

# FEDERAL RESERVE BANK OF NEW YORK

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KENNETH LAMAR  
SENIOR VICE PRESIDENT

September 30, 2009

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 (BHC) Reporting Requirements for September 30, 2009

The following report forms and instructions for the September 30, 2009 reporting date has been posted to the Federal Reserve Board's website at [www.federalreserve.gov](http://www.federalreserve.gov) under "Reporting Forms":

- (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) Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11);
- (4) Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314); and
- (5) Consolidated Bank Holding Company Report of Equity Investments in Nonfinancial Companies (FR Y-12).

A number of clarifications have been made to the FR Y-9C reporting instructions. There have been no changes to the FR Y-9C, FR Y-9LP, FR Y-11, FR 2314 and FR Y-12 reporting forms for this quarter. Significant accounting updates have been provided in this letter.

## Subscription Service

We are offering a subscription service, which enables you to receive recent news and updates on our reporting forms and instructions and upcoming events. You can sign up for this new service at the following website:

[http://service.govdelivery.com/service/subscribe.html?code=USFRBNEWYORK\\_8](http://service.govdelivery.com/service/subscribe.html?code=USFRBNEWYORK_8)

## Reports Submission

All FR Y-9C and FR Y-9LP filers are required to submit electronically. A signed and attested printout of the data submitted must be maintained in the BHCs files. The cover page of the Reserve Bank supplied report forms should be used to fulfill the signature and attestation requirements and should be attached to the printout placed in the BHCs files. For the FR Y-11, FR 2314, and FR Y-12 reports that are not submitted electronically, an original and two copies (one-sided) of each completed report must be returned to this bank by mail or messenger by the dates listed below.

The Federal Reserve continues to monitor the timeliness of receipt of these reports. Earlier submission would aid this Bank in reviewing and processing the reports and is encouraged.

The submission deadline for all FR Y-9C filers is Monday, November 9, 2009. Any FR Y-9C reports received after 5:00 p.m. on November 9 will be considered late. The submission deadline for all FR Y-9LP filers is Monday, November 16, 2009. Any FR Y-9LP reports received after 5:00 p.m. on November 16 will be considered late. The submission deadline for the FR Y-12 is Monday, November 16, 2009. Any FR Y-12 reports received after 5:00 p.m. on November 16 will be considered late unless postmarked by Thursday November 12 or sent by overnight service on Saturday, November 14. The submission deadline for the FR Y-11 and FR 2314 is Monday, November 30, 2009. Any FR Y-11 and FR 2314 reports received after 5:00 p.m. on November 30 will be considered late unless postmarked by Wednesday, November 25 or sent by overnight service on Saturday, November 28.

Submission of initial data via facsimile, even if prior to this deadline does not constitute an official 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, 4<sup>th</sup> Floor  
New York, N.Y. 10045

## Editing of Data by Respondents

All BHCs must submit their FR Y-9 reports via the Federal Reserve's internet submission facility (IESUB), using either data entry or file transfer. This data collection system will subject a BHC's electronic data submission to the published validity and quality edit checks and transmit the results of such checks to the BHC shortly thereafter. The BHC must resolve any validity edit before the data can be accepted. The BHC will also be provided a method for supplying explanations for quality edits. (Guidelines for providing quality explanations can be found at [www.reportingandreserves.org](http://www.reportingandreserves.org)). These explanations will be held confidential. Reports that contain validity edit failures or have quality edit failures that are not explained on or before the filing deadline will be deemed late.

Companies that offer computer software to aid in the preparation of FR Y-9 reports or BHCs that have developed their own reporting software may choose to incorporate validity and quality edit checks into their software.

The Federal Reserve will continue to provide updates about the enhanced IESUB submission process on the web site: [www.reportingandreserves.org](http://www.reportingandreserves.org) under the heading BHC Modernization project.

