FEDERAL RESERVE BANK of NEW YORK

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ASSISTANT VICE PRESIDENT

July 2, 2013

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

The following report forms and instructions for the June 30, 2013 reporting date have been posted to the Federal Reserve Board's website at www.federalreserve.gov under "Reporting Forms":

- Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002); and

- 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)

- The Country Exposure Report for U.S. Branches and Agencies of Foreign Banks (FFIEC 019)

There are no changes to the FFIEC 002, FFIEC 002S and FFIEC 019 reporting forms and no changes to the FFIEC 019 instructions. The FFIEC 002/002s reporting instructions have been updated to incorporate clarifications on the reporting of certain contingent liabilities. Supplemental instructions concerning reporting issues are provided in this letter in Attachment 1.

Secured Consumer Debt Discharged in a Chapter 7 Bankruptcy Order

Questions have arisen regarding the appropriate accounting and regulatory reporting treatment for certain secured consumer loans where (i) the loan has been discharged in a Chapter 7 bankruptcy under the U.S. Bankruptcy Code[1], (ii) the borrower has not reaffirmed the debt, (iii) the borrower is current on payments, and (iv) the loan has not undergone a troubled debt restructuring (TDR) before the bankruptcy.

[1] 11 USC Chapter 7

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When a debtor files for Chapter 7 bankruptcy, a trustee is appointed to liquidate the debtor's assets for the benefit of creditors. Generally, Chapter 7 bankruptcy results in a discharge of personal liability for certain debts that arose before the petition date. A bankruptcy discharge acts as a permanent injunction of claims against the debtor, but does not extinguish certain secured debt or any existing liens on the property securing the debt.

In general, for certain secured debt, the loan agreement (including the promissory note and, depending on the state, the security interest) entered into before bankruptcy remains in place after the debt has been discharged in a Chapter 7 bankruptcy. However, the lender may no longer pursue the borrower personally for a deficiency due to nonpayment. In addition, the institution's ability to manage the loan relationship is restricted. For example, after a borrower has completed Chapter 7 bankruptcy, an institution is limited with regard to collection efforts, communications with the borrower, loss mitigation strategies, and reporting on the discharged debt to credit bureaus.

The accounting and regulatory reporting issues that arise for secured consumer loans discharged in a Chapter 7 bankruptcy include: (1) whether the discharge is a TDR, (2) whether the loan should be placed in nonaccrual status, and (3) charge-off treatment.

TDR Determination

In determining whether a secured consumer debt discharged in a Chapter 7 bankruptcy constitutes a troubled debt restructuring, a branch or agency needs to assess whether the borrower is experiencing financial difficulties and whether a concession has been granted to the borrower. Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 310-40, a bankruptcy filing is an indicator of a borrower's financial difficulties. Determining whether a branch or agency has granted a concession in a Chapter 7 bankruptcy requires judgment. In assessing whether a concession has been granted, institutions should consider all relevant facts and circumstances, including the effect of changes to the legal rights and obligations of the lender and the borrower resulting from Chapter 7 bankruptcy. Changes taken as a whole that are not substantive may not be considered a concession.

Regardless of the impairment method used, when available information confirms that specific loans, or portions thereof, are uncollectible, these amounts should be promptly written down through a specific reserve or charge-off.

Accrual Status

Branches and agencies should follow the Glossary entry under "Nonaccrual Status" when determining whether secured consumer debt discharged in a Chapter 7 bankruptcy should be on accrual status. These instructions also address the restoration of nonaccrual assets, including any loans identified as TDRs that are in nonaccrual status, to accrual status.

Charge-off Treatment

GAAP states that loans shall be written-off, through a specific reserve or charge-off, in the period in which the loans are deemed uncollectible. Because of heightened risk that loans discharged through bankruptcy may be uncollectible, the interagency *Uniform Retail Credit Classification and Account Management Policy* (Uniform Retail Credit Policy) requires such loans to be written down to collateral value (less costs to sell) within 60 days of notification from the bankruptcy court unless the institution can clearly demonstrate and document that repayment is likely to occur. To assess whether such a loan should be deemed uncollectable, a branch or agency should perform a credit analysis at the time a borrower whose loan is current completes Chapter 7 bankruptcy (hereafter, a post-discharge analysis). If the post-discharge analysis indicates repayment of principal and interest is likely to continue, then immediate write-down to collateral value and full application of payments to reduce the recorded investment in the loan is not required.

