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, 2006

The following report forms and instructions for the December 31, 2006 reporting date have been posted to the Federal Reserve Board’s website at 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 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

The FR Y-9C reporting form has been revised to delete stock-based employee compensation expense from the income statement. A number of clarifications have been made to the FR Y-9C and FR Y-9LP reporting instructions. There have been no changes to the FR Y-9ES, FR Y-11, FR 2314, and FR Y-12 report for this quarter. However, there will be some clarifications to the
FR Y-12 instructions, which will be sent under separate cover. Significant accounting updates have been provided in this letter.

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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=USFRBN_EWYORK_8

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. Bank holding companies that are subsidiaries of ESOP BHCs (i.e., a tiered BHC) 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 Wednesday, February 14, 2007. 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 Wednesday, February 14, 2007. Any FR Y-12 reports received after 5:00 p.m. on February 14 will be considered late unless postmarked by Saturday, February 10 or sent by overnight service on Tuesday, February 13. The submission deadline for the FR Y-11 and FR 2314 is Thursday, March 1, 2007. Any FR Y-11 and FR 2314 reports received after 5:00 p.m. on March 1 will be considered late unless postmarked by Monday, February 26 or sent by overnight service on Wednesday, February 28. The submission deadline for
the FR Y-9ES is July 31, 2007. ESOPs that have filed form 5558 with the IRS for an extension must submit a copy of the form by
July 31, 2007 to receive an extension to October 15, 2007 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. 158 on Defined Benefit Postretirement Plans

FASB Statement No. 158, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans (FAS 158), issued in September 2006, requires a BHC that sponsors a single-employer defined benefit postretirement plan, such as a pension plan or health care plan, to recognize the funded status of each such
plan on its balance sheet. An overfunded plan is recognized as an asset while an underfunded plan is recognized as a liability. As of the end of the fiscal year when a BHC initially applies FAS 158, the postretirement plan amounts recognized on the BHC’s balance sheet before applying FAS 158 must be adjusted to recognize gains or losses, prior service costs or credits, and transition assets or obligations that have not yet been included in the net periodic benefit cost of its plans. These adjustment amounts are recognized directly in equity capital as components of the ending balance of accumulated other comprehensive income (AOCI), net of tax. Thereafter, a BHC must recognize certain gains and losses and prior service costs or credits that arise during each reporting period, net of tax, as a component of other comprehensive income (OCI) and, hence, AOCI. Postretirement plan amounts carried in AOCI are adjusted as they are subsequently recognized in earnings as components of the plans’ net periodic benefit cost.

Bank holding companies that sponsor single-employer defined benefit postretirement plans must adopt FAS 158 for regulatory reporting purposes in accordance with the standard's effective date and transition provisions. Accordingly, BHCs that have “publicly traded equity securities,” as defined in FAS 158, must initially recognize the funded status of these plans as of the end of the fiscal year ending after December 15, 2006. All other BHCs must initially recognize the funded status of these plans as of the end of the fiscal year ending after June 15, 2007. Thus, BHCs that have a calendar year fiscal year must adopt FAS 158 as of December 31, 2006, if they have “publicly traded equity securities” and as of December 31, 2007, if they do not. Early adoption of FAS 158 is permitted, but must be for all of an institution’s benefit plans. For FR Y-9C reporting purposes, BHCs should report the adjustments to the ending balance of AOCI from initially applying FAS 158 as of the end of their fiscal year, net of tax, in item 12, “Other comprehensive income,” of Schedule HI-A, Changes in Equity Capital.

In addition, according to an interim decision announced by the banking agencies on December 14, 2006, BHCs should exclude from regulatory capital any amounts recorded in AOCI resulting from the adoption and application of FAS 158. For FR Y-9C purposes, these excluded amounts should be reported in item 4 of Schedule HC-R, Regulatory Capital, together with the accumulated net gains (losses) on cash flow hedges. If the sum of the amounts included in AOCI (Schedule HC, item 26.b) for defined benefit postretirement plans under FAS 158 and for cash flow hedges represents a net gain (i.e., a net increase) in reported equity capital, this sum should be reported as a positive value in item 4 of Schedule HC-R. If the sum represents a net loss (i.e., a decrease) in reported equity capital, it should be
reported as a negative number in item 4 of Schedule HC-R.

Quantifying FR Y-9 Report Misstatements

The staff of the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), in September 2006 (http://www.sec.gov/interps/account/sab108.pdf). This guidance has been codified as Topic 1.N. in the Codification of Staff Accounting Bulletins. According to SAB 108, the effects of prior year misstatements should be considered when quantifying misstatements in current year financial statements.

