

## **FEDERAL RESERVE SYSTEM**

### **Proposed Agency Information Collection Activities; Comment Request**

**AGENCY:** Board of Governors of the Federal Reserve System

#### **SUMMARY: Background**

On June 15, 1984, the Office of Management and Budget (OMB) delegated to the Board of Governors of the Federal Reserve System (Board) its approval authority under the Paperwork Reduction Act (PRA), as per 5 CFR 1320.16, to approve of and assign OMB control numbers to collection of information requests and requirements conducted or sponsored by the Board under conditions set forth in 5 CFR 1320 Appendix A.1. Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information. Copies of the Paperwork Reduction Act Submission, supporting statements and approved collection of information instruments are placed into OMB's public docket files. The Federal Reserve may not conduct or sponsor, and the respondent is not required to respond to, an information collection that has been extended, revised, or implemented on or after October 1, 1995, unless it displays a currently valid OMB control number.

#### **Request for comment on information collection proposals**

The following information collections, which are being handled under this delegated authority, have received initial Board approval and are hereby published for comment. At the end of the comment period, the proposed information collections, along with an analysis of comments and recommendations received, will be submitted to the Board for final approval under OMB delegated authority. Comments are invited on the following:

a. Whether the proposed collection of information is necessary for the proper performance of the Federal Reserve's functions; including whether the information has practical utility;

b. The accuracy of the Federal Reserve's estimate of the burden of the proposed information collection, including the validity of the methodology and assumptions used;

c. Ways to enhance the quality, utility, and clarity of the information to be collected; and

d. Ways to minimize the burden of information collection on respondents, including through the use of automated collection techniques or other forms of information technology.

**DATES:** Comments must be submitted on or before [insert date 60 days after publication in the Federal Register].

**ADDRESSES:** You may submit comments, identified by *FR Y-9C*, *FR Y-9SP*, *FR Y-11*, *FR 2314*, *FR Y-7N*, *FR 2886b*, and *FR Y-8*, by any of the following methods:

- Agency Web Site: <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.
- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.
- E-mail: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov). Include docket number in the subject line of the message.
- FAX: 202/452-3819 or 202/452-3102.
- Mail: Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve

System, 20<sup>th</sup> Street and Constitution Avenue, N.W., Washington, DC 20551.

All public comments are available from the Board's web site at

[www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm](http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm) as submitted, unless modified for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper form in Room MP-500 of the Board's Martin Building (20th and C Streets, N.W.) between 9:00 a.m. and 5:00 p.m. on weekdays.

Additionally, commenters should send a copy of their comments to the OMB Desk Officer by mail to the Office of Information and Regulatory Affairs, U.S. Office of Management and Budget, New Executive Office Building, Room 10235, 725 17<sup>th</sup> Street, NW., Washington, DC 20503 or by fax to 202-395-6974.

**FOR FURTHER INFORMATION CONTACT:** A copy of the PRA OMB submission including, the proposed reporting form and instructions, supporting statement, and other documentation will be placed into OMB's public docket files, once approved. These documents will also be made available on the Federal Reserve Board's public website at: <http://www.federalreserve.gov/boarddocs/reportforms/review.cfm> or may be requested from the agency clearance officer, whose name appears below.

Michelle Shore, Federal Reserve Board Clearance Officer (202-452-3829), Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, DC 20551. Telecommunications Device for the Deaf (TDD) users may contact (202-263-4869), Board of Governors of the Federal Reserve System, Washington, DC 20551.

**Proposal to approve under OMB delegated authority the revision, without extension, of the following reports:**

1. *Report title:* Consolidated Financial Statements for Bank Holding Companies, Parent Company Only Financial Statements for Small Bank Holding Companies.

*Agency form number:* FR Y-9C, FR Y-9SP.

*OMB control number:* 7100-0128.

*Frequency:* FR Y-9C: quarterly; FR Y-9SP: semi-annually.

*Reporters:* Bank holding companies.

*Annual reporting hours:* FR Y-9C: 162,602; FR Y-9SP: 48,254.

*Estimated average hours per response:* FR Y-9C: 41.65; FR Y-9SP: 5.40.

*Number of respondents:* FR Y-9C: 976; FR Y-9SP: 4,468.

*General description of report:* This information collection is mandatory (12 U.S.C.

1844(c)). Confidential treatment is not routinely given to the data in these reports.

However, confidential treatment for the reporting information, in whole or in part, can be requested in accordance with the instructions to the form, pursuant to sections (b)(4), (b)(6) and (b)(8) of the Freedom of Information Act (5 U.S.C. §§552(b)(4), (b)(6) and (b)(8)).

*Abstract:* The FR Y-9C and FR Y-9SP are standardized financial statements for the consolidated bank holding company (BHC) and its parent. The FR Y-9 family of reports historically has been, and continues to be, the primary source of financial information on BHCs between on-site inspections. Financial information from these reports is used to detect emerging financial problems, to review performance and conduct pre-inspection analysis, to monitor and evaluate capital adequacy, to evaluate BHC mergers and

acquisitions, and to analyze a BHC's overall financial condition to ensure safe and sound operations.

The FR Y-9C consists of standardized financial statements similar to the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 & 041; OMB No. 7100-0036) filed by commercial banks. The FR Y-9C collects consolidated data from BHCs. The FR Y-9C is filed by top-tier BHCs with total consolidated assets of \$500 million or more. (Under certain circumstances defined in the General Instructions, BHCs under \$500 million may be required to file the FR Y-9C.)

The FR Y-9SP is a parent company only financial statement filed by smaller BHCs. Respondents include BHCs with total consolidated assets of less than \$500 million. This form is a simplified or abbreviated version of the more extensive parent company only financial statement for large BHCs (FR Y-9LP). This report is designed to obtain basic balance sheet and income information for the parent company, information on intangible assets, and information on intercompany transactions.

*Current Actions:* The Federal Reserve proposes to implement a number of changes to the FR Y-9C and FR Y-9SP reporting requirements to better support the surveillance and supervision of individual BHCs and enhance the monitoring of the industry's condition and performance. The proposed revisions reflect a thorough and careful review of data needs in a variety of areas as BHCs encounter the most turbulent environment in more than a decade. Thus, the revisions include new data items focusing on areas in which the banking industry is facing heightened risk due to market turmoil and illiquidity and weakening economic and credit conditions. Also, the Federal Reserve

proposes certain revisions due to changes in accounting standards and amendments to regulatory capital requirements. To minimize reporting burden, where possible, the Federal Reserve has sought to establish reporting thresholds for proposed new data items.

The Federal Reserve proposes the following revisions to the FR Y-9C effective March 31, 2009: (1) new data items and revisions to existing data items on trading assets and liabilities, (2) new data items associated with the U.S. Department of the Treasury (Treasury) Capital Purchase Program (CPP) (3) new data items and revisions to existing data items on regulatory capital requirements, (4) new data items providing information on held-for-investment loans and leases acquired in business combinations, (5) new data items and revisions to several data items applicable to noncontrolling (minority) interests in consolidated subsidiaries, (6) clarification of the definition of loans secured by real estate, (7) clarification of the instructions for reporting unused commitments, (8) exemptions from reporting certain existing data items for BHCs with less than \$1 billion in total assets, and (9) instructional guidance on quantifying misstatements.

The Federal Reserve proposes the following revisions to the FR Y-9C effective June 30, 2009: (1) new data items for real estate construction and development loans (for BHCs with construction and development loan concentrations), (2) new data items and deletion of existing items for holdings of collateralized debt obligations and other structured financial products, (3) new data items and revisions to existing data items for holdings of commercial mortgage-backed securities, (4) new data items and revisions to existing data items for unused commitments with an original maturity of one year or less to asset-backed commercial paper conduits, (5) new data items and revisions to existing data items for fair value measurements by level for asset and liability categories reported

at fair value on a recurring basis, (6) new data items for pledged loans and pledged trading assets, (7) new data items for collateral held against over-the-counter (OTC) derivative exposures (for BHCs with \$10 billion or more in total assets), (8) new data item and revisions and deletions of existing data items for investments in real estate ventures, (9) new data items and revisions to existing data items for past due and nonaccrual trading assets, and (10) new data items and revisions to existing data items for credit derivatives.

The Federal Reserve proposes to modify the FR Y-9SP to also collect new data items associated with the Treasury's Capital Purchase Program (CPP). The proposed changes would be effective as of June 30, 2009.

### **Proposed Revisions - FR Y-9C**

#### **A. Proposed Revisions Not Related to Call Report Revisions**

The Federal Reserve proposes to make the following revisions to the FR Y-9C effective as of March 31, 2009, which are unrelated to the revisions proposed to the Call Report.

