FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-5000

December 31, 2001

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 Reporting Requirements for December 31, 2001

Enclosed are two copies of the following report forms and instructions for the December 31, 2001 reporting date:

(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) Supplement to the Consolidated Financial Statement for Bank Holding Companies (FR Y-9CS);

(4) Quarterly Financial Statements of Nonbank Subsidiaries of Bank Holding Companies (FR Y-11Q);

(5) The Annual Financial Statements of Nonbank Subsidiaries of Bank Holding Companies (FR Y-11I); and

(6) Consolidated Bank Holding Company Report of Equity Investments in Nonfinancial Companies (FR Y-12).

There were minor revisions to the FR Y-9C report forms. The FR Y-11I report form and instructions has been revised to conform to the FR Y-9C report (Attachment I). There are no revisions to the FR Y-9LP, FR Y-11Q, FR Y-12 and FR Y-9CS for this quarter.

FR Y-9CS Reporting

All bank holding companies that are financial holding companies as of December 31, 2001 and filing the FR Y-9C are required to submit the completed FR Y-9CS with the quarterly FR Y-9C. There are no changes to this report form for December 31, 2001.

FR Y-11I Reporting

The "Who Must Report" section of the general instructions has been revised to clarify which subsidiaries of a bank holding company should report on the FR Y-11I, and which subsidiaries should report on the FR 2314a or FR 2314b, "Report of Condition for Foreign Subsidiaries of U.S. Banking Organizations," or the FR 2314c, "Financial Information for Foreign Subsidiaries of U.S. Banking Organizations." The instructions now state that any organization domiciled in the United States that meets reporting threshold requirements should report on the FR Y-11I.

Schedule HC-S – Securitization and Asset Sale Activities

Schedule HC-S, Securitization and Asset Sale Activities, collects data on a bank holding company's servicing activities along with information on the bank holding company's involvement with securitizations and asset sales. In Memorandum items 2.a, 2.b, and 2.c of Schedule HC-S, bank holding companies should report the principal balance of financial assets (e.g., loans) serviced for others. Bank holding companies should include assets for which the bank holding company has purchased the servicing directly and that the bank holding company has acquired and sold with servicing retained. Financial assets can be acquired either by originating them or by purchasing them. Thus, when your bank holding company reports the volume of servicing in these Memorandum items, you should include (1) the principal balance of loans and other financial assets that your bank holding company has either originated or purchased and subsequently sold while retaining the servicing and (2) the principal balance of loans and other financial assets owned by others that your bank holding company has purchased the servicing.

Items 1 through 8 of Schedule HC-S collect information pertaining to securitization structures sponsored or otherwise established by the reporting bank holding company where the bank holding company's transfer of assets in connection with the securitization qualified for sale accounting under generally accepted accounting principles. Bank holding companies should report in item 1 the outstanding balance of loans that it has sold and securitized when the bank holding company has continuing involvement with the loans by either retaining servicing or providing recourse or other credit enhancements.

However, when a bank holding company sells 1-4 family residential mortgages to the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac) and this government-sponsored agency in turn securitizes the loans, the bank holding company should ***not*** report the outstanding balance of these loans in Schedule HC-S, item 1, column A. If these loans have been sold to Fannie Mae or Freddie Mac with recourse or other seller-provided credit enhancements, the outstanding principal balance of these loans should be reported in Schedule HC-S, item 11, column A, and the maximum credit exposure arising from the enhancements should be reported in item 12, column A.

If servicing has been retained on the residential mortgages, the outstanding principal balance of the mortgages should be reported in Memorandum item 2.a or 2.b depending on whether the servicing is performed with or without recourse or other servicer-provided credit enhancements. In those cases where the bank holding company has both retained the servicing and provided credit enhancements, the principal balance of the residential mortgages will be reported in Schedule HC-S, item 11, column A, and in Memorandum item 2.a.

In items 2, 9, and 12 of Schedule HC-S, bank holding companies report maximum amounts of credit exposure arising from credit enhancements provided by the reporting institution to support securitizations and other asset sales. These maximum exposure amounts should be reported gross rather than net of any tax effects, e.g., any associated deferred tax liability.

