FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

TELEPHONE 212 720-8590

FACSIMILE 212 720-8707

ken.lamar@ny.frb.org

KENNETH LAMAR
VICE PRESIDENT

October 4, 2006

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, 2006:

- 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).

The FFIEC 002 reporting form and instructions for the September 30, 2006 has been revised for Schedule O, Memorandum items 1.a(1) through 1.b(2) to exclude retirement accounts. In addition, the instructions have been revised to provide guidance on the reporting of brokered certificates of deposit issued in $1,000 denominations under a master certificate of deposit in the revised Schedule O and Schedule E. (See attachment for specific details on the changes.) There are no changes to the FFIEC 002s reporting form or instructions for the September 30, 2006 report date. Although there are no changes to the FFIEC 019 reporting form, there are minor changes to the FFIEC 019 instructions.

Below is supplemental guidance for the FFIEC 002 addressing the reporting treatment of the Financial Accounting Standards Board Interpretation No. 155, EITF Issue No. 03-1, and AICPA Statement of Position 03-3.

FAS 155

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

FAS 155 should be applied to all financial instruments acquired, issued, or subject to a remeasurement event (as defined in the standard) occurring after the beginning of the first fiscal year that begins after September 15, 2006. The fair value option may also be applied upon adoption of FAS 155 to existing hybrid financial instruments that had been bifurcated prior to adoption. Earlier adoption of FAS 155 is permitted as of the beginning of an earlier fiscal year, provided the branch or agency has not yet filed a FFIEC 002 series report for any period of that fiscal year.

Following the adoption of FAS 155, hybrid financial instruments to which the fair value option has been applied should not be reclassified as trading assets or trading liabilities solely due to the election of this option. Such hybrid financial instruments should continue to be reported in the asset or liability category appropriate to the instrument. If a hybrid financial instrument to which the fair value option has been applied is a security, it should be included in available-for-sale securities on the balance sheet (FFIEC 002, Schedule RAL, item 1.b or 1.c) and the security’s fair value should be reported in (FFIEC 002, memo item 3 and 4).

Reporting Securities Borrowing and Lending Transactions on the Balance Sheet

Branches and agencies are permitted to offset assets and liabilities in the FFIEC 002 balance sheet (Schedule RAL) when a "right of setoff" exists. FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts, defines "right of setoff" and specifies what conditions must be met to have that right. FASB Interpretation No. 41 modifies Interpretation No. 39 to permit offsetting in the balance sheet of payables and receivables that represent repurchase agreements and reverse repurchase agreements when the agreements meet specified conditions. According to the AICPA Audit and Accounting Guide for Depository and Lending Institutions, Interpretation No. 41 does not apply to securities borrowing or lending transactions. Therefore branches and agencies should not offset securities borrowing and lending transactions in the balance sheet unless all the conditions set forth in Interpretation No. 39 are met.

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.

In November 2005, the FASB issued FASB Staff Position FAS 115-1 and FAS 124-1 to nullify the measurement and recognition guidance contained in EITF Issue No. 03-1, the effective date of which the FASB had previously delayed. The guidance in this FASB Staff Position is to be applied beginning in 2006 and references existing other-than-temporary impairment guidance, which institutions were already expected to apply. Such guidance includes FASB Statement No. 115, EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets, and Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 59, Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities (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. Branches and agencies should 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, which are referred to as derivative loan commitments, are derivatives and must be accounted for at fair value on the balance sheet by the issuer. All loan sales agreements, including 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. Branches and agencies should also report the fair value of these derivative loan commitments in the appropriate subitem of Schedule L, item 12.b. Please 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.

Privatization of the Student Loan Marketing Association

On December 29, 2004, the Student Loan Marketing Association (SLMA), a government-sponsored enterprise created in 1972, was dissolved. On that date, SLMA defeased its remaining debt obligations by transferring them into a special and irrevocable trust and depositing U.S. Treasury securities with the trustee in amounts sufficient to pay the principal of and interest on its debt obligations. Branches and agencies should continue to report SLMA debt obligations held for purposes other than trading as securities issued by U.S. Government-sponsored agencies in Schedule RAL, item 1.b(2). Similarly, SLMA debt obligations held for trading purposes (in domestic offices) should continue to be reported as U.S. Government agency obligations in Schedule RAL, item 1.f(1).