##### **A.1 Revisions to Information Collected on Schedule HC-D, Trading Assets and Liabilities**

BHCs report the fair value of liabilities resulting from sales of assets that the BHC does not own (short selling or short positions) in Schedule HC-D, data item 13.a, Liability for short positions. Since 2000, the total liability for short positions reported by FR Y-9C respondents has increased approximately 123 percent to over \$325 billion as of March 31, 2008. This data item also comprises over half of total trading liabilities reported on the FR Y-9C. To appropriately assess the safety and soundness of BHCs that

participate in short selling activity and to better monitor the specific risk exposures associated with the type of assets that are sold short, the Federal Reserve proposes to break out data item 13.a into three new categories: 13.a.(1) Equity securities; 13.a.(2) Debt securities; and 13.a.(3) All other assets.

Since 2000, the aggregate amount of Other trading assets in domestic offices reported in Schedule HC-D, data item 9, has increased approximately 108 percent to over \$120 billion as of March 31, 2008. The Federal Reserve believes that a significant component of this amount is commodity contracts and physical commodities held for trading. The gross positive fair value of commodity and other contracts (other than interest rate, foreign exchange and equity derivative contracts) held for trading has grown from less than \$14 billion as of year-end 2001 to over \$85 billion as of March 31, 2008. Furthermore, BHCs have recently been given regulatory approval to engage in the trading of physical commodities held in inventory. Because of the volatility of the assets underlying these commodity contracts and the risk associated with the trading of these types of assets, the Federal Reserve proposes to add new memorandum item 9.a.(1), Gross fair value of commodity contracts, and new memorandum item 9.a.(2), Gross fair value of physical commodities held in inventory. These memoranda items would be completed by BHCs that reported average trading assets of \$1 billion or more in any of the four preceding quarters.

Current memoranda items 9.a, 9.b, and 9.c, providing a description of and the fair value of any type of trading asset that is greater than \$25,000 and exceeds 25 percent of the amount reported in Schedule HC-D, data item 9, Other trading assets would be renumbered as 9.b.(1), 9.b.(2), and 9.b.(3). In addition, the Federal Reserve proposes to



exclude the reporting of the fair value of commodities from renumbered memorandum item 9.b. The Federal Reserve also proposes to modify the reporting criteria for renumbered memorandum item 9.b to provide a description of and the fair value of any type of trading asset that is greater than \$25,000 and exceeds 25 percent of Schedule HC-D, data item 9, less Schedule HC-D, new memorandum item 9.a.

### **A.2 Proposed Revisions to Schedule HC-M, Memoranda**

On October 14, 2008, the Secretary of the Treasury announced a program to provide capital to eligible financial institutions, including BHCs. Under the CPP, the Treasury will provide capital to participating BHCs by purchasing newly issued senior perpetual preferred stock of the bank holding company. This perpetual preferred stock will be senior to the BHCs common stock and on par with the issuer's existing preferred shares. All such senior perpetual preferred stock issued by BHCs will provide for cumulative dividends.<sup>1</sup> The senior perpetual preferred stock may be included without limit in the tier 1 capital of BHCs. In conjunction with the purchase of senior perpetual preferred stock, the Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15 percent of the senior preferred investment.

In order to monitor the scope of the CPP, including associated warrants issued, and to ascertain the impact on BHCs tier 1 capital, the Federal Reserve proposes to add two data items to Schedule HC-M, Memoranda. The Federal Reserve proposes to add new data item 24 with the heading "Issuances associated with the U.S. Department of Treasury Capital Purchase Program:" with a breakout for data item 24.a, "Senior perpetual preferred stock or similar items," and 24.b, "Warrants to purchase common

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<sup>1</sup> For a discussion of the terms and conditions of the CPP, see the Board's press release dated October 16, 2008, and the attachment to this press release.

stock or similar items.” BHCs would report the carrying amount of these instruments in data items 24.a and 24.b. The Federal Reserve proposes to add the phrase “or similar items” to each of these data items in order to provide greater flexibility to collect information related to this program as details of the program develop further.

### **A.3 Proposed Revisions to Schedule HC-R, Regulatory Capital**

On March 10, 2005, the Federal Reserve amended 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<sup>2</sup> and Class C<sup>3</sup> minority interest (collectively, qualifying restricted core capital elements) included in the tier 1 capital of BHCs. These new quantitative limits become effective on March 31, 2009.

The aggregate amount of restricted core capital elements that may be included in the tier 1 capital of a BHC must not exceed 25 percent of the sum of all core capital elements (qualifying common stockholders’ equity, qualifying noncumulative perpetual preferred stock including related surplus, Class A minority interest<sup>4</sup>, and restricted core capital elements), less goodwill net of any associated deferred tax liability<sup>5</sup>. Stated

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<sup>2</sup> Class B minority interest is related to qualifying cumulative perpetual preferred stock directly issued by a consolidated U.S. depository institution or foreign bank subsidiary.

<sup>3</sup> Class C minority interest is related to qualifying common stockholders’ equity or perpetual preferred stock issued by a consolidated subsidiary that is neither a U.S. depository institution nor a foreign bank.

<sup>4</sup> Class A minority interest is defined as common stockholders’ equity of a consolidated subsidiary that is a U.S. depository institution or a foreign bank.

<sup>5</sup> Algebraically this may be expressed as  $A - (B - C)$  where A represents all core capital

differently, the aggregate amount of restricted core capital elements is limited to one-third of the sum of unrestricted core capital elements (for example, common stockholders' equity, noncumulative perpetual preferred stock, and Class A minority interest), less goodwill net of any associated deferred tax liability. In addition, the aggregate amount of restricted core capital elements (other than qualifying mandatory convertible preferred securities<sup>6</sup>) that may be included in the tier 1 capital of an internationally active BHC<sup>7</sup> 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, as discussed below.

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 as if the trust preferred securities were limited-life preferred stock. As a limited-life capital instrument

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elements, B represents goodwill, and C represents any deferred tax liability associated with goodwill.

<sup>6</sup> Qualifying mandatory convertible preferred securities generally consist of the joint issuance by a BHC to investors of trust preferred securities and a forward purchase contract, which the investors fully collateralize with the securities, that obligates the investors to purchase a fixed amount of the BHC's stock, generally within three years.

<sup>7</sup> For this purpose, an internationally active BHC is a BHC that (1) as of its most recent year-end FR Y-9C, reports total consolidated assets equal to \$250 billion or more or (2) on a consolidated basis, reports total on-balance-sheet foreign exposure of \$10 billion or more on its most recent year-end FFIEC 009 Country Exposure Report.

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 as well as, 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.

Currently some components of qualifying restricted core capital elements (numerator to the ratio calculated to compare to the limit) and of qualifying core capital elements (denominator to the ratio calculated to compare to the limit) cannot be separately identified in data items reported on the FR Y-9C. For example, mandatorily convertible preferred securities are not separately reported but are includible in the tier 1 of internationally active BHCs 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 BHCs. Furthermore, Class A, B, and C minority interest are not separately reported on the current FR Y-9C report. However, in computing compliance with the March 31, 2009, standard, Class A minority interest is an unrestricted core

capital element, while Class B and C minority interest are restricted core capital elements. Finally, the amount of goodwill deducted in computing applicable limits under the tier 1 components rule is reduced by the amount of any associated deferred tax liability, while goodwill reported on the FR Y-9C is not net of such deferred tax liability. Therefore, the Federal Reserve proposes to revise certain data items in Schedule HC-R, Regulatory Capital, collected for the calculation of tier 1 and tier 2 capital and to collect new data items to identify the components of restricted core capital included in tier 1 capital that would allow for the determination of a BHCs compliance with the tier 1 limits placed on restricted core capital elements:

- Change data item 6.a, Qualifying minority interests in consolidated subsidiaries and similar items, to Qualifying Class A non-controlling (minority) interests in consolidated subsidiaries.
- Change data item 6.b, Qualifying trust preferred securities, to Qualifying restricted core capital elements (other than cumulative perpetual preferred).
- Add new data item 6.c, Qualifying mandatory convertible preferred securities of internationally active bank holding companies.
- Change data item 8, Subtotal (sum of items 1, 6.a. and 6.b., less items 2, 3, 4, 5, 7.a. and 7.b.) to Subtotal (sum of items 1, 6.a., 6.b., and 6.c., less items 2, 3, 4, 5, 7.a., and 7.b.).
- Change data item 12, Qualifying subordinated debt and redeemable preferred stock, to Qualifying subordinated debt, redeemable preferred stock, and restricted core capital elements not includable in item 6.b. or 6.c.
- Change data item 13, Cumulative perpetual preferred stock includible in Tier 2

capital, to Cumulative perpetual preferred stock not included in item 5 and Class B noncontrolling (minority) interest not included in item 6.b., but includible in Tier 2 capital.

