FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-5000

December 31, 2008

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, 2008

The following report forms and instructions for the December 31, 2008 reporting date has 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
(6) Consolidated Bank Holding Company Report of Equity Investments in Nonfinancial Companies (FR Y-12).

There have been no changes to the FR Y-9C, FR Y-9LP, FR Y-9ES, FR Y-11, FR 2314, and FR Y-12 for this quarter. Significant accounting updates have been provided in this letter.

Subscription Service

We are offering a subscription service, which enables you to receive recent news and updates on our reporting forms and instructions and upcoming events. You can sign up for this new service at the following website: http://service.govdelivery.com/service/subscribe.html?code=USFRBNEWYORK_8

Reports Submission

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

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

The submission deadline for all **FR Y-9C and FR Y-9LP** filers is Tuesday, February 17, 2009. Any FR Y-9C and FR Y-9LP reports received after 5:00 p.m. on February 17 will be considered late. The submission deadline for the **FR Y-12** is Tuesday, February 17, 2009. Any FR Y-12 reports received after 5:00 p.m. on February 17 will be considered late unless postmarked by Saturday, February 14 or sent by overnight service on Monday, February 16. The submission deadline for the **FR Y-11** and **FR 2314** is Monday, March 2, 2009. Any FR Y-11 and FR 2314 reports received after 5:00 p.m. on March 2 will be considered late unless postmarked by Thursday, February 26 or sent by overnight service on Saturday, February 28. The submission deadline for the **FR Y-9ES** is July 31, 2008. ESOPs that have filed form 5558 with the IRS for an extension must submit a copy of the form by July 31, 2008 to receive an extension to October 15, 2008 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.

Treatment of Goodwill for Regulatory Capital Purposes

On December 16, 2008, the Federal Reserve announced their approval of a final rule that amends regulatory capital standards to permit a BHC to reduce the amount of goodwill acquired in a taxable business combination that it must deduct from Tier 1 capital by the amount of any deferred tax liability associated with that goodwill. The Federal Reserve also advised BHCs that they may adopt the provisions of this final rule for purposes of calculating and reporting their regulatory capital in their year-end 2008 FR Y-9C reports. Therefore, a BHC may choose to adopt this netting approach for purposes of reporting the amount of disallowed goodwill in item 7.a of the FR Y-9C regulatory capital schedule (Schedule HC-R) for the December 31, 2008, report date. A BHC that reduces the amount of goodwill deducted from Tier 1 capital by the amount of any associated deferred tax liability is not permitted to also net this deferred tax liability against deferred tax assets when determining the regulatory capital limit on its deferred tax assets. Pending publication of the final rule in the Federal Register, a draft of the final rule can be accessed at http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20081216a1.pdf.

Treasury Department's Capital Purchase Program

On October 14, 2008, the U.S. Treasury Department announced a Capital Purchase Program (CPP) under the Troubled Asset Relief Program mandated by the Emergency Economic Stabilization Act of

2008 (http://www.treas.gov/press/releases/hp1207.htm). The CPP is designed to encourage U.S. financial institutions to build capital to buttress the financial strength of the banking system, increase the flow of financing to U.S. businesses and consumers and support the U.S. economy. Under this program, the Treasury will purchase up to $250 billion of securities issued by qualifying financial institutions.

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

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

Proceeds from a BHC's issuance to the Treasury Department of noncumulative perpetual preferred stock during the calendar year-to-date reporting period should be included in Schedule HI-A, item 5.a, "Sale of perpetual preferred stock, gross". Proceeds from warrants eligible to be classified as equity capital during the calendar year-to-date reporting period should be included in Schedule HI-A, item 6.a, “Sale of common stock, gross”.

BHCs are also strongly encouraged to separately disclose amounts of senior perpetual preferred stock and warrants to purchase common stock issued to the Treasury in the FR Y-9C “Notes to the Balance Sheet—Other”.