If a credit analysis does not support that repayment of principal and interest is likely to continue, the loan should be written down to the collateral's fair value (less costs to sell). Any balance not written off, through a charge-off or specific reserve, should be placed on nonaccrual when full collection of principal and interest is not expected. The Uniform Retail Credit Policy can be accessed at http://fedweb.frb.gov/fedweb/bsr/srltrs/SR0008.htm.

As discussed in the Uniform Retail Credit Policy, evaluating the quality of a retail credit portfolio on a loan-by-loan basis is inefficient and burdensome for the institution being examined and for examiners given the generally large number of relatively small-balance loans in a retail credit portfolio. Therefore, the type of credit analysis that is performed to assess whether repayment is likely to continue may vary depending on whether the loans are managed individually or on a homogenous pool basis.

For loans managed in pools, branches and agencies may choose to evaluate the likelihood of continued repayment on a pool basis. In order for a pool analysis to be used, a branch or agency must identify various credit risk indicators that signify likelihood of continuing repayment. Such indicators might include measures of historical payment performance, loan structure, lien position, combined loan-to-value ratios, amounts paid over the minimum payment due and other pertinent factors that have been associated with payment performance in the past. Such credit risk indicators should then be considered as a whole when determining whether objective evidence supports the likelihood of continuing repayment. A branch or agency using pool-based analysis should also conduct ongoing monitoring to ensure the appropriateness of the credit risk indicators used to support the likelihood of continuing repayment.

For all loans managed individually and any loans managed on a pool basis where the pool analysis does not support likelihood of continuing repayment, a loan-level, post-discharge credit analysis would be necessary to support likelihood of continuing repayment. A loan-level, post-discharge analysis should demonstrate and document structured orderly collection, post-discharge repayment capacity, and sustained payment performance. If likelihood of continuing repayment cannot be supported, the loan should be deemed uncollectable and written down to collateral value (less costs to sell) within 60 days of notification from the bankruptcy court.

Reporting of Specific Reserves

Once a loan is written-down through a specific reserve or charge-off, a new cost basis for the asset is established. Changing this cost basis by re-booking or writing-up the loan is not permitted. Under Accounting Standard Codification (ASC) 310-10-35-37, after the initial measurement of impairment, if there is a significant change in the amount or timing of an impaired loan's expected future cash flow, the change should be applied by adjusting the valuation allowance.

On the FFIEC 002, loans that are written down through the application of a specific reserve are treated in an identical manner as loans that are partially or wholly charged-off. Therefore, recoveries on loans for which there is a specific reserve should be accounted for on a cash basis by reducing the expense account (i.e. the provision for loan losses) for the amount of the recovery, and reported as part of the calculation for profit or loss, in Schedule M, Part I, Line 2.a, "Gross due from/to head office of parent bank".

Determining the Fair Value of Derivatives

ASC Topic 820, Fair Value Measurement (formerly FASB Statement No. 157, "Fair Value Measurements"), defines fair value and establishes a framework for measuring fair value. As stated in ASC Topic 820, fair value is a market-based measurement, not an entity-specific measurement, and the fair value of a derivative position should be measured using the assumptions that market participants would use when pricing that position, including assumptions about risks. An entity should select inputs that are consistent with the characteristics of the derivative position that market participants would take into account in a transaction for the derivative asset or liability. In the absence of a Level 1 input, an entity should apply an adjustment, such as a premium or discount, when market participants would do so when determining the fair value of a derivative position, consistent with the unit of account. For derivatives, the unit of account generally is the individual transaction unless an entity has made an accounting policy decision to apply the exception in ASC Topic 820 pertaining to measuring the fair value of a group of financial instruments the entity manages on the basis of its net exposure to either market risks or credit risks.