- Add a new memoranda item 8, Restricted core capital elements included in Tier 1 capital, with separate reporting of the following new data items:
  - 8.a, Qualifying Class B non-controlling (minority) interest (included in Schedule HC, item 27.b).
  - 8.b, Qualifying Class C non-controlling (minority) interest (included in Schedule HC, item 27.b).
  - 8.c, Qualifying cumulative perpetual preferred stock (included in Schedule HC, item 27.a).
  - 8.d, Qualifying trust preferred securities (included in Schedule HC, item 19.b).
- Delete current memoranda item 3.b, Preferred stock (including related surplus) eligible for inclusion in Tier 1 capital: Cumulative perpetual preferred stock (included and reported in Total equity capital on Schedule HC).
- Add new memoranda item 9, Goodwill net of any associated deferred tax liability.
- Add new memoranda item 10, Ratio of qualifying restricted core capital elements to total core capital elements less (goodwill net of any associated deferred tax liability). (This data item would be reported as a percentage.)

Also, other Schedule HC-R instructions and examples found at the end of the instructions to Schedule HC-R would be modified to reflect the aforementioned changes.

## **B. Proposed Revisions Related to Call Report Revisions**

The Federal Reserve proposes to make the following revisions to the FR Y-9C, segregated into two groups, proposed for March 2009 and proposed for June 2009, to parallel proposed changes to the Call Report. BHCs have commented that changes should be made to the FR Y-9C in a manner consistent with changes to the Call Report, and implemented at the same time, to reduce reporting burden.

## **B.1 Revisions Proposed for March 2009**

### **B.1.1 Loans and Leases Acquired in Business Combinations**

BHCs must apply Statement of Financial Accounting Standards No. 141 (Revised), *Business Combinations* (FAS 141(R)), which was issued in December 2007, prospectively to business combinations for which the acquisition date is on or after the beginning of their first annual reporting period beginning on or after December 15, 2008. Thus, for BHCs with calendar year fiscal years, FAS 141(R) will apply to business combinations with acquisition dates on or after January 1, 2009. Under FAS 141(R), all business combinations are to be accounted for by applying the acquisition method.

Under current generally accepted accounting principles, loans to be held for investment that are acquired in a business combination accounted for using the purchase method generally are recorded at “present values of amounts to be received determined at appropriate current interest rates, less allowances” for loan and lease losses (ALLL).<sup>8</sup> Thus, in practice, an acquired entity’s ALLL generally is carried over to the acquiring BHC’s (consolidated) balance sheet. In contrast, under FAS 141(R), a BHC acquiring

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<sup>8</sup> See Statement of Financial Accounting Standards No. 141, *Business Combinations* (FAS 141), paragraph 57(b). This accounting treatment does not apply to those acquired loans within the scope of American Institute of Certified Public Accountants Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3).

loans to be held for investment in a business combination accounted for using the acquisition method must record these loans at fair value. The fair value of these loans incorporates assumptions regarding credit risk. As a result, FAS 141(R) does not permit an acquiring BHC to carry over the acquired entity's ALLL.

Because of this significant change in the accounting for acquired loans, paragraph 68(h) of FAS 141(R) requires the following disclosures about the loans (not subject to SOP 03-3) and leases that were acquired in each business combination that occurred during the reporting period:

- The fair value of the loans and leases;
- The gross contractual amounts receivable; and
- The best estimate at the acquisition date of the contractual cash flows not expected to be collected.

These disclosures are intended to assist users of financial statements in understanding the credit quality and collectibility of the acquired loans and leases at the time of their acquisition. Accordingly, and in recognition of this significant change in accounting practice for business combinations, the Federal Reserve proposes to add new data items to the FR Y-9C that would encompass the three disclosures related to the date of acquisition as required by FAS 141(R) cited above for the following categories of acquired held-for-investment loans (not subject to SOP 03-3) and leases:

- Loans secured by real estate;
- Commercial and industrial loans;
- Loans to individuals for household, family, and other personal expenditures; and
- All other loans and all leases.



These new data items would be completed by BHCs that have engaged in business combinations that must be accounted for in accordance with FAS 141(R) for transactions for which the acquisition date is on or after January 1, 2009. A BHC that has completed one or more business combinations during the current calendar year would report these data as they relate to the date of acquisition (as aggregate totals if multiple business combinations have occurred) in each FR Y-9C report submission after the acquisition date during that year.

The Federal Reserve is also considering whether BHCs that have engaged in FAS 141(R) business combinations should provide additional information in the FR Y-9C about the acquired held-for-investment loans (not subject to SOP 03-3) and leases and the loss allowances established for them in periods after their acquisition. The Federal Reserve is considering requiring BHCs to report the outstanding balance of these acquired loans and leases, their carrying amount, and the amount of the allowance for post-acquisition losses on these loans and leases. Such reporting would be consistent with the information that BHCs currently report in the FR Y-9C about purchased impaired loans accounted for in accordance with SOP 03-3. Since these purchased loans will be recorded at fair value at acquisition, this information would help the Federal Reserve and other users of the FR Y-9C to track management's judgments regarding the collectibility of the acquired loans and leases in periods after the acquisition date and evaluate fluctuations in the level of the overall ALLL as a percentage of the held-for-investment loan and lease portfolio in periods after a business combination. However, the Federal Reserve recognizes that information about acquired loans and leases and

related allowances will become less useful from an analytical standpoint with the passage of time after a business combination.

The Federal Reserve asks for comment on the merits and availability of the post-acquisition loan and lease data described above that are being considered for possible addition to the FR Y-9C and the period of time after a business combination this information should be reported (e.g., through the end of the calendar year of the acquisition, through the end of the calendar year after the year of the acquisition, for a longer period, or for some other period such as the first four calendar quarters after the acquisition).

### **B.1.2 Noncontrolling Interests in Consolidated Financial Statements**

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (FAS 160). FAS 160 defines a noncontrolling interest, also called 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. Under FAS 160, the ownership interests in subsidiaries held by the noncontrolling interests must be clearly identified, labeled, and presented in the consolidated balance sheet within equity capital, but separate from the parent BHC's equity capital. FAS 160 also requires that the amount of consolidated net income attributable to the BHC and to the noncontrolling interests in the BHC's subsidiaries be clearly identified and presented on the face of the consolidated income statement. In this

regard, the consolidated income statement will reflect the amount of the BHC's consolidated net income, with separate data items then indicating the portions of the consolidated net income attributable to the noncontrolling interests and to the parent BHC.

The Federal Reserve proposes to make several changes to conform the FR Y-9C to the presentation requirements of FAS 160. The Federal Reserve proposes to amend Schedule HC, Balance Sheet, by replacing data item 22, Minority interest in consolidated subsidiaries, which is currently reported outside the Equity Capital section, with new data item 27.b in the Equity Capital section for Noncontrolling (minority) interests in consolidated subsidiaries. The Federal Reserve also proposes to renumber and rename Schedule HC, data items 26 through 29 in the following manner:

- Data Item 26.a, Retained earnings;
- Data Item 26.b, Accumulated other comprehensive income;
- Data Item 26.c, Other equity capital components;
- Data Item 27.a, Total bank holding company equity capital (sum of items 23 through 26.c);
- Data Item 27.b, Noncontrolling (minority) interests in consolidated subsidiaries;
- Data Item 28, Total equity capital (sum of items 27.a and 27.b); and
- Data Item 29, Total liabilities and equity capital (sum of items 21 and 28).

The Federal Reserve also proposes to adjust certain captions in Schedule HC-R, Regulatory Capital, to reflect these changes to the Equity Capital section of the balance sheet and to conform to FAS 160. Schedule HC-R, data item 1, Total equity capital (from Schedule HC, item 28), would be renamed Total bank holding company equity

capital (from Schedule HC, item 27.a). Schedule HC-R, data item 6, Qualifying minority interest in consolidated subsidiaries, would be renamed Qualifying Class A noncontrolling (minority) interest in consolidated subsidiaries.

Further, the Federal Reserve proposes to amend Schedule HI, Income Statement, and Schedule HI-A, Changes in Equity Capital, to add or revise data items to conform to FAS 160. Schedule HI, data item 10, Minority interest, would be deleted and Schedule HI, data item 11, Income (loss) before extraordinary items and other adjustments, would be renumbered as data item 10. Schedule HI, data item 12, Extraordinary items, net of applicable taxes and minority interest, would be renumbered as data item 11, and renamed Extraordinary items and other adjustments, net of income taxes. New data items 12, Net income (loss) attributable to bank holding company and noncontrolling (minority) interests (sum of items 10 and 11), and 13, Less: Net income (loss) attributable to noncontrolling (minority) interests, would be added to identify the entity's consolidated net income and segregate net income attributable to noncontrolling interests. Current Schedule HI, data item 13, Net income (loss) (sum of items 11 and 12), would be renumbered as data item 14 and renamed Net income (loss) attributable to bank holding company (item 12 minus item 13).