Business Combinations and Noncontrolling (Minority) Interests

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

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

Trust Preferred Securities and Limits on Restricted Core Capital Elements

On March 10, 2005, the Federal Reserve announced the amendment of its risk-based capital standards for BHCs to allow the continued inclusion of outstanding and prospective issuances of trust preferred securities in the tier 1 capital of BHCs, subject to stricter quantitative limits and qualitative standards. The Federal Reserve also revised the quantitative limits applied to the aggregate amount of qualifying cumulative perpetual preferred stock, qualifying trust preferred securities, and Class B and Class C minority interest (collectively, restricted core capital elements) included in the tier 1 capital of BHCs. These new quantitative limits become effective on March 31, 2009. Prior to March 31, 2009, a BHC with restricted core capital elements in amounts that cause it to exceed these limits must consult with the Federal Reserve on plans for ensuring that the BHC is not unduly relying on these elements in its capital base and, where appropriate, for reducing such reliance to ensure that the BHC complies with these limits as of March 31, 2009.

The aggregate amount of restricted core capital elements that may be included in the tier 1 capital of a BHC that is not an internationally-active BHC must not exceed 25 percent of the sum of all core capital elements (qualifying common stockholders' equity, qualifying noncumulative perpetual preferred stock and related surplus, Class A minority interest, and restricted core capital elements), net of goodwill less any associated deferred tax liability. Stated differently, the aggregate amount of a BHC's restricted core capital elements includable in tier 1 capital is limited to one-third of the sum of unrestricted core capital elements (i.e., common stockholders' equity, noncumulative perpetual preferred stock and Class A minority interest), net of goodwill less any associated deferred tax liability. In addition, the aggregate amount of restricted core capital elements (other than qualifying mandatory convertible preferred securities) that may be included in the tier 1 capital of an internationally active BHC must not exceed 15 percent of the sum of all core capital elements, including restricted core capital elements, net of goodwill less any associated deferred tax liability. Amounts of restricted core capital elements in excess of these limits generally may be included in tier 2 capital. The excess amounts of restricted core capital elements that are in the form of Class C minority interest and qualifying trust preferred securities are subject to further limitation within tier 2 capital.

Some components of qualifying restricted core capital elements (numerator to the ratio calculated to compare to the limit) and some components of qualifying core capital elements (denominator to the ratio calculated to compare to the limit) as identified below, cannot be separately identified in items reported on the FR Y-9C.

- Mandatorily convertible preferred securities are not separately reported on the current FR Y-9C, but are reported with other trust preferred securities until the equity securities are issued, which are then reported as common stock or perpetual preferred securities. Such securities are includable in the tier 1 capital of internationally-active bank holding companies above the 15 percent limit, up to the generally applicable 25 percent limit, while they are included in the 25 percent limit (both numerator and denominator) for other bank holding companies.

- Three types of minority interest in consolidated subsidiaries (Class A, B, and C minority interest) established by the tier 1 components rule are not separately reported on the current FR Y-9C report. These classes of minority interest are treated differently under the tier 1 components rule with Class A being an unrestricted core capital element, while Class B and C minority interest are restricted core capital elements.

- The amount of goodwill deducted in computing applicable limits under the tier 1 components rule taking effect on March 31, 2009, is reduced by the amount of any associated deferred tax liability, while goodwill reported on the current FR Y-9C is not net of such deferred tax liability.

The Federal Reserve plans to propose revising Schedule HC-R, Regulatory Capital, as of March 31, 2009, to collect all information necessary to confirm that a BHC is in compliance with the limits on restricted core capital elements. Until such time that these revisions can be implemented, the ratio of qualifying restricted core capital elements to qualifying total core capital elements may be approximated from information currently reported on the FR Y-9C as follows:

Numerator of the Restricted Core Capital Elements Ratio

- HC-R, item 6.b, “Qualifying trust preferred securities” + HC-R, memoranda item 3.b, “Cumulative perpetual preferred stock” + HC-R, item 6.a, “Qualifying minority interest in consolidated subsidiaries” = Total Qualifying Restricted Core Capital Elements (proxy)