Impairment of Servicing Assets

FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, provides guidance on evaluating and measuring impairment of servicing assets. Servicing assets must be stratified and impairment recognized through a valuation allowance for an individual stratum when its carrying amount exceeds its fair value. The valuation allowance would be adjusted to reflect subsequent changes in the measurement of impairment. Impairments recognized on mortgage servicing assets should be reported in Schedule HI, item 5.f, "Net servicing fees." Similarly, if the fair value of a servicing liability increases above its carrying amount, the increased obligation should be recognized as a loss in current earnings and reported in Schedule HI, item 5.f.

FASB Statements 141 and 142

In July 2001, the FASB issued Statement No. 141, *Business Combinations*, and Statement No. 142, *Goodwill and Other Intangible Assets*. Statement No. 141 supersedes the previous accounting standard on business combinations (i.e., mergers and acquisitions), Accounting Principles Board (APB) Opinion No. 16, and requires that all business combinations initiated after June 30, 2001, (except for combinations between two or more mutual enterprises) be accounted for by the purchase method. The use of the pooling-of-interests method for those business combinations is prohibited.

Statement No. 141 also changes the requirements for recognizing intangible assets as assets apart from goodwill in business combinations accounted for by the purchase method for which the date of acquisition is July 1, 2001, or later. The statement specifically identifies core deposit intangibles as one type of intangible that must be recognized as an asset separate from goodwill.

Statement No. 142 supersedes the previous accounting standard on intangible assets, APB Opinion No. 17. This new standard addresses how intangible assets that are acquired individually or with a group of other assets (but not in a business combination) should be accounted for upon their acquisition. It also explains how goodwill and other intangible assets should be accounted for after they have been acquired.

Under Statement No. 142, goodwill acquired in a business combination for which the acquisition date is after June 30, 2001, should not be amortized, but should be tested for impairment in accordance with the provisions of this accounting standard. Goodwill acquired in a business combination, for which the acquisition date is before July 1, 2001, should continue to be amortized until an institution first applies all of the provisions of Statement No. 142 in accordance with the effective date of the standard.

Statement No. 142 is effective for fiscal years beginning after December 15, 2001, with early application permitted for institutions with fiscal years beginning after March 15, 2001, in the manner described in the standard. For bank holding companies with a calendar year fiscal year, Statement No. 142 takes effect January 1, 2002. Bank holding companies must adopt FASB Statements No. 141 and 142 for FR Y-9C purposes in accordance with the effective dates of these standards based on their fiscal years.

Bank holding companies with other than calendar year fiscal years that choose to early apply all of the provisions of Statement No. 142 prior to 2002 should report any impairment losses recognized as a result of the standard's required transitional impairment testing as the effect of a change in accounting principle. The effect of the accounting change and related income tax effects should be reported in the FR Y-9C income statement, Schedule HI, item 12, "Extraordinary items net of income taxes and minority interest." Until the FR Y-9C income statement format is changed, any goodwill impairment loss that does not result from a transitional impairment test should be included in Schedule HI, item 7.c, "Amortization expense of intangible assets."

Although the accounting rules for goodwill and other intangible assets are changing, there has been no change in the regulatory capital treatment of these assets. The existing regulatory capital limits on servicing assets and purchased credit card relationships remain in effect, and goodwill and other intangible assets will continue to be deducted from capital and assets in determining a bank holding company's capital ratios.

Overnight Federal Home Loan Bank Advances

Immediately available funds borrowed from a Federal Home Loan Bank for one business day meet the definition of federal funds purchased. Accordingly, these so-called overnight advances should be reported on the FR Y-9C balance sheet in Schedule HC, item 14, "Federal funds purchased and securities sold under agreements to repurchase." These overnight advances should *not* be included on the balance sheet in Schedule HC, item 16, "Other borrowed money," nor should they be included in the breakdown by remaining maturity of "Other borrowed money" that is reported in Schedule HC-M, item 14. Although Schedule HC-M, item 14(b) and 14(c), covers Federal Home Loan Bank advances, only those advances that are part of "Other borrowed money" on the balance sheet should be included in item 14(b) and 14(c).

