FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-5000

September 28, 2001

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 September 30, 2001

Enclosed are two copies of the following report forms and instructions for the September 30, 2001 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. Supplement to the Consolidated Financial Statement for Bank Holding Companies (FR Y-9CS);

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

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

The FR Y-9C and FR Y-11Q instructions and the FR Y-9C form were revised for September 2001. The revised instruction pages for the FR Y-9C and FR Y-11Q has vertical black lines in the margins to annotate revisions and the September 2001 date on the bottom of the page. There have been no revisions to the FR Y-9LP or FR Y-9CS for this quarter.

Supplemental instructions describing significant reporting changes are summarized in Attachment 1. A description of the changes to the FR Y-9C forms and the

FR Y-9C and FR Y-11Q instructions are summarized in Attachment 2.

FR Y-12 Reporting

On August 23, 2001, the Federal Reserve Board published in the Federal Register the final approval of the information collection of the Bank Holding Company Report of Equity Investments in Nonfinancial Companies (FR Y-12). The implementation date for this report is September 30, 2001.

The FR Y-12 report will enable the Federal Reserve to monitor the exposure of bank holding companies to equity investments in nonfinancial companies. The data collected on the FR Y-12 will consist of the value of investments in nonfinancial companies broken down by type of investments, type of securities, and type of entity holding the investment in the bank holding company.

As referenced in the Federal Register notice published March 28, 2001, announcing final changes to the FR Y-9C report for 2001, three new questions (items 17, 18, and 19) have been added to Schedule HC-M, Memoranda which will be used to determine if the reporting bank holding company must complete the new Consolidated Bank Holding Company Report of Equity Investments in Nonfinancial Companies (FR Y-12). The items ask:

(1) if aggregate nonfinancial equity investments equal or exceed the lesser of $200 million (on an acquisition cost basis) or 5 percent of the BHC's consolidated Tier 1 capital as of the report date,
(2) if the BHC has made an effective election to become a financial holding company, and
(3) if the BHC holds directly or indirectly an Edge corporation, agreement corporation, or Small business investment company (SBIC) subsidiary or hold equities under section 4(c)(6) or 4(c)(7) of the Bank Holding Company Act.

Reporting Income from Insurance-Related Activities in the Income Statement

Bank holding companies conduct certain insurance-related activities in various ways depending on their organizational structure. This has led to questions about how income from sales of annuities and from certain other types of insurance activities should be reported in FR Y-9C Schedule HI, Income Statement, and particularly in item 5.h, "Insurance commissions and fees." In general, bank holding companies should report in Schedule HI, item 5.h, all income from insurance and reinsurance underwriting and from sales of insurance (including credit life insurance), reinsurance, and annuities. However, commissions and fees on sales of annuities by trust departments of the bank holding company's banking subsidiaries (or consolidated trust company subsidiaries) that are executed in a fiduciary capacity should be reported in Schedule HI, item 5.a, "Income from fiduciary activities." In addition, commissions and fees that a bank holding company earns from sales of annuities by securities brokerage firms should be reported in Schedule HI, item 5.d, "Investment banking, advisory, brokerage, and underwriting fees and commissions."

In addition, the general instructions for Schedule HC-I, Insurance-Related Activities were clarified to state that top-tier bank holding companies in a multi-tiered organization where a lower tier organization is a financial holding company are expected to file this schedule. Also all items in this schedule are reported in accordance with generally accepted accounting principles (GAAP) inclusive of all insurance enterprises subject to FAS 60.

Parts I and II of Schedule HC-I, apply only to the insurance underwriting activities of bank holding companies, and should include the assets and liabilities of those subsidiaries that are required to be consolidated for financial reporting purposes under GAAP. Part III applies to all insurance activities including insurance brokerage and agency operations and includes the consolidated assets and net income of those subsidiaries that are consolidated for financial reporting purposes under GAAP and includes the net investments in and the reporting bank holding company's proportionate share of the net income of unconsolidated subsidiaries and associated companies that are accounted for under the equity method of accounting. Also the line item instructions for Part III were clarified to indicate that total assets and net income are inclusive of reinsurance underwriting and sales activities.

FR Y-9CS Reporting

Although FR Y-12 report has been approved, the discontinuance of the FR Y-9CS is being reviewed. Until a final decision is made, all FR Y9-CS reporters should continue to submit the completed FR Y-9CS with the quarterly FR Y-9C. In a multi-tiered organization that includes one or more financial holding companies, only the top-tier bank holding company that files the FR Y-9C is required to file the FR Y-9CS as of the reporting date.

Loans and Leases Held for Sale

On March 26, 2001, the banking agencies issued Interagency Guidance on Certain Loans Held for Sale to provide instruction about the appropriate accounting and reporting treatment for certain loans that are sold directly from the loan portfolio or transferred to a held-for-sale account.