SAB 108 describes two approaches, generally referred to as “rollover” and “iron curtain,” that have been commonly used to accumulate and quantify misstatements. The rollover approach “quantifies a misstatement based on the amount of the error originating in the current year income statement,” which “ignores the ‘carryover effects’ of prior year misstatements.” In contrast, the iron curtain approach “quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, irrespective of the misstatement’s year(s) of origination.” Because each of these approaches has its weaknesses, SAB 108 advises that the impact of correcting all misstatements on current year financial statements should be accomplished by quantifying an error under both the rollover and iron curtain approaches and by evaluating the error measured under each approach. When either approach results in a misstatement that is material, after considering all relevant quantitative and qualitative factors, an adjustment to the financial statements would be required. Guidance on the consideration of all relevant factors when assessing the materiality of misstatements is provided in the SEC’s Staff Accounting Bulletin No. 99, Materiality (SAB 99), which has been codified as Topic 1.M. in the Codification of Staff Accounting Bulletins (http://www.sec.gov/interps/account/sab99.htm).

Because of prior year misstatements, SAB 108 observes that when the correction of an error in the current year would materially misstate the current year’s financial statements, the prior year financial statements should be corrected. However, SAB 108 provides transition guidance under which financial statements for fiscal years ending on or before November 15, 2006, need not be restated “if management properly applied its previous approach, either iron curtain or rollover,” and considered all relevant qualitative factors when assessing materiality. In this situation, the effects of initially applying SAB 108 should be reported in the annual financial statements covering the first fiscal year ending after November 15, 2006.
This would be accomplished by reporting the cumulative effect of the initial application of SAB 108 in the carrying amounts of assets and liabilities as of the beginning of the fiscal year, and making an offsetting adjustment to the opening balance of retained earnings for that year.

For regulatory reporting purposes, BHCs should apply the guidance from SAB 108 and SAB 99 when quantifying the impact of correcting misstatements, including both the carryover and reversing effects of prior year misstatements, on their current year regulatory reports. In this regard, BHCs may also apply the transition guidance in SAB 108 for regulatory reporting purposes. Accordingly, BHCs with calendar year fiscal years (and with November 30 fiscal years) should first apply the SAB 108 error quantification guidance in their regulatory reports for December 31, 2006. Bank holding companies with other fiscal years should first apply SAB 108 in their regulatory reports for the calendar quarter in 2007 that includes their fiscal year-end date, but such BHCs may adopt the SAB 108 guidance in their December 31, 2006, regulatory reports. For FR Y-9C reports, the cumulative effect of the initial application of SAB 108 on the opening balance of retained earnings as of the beginning of the fiscal year of initial application (i.e., as of the beginning of 2006 for BHCs with calendar year fiscal years) should be reported in Schedule HI-A, item 2, “Restatements due to corrections of material accounting errors and changes in accounting principles,” and each error correction may be separately described in the Notes to the Income Statement—Other.

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.” 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.

Bank holding companies must adopt FIN 48 for regulatory reporting purposes for fiscal years beginning after December 15, 2006. FIN 48 permits earlier adoption as of the beginning of an earlier fiscal year, provided the BHC has not yet issued a financial statement or filed a regulatory report for any period of that fiscal year. Because FIN 48 was issued in June 2006, i.e., after the filing of the March 31, 2006, FR Y-9C or FR Y-9LP reports, a BHC with a calendar year fiscal year may not adopt FIN 48 early and must begin to apply this interpretation as of January 1, 2007.

FASB Statement No. 156 on Servicing

FASB Statement No. 156, Accounting for Servicing of Financial Assets (FAS 156), issued in March 2006, requires all separately recognized servicing assets and liabilities to be initially measured at fair value. It then permits an entity to choose to subsequently measure each class of servicing assets and liabilities at fair value with changes in fair value recognized in earnings. If fair value is not elected, each class of servicing is subsequently accounted for using the amortization method that applied to all servicing assets and liabilities prior to the issuance of FAS 156. A BHC identifies its classes of servicing assets and liabilities based on the availability of market inputs for estimating their fair value, its method for managing the risks of its servicing assets and liabilities, or both. A BHC’s election of the fair value option for a class of servicing is irreversible. The election can be made for an individual class of servicing assets and liabilities upon adoption of FAS 156 or at the beginning of any subsequent fiscal year.

Bank holding companies must adopt FAS 156 for FR Y-9 series reporting purposes as of the beginning of their first fiscal year that begins after September 15, 2006. Earlier adoption of FAS 156 is permitted as of the beginning of an earlier fiscal year, provided the BHC has not yet issued a financial statement or filed a FR Y-9 report for any period of that fiscal year.
Thus, a BHC with a calendar year fiscal year must adopt FAS 156 as of January 1, 2007, unless it elected earlier adoption and applied FAS 156 in its originally filed March 31, 2006 FR Y-9C/FR Y-9LP.

