FEDERAL RESERVE BANK OF NEW YORK

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KENNETH LAMAR
VICE PRESIDENT

December 30, 2005

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 December 31, 2005

Enclosed are copies of the following report forms and instructions for the December 31, 2005 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) Financial Statements for Employee Stock Ownership Plan Bank Holding Companies (FR Y-9ES);

(4) Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11);

(5) Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314); and

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

The FR Y-9C form has been revised to collect information identifying whether the BHC has engaged in a full scope independent external audit as of the December 31 report date. Significant accounting updates have been provided in this letter and in the attachment.

There have been no changes to the FR Y-9LP, FR Y-9ES, FR Y-11, FR 2314 and FR Y-12 report form and instructions for this quarter.

FR Y-9ES Reporting Criteria

The Financial Statements for Employee Stock Ownership Plan Bank Holding Companies (FR Y-9ES) is to be filed by all ESOPs that are also BHCs as of the last calendar day of the calendar year. No other FR Y-9 series form is required. Prior to December 31, 2002, an ESOP filed either the Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP) or the Parent Company Only Financial Statements for Small Bank Holding Companies (FR Y-9SP). Bank holding companies that are subsidiaries of ESOP bank holding companies (i.e., a tiered bank holding company) must continue to submit the appropriate reports.

Reports Submission

All FR Y-9C, FR Y-9LP and FR Y-9ES 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 the all FR Y-9C and FR Y-9LP filers is Tuesday, February 14, 2006. Any FR Y-9C and FR Y-9LP report received after 5:00 p.m. on February 14 will be considered late. The submission deadline for the FR Y-12 is Tuesday, February 14, 2006. Any FR Y-12 reports received after 5:00 p.m. on February 14 will be considered late unless postmarked by Saturday, February 11 or sent by overnight service on Monday, February 13. The submission deadline for the FR Y-11 and FR 2314 is Wednesday, March 1, 2006. Any FR Y-11 and FR 2314 reports received after 5:00 p.m. on March 1 will be considered late unless postmarked by Saturday, February 25 or sent by overnight service on Monday, February 28. The submission deadline for the FR Y-9ES is July 31, 2006. ESOPs that have filed form 5558 with the IRS for an extension must submit a copy of the form by July 31, 2006 to receive an extension to October 15, 2006 to coincide with the extended IRS deadline.

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, 4th 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). 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 under the heading BHC Modernization project.

FASB Statement No. 123 (Revised 2004) and Share-Based Payments

FASB Statement No. 123 (Revised 2004), Share-Based Payment (FAS 123(R)), requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments, e.g., stock options and restricted stock, granted to employees. Bank holding companies must adopt FAS 123(R) for FR Y-9C purposes in accordance with the standard's effective date and transition provisions. Public companies other than small business issuers, including BHCs, must adopt FAS 123(R) as of the beginning of their first fiscal year beginning after June 15, 2005. All other companies, including small business issuers and BHCs that are not subsidiaries of public companies, must adopt FAS 123(R) as of the beginning of their first fiscal year beginning after December 15, 2005. Thus, all BHCs with a calendar year fiscal year must implement FAS 123(R) as of January 1, 2006.

Under FAS 123(R), the "compensation cost for an award of share-based employee compensation classified as equity shall be recognized over the requisite service period," which is typically the same as the vesting period, "with a corresponding credit to equity (generally, paid-in capital)." The recording of the compensation cost also gives rise to deferred tax consequences, i.e., a deferred tax asset, that must be recognized (and evaluated for realizability).

The compensation expense should be included in Schedule HI, item 7.a, "Salaries and employee benefits," with the corresponding credit included in Schedule HC, item 25, "Surplus" on the FR Y-9C. In Schedule HI-A, Changes in Equity Capital, this credit should be included in item 5, "Sale of perpetual preferred stock," or in item 6, "Sale of common stock." This reporting treatment applies regardless of whether the shares awarded to the employee are shares of bank stock or shares of the bank's parent holding company.

