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

December 31, 2004

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 December 31, 2004:

- Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002);
- Supplemental Report of Assets and Liabilities of a Non-U.S. Branch that is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank (FFIEC 002s); and
- The Country Exposure Report for U.S. Branches and Agencies of Foreign Banks (FFIEC 019).

There are no changes to the FFIEC 002, 002S or 019 reporting forms or instructions for the December 31, 2004 report date. However, there is Supplemental Guides for the FFIEC 002 addressing the reporting treatment of the Financial Accounting Standards Board Interpretation No. 46, EITF Issue No. 03-1, and AICPA Statement of Position 03-3.

FASB Interpretation No. 46 (Revised)

The FASB issued Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities*, in December 2003. Revised Interpretation No. 46 replaces Interpretation No. 46, which was issued in January 2003. This interpretation explains how to identify a "variable interest entity" (VIE) and how an institution should assess its interests in a VIE to decide whether to consolidate that entity. VIEs often are created for a single specified purpose, for example, to facilitate securitization, leasing, hedging, research and development, and reinsurance. Most small banks are unlikely to have any "variable interests" in VIEs.

In general, a VIE is an entity in which either the controlling financial interests are not voting interests or the equity investors do not bear the entity's residual economic risks. A VIE is a contractual or ownership interest in an entity that changes when the fair value of the entity's net assets (exclusive of variable interests) changes. An organization that has a variable interest (or a combination of variable interests) that will absorb a majority of a VIE's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both, is the "primary beneficiary" of the VIE and must consolidate it.

For FFIEC 002 purposes, banks with variable interests in VIEs must apply the provisions of Interpretation No. 46 (Revised) to those entities in accordance with the interpretation's effective date and transition provisions, a summary of which follows. Special provisions of the revised interpretation apply to organizations that have fully or partially applied Interpretation No. 46 prior to the issuance of the revision. Otherwise, application of the revised interpretation (or Interpretation No. 46) was required of banks that are public companies, or subsidiaries of public companies, that have interests in VIEs or potential VIEs commonly referred to as special-purpose entities beginning December 31, 2003. Application of Interpretation No. 46 (Revised) by banks that are public companies (other than small business issuers), or subsidiaries of such public companies, for all other types of VIEs was required beginning March 31, 2004. Application of Interpretation No. 46 (Revised) by banks that are small business issuers, or subsidiaries of small business issuers, to VIEs other than special-purpose entities is required beginning December 31, 2004. Application of Interpretation No. 46 (Revised) by banks that are neither public companies nor subsidiaries of public companies is required immediately for VIEs created after December 31, 2003, and for all other VIEs at the beginning of the first fiscal year beginning after December 15, 2004 (January 1, 2005, for calendar year banks). A foreign branch or agency is considered a U.S. public company if its parent bank’s equity securities are traded in a public market either on a U.S. stock exchange or in the over-the-counter market, including securities quoted only locally or regionally.

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

EITF Issue No. 03-1 on Other-Than-Temporary Impairment

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, *Accounting for Certain Investments in Debt and Equity Securities*, 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 establishes a three-step process for determining when an investment is impaired, whether that impairment is other than temporary, and how to measure the impairment loss if the impairment is deemed to be other than temporary. This process is to be applied to individual securities. An individual security is considered impaired if its fair value is less than its cost. If, upon evaluation, the impairment of an individual security is determined to be other than temporary (which does not mean permanent), an impairment loss must be recognized in earnings for the difference between the security's cost and its fair value.

On September 30, 2004, the FASB delayed the effective date for the measurement and recognition guidance contained in Issue No. 03-1. This delay will last until the effective date of additional impairment guidance that has yet to be issued by the FASB. The banking agencies understand that the FASB will begin to reconsider this issue in the first quarter of 2005. In the meantime, the delay in the effective date does not suspend the requirement to recognize other-than-temporary impairments as required by existing authoritative literature, including FASB Statement No. 115 and Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 59, *Accounting for Noncurrent Marketable Equity Securities*.