The guidance applies when an institution decides to sell loans that were not originated or otherwise acquired with the intent to sell, and the fair value of those loans has declined for any reason other than a change in the general market level of interest or foreign exchange rates.

The guidance reminds institutions to appropriately report reductions in the value of loans transferred to held for sale through a write-down of the recorded investment to fair value upon transfer. At the same time, there should be a charge to the institution’s allowance for loan and lease losses. In addition, loans transferred to a held-for-sale account should continue to be accorded the same past due and nonaccrual treatment as other loans.

While the interagency guidance applies to banks, savings associations, and federal credit unions, it should also be followed by bank holding companies that file GAAP based regulatory reports (see the Federal Reserve’s SR Letter 01-12). Accordingly, for purposes of the FR Y-9C report, any reduction in the value of loans transferred to a held-for-sale account should be reported as a charge-off in the appropriate line items in Part I of Schedule HI-B and as an "adjustment" to the allowance for loan and lease losses on line item 5 in Part II of this schedule. In addition, Part 2, line item 3, Less: Charge-offs, should be reported net of such write-downs reported in Part 2, line item 5. The write-down adjustment reported in Part 2, line item 5, should also be reported in footnote 1 (as a negative value) in the Notes to the Income Statement, as "write-downs arising from transfers of loans to held-for-sale account." This description appears as a preprinted caption on the Notes to the Income Statement of the FR Y-9C. This method of reporting will ensure that the impact of write-downs arising from transfers to the held-for-sale account is separately disclosed.

FASB Statements 141 and 142

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

The use of the pooling-of-interests method for those business combinations is prohibited. Statement No. 141 also changes the requirements for recognizing intangible assets as assets apart from goodwill in business combinations accounted for by the purchase method for which the date of acquisition is July 1, 2001, or later. The statement specifically identifies core deposit intangibles as one type of intangible that must be recognized as an asset separate from goodwill.

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

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

Bank holding companies with other than calendar year fiscal years that choose to early apply all of the provisions of Statement No. 142 prior to 2002 should report any impairment losses recognized as a result of the standard's required transitional impairment testing as the effect of a change in accounting principle. The effect of the accounting change and related income tax effects should be reported in the FR Y-9C income statement, Schedule HI, item 12, “Extraordinary items net of income taxes and minority interest." Until the FR Y-9C income statement format is changed, any goodwill impairment loss that does not result from a transitional impairment test should be included in Schedule HI, item 7.c,“Amortization expense of intangible assets."

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

Standby Letters of Credit Issued by a Federal Home Loan

Bank

The instructions for Schedule HC-L, item 9, “All other off-balance sheet items,” indicate that this item includes standby letters of credit issued by a Federal Home Loan Bank (FHLB) on behalf of the reporting bank holding company. Since the bank holding company is the account party, it is obligated to reimburse the Federal Home Loan Bank for all payments made under the standby letters of credit, these FHLB standby letters of credit in Schedule HC-L, item 9. If the aggregate amount exceeds 25 percent of equity capital, these standby letters of credit must be identified and disclosed in item 9.a, 9.b., 9.c, or 9.d.

Although FHLB standby letters of credit should be reported in Schedule HC-L, item 9, these letters of credit are *not* subject to the risk-based capital requirements. Accordingly, FHLB standby letters of credit should *not* be reported in Schedule HC-R, Regulatory Capital, item 52, column A,“All other off-balance sheet liabilities.”

Investments in Trust Preferred Securities

Bank holding companies and their subsidiaries may invest in trust preferred securities, which are hybrid instruments possessing characteristics typically associated with debt obligations. Although these securities may involve minor differences in terms, under the basic structure of trust preferred securities a corporate issuer, such as another bank holding company, first organizes a business trust or other special purpose entity. This trust issues two classes of securities: common securities, all of which are purchased and held by the corporate issuer, and trust-preferred securities, which are sold to investors. The business trust’s only assets are deeply subordinated debentures of the corporate issuer, which the trust purchases with the proceeds from the sale of its common and preferred securities. The corporate issuer makes periodic interest payments on the subordinated debentures to the business trust, which uses these payments to pay periodic dividends on the trust preferred securities to the investors. The subordinated debentures have a stated maturity and may also be redeemed under other circumstances. Most trust preferred securities are subject to a mandatory redemption upon the repayment of the debentures.

Trust preferred securities meet the definition of a security in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Because of the mandatory redemption provision in the typical trust preferred securities, investments in trust preferred securities would normally be considered debt securities for financial accounting purposes. Accordingly, bank holding companies should report these investments as debt securities for FR Y-9C report purposes (unless, based on the specific facts and circumstances of a particular issue of trust preferred securities, the securities would be considered equity rather than debt securities under Statement No. 115). If not held for trading purposes, trust preferred securities issued by U.S. business trusts should be reported in Schedule HC-B, item 6(a), “Other domestic debt securities.”