#### FASB Statements No. 166 and 167

In June 2009, the FASB issued Statement No. 166, Accounting for Transfers of Financial Assets (FAS 166), and Statement No. 167, Amendments to FASB Interpretation No. 46(R) (FAS 167), which change the way entities account for securitizations and special purpose entities. FAS 166 revises FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, by eliminating the concept of a “qualifying special-purpose entity” and creating the concept of a “participating interest”, changing the requirements for derecognition of financial assets, and requiring additional disclosures. FAS 167 revises FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities, by changing when an entity should be consolidated, that is, insufficiently capitalized or is not controlled through voting or similar rights, i.e., a “variable interest entity” (VIE). Under FAS 167, a BHC must perform a qualitative assessment to determine whether its variable interest or interests give it a controlling financial interest in a VIE. If a BHC’s variable interest or interests provide it with the power to direct the most significant activities of the VIE, and the right to receive benefits or the obligation to absorb losses that could potentially be significant to the VIE, the BHC is the primary beneficiary of, and therefore must consolidate, the VIE.

Both FAS 166 and FAS 167 take effect as of the beginning of each BHC’s first annual reporting period that begins after November 15, 2009, for interim periods therein, and for interim and annual reporting periods thereafter (i.e., as of January 1, 2010, for BHCs with a calendar year fiscal year). Earlier application is prohibited. BHCs are expected to adopt FAS 166 and FAS 167 for FR Y-9 reporting purposes in accordance with the effective date of these two standards.

#### Calculation of Disallowed Deferred Tax Assets

The amount of deferred tax assets that do not qualify for inclusion in Tier 1 capital based on the capital guidelines are reported in Schedule HC-R, item 9.b, “LESS: Disallowed deferred tax assets.” Generally, deferred tax assets that are dependent upon future taxable income are limited to the lesser of: (i) the amount of such deferred tax assets that the BHC expects to realize within one year of the calendar quarter-end date, based on its projected future taxable income for that year or (ii) 10% of the amount of the BHC’s Tier 1 capital.

The reporting instructions for Schedule HC-R, item 9.b includes a section describing the calculation for determining the amount of deferred tax assets that do not qualify for inclusion in Tier 1 capital. Step (a) of the calculation indicates to start with the amount of Tier 1 capital reported in Schedule HC-R, item 8, “Subtotal.” However, for purposes of this calculation, until March 31, 2011, BHCs may include (i.e., in addition to the amount reported in Schedule HC-R,

item 8) in step (a) the amount of excess restricted core capital elements included in Schedule HC-R, item 10, "Other additions to (deductions from) Tier 1 capital" and reported separately in Notes to the Balance Sheet -- Other, item 1, "Amount of excess restricted core capital elements included in Schedule HC-R, item 10."

#### Other-Than-Temporary Impairment

When the fair value of an investment is less than its cost basis, the impairment is either temporary or other-than-temporary. To determine whether the impairment is other-than-temporary, a BHC must apply guidance such as paragraph 16 of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities; FASB Staff Position (FSP) FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments; FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments; paragraph 6 of Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock; Emerging Issues Task Force (EITF) Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets; and FSP EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20.

On January 12, 2009, the FASB issued FSP EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20. This FSP amended EITF Issue No. 99-20 to align its impairment guidance with the guidance in paragraph 16 of FASB Statement No. 115 and related implementation guidance. The FSP is effective for "interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted." All BHCs, both public and nonpublic, that hold beneficial interests that fall within the scope of EITF Issue No. 99-20 must adopt FSP EITF 99-20-1 for FR Y-9 reporting purposes in accordance with the FSP's effective date. Thus, both public and nonpublic BHCs should have applied this FSP beginning in their December 31, 2008, reports. BHCs should not apply the guidance in this FSP to the September 30, 2008, or earlier reporting periods.

On April 9, 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2). This FSP amended the other-than-temporary impairment guidance in several standards (including FASB Statement No. 115, FSP FAS 115-1 and FAS 124-1, and EITF Issue No. 99-20) that applies to investments in debt securities. FSP FAS 115-2 does not apply to investments in securities that meet the definition of an equity security in FASB Statement No. 115. Under FSP FAS 115-2, if a BHC intends to sell a debt security or it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis, an other-than-temporary impairment has occurred and the entire difference between the security's amortized cost basis and its fair value at the balance sheet date must be recognized in earnings. In these cases, the fair value of the debt security would become its new amortized cost basis. The FSP also provides that if the present value of cash flows expected to be collected on a debt security is less than its amortized cost basis, a credit loss exists. In this situation, if a BHC does not intend to sell the security and it is not more likely than not that the BHC will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, an other than temporary

impairment has occurred. The amount of the total other-than-temporary impairment related to the credit loss must be recognized in earnings, but the amount of the total impairment related to other factors must be recognized in other comprehensive income, net of applicable taxes.