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

Since 1996, the *Audit and Accounting Guide – Banks and Savings Institutions*, published by the American Institute of Certified Public Accountants, has stated that credit losses related to off-balance sheet financial instruments should be accrued and reported separately as liabilities “if the conditions of FASB Statement No. 5 are met.” Consistent with this accounting guidance, each bank holding company should also maintain, as a separate liability account, an allowance sufficient to absorb estimated credit losses associated with off-balance sheet credit instruments. Off-balance sheet credit instruments include off-balance sheet loan commitments, standby letters of credit, and guarantees.

On the FR Y-9C, a bank holding company must report its "Allowance for credit losses on off-balance sheet credit exposures" in item 3 of Schedule HC-G, Other Liabilities, *not* as part of its "Allowance for loan and lease losses" in Schedule HC, item 4.c. However, for risk-based capital purposes, the "Allowance for credit losses on off-balance sheet credit exposures" is combined with the "Allowance for loan and lease losses" and the total of these two allowances is included in Tier 2 capital up to a limit of 1.25 percent of a bank holding company's gross risk-weighted assets. For further information on the inclusion of these allowances in Tier 2 capital, please refer to the instructions for FR Y-9C Schedule HC-R, item 14.

Reporting Income from Insurance-Related Activities in the Income Statement

Bank holding companies conduct certain insurance-related activities in various ways depending on their organizational structure. This has led to questions on how income from sales of annuities and from certain other types of insurance activities should be reported in FR Y-9C Schedule HI, Income Statement in item 5.h, "Insurance commissions and fees." In general, bank holding companies should report in Schedule HI, item 5.h, all income from insurance and reinsurance underwriting and from sales of insurance (including credit life insurance), reinsurance, and annuities. However, commissions and fees on sales of annuities by trust departments of the bank holding company’s banking subsidiaries (or consolidated trust company subsidiaries) that are executed in a fiduciary capacity should be reported in Schedule HI, item 5.a, "Income from fiduciary activities." In addition, commissions and fees that a bank holding company earns from sales of annuities by securities brokerage firms should be reported in Schedule HI, item 5.d, "Investment banking, advisory, brokerage, and underwriting fees and commissions."

Standby Letters of Credit Issued by a Federal Home Loan Bank

The instructions for Schedule HC-L, item 9, “All other off-balance sheet items,” indicate that this item includes standby letters of credit issued by a Federal Home Loan Bank (FHLB) on behalf of the reporting bank holding company. Since the bank holding company is the account party, it is obligated to reimburse the issuing Federal Home Loan Bank for all payments made under the standby letters of credit and should include these standby letters of credit in Schedule HC-L, item 9. If the aggregate amount exceeds 25 percent of equity capital, these standby letters of credit must be identified and disclosed in item 9.a, 9.b., 9.c, or 9.d. Although FHLB standby letters of credit should be reported in Schedule HC-L, item 9, these letters of credit are *not* subject to the risk-based capital requirements. Accordingly, FHLB standby letters of credit should *not* be reported in Schedule HC-R, Regulatory Capital, item 52, column A, “All other off-balance sheet liabilities.”

Investments in Trust Preferred Securities

Bank holding companies and their subsidiaries may invest in trust preferred securities, which are hybrid instruments possessing characteristics typically associated with debt obligations. Although each issue of these securities may involve minor differences in terms, under the basic structure of trust preferred securities a corporate issuer, such as another bank holding company, first organizes a business trust or other special purpose entity. This trust issues two classes of securities: common securities, all of which are purchased and held by the corporate issuer, and trust preferred securities, which are sold to investors. The business trust's only assets are deeply subordinated debentures of the corporate issuer, which the trust purchases with the proceeds from the sale of its common and preferred securities. The corporate issuer makes periodic interest payments on the subordinated debentures to the business trust, which uses these payments to pay periodic dividends on the trust preferred securities to the investors. The subordinated debentures have a stated maturity and may also be redeemed under other circumstances. Most trust preferred securities are subject to a mandatory redemption upon the repayment of the debentures.