Denominator of the Restricted Core Capital Elements Ratio

- HC-R, item 6.b, “Qualifying trust preferred securities” + HC-R, item 6.a, “Qualifying minority interest in consolidated subsidiaries” + HC-R, item 1, “Total equity capital (from Schedule HC, item 28)”
  - HC-R, item 2, “Net unrealized loss on available-for-sale securities (if gain, report as a positive; if a loss report as a negative value)” – HC-R, item 3, “Net unrealized loss on available-for-sale securities equity securities (report loss as a positive value)” – HC-R, item 4, “Accumulated net gains (losses) on cash flow hedges (if a gain, report as a positive value; if a loss, report as a negative value)
– HC-R, item 10.a, “Goodwill” = Total Qualifying Core Capital Elements (proxy)

Another way to approximate the maximum amount of restricted core capital elements that a non-internationally-active BHC may include in tier 1 capital as of March 31, 2009 is that a BHC’s qualifying restricted core capital elements under the revised standard is equal to one-third of its common stockholders’ equity plus noncumulative perpetual preferred securities minus goodwill. This computation may be approximated from information currently reported on the FR Y-9C as follows: 0.33 * [(HC, item 28) – (HC-R, item 2) – (HC-R, item 3) – (HC-R, item 4) – (HC, item 10.a)]. For internationally active BHCs, substitute 0.178 for 0.33 in the preceding calculation.

Qualifying Trust Preferred Securities and Limited-life Preferred Stock

In the last five years before the maturity of the junior subordinated note held by the trust, the outstanding amount of the associated trust preferred securities is excluded from tier 1 capital and included in tier 2 capital, where the trust preferred securities are subject to certain amortization provisions and quantitative restrictions applicable to limited-life capital instruments (e.g., limited-life preferred stock and subordinated debt). As a limited-life capital instrument approaches maturity, it begins to take on characteristics of a short-term obligation. For this reason, the outstanding amount of term subordinated debt and limited-life preferred stock eligible for inclusion in tier 2 capital is reduced, or discounted, as these instruments approach maturity (one-fifth of the outstanding amount is excluded each year during the instrument’s last five years before maturity). When remaining maturity is less than one year, the instrument is excluded from tier 2 capital.

The aggregate amount of term subordinated debt and limited-life preferred stock and beginning March 31, 2009, qualifying trust preferred securities and Class C minority interest in excess of the amounts includable in tier 1 capital (previously described) may be included in tier 2 capital up to an aggregate amount of 50 percent of tier 1 capital. Amounts of these instruments in excess of this limit, although not included in tier 2 capital, will be taken into account by the Federal Reserve in its overall assessment of a BHC’s funding and financial condition.

Construction Loans

Loans written as combination construction-permanent loans secured by real estate should be reported in Schedule HC-C, item 1.a, “Construction, land development, and other land loans,” until construction is completed or principal amortization payments begin, whichever comes first. When the first of these events occurs, the loans should begin to be reported in the real estate loan category in Schedule HC-C, item 1, appropriate to the real estate collateral. All other construction loans secured by real estate should continue to be reported in Schedule HC-C, item 1.a, after construction is completed unless and until (1) the loan is refinanced into a new permanent loan by the reporting BHC or is otherwise repaid, (2) the BHC acquires or otherwise obtains physical possession of the underlying collateral in full satisfaction of the debt, or (3) the loan is charged off.

Troubled Debt Restructurings

The FR Y-9C reporting instructions define a “troubled debt restructuring” (TDR) as a restructuring in which a BHC, for economic or legal reasons related to a borrower’s financial difficulties, grants a concession to the borrower that the BHC would not otherwise consider. In general, TDRs include a modification of the terms of a loan that provides for a reduction of either interest or principal.

Effective March 31, 2008, all BHCs should report the amount of 1-4 family residential mortgage loans that have undergone TDRs and are in compliance with their modified terms in Schedule HC-C, Memorandum item 1.a. The amount of 1-4 family residential mortgages that have undergone TDRs and under their modified terms are past due 30 days or more or are in nonaccrual status should be reported in Schedule HC-N, Memorandum item 1.a. Also, all restructured troubled loans should continue to be reported in the appropriate loan category in Schedule HC-C and, if appropriate, in Schedule HC-N.

