FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-5000

October 6, 2008

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 September 30, 2008 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);

- 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 changes to the FFIEC 002 reporting forms and instructions; however, there are no changes to the FFIEC 002s and 019 reporting forms or instructions for the September 30, 2008 report date.

The FFIEC 002 reporting form has been revised to collect information on: (1) assets and liabilities accounted for under the fair value option (2) federal funds transactions and securities repurchase/resale agreements (3) loans secured by real estate (4) loans measured at fair value and unpaid principal balance of loans measured at fair value under a fair value option (5) notional value of credit derivatives. Also, several items have been eliminated from the FFIEC 002. In addition, the FFIEC 002 and FFIEC 002s report forms have been revised to require the signature and contact information of the chief financial officer.

Several clarifications have been made to the FFIEC 002 reporting instructions including the addition of a new glossary entry for U.S. income taxes and clarification on items reported on Schedule E and Schedule S. Please refer to the attachment included with this letter for further details on the changes impacting the September 2008 report.

Construction Loans

Loans written as combination construction-permanent loans secured by real estate should be reported in Schedule C, item 1.a, “Construction, land development, and other land loans,” until construction is completed or principal amortization payments begin, whichever comes first. When the first of these events occurs, the loans should begin to be reported in the real estate loan category in Schedule C, item 1, appropriate to the real estate collateral. All other construction loans secured by real estate should continue to be reported in Schedule C, item 1.a, after construction is completed unless and until (1) the loan is refinanced into a new permanent loan by the reporting branch or agency or is otherwise repaid, (2) the branch or agency acquires or otherwise obtains physical possession of the underlying collateral in full satisfaction of the debt, or (3) the loan is charged off.

Measurement of Fair Values in Stressed Market Conditions

The valuation of various assets and liabilities on the balance sheet - including trading assets and liabilities, available-for-sale securities, loans held for sale, assets and liabilities accounted for under the fair value option (which is discussed in the following section), and foreclosed assets – involves the use of fair values. During recent market stress events, the fair values of some financial instruments and nonfinancial assets have declined.

Institutions are reminded that the objective of a fair value measurement is to determine the price that would be received to sell an asset or transfer a liability in an orderly transaction (e.g., not a forced or distressed sale) at the balance sheet date. Accordingly, fair values should reflect current market conditions and consider recent transaction prices, where available. This fair value objective is generally applicable to all fair value measurements, effective for fiscal years beginning after November 15, 2007 with the adoption of FASB Statement No. 157, which is discussed in the following section.

On October 3, 2007, the Center for Audit Quality (CAQ), which is affiliated with the American Institute of Certified Public Accountants, issued a white paper entitled *Measurements of Fair Value in Illiquid (or Less Liquid) Markets* (http://www.aicpa.org/caq/download/WP_Measurements_of_FV_in_Illiquid_Markets.pdf). The white paper discusses issues associated with fair value measurement under existing generally accepted accounting principles (GAAP) in the context of the conditions that currently exist in many segments of the credit markets. Although the CAQ’s white paper was directed to auditors and public companies, the paper articulates certain existing GAAP requirements related to fair value measurement issues that apply to all institutions. For FFIEC 002 reporting purposes, a branch or agency should consider the fair value measurement information contained in the CAQ’s white paper.

FASB Statement No. 157 on Fair Value Measurement

FASB Statement No. 157, “Fair Value Measurements”, issued in September 2006, defines fair value, establishes a framework for measuring the fair value of assets and liabilities based on a three level hierarchy, and expands disclosures about fair value measurements. The FASB’s three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting branch or agency has the ability to access at the measurement date (e.g., the FFIEC 002 reporting date). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

According to FAS 157, observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. In contrast, unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

FAS 157 is effective for fiscal years beginning after November 15, 2007, and, with certain exceptions, is to be applied prospectively. Branches or agencies must adopt FAS 157 for FFIEC 002 reporting purposes in accordance with the standard’s effective date. Thus, a branch or agency with a calendar year fiscal year must adopt FAS 157 as of January 1, 2008.

FASB Statement No. 159 on Fair Value Option

FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities", issued in February 2007, allows a branch or agency to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings. In general, a branch or agency may elect the fair value option for an eligible financial asset or liability when it first recognizes the instrument on its balance sheet or enters into an eligible firm commitment. A branch or agency may also elect the fair value option for eligible items that exist on the effective date of FAS 159. A branch or agency's decision to elect the fair value option for an eligible item is irrevocable. A branch or agency that elects the fair value option is expected to apply sound risk management and control practices to the assets and liabilities that will be accounted for at fair value under the option.