Trust preferred securities meet the definition of a security in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Because of the mandatory redemption provision in the typical trust preferred securities, investments in trust preferred securities would normally be considered debt securities for financial accounting purposes. Accordingly, bank holding companies should report these investments as debt securities for FR Y-9C report purposes (unless, based on the specific facts and circumstances of a particular issue of trust preferred securities, the securities would be considered equity rather than debt securities under Statement No. 115). Trust preferred securities issued by U.S. business trusts (if not held for trading purposes) should be reported in Schedule HC-B, item 6(a), "Other domestic debt securities."

Loans and Leases Held for Sale

On March 26, 2001, the banking agencies issued "Interagency Guidance on Certain Loans Held for Sale" to provide instruction about the appropriate accounting and reporting treatment for certain loans that are sold directly from the loan portfolio or transferred to a held-for-sale account. The guidance applies when:

- an institution decides to sell loans that were not originated or otherwise acquired with the intent to sell, and

- the fair value of those loans has declined for any reason other than a change in the general market level of interest or foreign exchange rates.

The guidance reminds institutions to appropriately report reductions in the value of loans transferred to held-for-sale through a write-down of the recorded investment to fair value upon transfer. At the same time, there should be a charge to the institution's allowance for loan and lease losses. In addition, loans transferred to a held-for-sale account should continue to be accorded the same past due and nonaccrual treatment as other loans.

While the interagency guidance applies to banks, savings associations, and federal credit unions, it should also be followed by bank holding companies that file GAAP based regulatory reports (see the Federal Reserve's SR Letter 01-12). Accordingly, for purposes of the FR Y-9C report, any reduction in the value of loans transferred to a held-for-sale account should be reported as a charge-off in the appropriate line items in Part I of Schedule HI-B and as an "adjustment" to the allowance for loan and lease losses on line item 5 in Part II of this schedule.

In addition, Part 2, line item 3, "Less: Charge-offs," should be reported net of such write-downs reported in Part 2, line item 5. The write-down adjustment reported in Part 2, line item 5, should also be reported in footnote 1 (as a negative value) in the "Notes to the Income Statement," as "write-downs arising from transfers of loans to held-for-sale account." This description appears as a preprinted caption on the Notes to the Income Statement of the FR Y-9C.

Reports Submission

An original and two copies (one-sided) of each completed bank holding company report must be returned to this bank by mail or messenger by the dates listed below. Under the Regulatory Reports Monitoring Program, the timeliness of receipt of these reports will be monitored. Earlier submission would aid this Bank in reviewing and processing the reports and is encouraged.

December 31, 2001

The submission deadline for the **FR Y-9C, FR Y-9LP, FR Y-9CS, and Y-12** is **Thursday, February 14, 2002**. Any FR Y-9C, FR Y-9LP, FR Y-9CS or FR Y-12 reports received after 5:00 p.m. on February 14th will be considered late unless postmarked by Monday, February 11th or sent by overnight service by Wednesday, February 13th.

The submission deadline for the **FR Y-11Q** is **Friday, March 1, 2002**. Any FR Y-11Q report received after 5:00 p.m. March 1st will be considered late unless postmarked by Tuesday, February 26th or sent by overnight service by Thursday, February 28th.

The submission deadline for the **FR Y-11I** is **Friday, March 1, 2002**. Any FR Y-11I report received after 5:00 p.m. March 1st will be considered late unless postmarked by Tuesday, February 26th or sent by overnight service by Thursday, February 28th.

Submission of initial data via facsimile, even if prior to this deadline does not constitute timely 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, 4th Floor
New York, N.Y. 10045

Edit Checklist

The staff of this Bank will monitor whether banking organizations are meeting their basic reporting requirements through the use of “validity edits”. Enclosed are the updates to the monitoring edits. Please note these updates to ensure your institution meets these edit tests. Also, to avoid common reporting errors, we are now providing a list of edit checks which we perform between the FR Y-9LP and FR Y-9C reports.

Electronic Submission Option

This Bank offers bank holding companies the option of submitting their FR Y-9C, FR Y-9LP, FR Y-9CS, FR Y-11Q and FR Y-11I reports electronically. Any bank holding company interested in submitting these reports electronically should contact Vadim Tovshteyn, at (212) 720-8465 for information concerning the procedures for electronic transmission. Bank holding companies choosing to submit these reports electronically must maintain in their files a signed printout of the data submitted. The cover page of the Reserve Bank supplied report forms should be used to fulfill the signature and attestation requirement and this page should be attached to the printout placed in the bank holding company's files.