The accounting standards for TDRs are set forth in FAS 15, “Accounting for Debt and Creditors for Troubled Debt”, as amended by FASB Statement No. 114, “Accounting by Creditors for Impairment of a Loan”, and are summarized in the Glossary section of the FR Y-9C reporting instructions. All loans whose terms have been modified in a TDR must be evaluated for impairment under FAS 114. Under FAS 114, when measuring impairment on a restructured troubled loan using the present value of expected future cash flows method, the cash flows are discounted at the effective interest rate of the original loan, i.e., before the restructuring. For a residential mortgage loan with a “teaser” or “starter” rate that is less than the loan’s fully indexed rate, the “starter” rate is not the original effective interest rate. FAS 114 also permits a BHC to aggregate impaired loans that have risk characteristics in common with other impaired loans, such as modified residential mortgage loans that represent TDRs, and use historical statistics along with a composite effective interest rate as a means of measuring the impairment of these loans.

Measurement of Fair Values in Stressed Market Conditions

The valuation of various assets and liabilities on the balance sheet – including trading assets and liabilities, available-for-sale securities, loans held for sale, assets and liabilities accounted for under the fair value option (which is discussed in the following section), and foreclosed assets – involves the use of fair values. During recent market stress events, the fair values of some financial instruments and nonfinancial assets may decline.

Institutions are reminded that the objective of a fair value measurement is to determine the price that would be received to sell an asset or transfer a liability in an orderly transaction (e.g., not a forced or distressed sale) at the balance sheet date. Accordingly, fair values should reflect current market conditions and consider recent transaction prices, where available. This fair value objective is generally applicable to all fair value measurements effective for fiscal years beginning after November 15, 2007 with the adoption of FASB Statement No. 157, which is discussed in the following section.

On October 3, 2007, the Center for Audit Quality (CAQ), which is affiliated with the American Institute of Certified Public Accountants, issued a white paper entitled *Measurements of Fair Value in Illiquid (or Less Liquid) Markets* (http://www.aicpa.org/caq/download/WP_Measurements_of_FV_in_Illiquid_Markets.pdf). The white paper discusses issues associated with fair value measurement under existing generally accepted accounting principles (GAAP) in the context of the conditions that currently exist in many segments of the credit markets. Although the CAQ’s white paper was directed to auditors and public companies, the paper articulates certain existing GAAP requirements related to fair value measurement issues that apply to all institutions, whether or not they are public companies. For FR Y-9 reporting purposes, BHCs should consider the fair value measurement information contained in the CAQ’s white paper.

In addition, on September 30, 2008, the SEC’s Office of the Chief Accountant and the FASB staff jointly issued clarifications that address several fair value measurement questions that have arisen in the current market environment (http://www.fasb.org/news/2008-FairValue.pdf). These clarifications are based on the fair value measurement guidance in FAS 157. On October 10, 2008, the FASB issued FASB Staff Position No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP FAS 157-3) (http://www.fasb.org/pdf/fsp_fas157-3.pdf). This FSP clarifies the application of FAS 157 in such a market and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. BHCs should consider these clarifications when measuring fair value for FR Y-9 reporting purposes.

Fair Value Measurement and Fair Value Option

FASB Statement No. 157, "Fair Value Measurements", issued in September 2006, defines fair value, establishes a framework for measuring the fair value of assets and liabilities based on a three level hierarchy, and expands disclosures about fair value measurements. The FASB's three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting BHC has the ability to access at the measurement date (e.g., the FR Y-9C reporting date). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

According to FAS 157, observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. In contrast, unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

FAS 157 is effective for fiscal years beginning after November 15, 2007, and, with certain exceptions, is to be applied prospectively. However, on February 12, 2008, the FASB issued FASB Staff Position No. FAS 157-2, which delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except for those items that are recognized or disclosed at fair value on a recurring basis, i.e., at least annually, in the financial statements. However, this delay does not apply to entities that have issued interim or annual financial statements or FR Y-9C reports that include the application of the measurement and disclosure provisions of FAS 157. BHCs must adopt FAS 157 for FR Y-9C reporting purposes in accordance with the standard's effective date, including the delayed effective date for eligible nonfinancial assets and nonfinancial liabilities. Thus, a BHC with a calendar year fiscal year must adopt FAS 157 as of January 1, 2008, except for any fair value measurements subject to the delay mentioned above.