Schedule HI-A would be retitled Changes in Bank Holding Company Equity Capital. In Schedule HI-A, the following changes would be made:

- Current data item 1, Equity capital most recently reported for the end of previous calendar year (that is, after adjustments from amended Reports of Income), would be renamed Total bank holding company equity capital most recently reported for the

end of the previous calendar year (i.e., after adjustments from amended Reports of Income);

- Current data item 4, Net income (loss) (must equal Schedule HI, item 13), would be renamed Net income (loss) attributable to bank holding company (must equal Schedule HI, item 14); and
- Current data item 15, Total equity capital end of current period (sum of items 3, 4, 5, 6, 7, 9, 12, 13, and 14, less items 8, 10, and 11) (must equal item 28 on Schedule HC, Balance Sheet), would be renamed Total bank holding company equity capital end of current period (sum of items 3, 4, 5, 6, 7, 9, 12, 13, and 14, less items 8, 10, and 11) (must equal Schedule HC, item 27.a).

The instructions to Schedule HI-A, item 5, Sale of perpetual preferred stock (excluding treasury stock transactions), and data item 6, Sale of common stock, would be amended to state that changes in BHC equity capital resulting from changes in a BHC's ownership interest in a subsidiary, while it retains its controlling financial interest in the subsidiary, should be reported in these data items.

### **B.1.3 Clarification of the Definition of Loan Secured by Real Estate**

The Federal Reserve has found that the definition of a loan secured by real estate in the Glossary section of the FR Y-9C reporting instructions has been interpreted differently by FR Y-9C report preparers and users. This has led to inconsistent reporting of loans collateralized by real estate in the loan schedule (Schedule HC-C) and other schedules of the FR Y-9C report that collect loan data. As a result, the Federal Reserve proposes to clarify the definition by explaining that the estimated value of the real estate collateral must be greater than 50 percent of the principal amount of the loan at

origination in order for the loan to be considered secured by real estate. BHCs would apply this clarified definition prospectively and they need not reevaluate nor recategorize loans that they currently report as loans secured by real estate into other loan categories on the loan schedule. See Attachment 2 for the revised definition of a loan secured by real estate.

#### **B.1.4 Clarification of Instructions for Unused Commitments**

BHCs report unused commitments in Schedule HC-L, data item 1. The instructions for this data item identify various arrangements that should be reported as unused commitments, including but not limited to commitments for which the BHC has charged a commitment fee or other consideration, commitments that are legally binding, loan proceeds that the BHC is obligated to advance, commitments to issue a commitment, and revolving underwriting facilities. However, the Federal Reserve has found that some BHCs have not reported commitments that they have entered into until they have signed the loan agreement for the financing that they have committed to provide. Although the Federal Reserve considers these arrangements to be within the scope of the existing instructions for reporting commitments in Schedule HC-L, the Federal Reserve believes that these instructions may not be sufficiently clear. Therefore, the Federal Reserve proposes to revise the instructions for Schedule HC-L, data item 1, Unused commitments. See Attachment 2 for the revised instruction for Unused commitments.

#### **B.1.5 Exemptions from Reporting for Certain Existing Data Items**

The Federal Reserve has identified certain data items for which the reported data are of lesser usefulness for BHCs with less than \$1 billion in total assets. Accordingly, the Federal Reserve proposes to exempt BHCs with less than \$1 billion in total assets

from completing the following data items effective as of March 31, 2009 (these exemptions are also being proposed to corresponding items on the Call Report):

- Schedule HI, Memorandum item 12.a, Income from the sale and servicing of mutual funds and annuities (in domestic offices);
- Schedule HC-L, data item 2.a, Amount of financial standby letters of credit conveyed to others; and
- Schedule HC-L, data item 3.a, Amount of performance standby letters of credit conveyed to others.

### **B.1.6 Quantifying Misstatements**

The General Instructions section of the FR Y-9C reporting instructions discusses the filing of amended FR Y-9C reports. In this regard, the instructions state that when the Federal Reserve's interpretation of how GAAP or these instructions should be applied to a specified event or transaction (or series of related events or transactions) differs from the reporting bank holding company's interpretation, the Federal Reserve may require the bank holding company to reflect the event(s) or transaction(s) in its FR Y-9C report in accordance with the Federal Reserve's interpretation and to amend previously submitted reports. The Federal Reserve will consider the materiality of such event(s) or transaction(s) in making a determination about requiring the bank holding company to apply the Federal Reserve's interpretation and to amend previously submitted reports. Materiality is a qualitative characteristic of accounting information that is defined in Financial Accounting Standards Board (FASB) Concepts Statement No. 2 as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person

relying on the information would have been changed or influenced by the omission or misstatement.”

FASB Statement No. 154, *Accounting Changes and Error Corrections* (FAS 154), provides guidance for reporting the correction of an error or misstatement in previously issued financial statements. An error or misstatement can result from mathematical mistakes, mistakes in the application of generally accepted accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared, and includes a change from an accounting principle that is not generally accepted to one that is generally accepted. The Glossary entry for Accounting Changes in the FR Y-9C reporting instructions includes a section on Corrections of Accounting Errors that provides guidance on reporting such corrections that is consistent with FAS 154. However, neither FAS 154 nor the Glossary entry for Accounting Changes specifies the appropriate method to quantify an error or misstatement for purposes of evaluating materiality.

In September 2006, the Securities and Exchange Commission (SEC) noted in Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108),<sup>9</sup> that in describing the concept of materiality, FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*, indicates that materiality determinations are based on whether “it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item” (emphasis added). The staff believes registrants must quantify the impact of

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<sup>9</sup> SAB 108 can be accessed at <http://www.sec.gov/interps/account/sab108.pdf>. SAB 108 has been codified as Topic 1.N. in the SEC’s Codification of Staff Accounting Bulletins.



correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the 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).<sup>10</sup> SAB 108 observes that when the correction of an error in the current year would materially misstate the current year’s financial statements because the correction includes the effect of the prior year misstatements, the prior year financial statements should be corrected.

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<sup>10</sup> SAB 99 can be accessed at <http://www.sec.gov/interps/account/sab99.htm>. SAB 99 has been codified as Topic 1.M. in the SEC’s Codification of Staff Accounting Bulletins.

The Federal Reserve has advised BHCs that, for FR Y-9C reporting purposes, a BHC that is a public company or a subsidiary of a public company 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 FR Y-9C reports.<sup>11</sup> The Federal Reserve believes that the guidance in SAB 108 and SAB 99 represents sound accounting practices that all BHCs, including those that are not public companies, should follow for purposes of quantifying misstatements and considering all relevant factors when assessing the materiality of misstatements in their FR Y-9C reports. Accordingly, the Federal Reserve proposes to incorporate the guidance in these two Staff Accounting Bulletins into the section of the Accounting Changes Glossary entry on error corrections, thereby establishing a single approach for quantifying misstatements in the FR Y-9C that would be applicable to all BHCs. The Glossary entry would explain that the impact of correcting all misstatements on current year FR Y-9C reports 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, appropriate adjustments to FR Y-9C reports would be required.

## **B.2 Revisions Proposed for June 2009**

### **B.2.1 Construction and Development Loans with Interest Reserves**

In December 2006, the Federal Reserve issued final guidance on commercial real estate (CRE) loans, including construction, land development, and other land (C&D)

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<sup>11</sup> For example, see the FR Y-9 report Supplemental Instructions for June 2007 at [http://www.federalreserve.gov/reportforms/supplemental/SI\\_FR\\_Y9\\_200706.pdf](http://www.federalreserve.gov/reportforms/supplemental/SI_FR_Y9_200706.pdf).

loans, entitled *Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices* (CRE Guidance).<sup>12</sup> This guidance was developed to reinforce sound risk management practices for institutions with high and increasing concentrations of commercial real estate loans on their balance sheets. It provides a framework for assessing CRE concentrations; risk management, including board and management oversight, portfolio management, management information systems, market analysis and stress testing, underwriting and credit risk review; and supervisory oversight, including CRE concentration management and an assessment of capital adequacy.

In issuing the CRE Guidance, the Federal Reserve noted that CRE concentrations had been rising over the past several years and had reached levels that could create safety and soundness concerns in the event of a significant economic downturn. As a consequence, the CRE Guidance explains that, as part of their ongoing supervisory monitoring processes, the Federal Reserve would use certain criteria to identify institutions that are potentially exposed to significant CRE concentration risk. Thus, the CRE Guidance states in part that an institution whose total reported construction, land development, and other land loans is approaching or exceeds 100 percent or more of the institution's total risk-based capital may be identified for further supervisory analysis of the level and nature of its CRE concentration risk. As of March 31, 2008, approximately 51 percent of all FR Y-9C respondents held C&D loans in excess of 100 percent of their total risk-based capital.