When measuring the fair value of a derivative position that has a bid-ask spread, ASC Topic 820 does not preclude the use of mid-market pricing or other pricing conventions as a practical expedient for measuring the fair value within the bid-ask spread. An entity should determine the price within the bid-ask spread that is most representative of fair value, which is the price that would be received to sell the asset or paid to transfer the liability (i.e., an exit price), based on assumptions a market participant would use in a similar circumstance. An institution should maintain documented policies for determining the point within the bid-ask spread that is most representative of fair value and consistently apply those policies.

An entity is expected to apply all of its valuation policies and techniques for measuring fair value consistently over time. Nevertheless, ASC Topic 820 acknowledges that a change in valuation technique from one methodology to another that results in an equally or more representative measure of the fair value of a derivative position may be appropriate. However, it would be inappropriate for an entity to alter its valuation methodology or policies to achieve a desired financial reporting outcome. An example of an inappropriate change in valuation methodology that would result in a fair value estimate not representative of a derivative position's exit price would be for an entity to migrate from using a mid-market pricing convention to using a price within the bid-ask spread that is more advantageous to the entity to offset the impact of adverse changes in market prices or otherwise mask losses.

Unless its fair value measurement is categorized within Level 1, if there has been a change in valuation technique for a derivative position, ASC Topic 820 requires an entity to disclose that change and the reasons for making it in the notes to financial statements prepared in accordance with U.S. GAAP.

"Purchased" Loans Originated By Others

When acquiring loans originated by others, institutions should consider whether the transaction should be accounted for as a purchase of the loans or as a secured borrowing in accordance with Accounting Standards Codification (ASC) Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended). For the transaction to qualify for sale accounting:

- First, unless the transfer is of an entire financial asset, the transferred portion of the financial asset must meet the definition of a participating interest.
- Second, the transfer must meet all of the conditions set forth in Subtopic 860-10 to demonstrate that the transferor has surrendered control over the transferred financial assets.

For example, some institutions have entered into various residential mortgage loan purchase programs. These programs often function like traditional warehouse lines of credit; however, in some cases, the mortgage loan transfers are legally structured as purchases by the institution rather than as pledges of collateral to secure the funding. Under these programs, an institution provides funding to a mortgage loan originator while simultaneously obtaining an interest in the mortgage loans subject to a takeout commitment. A takeout commitment is a written commitment from an approved investor (generally, an unrelated third party) to purchase one or more mortgage loans from the originator.

Although the facts and circumstances of each program must be carefully evaluated to determine the appropriate accounting, an institution should generally account for a mortgage purchase program with continuing involvement by the originator, including takeout commitments, as a secured borrowing with pledge of collateral, i.e., a loan to the originator secured by the residential mortgage loans, rather than a purchase of mortgage loans.

When loans obtained in a mortgage purchase program do not qualify for sale accounting, the financing provided to the originator (if not held for trading purposes) should be reported in FFIEC 002 Report Schedule C, item 3, "Loans to other financial institutions," and on the balance sheet in Schedule RAL, item 1.e., "Loans and leases, net of unearned income."

Indemnification Assets and Accounting Standards Update No. 2012-06

In October 2012, the FASB issued Accounting Standards Update (ASU) No. 2012-06, "Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of an institution," to address the subsequent measurement of an indemnification asset recognized in an acquisition of a financial institution that includes a loss-sharing agreement. This ASU amends ASC Topic 805, Business Combinations (formerly FASB Statement No. 141 (revised 2007),"Business Combinations"), which includes guidance applicable to government-assisted acquisitions of failed institutions.

Under the ASU, when an institution experiences a change in the cash flows expected to be collected on a loss-sharing indemnification asset because of a change in the cash flows expected to be collected on the assets covered by the loss-sharing agreement, the institution should account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in the value of the indemnification asset should be limited to the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets.

The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2012. For institutions with a calendar year fiscal year, the ASU takes effect January 1, 2013. Early adoption of the ASU is permitted. The ASU's provisions should be applied prospectively to any new indemnification assets acquired after the date of adoption and to indemnification assets existing as of the date of adoption arising from a government-assisted acquisition of an institution.   To the extent the guidance in the ASU differs from a branch or agency's existing accounting policies and practices for subsequent measurement of an indemnification asset recognized in an acquisition of a financial institution, the branch or agency will be expected to apply the ASU for FFIEC 002 reporting purposes in accordance with the standard's effective date and transition provisions, which are outlined above. To the extent that a branch or agency's existing accounting policies and practices are consistent with guidance in the ASU, the branch or agency should continue to follow its existing policies and practices.