In addition, we now offer distribution of this letter, report forms, and instructions via e-mail. If you are interested in receiving this electronically, please fax the attached form to Vadim Tovshteyn at (212) 720-8465.

Website

Report forms and instructions for the FR Y-9C, FR Y-9LP, FR Y-9CS, FR Y-11Q and FR Y-11I are also available on the Federal Reserve Board’s web site at ***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 Dianne Dobbeck in the Policy and Analysis Department at (212) 720-2610.

Sincerely,

Signed by Kenneth P. Lamar

Kenneth P. Lamar
Assistant Vice President
Financial Reports Department

ATTACHMENT I

Significant Revisions to the FR Y-9C Report Form for December 31, 2001:

Schedule HC-H, Interest Sensitivity

The caption for line item 3 has been revised to correspond to reporting instructions as follows: "long term debt with a remaining maturity of more than one year but reprices within one year."

Schedule HC-I, Insurance-Related Activities

The caption for Part I and for Part II has been revised to correspond to the reporting instructions by adding "underwriting" to the title.

Schedule HC-M, Memoranda

Minor clarifications were made relating to the questions asked in items 17 and 19.

FR Y-9LP

There were no revisions to the report form for the December 31, 2001 reporting date.

FR Y-11Q

There were no revisions to the report form for the December 31, 2001 reporting date.

FR Y-11I

1) P*age 1, Changes in Equity Capital.* The previous year-end balance of equity capital was revised to correspond with how this balance is presented in financial statements prepared in accordance with GAAP. Nonbank subsidiaries now report in Item 1, "Equity capital most recently reported for the end of the previous calendar year."

(2) *Page 1, Changes in Equity Capital.* Item 5, "Foreign currency translation adjustments" has been replaced with "Other comprehensive income" (new item 5). This new item will include any change in net unrealized holding gains

(losses) on available-for-sale securities and any change in accumulated net gains (losses) on cash flow hedges (currently included in item 6, "Other adjustments").

(3) *Page 3, Schedule A-Line Item 7(a), "Loans and leases past due 30 through 89 days," and Line item 7(d), "Loans and leases restructured and included in past due and nonaccrual loans."* Confidential treatment has been eliminated beginning with the December 31, 2001 report.

Significant Revisions to the FR Y-9C Instructions for December 2001:

1) *General Instructions:* A paragraph has been added to the section for "Applicability of Generally Accepted Accounting Principles (GAAP) to Bank Holding Company Reporting Requirements" to advise respondents that the Federal Reserve reserves the right to determine reporting procedures when the Federal Reserve's interpretation of how GAAP or the reporting instructions should be applied to a specified event or transaction differs from the reporting bank holding company's interpretation.

2) *Schedule HC-H, Interest Sensitivity:* The caption for line item 3 has been revised to better correspond to accompanying reporting instructions as follows: "Long term debt <u>with a remaining maturity of more than one year but</u> reprices within one year."

Significant Revisions to the FR Y-9LP Instructions for December 2001:

Schedule PC-B: A sentence was added to the instruction for line item 5(b) to clarify that borrowings from nonbank subsidiaries and associated nonbank companies include notes payable to special purpose entities (SPEs) that issue trust preferred stock.

Significant Revisions to the FR Y-11Q Instructions for December 2001:

There were no revisions to the FR Y-11Q instructions for the December 31, 2001 reporting date.

Significant Revisions to the FR Y-11I Instructions for December

2001:

1) Instructional revisions and clarifications were made to conform with changes made to the Call Report and Y-9C instructions in 2001.

(2) *Balance Sheet- Line Item 11(a), " Balances due from bank holding company (parent companies only), gross."* The instructions have been revised to indicate that "special purpose" subsidiaries such as a special purpose business trust subsidiary that issues trust preferred securities to investors, should report loans made to the parent bank holding company from the proceeds of the issuance of these securities in this line item.