A practice that is common in C&D lending is the establishment of an interest reserve as part of the original underwriting of a C&D loan. The interest reserve account

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<sup>12</sup> 71 FR 74580, December 12, 2006.

allows the lender to periodically advance loan funds to pay interest charges on the outstanding balance of the loan. The interest is capitalized and added to the loan balance. Frequently, C&D loan budgets will include an interest reserve to carry the project from origination to completion and may cover the project's anticipated sell-out or lease-up period. Although potentially beneficial to the lender and the borrower, the use of interest reserves carries certain risks. Of particular concern is the possibility that an interest reserve could disguise problems with a borrower's willingness and ability to repay the debt consistent with the terms and conditions of the loan agreement. For example, a C&D loan for a project on which construction ceases before it has been completed or is not completed in a timely manner may appear to be performing if the continued capitalization of interest through the use of an interest reserve keeps the troubled loan current. This practice can erode collateral protection and mask loans that should otherwise be reported as delinquent or in nonaccrual status.

Since the CRE Guidance was issued, market conditions have weakened, most notably in the C&D sector. As this weakening has occurred, the Federal Reserve's examiners are encountering C&D loans on projects that are troubled, but where interest has been capitalized inappropriately, resulting in overstated income and understated volumes of past due and nonaccrual C&D loans. Therefore, to assist the Federal Reserve in monitoring C&D lending activities at those BHCs with a concentration of such loans, i.e., C&D loans (in domestic offices) that exceeded 100 percent of total risk-based capital as of the previous calendar year-end, the Federal Reserve proposes to add two new data items. First, BHCs with such a concentration would report the amount of C&D loans (in domestic offices) included in the loan schedule (Schedule HC-C) on which the use of

interest reserves is provided for in the loan agreement. Second, these BHCs would report the amount of capitalized interest included in the interest and fee income on loans during the quarter. These data, together with information that BHCs currently report on the amount of past due and nonaccrual C&D loans, would assist in identifying BHCs with C&D loan concentrations that may be engaging in questionable interest capitalization practices for supervisory follow-up.

### **B.2.2 Structured Financial Products Carried in Securities and Trading Portfolios**

Structured financial products such as collateralized debt obligations (CDOs) have become increasingly more complex and the volume of these financial products has increased substantially in recent years. Structured financial products generally convert a large pool of assets and other exposures (such as derivatives and third-party guarantees) into tradable capital market debt instruments. Some of the more complex financial product structures mix asset classes in an attempt to create investment products that diversify risk. In recent years, increasingly complex structured financial products have become more widely held as investments and trading assets, allowing investors and traders to acquire positions in a pool of assets with varying risks and rewards depending on the underlying collateral or reference assets. Some of these products are synthetic structured financial products that use credit derivatives and a reference pool of assets. Hybrid products, which are a combination of cash and synthetic structured financial products, were also created. Further, complex products known as CDOs “squared”, which are CDOs backed primarily by the tranches of other CDOs, have contributed to the opacity and inability of investors to understand the performance of these highly complex

products. Some holders of structured financial products have sustained financial losses due to defaults and losses on the underlying assets and other exposures. In addition, reduced market liquidity has contributed to significant fair value declines and lack of price transparency for other structured financial products. These recent market events have demonstrated the need to collect more comprehensive information on investment products with significant market, credit, liquidity, and valuation risks in order to identify and monitor BHCs with exposures to these products and to track such exposures for the industry as a whole.

Currently, BHCs separately report their holdings of regular mortgage-backed securities (MBS) (such as mortgage-backed pass-through securities, collateralized mortgage obligations, and real estate mortgage investment conduits) in the securities schedule (Schedule HC-B) or trading schedule (Schedule HC-D), as appropriate. All BHCs separately report their holdings of held-to-maturity and available-for-sale asset-backed securities (ABS) in the securities schedule. Those BHCs with large trading portfolios separately report their held-for-trading ABS in the trading schedule. BHCs' holdings of all other debt securities not issued by governmental entities in the U.S. are reported as Other debt securities in either the securities or trading schedule, as appropriate. However, the more complex structured financial products discussed above are not separately reported in Schedules HC-B and HC-D, but are currently reported in other data items within these two schedules.

Therefore, the Federal Reserve proposes to separately collect certain structured financial product data in both the securities and trading schedules of the FR Y-9C. First, the Federal Reserve would add data items to collect information on certain structured

financial products by type of structure (cash, synthetic, and hybrid). Each of these three new data items would cover CDOs, collateralized loan obligations (CLOs), collateralized bond obligations (CBOs), CDOs squared and cubed, and similar structured financial products.<sup>13</sup>

These new data items would be added to the body of the securities schedule and the trading schedule. In Schedule HC-B, the amortized cost and fair value of these three types of structures would be reported using the current four-column format that distinguishes between held-to-maturity and available-for-sale securities. In Schedule HC-D, the fair value of these three types of structures would be reported. Since the new data items on structured financial products would include CDOs, the Federal Reserve would delete existing Memoranda items 5.a and 5.b from the trading schedule (Schedule HC-D).

Second, the Federal Reserve would collect information on these complex structured financial products by the predominant type of collateral supporting the structures in new memoranda items in both Schedule HC-B and Schedule HC-D. The collateral supporting these products has distinct risk characteristics and the new information would provide greater insight into the risks associated with the various collateralized structured financial products. The structured financial products would be reported according to the following types of collateral:

- Trust preferred securities issued by financial institutions;
- Trust preferred securities issued by real estate investment trusts;

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<sup>13</sup> These new line items would not include mortgage-backed and asset-backed commercial paper, which would continue to be reported as MBS and ABS, respectively, in Schedules HC-B and HC-D.

- corporate and similar loans;<sup>14</sup>
- 1-4 family residential MBS issued or guaranteed by U.S. government-sponsored enterprises (GSEs);
- 1-4 family residential MBS not issued or guaranteed by GSEs;
- Diversified (mixed) pools of structured financial products such as CDOs squared and cubed (also known as pools of pools); and
- Other collateral.

In Schedule HC-B, amortized cost and fair value would be reported by the predominant type of collateral supporting the structure based on whether the products are classified as held-to-maturity or available-for-sale. In Schedule HC-D, the fair value of these products would be reported by predominant type of collateral supporting the structure.

### **B.2.3 Holdings of Commercial Mortgage-Backed Securities**

At present, all BHCs report information on their holdings of held-to-maturity and available-for-sale MBS in Schedule HC-B, Securities, without distinguishing between residential and commercial MBS. BHCs with average trading assets of \$2 million or more in any of the four preceding calendar quarters provide information on MBS held for trading in Schedule HC-D, but only those with average trading assets of \$1 billion or more disclose the amount of their residential and commercial MBS.

Differences in residential mortgages and commercial mortgages carry through to MBS backed by these two types of mortgages. In contrast to residential mortgage loans,

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<sup>14</sup> Securities backed by commercial and industrial loans that are commonly regarded as ABS rather than CLOs in the marketplace would continue to be reported as ABS in Schedules HC-B and HC-D.



commercial mortgage loans are normally without recourse, which means that if the borrower defaults, the creditor cannot seize any other assets of the borrower. As a consequence, the ability of the underlying commercial real estate to produce income and the value of the property are key factors when assessing the credit risk of commercial MBS. In addition, the prepayment risk of commercial MBS is lower than on residential MBS because commercial mortgages normally place restrictions on prepayment that typically are not present on residential mortgages. Furthermore, the residential real estate market often performs differently than the commercial real estate market.

Given the differences between residential and commercial MBS, the Federal Reserve proposes to revise the reporting of MBS in Schedule HC-B, Securities, and Schedule HC-D, Trading Assets and Liabilities, in order to separately identify and track BHC holdings of commercial MBS. In Schedule HC-B, data items 4.a, Pass-through securities, and 4.b, Other mortgage-backed securities, would be revised to cover only residential MBS. New data items 4.c.(1) and (2) would be added for Commercial pass-through securities and Other commercial mortgage-backed securities. Similarly, in Schedule HC-D, data items 4.a through 4.c would cover only residential MBS and a new data item 4.d would collect data on Commercial mortgage-backed securities. These new and revised data items would replace Memoranda items 4.a, Residential mortgage-backed securities, and 4.b, Commercial mortgage-backed securities, in Schedule HC-D, which are currently completed only by BHCs with average trading assets of \$1 billion or more in any of the four preceding calendar quarters.

