

# FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

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June 28, 2007

To: Depository Institutions in the Second Federal Reserve District that file the Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900)

Subject: Reporting of Cash Collateral, Retail Sweeps and the Fair Value Option (FAS 159) on the FR 2900

I am writing to inform you of several instructional clarifications for the Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900). Specifically, below is guidance for the reporting of (1) cash collateral held by depository institutions in connection with derivative contracts, (2) acceptable practices for retail sweep programs and (3) the use of fair value for deposit liabilities on the FR 2900.

## Cash Collateral

FIN 39-1 amends FIN 39 to permit a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against the fair value of derivative contracts with the same counterparty under the same master netting arrangement.

All cash collateral received and held in connection with derivatives contracts are deposits on the FR 2900 regardless of the application of FIN 39-1. That is, the amount of the cash collateral should be reported gross and not netted against a derivative contract. For cash collateral that has a maturity of less than seven days, the deposits should be reported in "Other demand" (Line A.1.c). Any interest paid on these funds is a violation of section 217.3 of Regulation Q, which prohibits the payment of interest on demand deposits. For cash collateral that have a maturity of seven days or greater, the deposits should be reported in "Total time deposits" (Line D.1) and "All time deposits with balances of \$100,000 or more" (Line F.1).

## Retail Sweep Programs

In May 2007, the Board of Governors published a compilation of previously issued staff opinions and correspondence regarding retail sweep programs. Specifically, the guidance addressed the requirements for customer account agreements; record keeping and movement of

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funds in order for sweep programs to comply with Regulation D are addressed. A copy of the guidance is available at <http://www.federalreserve.gov/boarddocs/legalint/FederalReserveAct/2007/20070501/20070501.pdf>

Fair Value Option (FAS 159)

The FASB recently issued Statement No. 159 (FAS 159), *The Fair Value Option for Assets and Liabilities*. This statement allows entities to measure financial assets and liabilities at fair value.

FAS 159 should not be applied to liabilities reported on the FR 2900. Therefore, deposits should be reported based on a depository institution's contractual liability to its counterparty, which includes accrued interest, regardless of whether a depository institution adopts FAS 159 for its financial statements.

If you have any questions about these issues, please contact Juan Batista, Team Leader of the Deposits Reports and Primary Dealer Division, at (212) 720-8011 or Brian Osterhus, Staff Director of that Division, at (212) 720-8023.

Sincerely,

-- Signed by Richard Molloy --

Richard Molloy  
Statistics Officer  
Domestic Financial Reports