When reporting the carrying amount of mortgage servicing assets (FR Y-9C: Schedule HC-M, item 12.a; FR Y-9LP: Schedule PC, item 7.b;) and nonmortgage servicing assets in FR Y-9C Schedule HC-M, item 12.b, BHCs should include all classes of servicing accounted for under the amortization method as well as all classes of servicing accounted for at fair value. The fair value of all recognized mortgage servicing assets should be reported in FR Y-9C Schedule HC-M, item 12.a.(1), regardless of the measurement method applied to these assets. The servicing asset carrying amounts reported in Schedule HC-M, items 12.a and 12.b, even if these amounts include fair values, should be used when determining the lesser of 90 percent of the fair value of these assets and 100 percent of their carrying amount for regulatory capital calculation purposes in Schedule HC-R. Changes in the fair value of any class of servicing assets to which the fair value option is applied should be included in earnings in Schedule HI, item 5.f, “Net servicing fees.”

**FASB Statement No. 155 on Hybrid Financial Instruments**

FASB Statement No. 155, Accounting for Certain Hybrid Financial Instruments (FAS 155), issued in February 2006, requires bifurcation of certain derivatives embedded in interests in securitized financial assets and permits fair value measurement (i.e., a fair value option) for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation under FASB Statement No. 133 (FAS 133) on derivatives. Bifurcation is required when the economic characteristics and risks of the embedded derivative are not clearly and closely related economically to the economic characteristics and risks of the host contract and certain other conditions are met. Under the fair value option in FAS 155, a BHC may irrevocably elect to initially and subsequently measure an eligible hybrid financial instrument in its entirety at fair value, with changes in fair value recognized in earnings. The election can be made on an instrument-by-instrument basis, but must be supported by appropriate documentation. In addition, FAS 155 clarifies which interest-only and principal-only strips are not subject to FAS 133.

For FR Y-9 reporting purposes, FAS 155 must be applied to all financial instruments acquired, issued, or subject to a remeasurement event (as defined in the standard) occurring after
the beginning of a BHC’s first fiscal year that begins after September 15, 2006. The fair value option may also be applied upon adoption of FAS 155 to a BHC’s existing hybrid financial instruments that had been bifurcated prior to adoption. Earlier adoption of FAS 155 is permitted as of the beginning of an earlier fiscal year, provided the BHC has not yet issued a financial statement or filed a FR Y-9 series report for any period of that fiscal year. Thus, a BHC with a calendar year fiscal year must adopt FAS 155 as of January 1, 2007, unless it elected earlier adoption and applied FAS 155 in its originally filed March 31, 2006 FR Y-9C/FR Y-9LP report.

Following a BHC’s adoption of FAS 155, hybrid financial instruments to which the fair value option has been applied should not be reclassified as trading assets or trading liabilities for FR Y-9 reporting purposes solely due to the election of this option. Such hybrid financial instruments should continue to be reported in the asset or liability category appropriate to the instrument. If a hybrid financial instrument to which the fair value option has been applied is a security, it should be included in available-for-sale securities on the balance sheet (FR Y-9C: Schedule HC, item 2.b; FR Y-9LP: Schedule PC, item 2) and the security’s fair value should be reported in (FR Y-9C: columns C and D of Schedule HC-B, Securities; FR Y-9LP: Schedule PC-B, item 11.a). Changes in the fair value of hybrid financial instruments to which the fair value option is applied should be reported consistently in the income statement either as “Other noninterest income” (FR Y-9C: Schedule HI, item 5.l; FR Y-9LP: Schedule PI, item 1.e) or “Other noninterest expense” (FR Y-9C: Schedule HI, item 7.d; FR Y-9LP: Schedule PI, item 2.d).

The Federal Reserve is currently reviewing the regulatory capital implications of FAS 155, and more broadly, the use of the fair value option. Except as discussed below, changes in the fair value of hybrid instruments that are recognized in earnings should be reflected in Tier 1 capital pending further guidance from the Federal Reserve. In the interim, for a hybrid financial instrument to which the fair value option is applied that is an asset, the embedded derivative should not be bifurcated from the host contract for risk-based capital purposes in FR Y-9C Schedule HC-R. For a hybrid financial instrument to which the fair value option is applied that is a liability, a BHC should exclude the portion of the change in the fair value of the instrument that is attributable to a change in the BHC’s own creditworthiness from Tier 1 capital.

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 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. However, as an interim measure until the Federal Reserve revises Schedule HC-R, the excluded portion of the change in fair value should be reported in item 10 of the schedule.

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

FASB Statement No. 123 (Revised 2004), Share-Based Payment (FAS 123(R)), requires BHCs 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.

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


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, 2006

Report Form

1. Schedule HI, item 14, “Stock-based employee compensation expense (net of tax effects)” was deleted. The corresponding instructions were revised.

Instructions

1. Schedule HC-R, Memoranda item 2.g. was revised to clarify the reporting treatment of credit derivative contracts.

Revisions to the FR Y-9LP for December 31, 2006

Instructions

1. Schedule PC, item 20(c) and Schedule PC-A, item 1(a)(1), item 2(a)(1), and item 3(a)(1) were clarified for reporting of stock-based employee compensation.

2. Schedule PC-B, item 16 was clarified for the portion of notes payable that does not directly relate to the amount of trust preferred securities issued.