**B.2.4 Unused Eligible Liquidity Facilities for Asset-Backed Commercial Paper (ABCP) Conduits with an Original Maturity of One Year or Less**

Under the Federal Reserve's risk-based capital guidelines, BHCs are required to hold capital against the unused portions of eligible liquidity facilities that provide support to ABCP programs. The capital guidelines apply different risk-based capital requirements to eligible liquidity facilities based on the original maturity of the facilities. BHCs are currently required to hold less capital against eligible liquidity facilities with original maturities of one year or less than against liquidity facilities with original maturities in excess of one year. However, because of the current structure of Schedule HC-R, Regulatory Capital, the instructions for the schedule direct BHCs to report the credit equivalent amount of both types of eligible liquidity facilities in data item 53, Unused commitments with an original maturity exceeding one year. The reporting of both types of eligible liquidity facilities in a single data item has been accomplished by having BHCs adjust the credit equivalent amount of eligible liquidity facilities with original maturities of one year or less to produce the effect of the lower capital charge applicable to such liquidity facilities. This approach does not promote transparency with respect to the actual credit equivalent amount of eligible liquidity facilities with original maturities of one year or less and does not allow for verification of the accuracy of the credit converting and risk-weighting of these exposures.

To address these concerns, the Federal Reserve proposes to renumber Schedule HC-R, data item 53 as data item 53.a and add a new data item 53.b, Unused commitments with an original maturity of one year or less to asset-backed commercial paper conduits,

to Schedule HC-R. The credit conversion factor applied to amounts reported in data item 53.b, column A, would be 10 percent.

### **B.2.5 Fair Value Measurements**

Effective for the March 31, 2007, report date, the Federal Reserve began collecting information on certain assets and liabilities measured at fair value on Schedule HC-Q, Financial Assets and Liabilities Measured at Fair Value. Currently, this schedule is completed by BHCs with a significant level of trading activity or that use a fair value option. The information collected on Schedule HC-Q is intended to be consistent with the fair value disclosures and other requirements in FASB Statement No. 157, *Fair Value Measurements* (FAS 157). Based on the Federal Reserve's ongoing review of industry reporting and disclosure practices since the inception of this standard, and the reporting of data items at fair value on Schedule HC, Balance Sheet, the Federal Reserve proposes to expand the data collected on Schedule HC-Q in two material respects.

First, to improve the consistency of data collected on Schedule HC-Q with the FAS 157 disclosure requirements and industry disclosure practices, the Federal Reserve proposes to expand the detail of the collected data. The Federal Reserve proposes to expand the detail on Schedule HC-Q to collect fair value information on all assets and liabilities reported at fair value on a recurring basis in a manner consistent with the asset and liability breakdowns on Schedule HC. Thus, the Federal Reserve proposes to add data items to collect fair value information on:

- Available-for-sale securities;
- Federal funds sold and securities purchased under agreements to resell;
- Federal funds purchased and securities sold under agreements to repurchase;

- Other borrowed money, and subordinated notes and debentures.

The Federal Reserve also proposes to modify the existing collection of loan and lease data and trading asset and liability data to collect data separately for:

- Loans and leases held for sale;
- Loans and leases held for investment;
- Trading derivative assets;
- Other trading assets;
- Trading derivative liabilities; and
- Other trading liabilities.

The Federal Reserve would also add data items to capture total assets and total liabilities for those data items reported on the schedule. In addition, the Federal Reserve proposes to modify the existing data items for other financial assets and servicing assets and other financial liabilities and servicing liabilities to collect information on other assets and other liabilities reported at fair value on a recurring basis, including nontrading derivatives. Components of other assets and other liabilities would be separately reported if they are greater than \$25,000 and exceed 25 percent of the total fair value of other assets and other liabilities, respectively. In conjunction with this change, the existing reporting for loan commitments accounted for under a fair value option would be revised to include these instruments, based on whether their fair values are positive or negative, in the data items for other assets and other liabilities reported at fair value on a recurring basis, with separate disclosure of these commitments if significant.

Second, the Federal Reserve proposes to modify the reporting criteria for Schedule HC-Q. The current instructions require all BHCs that have adopted FAS 157

and (1) have elected to account for financial instruments or servicing assets and liabilities at fair value under a fair value option or (2) are required to complete Schedule HC-D, Trading Assets and Liabilities, to complete Schedule HC-Q. The Federal Reserve proposes to modify the reporting criteria for Schedule HC-Q to require BHCs to report all financial or servicing assets and liabilities that are measured at fair value, regardless of whether they have elected to apply a fair value option to financial or servicing assets and liabilities.

The Federal Reserve has determined that the proposed information is necessary to more accurately assess the impact of fair value accounting and fair value measurements for safety and soundness purposes. The collection of the information on Schedule HC-Q, as proposed, would facilitate and enhance the Federal Reserve's ability to monitor the extent of fair value accounting in BHCs' consolidated FR Y-9C reports, including the elective use of fair value accounting and the nature of the inputs used in the valuation process, pursuant to the disclosure requirements of FAS 157. The information collected on Schedule HC-Q is consistent with the disclosures required by FAS 157 and consistent with industry practice for reporting fair value measurements and should, therefore, not impose significant incremental burden on BHCs.

#### **B.2.6 Pledged Loans in Loan and Trading Portfolios and Pledged Trading Securities**

BHCs have been pledging loans for many years and the volume of these pledges has grown considerably in recent years. The pledging of loans is the act of setting aside certain loans to secure or collateralize BHC transactions with the BHC continuing to own the loans unless the BHC defaults on the transaction. Pledging is used for securing public

deposits, repurchase agreements, and other BHC borrowings. Pledging affects a BHC's liquidity and other asset and liability management programs. Today there are a number of alternative funding structures used by BHCs that require BHCs to pledge loans. Some of these funding structures include pledging on-balance sheet loans to finance and support securitization structures held by the BHC that do not meet sales treatment, pledging loans to secure borrowings from a Federal Home Loan Bank, and packaging of on-balance sheet loans to collateralize bonds sold by BHCs. Currently, the FR Y-9C report does not provide information on the volume of pledged loans. Therefore, the Federal Reserve proposes to collect the total amount of held-for-sale and held-for-investment loans and leases reported in Schedule HC-C, Loans and Lease Financing Receivables, that are pledged and the total amount of pledged loans that are carried in the trading portfolio and reported in Schedule HC-D, Trading Assets and Liabilities.

In addition, although the Federal Reserve has long collected data on total amount of held-to-maturity and available-for-sale securities reported in Schedule HC-B, Securities, that are pledged, BHCs have not been required to report the amount of securities carried in the trading portfolio that are pledged. Therefore, for reasons similar to those for collecting data on pledged loans, the Federal Reserve proposes to add a data item to Schedule HC-D to capture the amount of pledged trading securities.

### **B.2.7 Collateral for OTC Derivative Exposures and Distribution of Credit Exposures**

The growth in BHCs OTC derivatives and the related counterparty credit exposures has been significant in recent years. For some major dealer BHCs, the

counterparty credit risk from OTC derivatives rivals or exceeds their commercial and industrial loans outstanding. Despite the magnitude of these derivative exposures, there is virtually no information on OTC counterparty credit exposures and associated risk mitigation in the FR Y-9C report.

Given the size of OTC derivative counterparty credit exposures, and the important risk mitigation provided by collateral held to offset or mitigate such exposures, information on the distribution of each would assist the Federal Reserve in their oversight and supervision of BHCs engaging in OTC derivative activities. Therefore, the Federal Reserve proposes to collect data in Schedule HC-L, Derivatives and Off-Balance Sheet Items, that would provide a breakdown of the fair value of collateral posted for OTC derivative exposures by type of collateral and type of derivative counterparty and a separate breakdown of the current credit exposure on OTC derivatives by type of counterparty. This information would give the Federal Reserve important insights into the extent to which collateral is used as part of the credit risk management practices associated with derivatives credit exposures to different types of counterparties and changes over time in the nature and extent of the collateral protection.

Since a majority of OTC derivative transactions are conducted in larger BHCs, only BHCs with total assets of \$10 billion or more would be required to report the proposed new data. These BHCs would report, using a matrix, the collateral's fair value allocated by type of counterparty and type of collateral as well as the current credit exposure associated with each type of counterparty. The proposed types of collateral for which the fair value would be reported are:

- Cash – U.S. dollar;

- Cash – Other currencies;
- U.S. Treasury securities;
- U.S. Government agency and U.S. Government-sponsored agency debt securities;
- Corporate bonds;
- Equity securities; and
- All other collateral.

The fair value of the collateral would be reported according to the following types of counterparties:

- Banks and securities firms;
- Monoline financial guarantors;
- Hedge funds;
- Sovereign governments; and
- Corporations and all other counterparties.

The current credit exposure (after considering the effect of master netting agreements with OTC derivative counterparties) would also be reported for these five types of counterparties. The total current credit exposure from OTC derivative exposures that would be reported for these counterparties in Schedule HC-L would not necessarily equal the current credit exposure in the FR Y-9C regulatory capital schedule (Schedule HC-R) because the amount reported in Schedule HC-R excludes derivatives not covered by the risk-based capital standards.