Reports Submission

An original and two copies (one-sided) of each completed bank holding company report must be returned to this bank by mail or messenger by the dates listed below. Under the Regulatory Reports Monitoring Program, the timeliness of receipt of these reports will be monitored. Earlier submission would aid this Bank in reviewing and processing the reports and is encouraged.

The submission deadline for the FR Y-9C, FR Y-9LP, FR Y-9CS, and FR Y-12 is Wednesday, November 14, 2001. Any FR Y-9C, FR Y-9LP, FR Y-9CS, or FR Y-12 reports received after 5:00 p.m. on November 14th will be considered late unless postmarked by November 12th or sent by overnight service by November 13th.

The submission deadline for the FR Y-11Q is Thursday, November 29, 2001. Any FR Y-11Q report received after 5:00 p.m. on November 29th will be considered late unless postmarked by November 27th or sent by overnight service by November 28th.

Submission of initial data via facsimile, even if prior to this deadline does not constitute timely filing. In view of this, please be sure that completed reports are submitted on time to:

Federal Reserve Bank of New York
Statistics Function
Administrative Support Staff
33 Liberty Street, 4th Floor
New York, N.Y. 10045

Edit Checklist

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

Electronic Submission Option

This Bank offers bank holding companies the option of submitting their FR Y-9C, FR Y-9LP, FR Y-9CS, FR Y-11Q 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 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 Carolyn Polite at (212) 720-2478.

Website

Report forms and instructions for the FR Y-9C, FR Y-9LP, FR Y-9CS, FR Y-12 and FR Y-11Q are also available on the Federal Reserve Board’s web site at *www.federalreserve.gov* under “Reporting Forms”.

Questions regarding these reports should be addressed to Monica Posen, at (212) 720-8239. Questions regarding the capital adequacy guidelines should be directed to Dianne Dobbeck in the Policy and Analysis Department at (212) 720-2610.

Sincerely,

Signed by Kenneth P. Lamar

Kenneth P. Lamar
Assistant Vice President
Statistics Function

ATTACHMENT I

Significant Revisions to the FR Y-9C Report Form for September 2001:

Supplemental Instructions:

FASB Statement No. 140

In September 2000, the FASB adopted Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, as a replacement for FASB Statement No. 125, which has the same title. Statement No. 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral, but it carries over most of the provisions of Statement No. 125 without change. Statement No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The statement is effective for recognition and reclassification of collateral for fiscal years ending after December 15, 2000. For further information, refer to the Glossary entry for “transfers of financial assets” in the FR Y-9C report instructions.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

Since 1996, the *Audit and Accounting Guide - Banks and Savings Institutions*, published by the American Institute of Certified Public Accountants, has stated that credit losses related to off-balance sheet financial instruments should be accrued and reported separately as liabilities “if the conditions of FASB Statement No. 5 are met.” Consistent with this accounting guidance, the FR Y-9C instructions state (on Glossary page GL-3) that "each bank holding company should also maintain, as a separate liability account, an allowance sufficient to absorb estimated credit losses associated with off-balance sheet credit instruments." Off-balance sheet credit instruments include off-balance sheet loan commitments, standby letters of credit, and guarantees.

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

ATTACHMENT 2

FR Y-9C Report Form and Instructions Revisions for September 2001:

Schedule HC-M, Memoranda, Line 11 was revised to state "Have all changes in investments and activities been reported to the Federal Reserve on the Bank Holding Company Report of Changes in Organizational Structure (FR Y-10)?" to reflect the change in title and form number of the FR Y-6A to the FR Y-10 report. In addition, all cross-references to the FR Y-6A in the instructions have been changed to the FR Y-10.

FR Y-9C Instructions Revisions for September 2001:

- A cross-reference on Schedule HI, Consolidated Report of Income, "Other noninterest income (itemize and describe the three largest amounts that exceed 1 percent of the sum of Schedule HI, items 1(h) and 5(m) above" (Memorandum 6) was corrected.

- The cross-reference on Schedule HC-E, Deposit Liabilities, "Foreign office time deposits with a remaining maturity of one year or less" (Memorandum 4) was corrected.

Significant Revisions to the FR Y-11Q Instructions for September 2001:

The cross-reference to the Bank Holding Company Report of Changes in Investments and Activities (FR Y-6A) in the general instructions under the section entitled "Legal Name of Nonbank Subsidiaries" was changed to the Bank Holding Company Report of Changes in Organizational Structure (FR Y-10) to reflect the change in title and form number of this report.