For those financial instruments identified in FAS 157 to which the standard must be applied retrospectively upon initial application, the effect of initially applying FAS 157 to these instruments should be recognized as a cumulative-effect adjustment to the opening balance of retained earnings at the beginning of the fiscal year of adoption. This adjustment should be reported in Schedule HI-A, item 2, “Restatements due to corrections of material accounting errors and changes in accounting principles,” and separately disclosed in the Notes to the Income Statement—Other, item 1.

FASB Statement No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities”, issued in February 2007, allows BHCs to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings. In general, a BHC may elect the fair value option for an eligible financial asset or liability when it first recognizes the instrument on its balance sheet or enters into an eligible firm commitment. A BHC may also elect the fair value option for eligible items that exist on the effective date of FAS 159. A BHC’s decision to elect the fair value option for an eligible item is irrevocable. A BHC that elects the fair value option is expected to apply sound risk management and control practices to the assets and liabilities that will be accounted for at fair value under the option.

If, in connection with its substantive adoption of FAS 159, a BHC elects the fair value option for eligible items that exist on the effective date of its adoption of this accounting standard, the BHC must report the effect of the first remeasurement of these existing items to fair value as a cumulative-effect adjustment to the opening balance of retained earnings at the beginning of the fiscal year of adoption. The difference between the carrying amount and the fair value of eligible items for which the fair value option is elected at the effective date should be removed from the balance sheet (Schedule HC) and included in the cumulative-effect adjustment. This adjustment should be reported in Schedule HI-A, item 2, “Restatements due to corrections of material accounting errors and changes in accounting principles,” and separately disclosed in the Notes to the Income Statement—Other, item 1. For available-for-sale securities that exist on the effective date of adoption for which the BHC elects the fair value option, the net unrealized gains (losses) on these securities would no longer be included in “Accumulated other comprehensive income” (FR Y-9C: Schedule HC, item 26.b; FR Y-9LP: Schedule PC, item 20.e). At the effective date of the election, the net unrealized gains (losses) on these securities should be included in Schedule HI-A, item 2, as described above, and an offsetting amount should be reported as a reduction (increase) in Schedule HI-A, item 12, “Other comprehensive income.”

On April 17, 2007, the Center for Audit Quality (CAQ), which is affiliated with the American Institute of Certified Public Accountants, issued Alert No. 2007-14, *FAS 159 Early Adoption Date Approaching – Factors to Consider* (http://www.thecaq.org/newsroom/pdfs/CAQPressRelease_041807a.pdf). The Alert summarized the principles and objectives of the fair value option as set forth in FAS 159 and provides factors to consider in determining whether an entity has substantively adopted FAS 159 on a go forward basis. Although the CAQ's Alert was directed to auditors and public companies, the factors concerning the evaluation of an entity's purported early adoption of FAS 159 are equally appropriate for nonpublic institutions. For regulatory reporting purposes, BHCs are expected to meet the principles and objectives of FAS 159 when applying the fair value option and should consider the information contained in the CAQ's Alert.

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

Schedule HC-Q, Financial Assets and Liabilities Measured at Fair Value

FR Y-9C Schedule HC-Q, Financial Assets and Liabilities Measured at Fair Value, is to be completed by BHCs that have adopted FAS 157 and either (1) have elected the fair value option under FAS 159 or under FASB Statements No. 155 or 156, or (2) are required to complete Schedule HC-D, Trading Assets and Liabilities (BHCs that meet this criteria but do not meet criteria (1) must complete *only* Schedule HC-Q items 2 and 5, and leave items 1, 2.a, 3, 4, 6 and 7 blank). This schedule captures fair value data on total trading assets and liabilities and on other assets, liabilities, and loan commitments to which the fair value option is being applied. Accordingly, BHCs should not include data in Schedule HC-Q on securities reported as available-for-sale on the FR Y-9C balance sheet (Schedule HC, item 2(b)) or on derivatives held for purposes other than trading that are reported as “Other assets” or “Other liabilities” (Schedule HC, item 11, or item 20). Schedule HC-Q has been revised this quarter to include columns for Level 1, Level 2, and Level 3 fair value measurements and a column for the fair value of assets and liabilities that have been netted for balance sheet purposes in accordance with FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts, and FASB Interpretation No. 41, Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements.