### **B.2.8 Investments in Real Estate Ventures**

At present, a BHC with investments in real estate ventures reports real estate (other than BHC premises) owned or controlled by the BHC and its consolidated



subsidiaries that is held for investment purposes as a component of Other real estate owned in Schedule HC-M, data item 13.b, and in Schedule HC-M, data item 6, Investments in real estate. If a BHC has investments in real estate ventures in the form of investments in subsidiaries that have not been consolidated; associated companies; and corporate joint ventures, unincorporated joint ventures, general partnerships, and limited partnerships over which the BHC exercises significant influence that are engaged in the holding of real estate for investment purposes, these investments are reported as a component of Investments in unconsolidated subsidiaries and associated companies in Schedule HC, data item 8.

To better distinguish a BHC's investments in real estate ventures from these other categories of assets, particularly because Other real estate owned also includes real estate acquired either through foreclosure or in any other manner for debts previously contracted, which presents different supervisory considerations than real estate investments, the Federal Reserve proposes to add a new data item to the balance sheet (Schedule HC) for investments in real estate ventures. This new data item would include those investments in real estate ventures that are currently reported as part of Other real estate owned, Investments in real estate, and Investments in unconsolidated subsidiaries and associated companies. By making this change, the Federal Reserve would be able to eliminate data items 6, 13.b, and 13.c from Schedule HC-M. Also, to conform the FR Y-9C report to comparable concepts reported on the Call Report, the Federal Reserve proposes to modify the caption of Schedule HC-M, data item 13.a, Real estate acquired in satisfaction of debts previously contracted, as Other real estate owned and renumber as data item 13.

### **B.2.9 Trading Assets that are Past Due or in Nonaccrual Status**

The Federal Reserve has observed that BHCs are holding assets in trading for longer periods of time due to market and other factors. Some of these assets are exhibiting delinquency patterns similar to assets held outside of the trading account. Currently, past due and nonaccrual trading assets are not distinguished from other assets on Schedule HC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets. The Federal Reserve proposes to replace Schedule HC-N, data item 9, for Debt securities and other assets that are past due 30 days or more or in nonaccrual status with two separate data items: 9.a, Trading assets, and 9.b, All other assets (including available-for-sale and held-to-maturity securities). These data items would follow the existing three-column breakdown on Schedule HC-N that BHCs utilize to report assets past due 30 through 89 days and still accruing, past due 90 days or more and still accruing, and in nonaccrual status. Data item 9.a would include all assets held for trading purposes, including loans held for trading. Collection of this information would allow the Federal Reserve to better assess the quality of assets held for trading purposes and generally enhance surveillance and examination planning efforts.

Also, the Federal Reserve proposes to expand the scope of Schedule HC-D, Trading Assets, Memorandum item 3, Loans measured at fair value that are past due 90 days or more, to include loans held for trading and measured at fair value that are in nonaccrual status. This change would provide for more consistent treatment with the information that would be collected on Schedule HC-N and with the disclosure requirements in FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*.

### **B.2.10 Enhanced Information on Credit Derivatives**

Effective for the March 2006 FR Y-9C report, the Federal Reserve revised the information collected on credit derivatives in Schedules HC-L, Derivatives and Off-Balance Sheet Items, and HC-R, Regulatory Capital, to gain a better understanding of the nature and trends of BHCs' credit derivative activities. Since that time, the volume of credit derivative activity at BHCs, as measured by the notional amount of these contracts, has increased steadily, rising to an aggregate notional amount of \$17.1 trillion as of March 31, 2008. This credit derivative activity is highly concentrated in BHCs with total assets in excess of \$10 billion. For these BHCs, credit derivatives function as a risk mitigation tool for credit exposures in their operations as well as a financial product that is sold to third parties for risk management and other purposes.

The Federal Reserve's safety and soundness efforts continue to place emphasis on the role of credit derivatives in BHC risk management practices. In addition, the Federal Reserve's monitoring of credit derivative activities at certain BHCs has identified differences in interpretation as to how credit derivatives are treated under the Federal Reserve's risk-based capital standards. To further the Federal Reserve's safety and soundness efforts concerning credit derivatives and to improve transparency in the treatment of credit derivatives for regulatory capital purposes, the Federal Reserve proposes to revise the information pertaining to credit derivatives that is collected on Schedules HC-L, HC-N (Past Due and Nonaccrual Loans, Leases, and Other Assets), and HC-R.

In Schedule HC-L, data item 7, Credit derivatives, the Federal Reserve proposes to change the caption of column A from Guarantor to Sold Protection and the caption of

column B from Beneficiary to Purchased Protection to eliminate confusion surrounding the meaning of Guarantor and Beneficiary that commonly occurs between the users and preparers of these data. The Federal Reserve also proposes to add a new data item 7.c to Schedule HC–L to collect information on the notional amount of credit derivatives by regulatory capital treatment. For credit derivatives that are subject to the Federal Reserve’s market risk capital standards, the Federal Reserve proposes to collect the notional amount of sold protection and the amount of purchased protection. For all other credit derivatives, the Federal Reserve proposes to collect the notional amount of sold protection, the notional amount of purchased protection that is recognized as a guarantee under the risk-based capital guidelines, and the notional amount of purchased protection that is not recognized as a guarantee under the risk-based capital standards. The Federal Reserve also proposes to add a new data item 7.d to Schedule HC–L to collect information on the notional amount of credit derivatives by credit rating and remaining maturity. This data item would collect the notional amount of sold protection broken down by credit ratings of investment grade and subinvestment grade for the underlying reference asset and by remaining maturities of one year or less, over one year through five years, and over five years. The same information would be collected for purchased protection.

In Schedule HC-N, the Federal Reserve proposes to change the scope of memorandum item 6, Past due interest rate, foreign exchange rate, and other commodity and equity contracts, to include credit derivatives. The fair value of credit derivatives where the BHC has purchased protection increased significantly to over \$518 billion as of March 31, 2008, as compared to a negative \$13.5 billion as of March 31, 2007. Thus,

the performance of credit derivative counterparties has increased in importance. The expanded scope of memorandum item 6 on Schedule HC–N would include the fair value of credit derivatives carried as assets that are past due 30 through 89 days and past due 90 days or more.

In Schedule HC-R, the Federal Reserve proposes to change the scope of the information collected in memoranda items 2.g.(1) and (2) on the notional principal amounts of Credit derivative contracts that are subject to risk-based capital requirements to include only (a) the notional principal amount of purchased protection that is defined as a covered position under the market risk capital guidelines and (b) the notional principal amount of purchased protection that is not a covered position under the market risk capital guidelines and is not recognized as a guarantee for risk-based capital purposes. The scope of memorandum item 1, Current credit exposure across all derivative contracts covered by the risk-based capital standards, would be similarly revised to include the current credit exposure arising from credit derivative contracts that represent (a) purchased protection that is defined as a covered position under the market risk capital guidelines and (b) purchased protection that is not a covered position under the market risk capital guidelines and is not recognized as a guarantee for risk-based capital purposes. The Federal Reserve also proposes to add new memoranda items 3.a and 3.b to Schedule HC-R to collect the present value of unpaid premiums on sold credit protection that is defined as a covered position under the market risk capital guidelines. Consistent with the information currently reported in memorandum item 2.g, the Federal Reserve proposes to collect this present value information with a breakdown between investment grade and subinvestment grade for the rating of the underlying reference asset

and with the same three remaining maturity breakouts. Current memoranda items 3, 4, 5 and 6 would be renumbered as 4, 5, 6 and 7, respectively.

### **Proposed Revisions - FR Y-9SP**

The Federal Reserve proposes to make the following revisions to the FR Y-9SP effective as of June 30, 2009. These proposed revisions are not related to the revisions proposed to the Call Report.

### **Proposed Revisions to Schedule SC-M, Memoranda**

As described previously under proposed changes to the FR Y-9C report, under the CPP the Treasury will provide capital to participating BHCs by purchasing newly issued senior perpetual preferred stock of the bank holding company. In conjunction with the purchase of this senior perpetual preferred stock, the Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15 percent of the senior preferred investment.

In order to monitor the scope of the CPP, including associated warrants issued, the Federal Reserve proposes to add two data items to Schedule SC-M, Memoranda. The Federal Reserve proposes to add new data item 23 with the heading "Issuances associated with the U.S. Department of Treasury Capital Purchase Program:" with a breakout for data item 23.a, "Senior perpetual preferred stock or similar items," and 23.b, "Warrants to purchase common stock or similar items." BHCs would report the carrying amount of these instruments in data items 23.a and 23.b. The Federal Reserve proposes to add the phrase "or similar items" to each of these data items in order to provide greater flexibility to collect information related to this program as details of the program develop.

2. *Report title:* Financial Statements of Nonbank Subsidiaries of U.S. Bank Holding Companies.

*Agency form number:* FR Y-11.

*OMB control number:* 7100-0244.