For additional information, institutions should refer to ASU 2012-06, which is available at http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498.

Goodwill Impairment Testing

In September 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-08, "Testing Goodwill for Impairment," to address concerns about the cost and complexity of the existing goodwill impairment test in ASC Topic 350, Intangibles-Goodwill and Other (formerly FASB Statement No. 142, "Goodwill and Other Intangible Assets"). The ASU's amendments to ASC Topic 350 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (i.e., for annual or interim tests performed on or after January 1, 2012, for branches and agencies with a calendar year fiscal year). Early adoption of the ASU is permitted. Branches and agencies should adopt ASU 2011-08 for FFIEC 002 reporting purposes in accordance with the standard's effective date and early adoption provisions.

Under ASU 2011-08, a branch or agency has the option of first assessing qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test described in ASC Topic 350. If, after considering all relevant events and circumstances, a branch or agency determines it is not more likely than not (that is, a likelihood of 50 percent or less) that the fair value of a reporting unit is less than its carrying amount (including goodwill), then the branch or agency does not need to perform the two-step goodwill impairment test. (In other words, if it is more likely than not - a likelihood of more than 50 percent - that the fair value of a reporting unit is greater than its carrying amount, a branch or agency would not have to test the unit's goodwill for impairment.) If the branch or agency instead concludes that the opposite is true (that is, it is more likely than not that the fair value of a reporting unit is less than its carrying amount), then it is required to perform the first step and, if necessary, the second step of the two-step goodwill impairment test. Under ASU 2011-08, a branch or agency may choose to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test.

The ASU includes examples of events and circumstances that a branch or agency should consider in evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

See last quarter's Call Report (FFIEC-031/041) Instruction book for a new Glossary entry for "Goodwill" that summarizes the impairment testing requirements for goodwill.

Accounting for Loan Participations

Amendments to ASC Topic 860, Transfers and Servicing, resulting from Accounting Standards Update No. 2009-16 (formerly FASB Statement No. 166, "Accounting for Transfers of Financial Assets") modified the criteria that must be met in order for a transfer of a portion of a financial asset, such as a loan participation, to qualify for sale accounting. These changes apply to transfers of loan participations on or after the effective date of amended ASC Topic 860 (January 1, 2010, for branches and agencies with a calendar year fiscal year), including advances under lines of credit that are transferred on or after the effective date even if the line of credit agreements were entered into before the effective date. Branches and agencies with a calendar year fiscal year must account for transfers of loan participations on or after January 1, 2010, in accordance with amended ASC Topic 860. In general, loan participations transferred before the effective date of amended ASC Topic 860 are not affected by this new accounting standard.

The Glossary entry for "Transfers of Financial Assets" in the FFIEC 002 instructions incorporates the provisions of amended ASC Topic 860 and addresses related reporting issues, including a discussion of the reporting treatment of loan participations in accordance with amended ASC Topic 860. In particular, the Glossary entry discusses the reporting of transfers of loans guaranteed by the Small Business Administration (SBA). It describes the SBA's longstanding requirement obligating the transferor of the guaranteed portion of an SBA loan at a premium to refund the premium to the transferee if the loan is repaid within 90 days of the transfer. The Glossary entry notes that this premium refund obligation is a form of recourse, which causes the transferred guaranteed portion of the loan to not meet the definition of a "participating interest" for this 90-day period. As a result, the transfer must be accounted for as a secured borrowing during this period. Thereafter, assuming the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan now meet the definition of a "participating interest," the transfer of the guaranteed portion can be accounted for as a sale if all of the conditions for sale accounting in amended ASC Topic 860 are met.