FSP FAS 115-2 is effective for interim and annual reporting periods ending after June 15, 2009. Early adoption of this FSP is permitted for periods ending after March 15, 2009, provided FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, and, if applicable, FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, are adopted at the same time. BHCs were expected to adopt FSP FAS 115-2 for FR Y-9 reporting purposes in accordance with the FSP's effective date.

In addition, BHCs should have reviewed any debt securities held at the beginning of the interim period in which the FSP is adopted (e.g., as of April 1, 2009, if the FSP is adopted for the period ending June 30, 2009; as of January 1, 2009, if the FSP is adopted for the period ending March 31, 2009) for which other-than-temporary impairment losses have been previously recognized. If a BHC does not intend to sell such a debt security and it is not more likely than not that the BHC will be required to sell the debt security before recovery of its amortized cost basis, the BHC should recognize the cumulative effect of initially applying FSP FAS 115-2 as an adjustment to the interim period's opening balance of retained earnings, net of applicable taxes, with a corresponding adjustment to accumulated other comprehensive income. The cumulative effect on retained earnings must be calculated by comparing the present value of the cash flows expected to be collected on the debt security with the security's amortized cost basis as of the beginning of the interim period of adoption. This calculation should be made in accordance with the guidance in the FSP. In order to disclose the cumulative effect, if any, of initially applying FSP FAS 115-2 in its FR Y-9 reports through year-end 2009 (regardless of whether the FSP is adopted in the first or second quarter of 2009), a BHC should report the amount of the net-of-tax adjustment to the opening balance of retained earnings as of the beginning of the interim period of adoption in Schedule HI-A, item 2, "Restatements due to corrections of material accounting errors and changes in accounting principles," and in Notes to the Income Statement—Other, item 1, "Cumulative effect of the initial application of FSP FAS 115-2 on other-than-temporary impairment," and include an offsetting adjustment in Schedule HI-A, item 12, "Other comprehensive income."

For other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities that occur after the beginning of the interim period in which FSP FAS 115-2 is adopted, BHCs should report the amount of such losses that must be recognized in earnings in items 6.a and 6.b, of the FR Y-9C income statement (Schedule HI), respectively. Other-than-temporary impairment losses that are to be recognized in other comprehensive income, net of applicable taxes, should be reported in item 12 of Schedule HI-A, Changes in Bank Equity Capital, and included in item 26.b, "Accumulated other comprehensive income," on the FR Y-9C balance sheet (Schedule HC). For a held-to-maturity debt security on which the BHC has recognized an other-than-temporary impairment loss related to factors other than credit loss in other comprehensive income, the BHC should report the carrying value of the debt security, as defined in FSP FAS 115-2, in item 2.a of Schedule HC and in column A of Schedule HC-B, Securities. Under the FSP, this carrying value should be the fair value of the debt security as of the date of the most recently recognized other-than-temporary impairment loss adjusted for

subsequent accretion of the impairment loss related to factors other than credit loss. In addition, for regulatory capital purposes, any other-than-temporary impairment losses on both held-to-maturity and available-for-sale debt securities related to factors other than credit loss that are reported, net of applicable taxes, in Schedule HC, item 26.b, "Accumulated other comprehensive income," should be included in Schedule HC-R, item 2, together with the net unrealized gains (losses) on available-for-sale securities that are reported in item 2. Furthermore, when risk-weighting a held-to-maturity debt security for which an other-than-temporary impairment loss related to factors other than credit loss was previously recognized in other comprehensive income, include the carrying value of the debt security, as described above, in column A of Schedule HC-R, item 35. Then include the pre-tax amount of this impairment loss that has not yet been accreted from accumulated other comprehensive income to the carrying value of the security as a negative number in column B of Schedule HC-R, item 35, and include the amortized cost of the security, as defined in FSP FAS 115-2, in the appropriate risk-weight category column of item 35 (provided the security is not a purchased subordinated security that is not eligible for the ratings-based approach). Under the FSP, this amortized cost is the security's previous amortized cost as of the date of the most recently recognized other-than-temporary impairment loss less the amount of impairment loss recognized in earnings adjusted for subsequent accretion of interest income and payments received on the security.

