FEDERAL RESERVE BANK OF NEW YORK

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KENNETH LAMAR
VICE PRESIDENT

September 30, 2005

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 and forms for the following reports for the quarter ending September 30, 2005:

- 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 the September 30, 2005 report date. However, there is Supplemental Guides for the FFIEC 002 addressing the reporting treatment of the Financial Accounting Standards Board Interpretation No. 46, EITF Issue No. 03-1, and AICPA Statement of Position 03-3.

FASB Interpretation No. 46 (Revised)

The FASB issued Interpretation No. 46 (Revised), Consolidation of Variable Interest Entities, in December 2003. Revised Interpretation No. 46 replaces Interpretation No. 46, which was issued in January 2003. This interpretation explains how to identify a “variable interest entity” (VIE) and how an institution 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 fair value of the entity's net assets (exclusive of variable interests) 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 VIE and must consolidate it.

For FFIEC 002 purposes, branches and agencies with variable interests in VIEs must apply the provisions of Interpretation No. 46 (Revised) to those entities in accordance with the interpretation's effective date and transition provisions. Application of Interpretation No. 46 (Revised) by banks that are public companies, or subsidiaries of such public companies, was required for specified types of variable interest entities at various dates beginning December 31, 2003, through December 31, 2004. Application of Interpretation No. 46 (Revised) by banks that are neither public companies nor subsidiaries of public companies was required immediately for variable interest entities created after December 31, 2003, and for all other variable interest entities at the beginning of the first fiscal year beginning after December 15, 2004 (January 1, 2005, for calendar year banks). A foreign branch or agency is considered a U.S. public company if its parent bank's equity securities are traded in a public market either on a U.S. stock exchange or in the over-the-counter market, included securities quoted only locally or regionally.

The assets and liabilities of a consolidated VIE should be reported on the FFIEC 002 balance sheet (Schedule RAL) on a line-by-line basis according to the asset and liability categories shown on the balance sheet.

Other-Than-Temporary Impairment of Securities and EITF Issue No. 03-1

Under FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, an institution must determine whether an impairment of an individual available-for-sale or held-to-maturity security is other than temporary. An impairment occurs whenever the fair value of a security is less than its (amortized) cost basis. If an impairment is judged to be other than temporary, the cost basis of the individual security must be written down to fair value through earnings, thereby establishing a new cost basis for the security.

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 was intended to provide additional guidance for determining whether investments in these securities have incurred an other-than-temporary impairment.

The FASB has indefinitely delayed the effective date for the measurement and recognition guidance contained in EITF Issue No. 03-1. In the meantime, institutions should continue to apply relevant other-than-temporary impairment guidance as required by existing authoritative literature, including 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 (Topic 5.M. in the Codification of Staff Accounting Bulletins).

AICPA Statement of Position 03-3 on Purchased Impaired Loans

In December 2003, the AICPA issued Statement of Position (SOP) 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. In general, this SOP applies to "purchased impaired loans," i.e., loans that a bank has purchased, including those acquired in a purchase business combination, when there is evidence of deterioration of credit quality since the origination of the loan and it is probable, at the purchase date, that the bank will be unable to collect all contractually required payments receivable. The SOP applies to loans acquired in fiscal years beginning after December 15, 2004. Banks must follow SOP 03-3 for FFIEC 002 purposes. The SOP does not apply to the loans that a bank has originated.

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

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

In Schedule C, Part I, Loans and Leases, branches and agencies should report the carrying amount (before any loan loss allowance) of a purchased impaired loan in the appropriate loan category (items 1 through 8). Neither the accretable yield nor the nonaccretable difference associated with a purchased impaired loan should be reported as unearned income in Schedule C, Part I, item 10.

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. The advisory provides supplemental guidance on the appropriate accounting and reporting for commitments to originate mortgage loans that will be held for resale, which the advisory refers to as derivative loan commitments, and for commitments to sell mortgage loans under mandatory delivery and best efforts contracts. It also addresses the guidance that institutions should consider in determining the fair value of derivatives, including SEC Staff Accounting Bulletin No. 105, Application of Accounting Principles to Loan Commitments, which applies to the recognition of derivative loan commitments. The interagency 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, i.e., 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 both 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, Accounting for Derivative Instruments and Hedging Activities, as amended by FASB Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. Institutions 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.

Branches and agencies are expected to apply the guidance in the advisory when preparing the FFIEC 002. 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 FFIEC 002 purposes. All other derivative loan commitments should be reported in the FFIEC 002 with a bank's over-the-counter written interest rate options in Schedule L, Derivatives and Off-Balance Sheet Items, not as unused commitments in item 1 of Schedule 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 L, item 9.d.(1), column A, and in Schedule L, item 11, column A. Banks must also report the fair value of these derivative loan commitments in the appropriate subitem of Schedule L, item 12.b.

Banks 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.

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 October 31, 2005. Any FFIEC 002/002S report received after 5:00 p.m. on October 31, 2005 will be considered late unless postmarked by October 29 or sent overnight service by October 30.

An original and one copy of the completed FFIEC 019 must be returned to this Bank, by mail or messenger by November 14, 2005.

Any FFIEC 019 received after 5:00 p.m. on November 14, 2005 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, 2005 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 were sent to you in a previous mailing.

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 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 Carolyn Polite at (212) 720-5415.

Website

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

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

Sincerely,

-- Signed by Kenneth Lamar --

Kenneth P. Lamar
Vice President
Statistics Function

Enclosures