Reporting "Loaned" Securities on the Balance Sheet

The Glossary entry for "Securities Borrowing/Lending Transactions" in the Call Report instructions states on page GL-37 that when such transactions do not qualify as sales under FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, securities lenders and borrowers should account for the transactions as secured borrowings. In this situation, the securities "loaned" are considered pledged as collateral against the amount borrowed. The Glossary entry currently instructs the securities lender to recategorize the "loaned" securities on its balance sheet from securities to "Other assets." After consulting with the FASB, the agencies concluded that securities lent in transactions accounted for as secured borrowings should no longer be recategorized. Instead, the "loaned" securities should continue to be reported on the balance sheet as trading assets or in the Memoranda section of the balance sheet as available-for-sale or held-to-maturity. "Loaned" U.S. Government securities that are reported as available-for-sale or held-to-maturity in the Memoranda section, should also be reported as "Pledged U.S. government securities" in Memorandum item 13 of the schedule. The Call Report instruction book will be revised accordingly when it is next updated.

AICPA Statement of Position 03-3 on Purchased Loans

In December 2003, the AICPA issued Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. In general, this Statement of Position 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 Statement of Position applies to loans acquired in fiscal years beginning after December 15, 2004, with early adoption permitted. Banks must follow Statement of Position 03-3 for Call Report purposes in accordance with its effective date based on their fiscal years. The Statement of Position does not apply to the loans that a bank has originated.

Under this Statement of Position, 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 Statement of Position limits the yield that may be accreted on the loan (the accretable yield) to the excess of the bank's estimate of the undiscounted principal, interest, and other cash flows expected at acquisition to be collected on the loan over the bank'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 impairment.

The Statement of Position prohibits a bank from "carrying over" or creating valuation 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.

Reporting Asset-Backed Commercial Paper Conduits

An asset-backed commercial paper (ABCP) program is usually carried out through a bankruptcy-remote, special-purpose entity, which generally is sponsored and administered by a bank to provide funding to its corporate customers by purchasing asset pools from, or extending loans to, those customers. The program provides funding for these assets through the issuance of commercial paper into the market. Typically, the sponsoring organization provides liquidity and credit enhancements to earn a favorable external rating on the commercial paper issued by the ABCP program.

For purposes of Memorandum item 1 of Schedule S, Servicing, Securitization, and Asset Sale Activities, banks must report the requested information on credit enhancements and liquidity facilities provided to ABCP conduits regardless of their accounting treatment for the conduit. Thus, whether or not a branch must consolidate the conduit for reporting purposes in accordance with FASB Interpretation No. 46 (Revised), the branch must report its maximum credit exposure arising from and its unused commitments to conduit structures in Memorandum items 1.a and 1.b, respectively.

For those ABCP programs that a branch consolidates onto its FFIEC 002 balance sheet, any credit enhancements and liquidity facilities the bank provides to the conduit should not be reported in Schedule L, Derivatives and Off-Balance Sheet Items. In contrast, for programs that are not consolidated, a branch should report the credit enhancements and liquidity facilities it provides to the programs in the appropriate items of Schedule L.

Reports Monitoring

Please note that, under the Regulatory Reports Monitoring Program, the timeliness of receipt of each of these reports will be monitored. 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 January 31, 2005. Any FFIEC 002/002S report received after 5:00 p.m. on January 31, 2005 will be considered late unless postmarked by January 27 or sent overnight service by January 29.

An original and one copy of the completed FFIEC 019 must be returned to this Bank, by mail or messenger by February 14, 2005. Any FFIEC 019 received after 5:00 p.m. on February 14, 2005 will be considered late unless postmarked by February 12 or sent by overnight service by February 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 December 31, 2004 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 are subject to monitoring are unchanged and sent to you in a previous mailing.

Electronic Submission Option

Electronic submission of the FFIEC 002/002S reports is available to all U.S. branches and agencies. We encourage you to take advantage of this method of reporting submission. Vendors have developed a software package that provides the means to submit the FFIEC 002/002S electronically. Submitting reports electronically using the software package provides the following benefits:

- A timely and efficient alternative to sending the report forms by mail; and

- A printed report is generated that can serve as your institution’s permanent record of the report.

For information on filing the FFIEC 002/002S report electronically, please contact Carolyn Polite at (212) 720-5415.

Website

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

Questions regarding the FFIEC 002, FFIEC 002S and FFIEC 019 reports should be directed to Brian Goodwin at (212) 720-8316, Doug Herold at (212) 720-8591 or Peter Drake, Team Leader in the Regulatory Reports Division at (212) 720-2695.

Sincerely,

--signed by Kenneth Lamar—

Kenneth P. Lamar
Vice President
Statistics Function

Enclosures