

# FEDERAL RESERVE BANK OF NEW YORK

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KENNETH LAMAR  
VICE PRESIDENT

October 22, 2003

To: The Officer Responsible for the Weekly Report of Assets and Liabilities for U.S. Branches and Agencies of Foreign Banks (FR 2069), Weekly Report of Assets and Liabilities for Large Banks (FR 2416), Weekly Report of Selected Assets (FR 2644), Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900) or the Report of Certain Eurocurrency Transactions (FR 2950/51)

Subject: Implementation of FIN 46

I am writing to you concerning the reporting treatment of “variable interest entities” (VIE) on the Weekly Report of Assets and Liabilities for U.S. Branches and Agencies of Foreign Banks (FR 2069), Weekly Report of Assets and Liabilities for Large Banks (FR 2416), Weekly Report of Selected Assets (FR 2644), Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900) and the Report of Certain Eurocurrency Transactions (FR 2950/51).

## **Background**

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, *Consolidation of Variable Interest Entities*. 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 residual returns if they occur, or both, is the “primary beneficiary” of the VIE and must consolidate it.

Initially, the effective date for consolidating VIEs existing prior to February 1, 2003 was for fiscal periods ending after June 15, 2003. On October 8, 2003, the FASB issued FASB Staff Position FIN 46-6, “Effective Date of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*” which delayed the implementation date of FIN 46 to fiscal periods ending after December 15, 2003.

Reporting on the Weekly ReportsFR 2900 and FR 2950/51

Liabilities from the consolidation of VIEs are subject to Regulation D. Therefore, any liability of a VIE should be reported on the FR 2900 or the FR 2950/51 no later than the December 22, 2003 report, which is the first report date following the implementation date. If the maturity is less than seven days, it should be reported in "Other demand deposits" (line A.1.c). If the maturity is seven days or greater, it should be reported in "Total time deposits" (line D.1) and "All time deposits with balances of \$100,000 or more" (line F.1).

Bank Credit Reports

On the FR 2069, FR 2416 and FR 2644, any VIEs that are consolidated should be included in these reports on a line-by-line basis, no later than the December 17, 2003 report, which is the first report date following the implementation date. Reporting should begin with the report date following the effective date and not deferred to the quarter-end date.

Deferral of FIN 46

As stated above, the FASB has deferred the implementation of FIN 46 until fiscal periods ending after December 15, 2003. Depository institutions that have consolidated VIEs on the weekly reports may either: (1) elect early adoption and continue to report the variable interests in VIEs; or (2) submit revised reports to eliminate these variable interests. The method chosen should be consistent with the application of FIN 46 on the weekly reports, Call Report and other public financial statements.

For institutions that do not elect early adoption, VIEs should be consolidated effective with the first report date after December 15, 2003. For the FR 2069, FR 2416 and FR 2644, consolidation would be required beginning with the December 17, 2003 report. For the FR 2900 and FR 2950/51, consolidation would be required beginning with the December 22, 2003 report.

I appreciate your attention to this matter. Questions regarding the FR 2069, FR 2416 or FR 2644 should be directed to Richard Molloy, Staff Director of the Regulatory Reports Division, at (212) 720-6393. Questions regarding the reporting on the FR 2900 or FR 2950/51 should be directed to Brian Osterhus, Staff Director of the Deposit Reports Division, at (212) 720-8023.

Sincerely,

-- Signed by Kenneth Lamar --

Kenneth Lamar  
Vice President  
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