Privatization of the Student Loan Marketing Association

On December 29, 2004, the Student Loan Marketing Association (SLMA), a government-sponsored enterprise created in 1972, was dissolved. On that date, SLMA defeased its remaining debt obligations by transferring them into a special and irrevocable trust and depositing U.S. Treasury securities with the trustee in amounts sufficient to pay the principal of and interest on its debt obligations. For FR Y-9C purposes, BHCs should continue to report SLMA debt obligations held for purposes other than trading as securities issued by U.S. Government-sponsored agencies in Schedule HC-B, item 2.b. Similarly, SLMA debt obligations held for trading purposes (in domestic offices) should continue to be reported as U.S. Government agency obligations in Schedule HC-D, item 2. Bank holding companies should refer to the guidance in the Federal Reserve’s risk-based capital standards on the treatment of collateralized claims to determine the appropriate risk weight for these SLMA debt securities.

SLM Corporation, the successor to SLMA, is a private-sector corporation that has issued debt securities, including commercial paper. Bank holding companies should report SLM Corporation debt securities held for purposes other than trading as "Other domestic debt securities" in Schedule HC-B, item 6.a. SLM Corporation debt securities held for trading purposes (in domestic offices) should be reported as "Other debt securities" in Schedule HC-D, item 5. Bank holding companies should report holdings of securitized student loans issued by SLM Corporation (or its affiliates) as asset-backed securities in Schedule HC-B, item 5, unless held for trading purposes. Holdings of SLM Corporation common stock and preferred stock should be reported in Schedule HC-B, item 7, unless held for trading purposes. SLM Corporation debt securities, common stock, and preferred stock should be risk-weighted 100 percent. Its asset-backed securities should be risk-weighted in accordance with the ratings-based approach described on page HC-R-13 of the FR Y-9C instructions.

Agency Prepayment-Linked Notes

In 2004, the Federal National Mortgage Associations (Fannie Mae) and the Federal Home Loan Banks began to issue a type of fixed rate debt securities known as prepayment-linked or index amortizing notes. Principal and interest on the notes are paid monthly, with the principal payments indexed to the prepayment performance of a reference pool of mortgages or a reference mortgage-backed security. However, the notes are not collateralized by the mortgages or mortgage-backed security and they have stated final maturity dates that are generally 5 to 12 years from the date of issuance.

Because these securities are direct unsecured obligations of the issuing government-sponsored agency, BHCs should report their holdings of these prepayment-linked notes in Schedule HC-B, item 2.b, if they are not held for trading purposes. In addition, these securities are considered structured notes because of their repayment characteristics and, if not held for trading purposes, must also be reported in Schedule HC-B, Memorandum item 4. For risk-based capital purposes, these agency prepayment-linked notes are a claim on a U.S. government-sponsored agency and should be assigned a 20 percent risk weight.

FASB Interpretation No. 46

Accounting Issues

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) (previously referred to as a “special purpose entity”) and how an organization 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.

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 variable interest is a contractual or ownership interest in an entity that changes when the value of the entity's net assets 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 variable interest entity and must consolidate it.

The assets and liabilities of a consolidated VIE should be reported on the FR Y-9C balance sheet (Schedule HC) on a line-by-line basis according to the asset and liability categories shown on the balance sheet. This reporting treatment also carries over to the other schedules in the FR Y-9C.

Reporting of Trust Preferred Securities

Consistent with guidance provided in the July 2, 2003, Federal Reserve Supervisory Letter SR 03-13, BHCs should continue to include eligible TRUPs in their Tier 1 capital for regulatory capital purposes. The amounts qualifying for inclusion in Tier 1 capital should be reported in Schedule HC-R, Regulatory Capital, "Qualifying trust preferred securities," (item 6.b).

Bank holding companies are encouraged to consult with their external auditor on the appropriate application of generally accepted accounting principles (GAAP), including FIN 46 and revised FIN 46 (FIN 46R), on the consolidation or deconsolidation of trusts issuing trust preferred stock for financial statements and regulatory reporting.