#### Treasury Department's Capital Purchase Program

On October 14, 2008, the U.S. Treasury Department announced a Capital Purchase Program (CPP) under the Troubled Asset Relief Program mandated by the Emergency Economic Stabilization Act of 2008 (<http://www.treas.gov/press/releases/hp1207.htm>). The CPP is designed to encourage U.S. financial institutions to build capital to buttress the financial strength of the banking system, increase the flow of financing to U.S. businesses and consumers and support the U.S. economy. Under this program, the Treasury will purchase up to \$250 billion of securities issued by qualifying financial institutions.

For BHCs (other than those that are Subchapter S) that are approved for participation in the CPP, the Treasury Department will purchase senior perpetual preferred stock and warrants to purchase common stock or senior perpetual preferred stock, depending on whether the BHC's common stock is "publicly traded". For such BHCs that are not publicly traded, the Treasury Department intends to immediately exercise the warrants for senior perpetual preferred stock ("warrant preferred stock"). The senior perpetual preferred stock issued to the Treasury Department, including warrant preferred stock, should be reported on the FR Y-9C balance sheet Schedule HC-M, item 24.a, "Issuances associated with the U.S. Department of Treasury Capital Purchase Program: Senior perpetual preferred stock or similar items," and included in balance sheet (Schedule HC) item 23, "Perpetual preferred stock and related surplus." (For the FR Y-9LP, Schedule PC, item 20.a) Senior perpetual preferred stock issued by BHCs to the Treasury Department is cumulative. For regulatory capital purposes, these instruments are treated the same as noncumulative perpetual preferred stock as an unrestricted core capital element included in Tier 1 capital. It will be included in the amount reported for "Total equity capital" in item 1 of Schedule HC-R, Regulatory Capital and included in Schedule HC-R, memoranda item 3.a, "Noncumulative perpetual preferred stock."

Warrants issued by a publicly traded BHC should be included in equity capital on the balance sheet provided the BHC has sufficient authorized but unissued shares of the common stock to allow exercise of the warrants and any other necessary shareholder approvals have been obtained. If the BHC does not have required shareholder approval, including shareholder approval for sufficient authorized but unissued shares of the common stock subject to the warrants that may be required for settlement, the warrants may be included in equity capital on the balance sheet provided that the BHC takes the necessary action to secure sufficient approvals prior to the end of the fiscal quarter in which the warrants are issued. The amount assigned to warrants classified as equity capital should be reported in Schedule HC-M, item 24.b, "Issuances associated with the U.S. Department of Treasury Capital Purchase Program: Warrants to purchase common stock or similar items," and included in Schedule HC, item 25, "Surplus." (For the FR Y-9LP, Schedule PC, item 20.c) Warrants that are not eligible to be classified as equity capital should also be reported in Schedule HC-M, item 24.b and included in balance sheet item 20, "Other liabilities." (For the FR Y-9LP, Schedule PC, item 17).

Proceeds from a BHC's issuance to the Treasury Department of noncumulative perpetual preferred stock during the calendar year-to-date reporting period should be included in Schedule HI-A, item 5.a, "Sale of perpetual preferred stock, gross". Proceeds from warrants eligible to be classified as equity capital during the calendar year-to-date reporting period should be included in Schedule HI-A, item 6.a, "Sale of common stock, gross". (For the FR Y-9LP, Schedule PI-A, part III, item 7, "Proceeds from issuance of common stock).

For BHCs that have elected to be taxed under Subchapter S or are organized in mutual form, the full amount of all subordinated debt securities issued to the Treasury Department under the CPP should be reported in Schedule HC, item 19.a, "Subordinated notes and debentures." (For the FR Y-9LP, Schedule PC, item 16). For regulatory capital purposes, report in Schedule HC-R, item 6.b, "Qualifying restricted core capital elements (other than cumulative perpetual preferred stock)," and in Schedule HC-R, memoranda item 8.d, "Qualifying trust preferred securities," the portion of such subordinated debt securities that qualify for inclusion in Tier 1 capital based on the risk-based capital guidelines.