Branches and agencies should note that the SBA recently eliminated its premium refund requirement for transfers of guaranteed portions of SBA loans at a premium effective for loan transfers settled on or after February 15, 2011. The elimination of this obligation removes the key factor preventing the guaranteed and unguaranteed portions of an SBA loan from meeting the definition of a "participating interest" in a transfer of the guaranteed portion at a premium.

With the elimination of this obligation from transfers at a premium on or after February 15, 2011, the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan should now normally meet the definition of a “participating interest” on the transfer date. Assuming that is the case, the transfer of the guaranteed portion of an SBA loan should now be able to be accounted for as a sale on the transfer date, with immediate recognition of any gain or loss on the sale in earnings, if all of the conditions for sale accounting set forth in ASC Topic 860 are met.

Troubled Debt Restructurings and Current Market Interest Rates

Many institutions are restructuring or modifying the terms of loans through workout programs, renewals, extensions, or other means to provide payment relief for those borrowers who have suffered deterioration in their financial condition. Such loan restructurings may include, but are not limited to, reductions in principal or accrued interest, reductions in interest rates, and extensions of the maturity date. Modifications may be executed at the original contractual interest rate on the loan, a current market interest rate, or a below-market interest rate. Many of these loan modifications meet the definition of a troubled debt restructuring (TDR).

The TDR accounting and reporting standards are set forth in ASC Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended). This guidance specifies that a restructuring of a debt constitutes a TDR if, at the date of restructuring, the creditor for economic or legal reasons related to a debtor’s financial difficulties grants a concession to the debtor that it would not otherwise consider. The creditor’s concession may include a restructuring of the terms of a debt to alleviate the burden of the debtor’s near-term cash requirements, such as a modification of terms to reduce or defer cash payments required of the debtor in the near future to help the debtor attempt to improve its financial condition and eventually be able to pay the creditor.

Because the stated interest rate charged the borrower after a loan restructuring may be greater than or equal to interest rates available in the marketplace for similar types of loans to nontroubled borrowers at the time of the restructuring, some institutions have concluded that these restructurings are not TDRs, which may not be the case. In making this determination, these institutions may not have considered all of the facts and circumstances associated with the loan modification besides the interest rate. An interest rate on a modified loan greater than or equal to those available in the marketplace for similar credits does not in and of itself preclude a modification from beige designated as a TDR. Rather, when evaluating a loan modification to a borrower experiencing financial difficulties, an analysis of all facts and circumstances is necessary to determine whether the institution has made a concession to the borrower with respect to the market interest rate (or has made some other type of concession that could trigger

TDR accounting and disclosure, for example, terms or conditions outside of the institution's policies or common market practices) and, if so, how the modified or restructured loan should be reported.

Generally, a restructured loan yields a current market interest rate if the restructuring agreement specifies an interest rate greater than or equal to the rate that the institution was willing to accept at the time of the restructuring for a new loan with comparable risk. A restructured loan does not yield a market interest rate simply because the interest rate charged under the restructuring agreement has not been reduced. In addition, when a modification results in an increase (either temporary or permanent) in the contractual interest rate, the increased interest rate cannot be presumed to be an interest rate that is at or above market. Therefore, in determining whether a loan has been modified at a market interest rate, an institution should analyze the borrower's current financial condition and compare the rate on the modified loan to rates the institution would charge customers with similar financial characteristics on similar types of loans. This determination requires the use of judgment and should include an analysis of credit history and scores, loan-to-value ratios or other collateral protection, the borrower's ability to generate cash flow sufficient to meet the repayment terms, and other factors normally considered when underwriting and pricing loans.

Likewise, a change in the interest rate on a modified or restructured loan does not necessarily mean that the modification is a TDR. For example, a creditor may lower the interest rate to maintain a relationship with a debtor that can readily obtain funds from other sources. To be a TDR, the borrower must also be experiencing financial difficulties. The evaluation of whether a borrower is experiencing financial difficulties is based upon individual facts and circumstances and requires the use of judgment when determining if a modification of the borrower's loan should be accounted for and reported as a TDR.