Consistent with GAAP and SR 03-13, BHCs that deconsolidate such trusts for financial reporting purposes should include the full amount of the deeply subordinated note issued to the trust in Schedule HC, Balance Sheet, item 19.b and the BHC's investment in the special purpose subsidiary should be reported in Schedule HC, "Investments in unconsolidated subsidiaries and associated companies" (item 8). The amount of the subordinated note issued to the trust, net of the BHC's investment in the special purpose subsidiary, is equivalent to the amount of the TRUPs issued. The net amount (that qualifies for inclusion in tier 1 capital) should be reported in item 6.b. Note that Schedule HC-R, memoranda item 3.d, no longer includes amounts related to TRUPs. Amounts of TRUPs (or notes payable to unconsolidated special purpose entities that issue TRUPs, net of the BHC's investment in the entity) that are in excess of the limits for cumulative preferred stock that can be included in Tier 1 capital, should be reported in item 16, "Other Tier 2 capital components."

The investment in unconsolidated subsidiaries that issue TRUPs should not be risk-weighted. This would apply to special purpose entities issuing TRUPs that are not consolidated under FIN 46. The amount of the investment in unconsolidated subsidiaries that issue TRUPs should be reported in column B of Schedule HC-R, line item 42. For purposes of determining the amount available for Tier 1, the amount of TRUPs that has been reported in item 19.b for special purpose entities that have not been consolidated should be netted against the amount of the investment in the unconsolidated subsidiary that issued the TRUPs. Therefore, if the investment is netted for determining Tier 1 treatment, a consistent application is to exclude the investment from risk-weighted assets.

Bank holding companies that file the FR Y-11 should continue to report special purpose entities issuing TRUPs that qualify as a subsidiary as defined by Regulation Y and in the FR Y-11 reporting instructions, regardless of whether the entity is consolidated on the FR Y-9C report. BHCs that file the FR Y-9LP should continue to report any notes payable to special-purpose subsidiaries that issue TRUPs in Schedule PC-B, item 16 (and included in Schedule PC, item 18(b) and Schedule PC-B, item 5(b)). However, for purposes of reporting Schedule PC-B "Total combined loans and leases of nonbank subsidiaries" (item 15.b), the term "subsidiary" includes only companies that have been consolidated in the FR Y-9C. Therefore, if the BHC has deconsolidated the special purpose entity issuing TRUPs, the loan from the subsidiary to the parent BHCs would not be included in this item.

Asset-Backed Commercial Conduits

On July 28, 2004 the banking agencies issued a final rule amending their risk-based capital standards to make permanent an existing interim risk-based capital treatment for assets in ABCP conduits that sponsoring banking organizations are required to consolidate in accordance with Interpretation No. 46 (Revised).

Under the final rule, sponsoring banking organizations are permitted to exclude the consolidated ABCP program assets from their risk-weighted assets when they calculate their risk-based capital ratios. The final rule also requires banking organizations to hold risk-based capital against eligible ABCP program liquidity facilities with an original maturity of one year or less that provide liquidity support to these programs by imposing a 10 percent credit conversion factor on such facilities effective September 30, 2004. Eligible liquidity facilities with an original maturity exceeding one year remain subject to the current 50 percent credit conversion factor. All liquidity facilities that provide liquidity support to ABCP will be treated as eligible liquidity facilities until September 30, 2005. Beginning September 30, 2005, however, ineligible liquidity facilities (both short-term and long-term) are treated as direct credit substitutes or recourse obligations and are subject to a 100 percent credit conversion factor. For all liquidity facilities, the resulting credit equivalent amount is risk weighted according to the underlying assets, after consideration of any collateral, guarantees, or external ratings, if applicable. Bank holding companies involved with ABCP programs should refer to the final rule for complete information on the risk-based capital treatment of these programs.

In addition, any minority interests in consolidated ABCP programs are not eligible for inclusion in Tier 1 capital (or total risk-based capital). The final rule also does not alter the accounting rules for balance sheet consolidation under Interpretation No. 46 (Revised), nor does it affect the denominator of the Tier 1 leverage capital ratio calculation, which continues to be based primarily on on-balance sheet assets as reported under generally accepted accounting principles.