SLM Corporation, the successor to SLMA, is a private-sector corporation that has issued debt securities, including commercial paper. Branches and agencies should report SLM Corporation debt securities held for purposes other than trading as "Other domestic debt securities" in Schedule RAL, item 1.c(4). SLM Corporation debt securities held for trading purposes (in domestic offices) should be reported as "Other debt securities" in Schedule RAL, item 1.f(2). Branches and agencies should report holdings of securitized student loans issued by SLM Corporation (or its affiliates) as asset-backed securities in Schedule RAL, item 1.c(3), unless held for trading purposes. Holdings of SLM Corporation common stock and preferred stock should be reported in Schedule RAL, item 1.c(4), unless held for trading purposes.

<u>New Subscription Service</u>

We are offering a new 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 new service at the following website: http://service.govdelivery.com/service/subscribe.html?code=USFRBNEWYORK_8

<u>Reports Monitoring</u>

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 30, 2006. Any FFIEC 002/002S report received after 5:00 p.m. on October 30, 2006 will be considered late unless postmarked by October 26 or sent overnight service by October 27.

An original and one copy of the completed FFIEC 019 must be returned to this Bank, by mail or messenger by November 14, 2006. Any FFIEC 019 received after 5:00 p.m. on November 14, 2006 will be considered late unless postmarked by November 10 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, 2006 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 Carolina Jimenez, Reports Analyst in the Regulatory Reporting Division at (212) 720-2695, or Doug Herold, Team Leader in the Division at (212) 720-8591.

Sincerely,

-- Signed by Kenneth Lamar --

Kenneth P. Lamar
Vice President
Statistics Function

Enclosures

Attachment

FFIEC 002 report and instructions changes summarized below have been approved by the FFIEC.

Schedule O – Other Data for Deposit Insurance Assessments

1. Memorandum items 1.a(1) through 1.b(2) of Schedule O were revised to exclude retirement accounts, which are reported in four new Memorandum items 1.c.(1) through 1.d.(2) as follows:

   - FDIC-insured branches should determine whether they have retirement deposit accounts eligible for the $250,000 insurance coverage and should apply the following transition guidance. Such branches may provide reasonable estimates for the information to be reported in the revised Schedule O Memorandum items in their FFIEC 002 for September 30, 2006. If a branch's existing deposit records and systems for these retirement deposit accounts provide insufficient information to allow the branch to make a reasonable estimate, the branch may treat all of these deposit accounts as eligible for the $100,000 insurance coverage in the September 30 FFIEC 002.

   - For the FFIEC 002 for December 31, 2006, branches are expected to have made appropriate systems changes to enable them to report reasonably accurate data on all types of retirement deposit accounts eligible for the $250,000 insurance coverage. Therefore, branches would no longer be permitted to elect to treat all retirement deposit accounts as eligible for the $100,000 insurance coverage in the revised Schedule O Memorandum items in their December 31 FFIEC 002. Thereafter, FDIC-insured branches' deposit records and systems should enable them to report information on all retirement deposit accounts in these Schedule O Memorandum items in accordance with the applicable instructions.

2. Guidance concerning the reporting of brokered certificates of deposit issued in $1,000 amounts under a master certificate of deposit is provided in the revised Schedule O and in Schedule E of the FFIEC 002. For the retail brokered deposits, multiple purchases by individual depositors from an individual FDIC-insured branch normally do not exceed the applicable deposit insurance limit (either $100,000 or $250,000), but under current deposit insurance rules the

deposit broker is not required to provide information routinely on these purchasers and their account ownership capacity to the insured branch issuing the deposits. For purposes of revised Schedule O, Memorandum item 1, multiple accounts of the same depositor should not be aggregated. Therefore, in the absence of information on account ownership capacity for retail brokered certificates of deposit in $1,000 amounts, which are rebuttably presumed to be fully insured deposits, branches issuing these brokered deposits should include them in Schedule O, Memorandum item 1, as “Deposit accounts of $100,000 or less.” Furthermore, these brokered certificates of deposit in $1,000 amounts should not be included in Schedule E, Memorandum item 1.a, “Time deposits of 100,000 or more,” or Memorandum item 1.c, “Time certificates of deposit of $100,000 or more with remaining maturity of more than 12 months.”

3. A footnote was added to Memorandum item 1 to state that the specific dollar amounts used as the basis for reporting the number and amount of deposit accounts in Memorandum items 1.a through 1.d reflect the deposit insurance limits in effect on the report date.

4. Memorandum items 2.a and 2.b of Schedule O are being replaced with Memorandum item 2, “Estimated amount of uninsured deposits in the branch (excluding IBF),” and are completed only by branches with $1 billion or more in total claims on nonrelated parties.

FFIEC 019 instructions changes summarized below:

1. Page GEN-1, the "Scope" and "Who Must Report" sections have been switched.

2. Page GEN-5, the reference to "or Column 6, form BC (SA);" was deleted since the TIC form BC (SA) was discontinued in June 2006.