchases individual delinquent loans out of the GNMA securitization, the BHC must also report the purchased loans as loans held for sale or held for investment.

All GNMA loans recognized as assets should be reported as past due in Schedule HC-N in accordance with their contractual repayment terms. Such delinquent GNMA loans should be reported in items 1.c, 11, and 11.b of Schedule HC-N. In addition, an institution that forecloses on real estate backing a delinquent GNMA loan should report the property as "other real estate owned" and not as an "other asset" on the FR Y-9C balance sheet.

Commitments to Originate and Sell Mortgage Loans

On May 3, 2005, the agencies issued an Interagency Advisory on Accounting and Reporting for Commitments to Originate and Sell Mortgage Loans. This advisory provides supplemental guidance on the appropriate accounting and reporting for commitments to originate mortgage loans that will be held for resale and for commitments to sell mortgage loans under mandatory delivery and best efforts contracts. The advisory can be accessed on the Federal Reserve Board's Web site at www.federalreserve.gov/boarddocs/srletters/2005/sr0510.htm.

Commitments to originate mortgage loans that will be held for resale, which the advisory refers to as derivative loan commitments, are derivatives and must be accounted for at fair value on the balance sheet by the issuer. All loan sales agreements, including mandatory delivery and best efforts contracts, must be evaluated by both the seller and the purchaser to determine whether the agreements meet the definition of a derivative under FASB Statement No. 133. Bank holding companies should also account for loan sales agreements that meet the definition of a derivative, which the advisory refers to as forward loan sales commitments, at fair value on the balance sheet.

The advisory also addresses the guidance that should be considered in determining the fair value of derivatives. In this regard, when quoted market prices are not available, which is typically the case for derivative loan commitments and forward loan sales commitments, estimates of fair value should be based on the best information available in the circumstances. A simplified example is included to provide general guidance on one approach that may be used to value commitments to originate mortgage loans that will be held for resale. In addition, the advisory states that the agencies expect all institutions, including those that are not required to file reports with the SEC, to follow the guidance in SEC Staff Accounting Bulletin No. 105, Application of Accounting Principles to Loan Commitments, in recognizing derivative loan commitments. The Staff Accounting Bulletin can be accessed at www.sec.gov/interps/account/sab105.htm.

According to the advisory, under a typical derivative loan commitment, the borrower can choose to (1) "lock-in" the current market rate for a fixed-rate loan, i.e., a fixed derivative loan commitment; (2) "lock-in" the current market rate for an adjustable-rate loan that has a specified formula for determining when and how the interest rate will adjust, i.e., an adjustable derivative loan commitment; or (3) wait until a future date to set the interest rate and allow the interest rate to "float" with market interest rates until the rate is set, i.e., a floating derivative loan commitment.

Bank holding companies are expected to apply the guidance in the advisory when preparing their FR Y-9C reports. However, until certain questions that have been raised about floating derivative loan commitments are resolved, institutions should follow their existing reporting policies for floating derivative loan commitments and need not account for and report these commitments as derivatives for FR Y-9C reporting purposes. All other derivative loan commitments should be reported as over-the-counter written interest rate options in Schedule HC-L, Derivatives and Off-Balance Sheet Items, not as unused commitments in item 1 of Schedule HC-L. The principal amount of the mortgage loans to be originated under these derivative loan commitments must be reported as the notional amount of the derivatives in Schedule HC-L, item 11.d(1), column A, and in Schedule HC-L, item 13, column A.

Bank holding companies must also report the fair value of these derivative loan commitments in the appropriate subitem of Schedule HC-L, item 14.b. As with written options, derivative loan commitments are outside the scope of the credit conversion process that applies to derivatives under the Federal Reserve's risk-based capital standards. However, if the fair value of any of these derivative loan commitments after initial recognition 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.

Bank holding companies should note that commitments to originate mortgage loans that will be held for investment purposes and commitments to originate other types of loans are not considered derivatives. The unused portion of loan commitments that are not considered 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.

Accelerated Filing Deadline

The SEC recently adopted a final rule that maintains the 40 day filing deadline for June 30, 2006 and all subsequent quarters. Consistent with this rule change, the Federal Reserve will also maintain the 40-day filing deadline for FR Y-9C reports, and will not implement the 30 calendar days plus 5 business days filing deadline previously proposed to be effective with the June 30, 2006 reporting date. The December filing deadline for FR Y-9C filers will remain at 45 days after the report date.

The FR Y-9LP report is not subject to the accelerated deadline. The deadline for this report will remain at 45 days after the report date.

Edit Checklist

The staff of this Bank will monitor whether BHCs are meeting their basic reporting requirements through the use of "validity edits". Enclosed are the updates to these 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 BHCs the option of submitting their FR Y-11, FR 2314 and FR Y-12 reports electronically. Any BHC interested in submitting these reports electronically should contact Zina Rakhovich at (212) 720-8237 for information concerning the procedures for electronic transmission. BHCs choosing to submit these reports electronically must maintain in their files a signed printout of the data submitted.

Website

Report forms and instructions for the FR Y-9C, FR Y-9LP, FR Y-11, FR 2314 and FR Y-12 are 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 Katherine Tilghman in the Policy and Analysis Department at (212) 720-5935.

Sincerely,

-- Signed by Kenneth Lamar --

Kenneth P. Lamar
Vice President
Financial Reports Department

Attachment

Revisions to the FR Y-9C for June 30, 2006

Report Form

1. Schedule HC, memoranda item 1 was revised to replace the phrase "as of the December 31 report date" with the phrase "at any time during the calendar year."

2. Schedule HC-B, memoranda item 2 was revised to insert the phrase "or next repricing date" and two clarifying footnotes were inserted to indicate to exclude investments in mutual funds and other equity securities with readily determinable fair values, and to report fixed rate debt securities by remaining maturity and floating debt securities by next repricing date.

3. Schedule HC-M, item 21: The title was revised to "Net assets of subsidiaries engaged in insurance or reinsurance underwriting pursuant to Section 4(k)(4)(B) of the Bank Holding Company Act as amended by the Gramm-Leach-Bliley Act."

Instructions

1. General Instructions were revised to indicate that if a top-tier holding company is exempt from reporting the FR Y-9C, then the lower-tier holding company (with consolidated assets of $500 million or more) must file the FR Y-9C.

2. Schedule HC-L, item 7.a. was revised to clarify the reporting of the notional amount of tranched credit derivative transactions.

Revisions to the FR Y-9LP for June 30, 2006

Instructions

The General Instructions were revised to indicate that if a top-tier holding company is exempt from reporting the FR Y-9C, then the lower-tier holding company (with consolidated assets of $500 million or more) must file the FR Y-9C.