Under the agencies' final rule, banking organization sponsors of any consolidated ABCP programs should include the consolidated assets in the appropriate balance sheet asset categories when completing items 34 through 43, column A, in Schedule HC-R, Regulatory Capital. The amounts of these consolidated assets should also be reported in items 34 through 43, column B, "Items not Subject to Risk-Weighting," unless the BHC has chosen to consolidate the ABCP program assets onto its balance sheet for risk-based capital purposes, as permitted under the final rule, and risk weights them accordingly. However, unless this consolidation option has been chosen, sponsoring banking organizations must continue to hold risk-based capital against all exposures arising in connection with these programs, whether or not the programs are consolidated for accounting purposes, including direct credit substitutes, recourse obligations, residual interests, and loans. These exposures should be reported in the appropriate items of Schedule HC-R. Furthermore, BHCs that provide eligible liquidity facilities to ABCP programs, whether or not they are the program sponsor, must report these facilities in Schedule HC-R, item 53 (unless a sponsor has chosen the consolidation option). The full amount of the unused portion of an eligible liquidity facility with an original maturity exceeding one year should be reported in item 53, column A. For an eligible liquidity facility with an original maturity of one year or less, 20 percent of the unused portion of the facility should be reported in item 53, column A, to produce the effect of a 10 percent conversion factor when reporting the credit equivalent amount of the liquidity facility in item 53, column B. Finally, any minority interests in consolidated asset-backed commercial paper programs should not be included in Schedule HC-R, item 6.a, "Qualifying minority interests in consolidated subsidiaries and similar items."

Liquidity facilities (both short-term and long-term) for ABCP conduits that do not meet the asset quality test (ineligible) are treated as direct credit substitutes or recourse obligations for risk-based capital purposes and are subject to a 100 percent credit conversion factor. Ineligible liquidity facilities for ABCP conduits should be reported in item 52, "All other off-balance sheet liabilities" and the resulting credit equivalent amount is risk-weighted according to the underlying assets, after consideration of any collateral, guarantees, or external ratings, if applicable.

For those ABCP programs that a BHC consolidates onto its FR Y-9C balance sheet, any credit enhancements and liquidity facilities the BHC provides to the conduit should not be reported in Schedule HC-L, Derivatives and Off-Balance Sheet Items. In contrast, for programs that are not consolidated, a BHC should report the credit enhancements and liquidity facilities it provides to the programs in the appropriate items of Schedule HC-L.

For purposes of Memorandum item 3 of Schedule HC-S, Servicing, Securitization, and Asset Sale Activities, BHCs must report data on credit enhancements and liquidity facilities provided to asset-backed commercial paper conduits regardless of their accounting treatment for the conduit. Thus, whether or not a BHC must consolidate the conduit for reporting purposes in accordance with FASB Interpretation No. 46, the BHC must report its maximum credit exposure arising from and its unused commitments to conduit structures in Memorandum items 3.a and 3.b, respectively.

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, 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.

In November, 2005, the FASB issued FASB Staf Position Nos. FAS 115-1 and FAS 124-1 to nullify the measurement and recognition guidance contained in EITF Issue No. 03-1, the effective date of which the FASB had previously delayed. The guidance in this FASB Staff Position is to be applied beginning in 2006 and references existing other-than-temporary impairment guidance, which institutions were already expected to apply. Such guidance includes FASB Statement No. 115, EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets," and Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 59, "Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities."

Reporting "Loaned" Securities on the Balance Sheet

The FR Y-9C reporting instructions include a revised Glossary entry for "Securities Borrowing/Lending Transactions." As revised, the Glossary entry states that, for transactions accounted for as secured borrowings under FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," "loaned" securities should continue to be reported on the balance sheet as available-for-sale securities, held-to-maturity securities, or trading assets, as appropriate. The instructions had previously required BHCs to recategorize such "loaned" securities from securities to "Other assets." In addition, "loaned" securities that are reported as available-for-sale or held-to-maturity in Schedule HC-B, Securities, should also be reported as "Pledged securities" in Memorandum item 1 of the schedule. However, BHCs should note that the instructions for reporting "Securities lent" in Schedule HC-L, item 6, and Schedule HC-R, item 48, have not changed.