#### Business Combinations and Noncontrolling (Minority) Interests

In December 2007, the FASB issued Statement No. 141 (Revised), Business Combinations (FAS 141(R)), and Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements (FAS 160). Under FAS 141(R), all business combinations are to be accounted for by applying the acquisition method. FAS 160 defines a noncontrolling interest (i.e. a minority interest) as the portion of equity in a BHC's subsidiary not attributable, directly or indirectly, to the parent BHC. FAS 160 requires a BHC to clearly present in its consolidated financial statements the equity ownership interest in and the financial statement results of its subsidiaries that are attributable to the noncontrolling ownership interests in these subsidiaries.

FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Similarly, FAS 160 is effective for fiscal years beginning on or after December 15, 2008. Thus, for BHCs with calendar year fiscal years, these two accounting standards will take effect in 2009. BHCs must apply these standards for FR Y-9C reporting

purposes in accordance with their effective dates. The Glossary entry for “Business Combinations” in the September 2009 FR Y-9C instruction book has been revised to incorporate the provisions of FAS 141(R) as well as other conforming changes to the instructions.

### Trust Preferred Securities and Limits on Restricted Core Capital Elements

On March 10, 2005, the Federal Reserve announced the amendment of its risk-based capital standards for BHCs to allow the continued inclusion of outstanding and prospective issuances of trust preferred securities in the tier 1 capital of BHCs, subject to stricter quantitative limits and qualitative standards. The Federal Reserve also revised the quantitative limits applied to the aggregate amount of qualifying cumulative perpetual preferred stock, qualifying trust preferred securities, and Class B and Class C minority interest (collectively, restricted core capital elements) included in the tier 1 capital of BHCs. These new quantitative limits were scheduled to become effective on March 31, 2009. However, on March 23, 2009, the Federal Reserve adopted a rule extending the compliance date for the tighter limits to March 31, 2011 in light of the current stressful financial conditions and the severely constrained ability of BHCs to raise additional capital in the markets. Nevertheless, it is also prudential and appropriate to recognize the large percentage of BHCs currently in compliance with the tighter limits on capital components adopted by the 2005 Board rule and to encourage such BHCs to continue to comply with the tighter limits and for other BHCs to come into compliance as quickly as feasible in the current financial environment.

Accordingly, and consistent with the new and revised items implemented on FR Y-9C Schedule HC-R for the first quarter of 2009, the instructions for these new and revised items require reporting in accordance with the revised limits to become effective on March 31, 2011, but only requires the exclusion of amounts from Tier 1 or Tier 2 capital that are subject to such exclusion under the quantitative limits under the Board’s risk-based capital rule applicable until March 31, 2011. A BHC’s amount of restricted core capital elements that are includable in Tier 1 capital under the limits applicable until March 31, 2011, but that would be excluded from Tier 1 capital and included in Tier 2 capital under the limits applicable on March 31, 2011, are reported on Schedule HC-R, line item 10, “Other additions to (deductions from) Tier 1 capital.” Refer to the section “Reporting of Qualifying Restricted Core Capital Elements in Tier 1 Capital” beginning on page HC-R-3 of the FR Y-9C reporting instructions, which has been revised for the June 2009 instruction update, for further information.

### Treatment of Purchased Subordinated Securities That Are Direct Credit Substitutes Not Eligible for the Ratings-Based Approach

Additional guidance on this topic has been included in the FR Y-9C reporting instructions in June 2009. BHCs should refer to the guidance presented in Schedule HC-R beginning on page HC-R-21.

### 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 periods of market stress, the fair values of some financial instruments and nonfinancial assets may decline.

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 between market participants at the balance sheet date under current market conditions. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g., a forced liquidation or distress sale). This fair value objective is generally applicable to all fair value measurements, whether or not a BHC has early adopted FASB Statement No. 157, Fair Value Measurements (FAS 157), which is discussed in the following section.

On September 30, 2008, the SEC's Office of the Chief Accountant and the FASB staff jointly issued clarifications that address several fair value measurement questions that have arisen in the current market environment (<http://www.fasb.org/news/2008-FairValue.pdf>). These clarifications are based on the fair value measurement guidance in FAS 157. BHCs should consider these clarifications when measuring fair value for FR Y-9 reporting purposes.

