FEDERAL RESERVE BANK OF NEW YORK

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KENNETH LAMAR
VICE PRESIDENT

September 30, 2003

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

Enclosed are copies of forms for the following reports for the quarter ending September 30, 2003.

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

There are no changes to the FFIEC 002, 002S or 019 reporting forms or instructions for September 30, 2003 report date. However, there is Supplemental Guidance for the FFIEC 002 addressing the reporting treatment of the Financial Accounting Standards Board Interpretations No. 45, 46 and 149.

Reports Monitoring

Please note that, under the Regulatory Reports Monitoring Program, the timeliness of receipt of each of these reports will be monitored, and that 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 October 30, 2003. Any FFIEC 002/002S report received after 5:00 p.m. on October 30 will be considered late unless postmarked by October 28 or sent by

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overnight service by October 29.

An original and one copy of the completed FFIEC 019 must be returned to this Bank, by mail or messenger by Friday, November 14, 2003. Any FFIEC 019 received after 5:00 p.m. on November 14 will be considered late unless postmarked by November 12 or sent by overnight service by November 13. Completed reports should be submitted to:

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

We will also continue to monitor the accuracy of the periodic regulatory reports submitted for the September 30, 2003, report date. The staff of this Reserve Bank will monitor whether banking organizations are meeting their basic reporting requirements through the use of "validity edits." The current edits for the FFIEC 002/002S and FFIEC 019 reports that are subject to monitoring are unchanged and sent to you in a previous mailing.

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

FASB Statement No. 133 Implementation Issue No. C13 provides guidance on the circumstances in which a loan commitment must be accounted for as derivative. This guidance applies to commitments issued before July 1, 2003. **Commitments issued after June 30, 2003 are addressed by FASB Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities.*** U.S. branches and agencies of foreign banks must follow the guidance in Issue No. C13 and Statement No. 149 for FFIEC 002 reporting purposes.

Issue No. C13, states that loan commitments that relate to the origination or purchase of mortgage loans that will be held for sale must be accounted for as derivative instruments in accordance with Statement No. 133. However, loan commitments that relate to the origination or purchase of mortgage loans that will be held for investment, i.e., loans for which the U.S. branch or agency has the intent and ability to hold for the foreseeable future or until maturity or payoff, are not considered derivatives. In addition, commitments that relate to the origination of other types of loans (that is, other than mortgage loans) are not considered derivatives.

FASB Statement No. 149 differs from Issue No. C13. Under Statement No. 149, loan commitments that relate to the origination of mortgage loans that will be held for sale must be accounted for as derivatives by the issuer of the commitment. Commitments to originate mortgage loans that will be held for investment purposes and other types of loans are not derivatives.

However, for commitments to purchase or sell existing loans, the definition of a derivative in Statement No. 133 (see page GL-16 of the Glossary section of the FFIEC 002 instructions) should be applied to these commitments to determine whether they meet this definition and are subject to the provisions of Statement No. 133.

Mortgage loan commitments that must be accounted for as derivatives are considered over-the-counter written interest rate options. Therefore, because they are derivatives, these commitments should be excluded from item 1 of Schedule L, Derivative and Off-Balance Sheet Items. Instead, mortgage loan commitments that are derivatives must be reported on the balance sheet (Schedule RAL) at fair value. In addition, the par value of the mortgage loans to be acquired under these commitments must be reported in Schedule L, item 9.d. (1), column A, and in Schedule L, item 11, column A. The fair value of these mortgage loan commitments must be reported in the appropriate subitem of Schedule L, item 12.b. As written options, mortgage loan commitments that are derivatives are not covered by the risk-based capital standards. However, if the fair value of these mortgage loan commitments is positive, the positive fair value is subject to the risk-based capital standards and must be risk weighted as an on-balance sheet asset. The unused portion of loan commitments that are not derivatives should continue to be reported in Schedule L, item 1.

FASB Interpretation No. 46

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

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

For FFIEC 002 pursposes, U.S. branches and agencies with variable interests in VIEs that were created after January 31, 2003, must apply the provisions of Interpretation No. 46 to those entities immediately. (This applies only to VIEs of the U.S. branch or agency and not to the VIEs of the parent bank or any of the parent bank's other offices). A U.S. branch or agency that has a variable interest in a VIE created before February 1, 2003, and whose parent is a U.S. public company must apply the provisions of Interpretation No. 46 to that VIE no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. Therefore, beginning with the FFIEC 002 for September 30, 2003, these VIEs must be consolidated if the U.S. branch or agency is the primary beneficiary of the VIE. When a U.S. branch or agency whose parent is not a U.S. public company has a variable interest in a VIE created before February 15, 2003, the U.S. branch or agency must apply the provisions of Interpretation No. 46 to that entity no later than the end of the first annual reporting period beginning after June 15, 2003.

The assets and liabilities of a consolidated VIE should be reported on Schedule RAL of the FFIEC 002 on a line-by-line basis according to the asset and liability categories shown on the schedule. This reporting treatment also carries over to the other schedules in the FFIEC 002 report.

Reporting Asset-Backed Commercial Paper Conduits in Schedule S

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

FASB Interpretation No. 45

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

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

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

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

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

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

The interpretation does not describe in detail how a U.S. branch or agency's liability for its obligations under its guarantees should be measured subsequent to initial recognition. However, the accounting for fees received for issuing standby letters of credit has been, and should continue to be, governed by FASB Statement No. 91, *Accounting for Nonrefundable Fees and*

Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases. Under Statement No. 91, such fees are termed "commitment fees."

Electronic Submission Option

Electronic submission of the FFIEC 002/002S reports is available to all U.S. branches and agencies. We encourage you to take advantage of this method of reporting submission. Vendors have developed a software package that provides the means to submit the FFIEC 002/002S electronically. Submitting reports electronically using the software package provides the following key benefits:

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

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

Website

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

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

Questions regarding the FFIEC 019 reports should be directed to Samantha Lewis-Hue, Reports Analyst of the International Reports Division at (212) 720-8037.

Sincerely,

-- Signed by Kenneth Lamar --

Kenneth P. Lamar
Vice President
Statistics Function

Enclosures