AICPA Statement of Position 03-3 on Purchased Loans and Debt Securities

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 (SOP) applies to purchased impaired loans and debt securities, i.e., loans and debt securities that a banking organization 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 or debt security and it is probable, at the purchase date, that the BHC will be unable to collect all contractually required payments receivable. The SOP applies to loans and debt securities acquired in fiscal years beginning after December 15, 2004, with early adoption permited. Bank holding companies must follow SOP 03-3 for FR Y-9C reporting purposes in accordance with its effective date based on their fiscal years. The SOP does not apply to the loans that a BHC has originated.

For further information on this SOP, please refer to the Glossary entry for "Purchased Impaired Loans and Debt Securities" and the revised Glossary entry for "Allowance for Loan and Lease Losses," included in the updated FR Y-9C instructions. The September 2005 updated instructions also include instructions for three items pertaining to purchased impaired loans: Schedule HC-C, Loans and Leases, Memorandum items 5.a and 5.b, and Schedule HI-B, part II, Changes in Allowance for Loan and Lease Losses, Memorandum item 4.

GNMA Mortgage Loan Optional Repurchase Program

A seller-servicer must report all delinquent residential mortgage loans backing Government National Mortgage Association mortgage-backed securities that must be rebooked as assets in accordance with FASB Statement No. 140 (GNMA loans), whether they have been repurchased or are eligible for repurchase, as loans held for sale (Schedule HC, item 4.a) or loans held for investment (Schedule HC, item 4.b), based on facts and circumstances, in accordance with generally accepted accounting principles. In addition, if a BHC services GNMA loans, and was not the transferor of the loans that have been securitized, and purchases individual delinquent loans out of the GNMA securitization, the BHC must also report the purchased loans as loans held for sale or held for investment. All GNMA loans recognized as assets should be reported as past due in Schedule HC-N in accordance with their contractual repayment terms. Such delinquent GNMA loans should be reported in items 1.c, 11, and 11.b of Schedule HC-N. This reporting treatment for delinquent GNMA loans is discussed in the revised instructions for Schedules HC-C and HC-N for the September 30, 2005, FR Y-9C report.

In addition, an institution that forecloses on real estate backing a delinquent GNMA loan should report the property as "other real estate owned" and not as an "other asset" on the FR Y-9C balance sheet. However, because this has not been the common reporting practice for these foreclosed properties, institutions should continue to report these properties in their FR Y-9C reports in accordance with their existing reporting policies for such properties through the December 31, 2005, report date. Thereafter, i.e., beginning with the March 31, 2006, report date, all institutions should report foreclosed real estate from GNMA loans as "other real estate owned" on the balance sheet.

Commitments to Originate and Sell Mortgage Loans

On May 3, 2005, the agencies issued an Interagency Advisory on Accounting and Reporting for Commitments to Originate and Sell Mortgage Loans. This advisory provides supplemental guidance on the appropriate accounting and reporting for commitments to originate mortgage loans that will be held for resale and for commitments to sell mortgage loans under mandatory delivery and best efforts contracts. The advisory can be accessed on the Federal Reserve Board's Web site at www.federalreserve.gov/boarddocs/srletters/2005/sr0510.htm.

Commitments to originate mortgage loans that will be held for resale, which the advisory refers to as derivative loan commitments, are derivatives and must be accounted for at fair value on the balance sheet by the issuer. All loan sales agreements, including mandatory delivery and best efforts contracts, must be evaluated by both the seller and the purchaser to determine whether the agreements meet the definition of a derivative under FASB Statement No. 133. Institutions should also account for loan sales agreements that meet the definition of a derivative, which the advisory refers to as forward loan sales commitments, at fair value on the balance sheet.