On April 9, 2009, the FASB issued FASB Staff Position No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). This FSP provides additional guidance on determining fair value in accordance with FAS 157 when the volume and level of activity have significantly decreased when compared with normal market activity for an asset or liability (or similar assets or liabilities). According to FSP FAS 157-4, a significant decrease in the volume and level of activity for the asset or liability is an indication that transactions or quoted prices may not be determinative of fair value because in such market conditions there may be increased instances of transactions that are not orderly. In those circumstances, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value in accordance with Statement 157.

FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption of this FSP is permitted for periods ending after March 15, 2009, provided FSP FAS 115-2, Recognition and Presentation of Other-Than-Temporary Impairments, which is discussed in an earlier section of these Supplemental Instructions, and, if applicable, FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, are adopted at the same time. BHCs are expected to adopt FSP FAS 157-4 for FR Y-9 reporting purposes in accordance with the FSP's effective date.

## Fair Value Measurement and Fair Value Option

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 BHC has the ability to access at the measurement date (e.g., the FR Y-9C 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.

FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities", issued in February 2007, allows BHCs to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings. In general, a BHC 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 BHC's decision to elect the fair value option for an eligible item is irrevocable. Because FAS 159 creates a fair value option, a BHC is not required to adopt FAS 159 for FR Y-9 reporting purposes. A BHC 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. The BHC is also expected to meet the principles and objectives of FAS 159 when applying the fair value option.

The Federal Reserve is considering the regulatory capital implications of the use of a fair value option, including the fair value option in FASB Statements No. 155 and No. 156. Except as discussed below, changes in the fair value of assets and liabilities to which a fair value option is applied that are recognized in earnings should be reflected in Tier 1 capital, pending further guidance from the Federal Reserve. For a liability to which a fair value option is applied, BHCs should consider the effect of a change in their own creditworthiness on the fair value of the liability. The Federal Reserve has determined that BHCs should exclude from Tier 1 capital the cumulative change in the fair value of liabilities accounted for under a fair value option that is included in retained earnings (Schedule HC, item 26.a) and is attributable to changes in the BHC's own creditworthiness. For regulatory capital purposes, this excluded portion of the change in fair value is, in essence, an adjustment to the BHC's reported retained earnings and should be reported in Schedule HC-R, item 7.b, so that it is taken into account in determining the Tier 1 capital subtotal (reported in Schedule HC-R, item 8) that is used to determine the regulatory capital limits on such items as servicing assets, deferred tax assets, and credit-enhancing interest-only strips.

#### Accounting Standards Codification

In June 2009, the FASB issued Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (FAS 168), to

establish the FASB Codification as the single source of authoritative nongovernmental U.S. generally accepted accounting principles (U.S. GAAP). The FASB Codification reorganizes existing U.S. accounting and reporting standards issued by the FASB and other related private-sector standard setters, and all guidance contained in the FASB Codification carries an equal level of authority. All previously existing accounting standards documents are superseded as described in FAS 168. All other accounting literature not included in the FASB Codification is nonauthoritative. The FASB Codification can be accessed at <http://asc.fasb.org/>.

The FASB Codification is effective for interim and annual periods ending after September 15, 2009. Therefore, effective for the September 30, 2009, and subsequent FR Y-9 reports, references in the reporting instructions to specific pre-Codification standards under U.S. GAAP (e.g., FASB Statements of Financial Accounting Standards, FASB Interpretations, Emerging Issues Task Force Issues, and Accounting Principles Board Opinions) should be understood to mean the corresponding reference in the FASB's Accounting Standards Codification.

#### FASB Interpretation No. 48 on Uncertain Tax Positions

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), was issued in June 2006 as an interpretation of FASB Statement No. 109, Accounting for Income Taxes. Under FIN 48, the term "tax position" refers to "a position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities." The term "tax position" also encompasses an entity's status as a pass-through entity, such as a Subchapter S Corporation for federal income tax purposes. FIN 48 further states that a "tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets."