A branch or agency that restructures a loan to a borrower experiencing financial difficulties at a rate below a market interest rate has granted a concession to the borrower that result in the restructured loan being a TDR. (As noted above, other types of concessions could also result in a TDR.) In the FFIEC 002 report, until a loan that is a TDR is paid in full or otherwise settled, sold, or charged off, the loan must be reported in the appropriate loan category in Schedule C, Part I, and in Schedule N, as necessary. In addition, a loan restructured in a TDR is an impaired loan. Thus, all TDRs must be measured for impairment in accordance with ASC Subtopic 310-10, Receivables – Overall (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan," as amended).

Troubled Debt Restructurings and Accounting Standards Update No. 2011-02

In April 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-02, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring," to provide additional guidance to help creditors determine whether a concession has been granted to a borrower and whether a borrower is experiencing financial difficulties. The guidance is also intended to reduce diversity in practice in identifying and reporting TDRs. This ASU is effective for public companies for interim and annual periods beginning on or after September 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption for purposes of identifying TDRs. The measurement of impairment for any newly identified TDRs resulting from retrospective application will be applied prospectively in the first interim or annual period beginning on or after September 15, 2011. Nonpublic companies should apply the new guidance for annual periods ending after December 15, 2012, including interim periods within those annual periods. Early adoption of the ASU is permitted for both public and nonpublic entities, with nonpublic entities that adopt early subject to a retrospective identification requirement.

Branches and agencies are expected to continue to follow the accounting and reporting guidance on TDRs in the preceding section of these Supplemental Instructions and in the FFIEC 002 Instructions. To the extent the guidance in the ASU differs from a branch or agency's existing accounting policies and practices for identifying TDRs, the branch or agency will be expected to apply the ASU for FFIEC 002 reporting purposes in accordance with the standard's effective date and transition provisions, which are outlined above. To the extent that a branch or agency's existing accounting policies and practices are consistent with guidance in the ASU, the branch or agency should continue to follow its existing policies and practices.

ASU 2011-02 reiterates that the two conditions mentioned in the preceding section on "Troubled Debt Restructurings and Current Market Interest Rates" must exist in order for a loan modification to be deemed a TDR: (1) a company must grant a concession to the borrower as part of the modification and (2) the borrower must be experiencing financial difficulties. The ASU explains that a company may determine that a borrower is experiencing financial difficulties if it is probable that the borrower will default on any of its debts in the foreseeable future. The borrower does not have to be in default at the time of the modification. Other possible factors that should be considered in evaluating whether a borrower is experiencing financial difficulties is if the borrower has declared (or is in the process of declaring) bankruptcy, the creditor does not expect the borrower's cash flows to be sufficient to service its debt under the existing terms, or there is substantial doubt about an entity's ability to continue as a going concern.

Another important aspect of the ASU is that it prohibits financial institutions from using the effective interest rate test included in the TDR guidance for borrowers in ASC Subtopic 470- 60, Debt – Troubled Debt Restructurings by Debtors, when determining whether the creditor has granted a concession as part of a loan modification. However, as explained in ASU 2011-02, if a borrower does not have access to funds at a market rate of interest for similar debt, the rate on the modified loan is considered to be a below-market rate and may be an indicator that the company has granted a concession to the borrower.

Furthermore, the ASU provides new guidance regarding insignificant delays in payment as part of loan modification. If, after analysis of all facts and circumstances, a creditor determines that a delay in payment is insignificant, the creditor has not granted a concession to the borrower. This determination requires judgment and should consider many factors, including, but not limited to, the amount of the delayed payments in relation to the loan's unpaid principal or collateral value, the frequency of payments due on the loan, the original contractual maturity, and the original expected duration of the loan.

For additional information, branches and agencies should refer to ASU 2011-02, which is available at http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498.

Reporting Data for Term Deposits

The Term Deposit Facility (TDF) is a program through which the Federal Reserve Banks offer interest-bearing term deposits to eligible institutions. A term deposit is a deposit with a specific maturity date. For FFIEC 002 reporting purposes, term deposits offered through the TDF should be treated as balances due from a Federal Reserve Bank. Accordingly, term deposits should be reported in Schedule RAL, Assets and Liabilities, Line 1.a., "Cash and balances due from depository institutions", and in Schedule A, Cash and Balances Due From Depository Institutions, Line 5, "Balances due from Federal Reserve Banks", on the FFIEC 002 report. The earnings on these term deposits should be reported in Schedule M, Due from/Due to Related Institutions in the U.S. and in Foreign Countries, Part I, Line 2.a, "Head office of parent bank".