Under FAS 159, securities that a BHC has elected to report at fair value under the fair value option are reported as trading securities even though management did not acquire the securities principally for the purpose of selling them in the near term or for other trading purposes. Thus, such securities, whether held on the date of adoption of FAS 159 or acquired thereafter, should be reported in Schedule HC-Q in both item 2, “Trading assets,” and item 2.a, “Nontrading securities at fair value with changes in fair value reported in current earnings.”

Split-Dollar Life Insurance Arrangements

The Financial Accounting Standards Board’s (FASB) Emerging Issues Task Force (EITF) has issued guidance on the accounting for the deferred compensation and postretirement benefit aspects of split-dollar life insurance arrangements. This guidance is effective for fiscal years beginning after December 15, 2007, including interim periods within those fiscal years, with earlier application permitted. EITF Issue No. 06-4 addresses endorsement split dollar arrangements (http://www.fasb.org/pdf/abs06-4.pdf) while EITF issue No. 06-10 covers collateral assignment split dollar arrangements (http://www.fasb.org/pdf/abs06-10.pdf). In general, in an endorsement split-dollar arrangement, the employer (such as a BHC or subsidiary) owns and controls the insurance policy on the employee, whereas in a collateral assignment split-dollar arrangement, the employee owns and controls the insurance policy.

An employer, such as a BHC, should recognize a liability for the postretirement benefit related to a split-dollar life insurance arrangement if, based on the substantive agreement with the employee, the BHC has agreed to maintain a life insurance policy during the employee's retirement or provide the employee with a death benefit. This liability should be measured in accordance with either FASB Statement No. 106 (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract). In addition, for a collateral assignment split-dollar arrangement, the EITF also reached a consensus that an employer such as a BHC should recognize and measure an insurance asset based on the nature and substance of the arrangement.

BHCs with split-dollar life insurance arrangements must apply the consensuses in EITF Issues No. 06-4 and No. 06-10 for FR Y-9 reporting purposes in accordance with their effective date. Thus, a BHC with a calendar year fiscal year must apply the relevant guidance as of January 1, 2008, and should recognize the effects of applying the consensus as a cumulative-effect adjustment to the opening balance of retained earnings on that date. This adjustment should be reported in Schedule HI-A, item 2, “Restatements due to corrections of material accounting errors and changes in accounting principles,” and may be separately disclosed in Schedule HI, 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. The June 2007 FR Y-9C reporting instructions were updated to include a revised Glossary entry for "Income Taxes" that includes guidance on FIN 48.

BHCs must adopt FIN 48 for FR Y-9 reporting purposes in accordance with the interpretation's effective date. As originally issued, FIN 48 was effective for fiscal years beginning after December 15, 2006. However, for eligible nonpublic enterprises the FASB Board has decided to defer the effective date of FIN 48 to the annual financial statements for fiscal years beginning after December 15, 2008. A nonpublic enterprise is eligible for this deferral provided it (a) has not issued a full set of annual financial statements incorporating the recognition, measurement, and disclosure requirements of FIN 48 and (b) is not a subsidiary of a public enterprise. A nonpublic enterprise that meets these conditions is eligible for the deferral even if it issued interim or quarterly financial information in 2007 that reflected the adoption of FIN 48.

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

Reporting of Maturity Data on Credit Derivative Contracts in Schedule HC-R

Bank holding companies report the remaining maturities of credit derivative contracts that are subject to risk-based capital requirements in Schedule HC-R, Memorandum items 2.g.(1) and (2), based on the rating of the underlying reference asset. BHCs should report the full gross notional amount of all such credit derivative contracts in these Memorandum items. For credit derivative contracts that are subject to the market risk capital guidelines and for which the BHC is the protection seller (guarantor), BHCs should ensure that they report the notional amount rather than an amount based on the unpaid or unearned premiums on these derivatives.

Electronic Submission Option

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

Website

Report forms and instructions for the FR Y-9C, FR Y-9LP, FR Y-11, FR 2314 and FR Y-12 are available on the Federal Reserve Board's web site at **www.federalreserve.gov** 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 Richard Molloy --

Richard Molloy
Statistics Officer
Financial Reports Department