According to FIN 48, a BHC should initially recognize the effects of a tax position in its financial statements when, based on the technical merits, it is more likely than not (i.e., a likelihood of more than 50 percent) that the position will be sustained upon examination by the taxing authority, including the resolution of any related appeals or litigation. The more-likely-than-not evaluation must consider the facts, circumstances, and information available at the report date. When a tax position meets the more-likely-than-not recognition threshold, it should initially and subsequently be measured as the largest amount of tax benefit greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. FIN 48 also provides guidance on subsequent recognition, derecognition, and measurement of tax positions, including the effect of changes in judgment, and on the recognition of interest and penalties. The June 2007 FR Y-9C reporting instructions were updated to include a revised Glossary entry for "Income Taxes" that includes guidance on FIN 48.

BHCs must adopt FIN 48 for FR Y-9 reporting purposes in accordance with the interpretation's effective date. As originally issued, FIN 48 was effective for fiscal years beginning after December 15, 2006. However, for eligible nonpublic enterprises the FASB Board has decided to defer the effective date of FIN 48 to the annual financial statements for fiscal years beginning after December 15, 2008. A nonpublic enterprise is eligible for this deferral provided it (a) has not issued a full set of annual financial statements incorporating the

recognition, measurement, and disclosure requirements of FIN 48 and (b) is not a subsidiary of a public enterprise. A nonpublic enterprise that meets these conditions is eligible for the deferral even if it issued interim or quarterly financial information in 2007 that reflected the adoption of FIN 48.

Thus, eligible nonpublic BHCs must adopt FIN 48 for FR Y-9 reporting purposes for annual periods beginning after December 15, 2008, based on their respective fiscal years. For example, an eligible nonpublic BHC with a calendar year fiscal year must adopt FIN 48 as of January 1, 2009, but is not required to reflect the effect of its adoption of FIN 48 for FR Y-9 reporting purposes until it prepares its FR Y-9 for the December 31, 2009, report date. An eligible nonpublic BHC that applied the recognition and measurement provisions of FIN 48 in its FR Y-9 reports for 2007 report dates can either: (a) choose not to adopt the effective date deferral and continue to apply FIN 48 in its FR Y-9 reports going forward; or (b) choose to adopt the effective date deferral and its December 2007 FR Y-9 report should have been prepared without reflecting the application of FIN 48. As noted above, a nonpublic BHC that is a subsidiary of a public company does not meet the eligibility conditions for the deferral of the effective date of FIN 48 and at present should be preparing its FR Y-9 reports in accordance with FIN 48.

#### Electronic Submission Option

This Bank offers BHCs the option of submitting their FR Y-11, FR 2314, and FR Y-12 reports electronically. Any BHC interested in submitting these reports electronically should contact Gloria Scott at (212) 720-7348 for information concerning the procedures for electronic transmission. BHCs choosing to submit these reports electronically must maintain in their files a signed printout of the data submitted.

#### Website

Report forms and instructions for the FR Y-9C, FR Y-9LP, FR Y-11, FR 2314 and FR Y-12 are available on the Federal Reserve Board's web site at [www.federalreserve.gov](http://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 Katherine Tilghman in the Policy and Analysis Department at (212) 720-5935.

Sincerely,

\*Signed by Kenneth Lamar

Kenneth Lamar  
Senior Vice President  
Statistics Function

## Revisions to the FR Y-9C for September 30, 2009

Instructions

1. Schedule HI, "Goodwill impairment losses" (item 7.c(1)) was revised to remove the reference to exclude amortization expense of and any impairment losses on any identifiable intangible assets. In addition, Schedule HC, "Goodwill" (item 10.a) was revised to remove the reference to exclude unidentifiable intangible assets.
2. Schedule HI, "Amortization expense and impairment losses for other intangible assets" (item 7.c(2)) was revised to add the reference to exclude amortization expense of and any impairment losses on any identifiable intangible assets.
3. Schedule HC-R, Reporting of qualifying restricted core capital elements in tier 1 capital, in examples 1 and 2, several plus (+) signs were changed to minus (-) signs.
4. Schedule HI, HI-A, HI-B, Predecessor Financial Items, and HC-R were revised to correct the reference from placing negative numbers in parenthesis to reporting negative numbers with a minus (-) sign.