Reporting Purchased Subordinated Securities in Schedule S

In Schedule S, Servicing, Securitization, and Asset Sale Activities, Line 9, the Federal Reserve collects data on the maximum amount of branches and agencies' credit exposures arising from credit enhancements they provide to other institutions' securitization structures, including those used in structured finance programs (other than asset-backed commercial paper programs, which are covered in Memorandum Line 1 of the schedule). The types of credit enhancements to be reported in Line 9 include purchased subordinated securities. Examples of purchased subordinated securities include, but are not limited to, the mezzanine and subordinate tranches of private-label mortgage-backed securities and collateralized debt obligations. A so called senior tranche of a securitization or structured finance program is not a subordinated security provided it cannot absorb credit losses prior to another designated senior tranche. Branches and agencies' should ensure they report in Schedule S, Line 9, the carrying value of their holdings of purchased subordinated securities issued in connection with other institutions' securitization and structured finance transactions (other than asset-backed commercial paper programs). Holdings of purchased subordinated securities that serve as credit enhancements for asset-backed commercial paper programs should be reported in Memorandum Line 1 of Schedule S.

<u>Prepaid Deposit Insurance Assessments</u>

In November 2009, the FDIC adopted a final rule requiring insured depository institutions (except those that are exempted) to prepay an FDIC-determined estimate of their quarterly risk-based deposit insurance assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, on December 30, 2009. As required by the FDIC's 2009 regulation establishing the prepaid deposit insurance assessment program, this program ended with the 13th and final application of prepaid assessments to the quarterly deposit insurance assessments payable on March 29, 2013. The FDIC will issue refunds of any unused prepaid deposit insurance assessments on June 28, 2013, in the manner described below.

On June 28, 2013, each institution will owe the FDIC its deposit insurance assessment for the first quarter of 2013 and the FDIC will owe the institution any unused prepaid deposit insurance assessment balance shown on the Summary Statement of Assessment Credits in the institution's Quarterly Certified Statement Invoice packet for the October 1 through December 31, 2012, Insurance Period, which was available on FDIC*connect* as of March 15, 2013. (However, the unused prepaid balance shown in that invoice packet is subject to change if an institution files amended Consolidated Reports of Condition and Income that result in changes to its deposit insurance assessments for any of the previous 12 quarters.) The amount of each institution's first quarter 2013 deposit insurance assessment payable on June 28, 2013, will be offset by the amount of any unused prepaid assessment balance due the institution on that date. Each institution will be billed or refunded the net difference between these two amounts on June 28, 2013, by automated clearing house debit or credit.

With the end of the prepaid deposit insurance assessment program, no institution will have a prepaid assessments asset to include on its FFIEC 002's balance sheet for June 30, 2013. Accordingly, each institution should ensure that it closes out its prepaid assessments asset account (to a zero balance) as of June 28, 2013, by eliminating any balance remaining in this account after recognizing the effect of any unused prepaid assessments being refunded by the FDIC. An immaterial adjustment to eliminate a remaining account balance should be reported as an adjustment to the 2013 year-to-date deposit insurance assessment expense. If the adjustment is material, any portion attributable to a difference in the institution's accrued estimate of and its actual first quarter 2013 deposit insurance assessment expense should be reported as an adjustment to the 2013 year-to-date assessment expense and the remainder should be reported as an accounting error correction, net of applicable income taxes, reported as a component of gross unremitted profits in Schedule M, item 2a "Head office of parent bank".

Each institution should record the estimated expense for its deposit insurance assessment for the second quarter of 2013, which will be payable to the FDIC on September 30, 2013, through a charge to expense during the second quarter and a corresponding credit to an accrued expense payable. The year-to-date deposit insurance assessment expense for 2013 should be reported as a component of gross unremitted profits in Schedule M, item 2.a, "Head office of parent bank".