FAS 159 is effective for financial statements issued by the parent bank for fiscal year that begin after November 15, 2007, and should not be applied retrospectively to prior fiscal years, except as permitted in the standard's early adoption provisions. A branch or agency may adopt FAS 159 and elect the fair value option for existing eligible items as of the beginning of a fiscal year that begins on or before November 15, 2007, subject to the conditions set forth in the standard, one of which is a requirement to adopt all the requirements of FAS 157 at the early adoption date of FAS 159 or earlier.

On April 17, 2007, the Center for Audit Quality (CAQ), which is affiliated with the American Institute of Certified Public Accountants, issued Alert No. 2007-14, *FAS 159 Early Adoption Date Approaching – Factors to Consider* (http://www.thecaq.org/newsroom/pdfs/CAQPressRelease_041807a.pdf). The Alert summarized the principles and objectives of the fair value option as set forth in FAS 159 and provides factors to consider in determining whether an entity has substantively adopted FAS 159 on a go forward basis. Although the CAQ's Alert was directed to auditors and public companies, the factors concerning the evaluation of an entity's purported early adoption of FAS 159 are equally appropriate for nonpublic institutions. For regulatory reporting purposes, branches and agencies are expected to meet the principles and objectives of FAS 159 when applying the fair value option and should consider the information contained in the CAQ's Alert.

Schedule Q, Financial Assets and Liabilities Measured at Fair Value

A new Schedule Q, Financial Assets and Liabilities Measured at Fair Value, has been added to the FFIEC 002 report this quarter. Schedule Q is to be completed by branches and agencies that have adopted FASB Statement No. 157, "Fair Value Measurements," and either (1) have elected the fair value option under FAS 159 or under FASB Statements No. 155 or 156, or (2) reported trading assets of $2 million or more for any of the four preceding quarters. Branches and agencies that meet these criteria but do not meet criteria (1) must complete *only* Schedule Q items 2 and 5, and leave items 1, 2.a, 3, 4, 6 and 7 blank). This schedule captures fair value data on total trading assets and liabilities and on other assets, liabilities, and loan commitments to which the fair value option is being applied. Accordingly, branches and agencies should not include data in Schedule Q on available-for-sale securities or on derivatives held for purposes other than trading that are reported as "Other assets" or "Other liabilities" (Schedule RAL, item 1.h and 4.f.).

Under FAS 159, securities that a branch or agency has elected to report at fair value under the fair value option are reported as trading securities even though management did not acquire the securities principally for the purpose of selling them in the near term or for other trading purposes. Thus, such securities, whether held on the date of adoption of FAS 159 or acquired thereafter, should be reported in Schedule Q in both item 2, "Trading assets," and item 2.a, "Nontrading securities at fair value with changes in fair value reported in current earnings." See the federal register notice specified below for all changes impacting the September 2008 report.

Schedule O, Other Data for Deposit Insurance Assessments

The FFIEC 002 reporting form and instructions for Schedule O have been revised as of June 30, 2008 to replace items 1 through 7 and Memorandum items 4 and 5 (including their sub items) with six items.

For an interim period covering the June 30, 2008, through December 31, 2008, report dates, each FDIC-insured branch must complete either:

(1) The revised format of Schedule O, items A through C on an unconsolidated single FDIC certificate number basis and Memorandum items 1 through 3; or

(2) The current format of Schedule O, items 1 through 7 and Memorandum items 1 through 5.

The revised format will take effect for all FDIC-insured branches on March 31, 2009, when the current format will be eliminated. Although the use of the revised format is not required for report dates in 2008, an FDIC-insured branch that chooses to begin reporting under the revised format for any quarter-end report date during the interim period may elect to report, on an unconsolidated single FDIC certificate number basis, quarter-end total deposits, allowable exclusions, and foreign deposits only (in items A through C) or quarter-end balances and daily averages for the quarter (in items A through F). However, once an FDIC-insured branch chooses to begin reporting quarter-end total deposits, allowable exclusions, and foreign deposits under the revised format in any quarter during the interim period, it must continue to report under the revised format of Schedule O each quarter thereafter and may not revert back to the current format of Schedule O. In addition, once an FDIC-insured branch begins to report daily averages in any quarter during the interim period, it must continue to report daily averages each quarter thereafter, including in 2009 and subsequent years. The deposit insurance assessment base of an FDIC-insured branch that reports daily averages for total deposits and allowable exclusions (including foreign deposits) will be determined using the daily averages rather than the branch's quarter-end balances.