The advisory also addresses the guidance that should be considered in determining the fair value of derivatives. In this regard, when quoted market prices are not available, which is typically the case for derivative loan commitments and forward loan sales commitments, estimates of fair value should be based on the best information available in the circumstances. A simplified example is included to provide general guidance on one approach that may be used to value commitments to originate mortgage loans that will be held for resale. In addition, the advisory states that the agencies expect all institutions, including those that are not required to file reports with the SEC, to follow the guidance in SEC Staff Accounting Bulletin No. 105, Application of Accounting Principles to Loan Commitments, in recognizing derivative loan commitments. The Staff Accounting Bulletin can be accessed at www.sec.gov/interps/account/sab105.htm.

According to the advisory, under a typical derivative loan commitment, the borrower can choose to (1) "lock-in" the current market rate for a fixed-rate loan, i.e., a fixed derivative loan commitment; (2) "lock-in" the current market rate for an adjustable-rate loan that has a specified formula for determining when and how the interest rate will adjust, i.e., an adjustable derivative loan commitment; or (3) wait until a future date to set the interest rate and allow the interest rate to "float" with market interest rates until the rate is set, i.e., a floating derivative loan commitment.

Bank holding companies are expected to apply the guidance in the advisory when preparing their FR Y-9C reports. However, until certain questions that have been raised about floating derivative loan commitments are resolved, institutions should follow their existing reporting policies for floating derivative loan commitments and need not account for and report these commitments as derivatives for FR Y-9C reporting purposes. All other derivative loan commitments should be reported as over-the-counter written interest rate options in Schedule HC-L, Derivatives and Off-Balance Sheet Items, not as unused commitments in item 1 of Schedule HC-L. The principal amount of the mortgage loans to be originated under these derivative loan commitments must be reported as the notional amount of the derivatives in Schedule HC-L, item 11.d(1), column A, and in Schedule HC-L, item 13, column A.

Bank holding companies must also report the fair value of these derivative loan commitments in the appropriate subitem of Schedule HC-L, item 14.b. As with written options, derivative loan commitments are outside the scope of the credit conversion process that applies to derivatives under the Federal Reserve's risk-based capital standards. However, if the fair value of any of these derivative loan commitments after initial recognition is positive and therefore reported as an asset, this positive fair value is subject to the risk-based capital standards and must be risk weighted as an on-balance sheet asset.

Bank holding companies should note that commitments to originate mortgage loans that will be held for investment purposes and commitments to originate other types of loans are not considered derivatives. The unused portion of loan commitments that are not considered derivatives should continue to be reported in Schedule HC-L, item 1. Unused commitments with an original maturity exceeding one year are subject to the risk-based capital standards and must be reported in Schedule HC-R, item 53.

Accelerated Filing Deadline

The acceleration of the filing deadline for top-tier FR Y-9C filers has been approved and will follow the SEC's phased-in approach by implementing a 40-day deadline beginning in June 2004. The new filing deadlines apply for the March, June, and September report dates. The December filing deadline for top-tier FR Y-9C filers will remain at 45 days after the report date.

The SEC recently adopted a final rule that maintains the 40 day filing deadline for June 30, 2006 and all subsequent quarters. Consistent with this rule change, the Federal Reserve will also maintain the 40-day filing deadline for top-tier FR Y-9C reports, and will not implement the 30 calendar days plus 5 business days filing deadline previously proposed to be effective with the June 30, 2006 reporting date. The December filing deadline for top-tier FR Y-9C filers will remain at 45 days after the report date.

The FR Y-9LP, FR Y-9ES and all lower-tier BHCs that file the FR Y-9C are not subject to the accelerated deadline. The deadline for these reports will remain at 45 days after the report date.

Edit Checklist

The staff of this Bank will monitor whether BHCs are meeting their basic reporting requirements through the use of "validity edits". Enclosed are the updates to these 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 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 Zina Rakhovich at (212) 720-8237 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-9ES, FR Y-11, FR 2314 and FR Y-12 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 Katherine Tilghman in the Policy and Analysis Department at (212) 720-5935.

Sincerely,

-- Signed by Kenneth Lamar --

Kenneth P. Lamar
Vice President
Financial Reports Department

Attachment

Revisions to the FR Y-9C for December 31, 2005

Report Form

1. An item was added to Schedule HC, memoranda item 1 to collect information identifying whether the BHC has engaged in a full-scope independent external audit as of the December 31 report date.