For further information on the FDIC's prepaid assessments final rule, refer to FDIC Financial Institution Letter (FIL) 63-2009 at http://www.fdic.gov/news/news/financial/2009/fil09063.html.

For further guidance on reporting regular quarterly deposit insurance assessments, refer to the Call Report Supplemental Instructions for September 30, 2009, at http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200909.pdf .

Subscription Service

We offer a subscription service which enables you to receive recent news and updates on our reporting forms and instructions and upcoming Bank events. You can sign up for this service at the following website:
http://service.govdel ivery.com/service/subscribe.html?code=USFRBNEWYORK8

Reports Monitoring

Please note that the timeliness of receipt of each of these reports will be monitored and the 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, 2013**. Any FFIEC 002/002S report received after 5:00 p.m. on **July 30, 2013** will be considered late unless postmarked by **July 25, 2013** or sent overnight service by **July 29, 2013**.

An original and one copy of the completed FFIEC 019 report(s) (if applicable) must be returned to this Bank, by mail or messenger, no later than **August 14, 2013**. Any FFIEC 019 report received after 5:00 p.m. on **August 14, 2013** will be considered late unless postmarked by **August 11, 2013** or sent overnight service by **August 13, 2013**.

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, 2013 report date. The staff of this Reserve Bank will monitor whether branches and agencies are meeting their basic reporting requirements through the use of "validity edits."

Electronic Submission Option

Electronic submission of the FFIEC 002/002S reports is available to all 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 benefits:

- A timely and efficient alternative to sending the report forms by mail; 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 Gloria Scott at (212) 720-7348.

Website

The FFIEC 002/002S and FFIEC 019 forms and instructions are available on the FFIEC website at www.ffiec.gov/ffiec reportforms.htm. In addition, attached are validity edit checks for the FFIEC 002.

Questions regarding the FFIEC 002 and FFIEC 002S reports should be directed to Henry Wu, Financial Reports Associate in the Regulatory Reports Division at (212) 720-2410, or Anthony Guglielmo, Team Leader in the Division at (212) 720-8002.

Questions regarding the FFIEC 019 report should be directed to Olivier Toussaint, Reports Analyst in the International Reports Division at (212) 720-1572, or Brian Goodwin, Team Leader in the Division at (212) 720-8316.

Sincerely,

- *Signed by Patricia Selvaggi* -

Patricia Selvaggi
Assistant Vice President

Attachment 1

Supplemental Instructions

Contingent liabilities are legally binding obligations, including financial guarantees insuring the timely payment of principal and interest on debt issuances. A legally binding commitment of the U.S. branch or agency of a foreign banking organization to ensure the timely payment of principal and interest on debt issuances, including debt issued by the foreign parent bank organization should be reported on Schedule L, Derivatives and Off-Balance-Sheet Items, “All other off-balance sheet contingency liabilities” (Line 7) or “Standby letters of credit” (Line 3) depending on the form of the guarantee or standby letter of credit. Only commitments and guarantees that are not legally binding should be excluded from the FFIEC 002. This quarter’s FFIEC 002 instruction book has been updated to incorporate these clarifications.

Memorandum items 5.a and 5.b of Schedule O, Other Data for Deposit Insurance Assessments, collect data on the amount and number of noninterest-bearing transaction accounts of more than $250,000. Although the temporary unlimited deposit insurance on these account ended on December 31, 2012, the agencies are monitoring the behavior of these deposit accounts following the change in insurance coverage. Accordingly, the agencies will collect these Memorandum items in the June 30, 2013 report and in future reports through the December 31, 2013, report date. The Memorandum items will then be eliminated.

Institutions with $1 billion more or more in total assets should ensure that the amount reported for “Estimated amount of uninsured deposits in the branch, including related interest accrued and unpaid,” (Schedule O, Memoranda item 2), reflects the expiration of the temporary unlimited deposit insurance on noninterest-bearing transaction accounts of more than $250,000. Additionally, if an institution in its March 31, 2013, FFIEC 002 report did not reflect the expiration of the unlimited deposit insurance coverage on these accounts, the institution should amend its March 31, 2013, estimate, if material.