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.govdelivery.com/service/subscribe.html?code=USFRBNEWYORK_8

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 30, 2008. Any

FFIEC 002/002S report received after 5:00 p.m. on October 30, 2008 will be considered late unless postmarked by October 27 or sent 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 November 14, 2008. Any FFIEC 019 received after 5:00 p.m. on November 14, 2008 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, 2008 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 Susanna Asaad, Senior Reports Analyst in the Regulatory Reporting Division at (212) 720-8021, or Henry Castillo, Team Leader in the Division at (212) 720-1318.

Sincerely,

-- Signed by Richard Molloy --

Richard Molloy
Statistics Officer
Financial Reports Department

Attachment

Revisions to the FFIEC 002 for September 30, 2008

Report Form

Fair value changes

1. New items (memoranda items 5.a, “Loans secured by real estate”, 5.b, “Commercial and industrial loans”, and 5.c, “Other loans”) were added to Schedule RAL and Schedule C to capture loans measured at fair value.

2. New items (memoranda items 6.a, “Loans secured by real estate”, 6.b, “Commercial and industrial loans”, and 6.c, “Other loans”) were added to Schedule RAL and Schedule C to capture unpaid principal balances of loans measured at fair value.

3. Schedule Q was added to collect information on financial assets and liabilities measured at fair value under FAS 157 and FAS 159.

Credit derivatives

1. The notional amount of credit derivatives was separated into new items and renumbered in Schedule L and Schedule M, Part V as follows:

   - “Credit default swaps” (item 6.a.(1));
   - “Total return swaps” (item 6.a.(2));
   - “Credit options” (item 6.a.(3));
   - “Other credit derivatives” (item 6.a.(4)).

   In addition, the fair value of credit derivatives was renumbered in Schedule L and Schedule M, Part V to (item 6.b) “Gross fair values”.

Miscellaneous

1. New items were added to capture the branch or agency’s chief financial officer's signature and contact information and the contact information for one additional person.

2. Schedule RAL, (items 1.g.(1), 1.g.(2) and 4.d, Schedule C, Part I, item M.2, Schedule L, item 5 and Schedule M, Part V, item 5) all items related to the reporting of bankers acceptances were eliminated.

3. The breakdown of "Federal funds sold" (item 1.d.(1)) and "Securities purchased under agreements to resell" (item 1.d.(2)) was revised to include new items (item 1.d.1(b)) "Federal funds sold with nonbank brokers and dealers in securities", and (item 1.d.2(b)) "Securities purchased under agreements to resell with nonbank brokers and dealers in securities" to separately capture transactions with nonbank brokers and dealers in securities. In addition, (item 1.d.1(a)) was changed to "Federal funds sold with commercial banks in the U.S.", (item 1.d.2(a)) was changed to "Securities purchased under agreements to resell with commercial banks in U.S.", (item 4.b.(1)) was changed to "Federal funds purchased with commercial banks in U.S.", and (item 4.b.2(a)) was changed to "Securities sold under agreements to repurchase with commercial banks in the U.S.".

4. Schedule C, "Loans secured by real estate" (item 1) was separated into the following categories:

   - "Construction, land development, and other land loans", (item 1.a);
   - "Loans secured by farmland (including farm residential and other improvements", (item 1.b);
   - "Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit", (item 1.c(1);
   - "Closed-end loans secured by 1-4 family residential properties", (item 1.c(2);
   - "Loans secured by nonfarm nonresidential properties" (item 1.d);
   - "Loans secured by multifamily (5 or more) residential properties", (item 1.e).

5. New item (Memorandum item 1.b "Individual Retirement Accounts (IRAs) and Keogh Plan accounts") was added to collect details on time deposits of $100,000 or more.

6. Schedule S, Column G, "All other loans and all leases", was revised to "All other loans, all leases, and all other assets".

Instructions

1. Schedule RAL, items 1.h “Other assets” was revised to include customers’ liability to a branch or agency on acceptances outstanding.

2. Schedule RAL, item 4.f “Other liabilities” was revised to include the branch or agency’s liability on acceptances executed and outstanding.

3. Schedule E, Column D was revised to indicate that amounts in this column should exclude those IBF liabilities reported as federal funds purchased and securities sold under agreements to repurchase or as other borrowed money.

4. Schedule E, Memorandum item 1.a, "Time deposits of $100,000 or more", and 1.c, "Time certificates of deposit of $100,000 or more with remaining maturity of more than 12 months" were revised to clarify the reporting treatment for certain brokered deposits.

5. Schedule S Column G, "All other loans, all leases and all other assets", was revised to include securitization transactions involving assets other than loans.

6. A new entry for U.S. income taxes was added to the glossary section