*Frequency:* Quarterly and annually.

*Reporters:* Bank holding companies.

*Annual reporting hours:* FR Y-11 (quarterly): 11,424; FR Y-11 (annual): 1,489.

*Estimated average hours per response:* FR Y-11 (quarterly): 6.80; FR Y-11 (annual): 6.80.

*Number of respondents:* FR Y-11 (quarterly): 420; FR Y-11 (annual): 219.

*General description of report:* This information collection is mandatory (12 U.S.C. §§1844(c)). Confidential treatment is not routinely given to the data in these reports. However, confidential treatment for the reporting information, in whole or in part, can be requested in accordance with the instructions to the form, pursuant to sections (b)(4), (b)(6) and (b)(8) of the Freedom of Information Act [5 U.S.C. §§552(b)(4), (b)(6) and (b)(8)].

*Abstract:* The FR Y-11 reports collect financial information for individual non-functionally regulated U.S. nonbank subsidiaries of domestic bank holding companies (BHCs). BHCs file the FR Y-11 on a quarterly or annual basis according to filing criteria. The FR Y-11 data are used with other BHC data to assess the condition of BHCs that are heavily engaged in nonbanking activities and to monitor the volume, nature, and condition of their nonbanking operations.

*Current Actions:* As of March 2008, 51 nonbank subsidiaries reported trading assets of \$122 billion on the FR Y-11, representing approximately 16 percent of their total assets. Since March 2004, trading assets reported on the FR Y-11 have increased over 100 percent. To enhance the data reported by nonbank subsidiaries on assets held in trading accounts and to make the data on the FR Y-11 consistent with the information currently reported on the FR 2314, the Federal Reserve proposes to revise Schedule BS-M, Memoranda, to collect the following data on trading assets by type of asset: (1) securities of U.S. government and its agencies, (2) securities of all foreign governments and official institutions, (3) equity securities, (4) corporate bonds, notes and debentures, (5) revaluation gains on interest rate, foreign exchange rate, and other commodity and equity contracts, and (6) other (including commercial paper).

Effective with the March 31, 2008, FR Y-9C, BHCs were permitted to report loans held for sale as trading assets if the BHC applies fair value accounting and manages these assets as trading positions, subject to the controls and applicable regulatory guidance related to trading activities. In addition, new items were added to Schedule HC-D, Trading Assets and Liabilities, of the FR Y-9C to capture detail for the types of loans reported as trading assets and the dollar amount of loans held for trading that are past due or in nonaccrual status. The FR Y-11 reporting instructions indicate that this report is to be filed on a consistent basis with the FR Y-9C report. Therefore, nonbank subsidiaries may also report loans held for sale as trading assets if they meet the above criteria. However, loans treated as trading assets and the amount of loans held for trading that are past due or in nonaccrual status are not separately disclosed on the FR Y-11.



The Federal Reserve proposes to revise Schedule BS-M- Memoranda, to also capture 1) the fair value of loans held for trading, 2) the fair value of loans held for trading that are past due 90 days or more or in nonaccrual status, and 3) the unpaid principal balance of these loans that are past due or in nonaccrual status. Collection of these data would allow the Federal Reserve to better monitor the specific risk exposures associated with and the delinquency patterns exhibited by such trading assets.

This family of reports also contains the Abbreviated Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11S), which is not being revised.

3. *Report title:* Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations.

*Agency form number:* FR 2314.

*OMB control number:* 7100-0073.

*Frequency:* Quarterly and annually.

*Reporters:* Foreign subsidiaries of U.S. state member banks, bank holding companies, and Edge or agreement corporations.

*Annual reporting hours:* FR 2314 (quarterly): 5,755; FR 2314 (annual): 1,109.

*Estimated average hours per response:* FR 2314 (quarterly): 6.60; FR 2314 (annual): 6.60.

*Number of respondents:* FR 2314 (quarterly): 218; FR 2314 (annual): 168.

*General description of report:* This information collection is mandatory (12 U.S.C. §§324, 602, 625, and 1844(c)). Confidential treatment is not routinely given to the data in these reports. However, confidential treatment for the reporting information, in whole

or in part, can be requested in accordance with the instructions to the form, pursuant to sections (b)(4), (b)(6) and (b)(8) of the Freedom of Information Act [5 U.S.C.

§§552(b)(4) (b)(6) and (b)(8)].

*Abstract:* The FR 2314 reports collect financial information for non-functionally regulated direct or indirect foreign subsidiaries of U.S. state member banks (SMBs), Edge and agreement corporations, and BHCs. Parent organizations (SMBs, Edge and agreement corporations, or BHCs) file the FR 2314 on a quarterly or annual basis according to filing criteria. The FR 2314 data are used to identify current and potential problems at the foreign subsidiaries of U.S. parent companies, to monitor the activities of U.S. banking organizations in specific countries, and to develop a better understanding of activities within the industry, in general, and of individual institutions, in particular.

*Current Actions:* Effective with the March 31, 2008, FR Y-9C, BHCs were permitted to report loans held for sale as trading assets if the BHC applies fair value accounting and manages these assets as trading positions, subject to the controls and applicable regulatory guidance related to trading activities. In addition, new items were added to Schedule HC-D, Trading Assets and Liabilities, of the FR Y-9C to capture detail for the types of loans reported as trading assets and the dollar amount of loans held for trading that are past due or in nonaccrual status. The FR 2314 reporting instructions indicate that this report is to be filed on a consistent basis with the FR Y-9C report. Therefore, nonbank subsidiaries may also report loans held for sale as trading assets if they meet the above criteria. However, loans treated as trading assets and the amount of loans held for trading that are past due or in nonaccrual status are not separately disclosed on the FR 2314.

The Federal Reserve proposes to revise the FR 2314, Schedule BS-M-Memoranda, to also capture 1) the fair value of loans held for trading, 2) the fair value of loans held for trading that are past due 90 days or more or in nonaccrual status, and 3) the unpaid principal balance of these loans that are past due or in nonaccrual status. Collection of these data would allow the Federal Reserve to better monitor the specific risk exposures associated with and the delinquency patterns exhibited by such trading assets.

This family of reports also contains the Abbreviated Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314S), which is not being revised.

4. *Report title:* Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations.

*Agency form number:* FR Y-7N.

*OMB control number:* 7100-0125.

*Frequency:* Quarterly and annually.

*Reporters:* Foreign banking organizations (FBOs).

*Annual reporting hours:* FR Y-7N (quarterly): 5,277; FR Y-7N (annual): 1,149.

*Estimated average hours per response:* FR Y-7N (quarterly): 6.8; FR Y-7N (annual): 6.8.

*Number of respondents:* FR Y-7N (quarterly): 194; FR Y-7N (annual): 169.

*General description of report:* This information collection is mandatory (12 U.S.C. 1844(c), 3106(c), and 3108). Confidential treatment is not routinely given to the data in these reports. However, confidential treatment for information, in whole or in part, on

any of the reporting forms can be requested in accordance with the instructions to the form, pursuant to sections (b)(4) and (b)(6) of the Freedom of Information Act [5 U.S.C. §§522(b)(4) and (b)(6)].

*Abstract:* The FR Y-7N collects financial information for non-functionally regulated U.S. nonbank subsidiaries held by FBOs other than through a U.S. bank holding company, U.S. financial holding company, or U.S. bank. FBOs file the FR Y-7N on a quarterly or annual basis based on size thresholds.

*Current Actions:* As of March 2008, 57 nonbank subsidiaries submitted data for trading assets of \$137 billion on the FR Y-7N, representing approximately 27 percent of their total assets. Since March 2004, trading assets reported on the FR Y-7N have increased over 52 percent. To enhance the data reported by nonbank subsidiaries on assets held in trading accounts and to make the data on the FR Y-7N consistent with the information reported on the FR Y-11 and FR 2314, the Federal Reserve proposes to revise Schedule BS-M, Memoranda, to collect the following data on trading assets by type of asset: (1) securities of U.S. government and its agencies, (2) securities of all foreign governments and official institutions, (3) equity securities, (4) corporate bonds, notes and debentures, (5) revaluation gains on interest rate, foreign exchange rate, and other commodity and equity contracts, and (6) other (including commercial paper).

Effective with the March 31, 2008, FR Y-9C report, BHCs were permitted to report loans held for sale as trading assets if the BHC applies fair value accounting and manages these assets as trading positions, subject to the controls and applicable regulatory guidance related to trading activities. In addition, new items were added to Schedule HC-D, Trading Assets and Liabilities, of the FR Y-9C to capture detail for the

types of loans reported as trading assets, and the dollar amount of loans held for trading that are past due or in nonaccrual status. The FR Y-7N reporting instructions indicate that this report is to be filed on a consistent basis with the FR Y-9C report. Therefore nonbank subsidiaries may also report loans held for sale as trading assets if they meet the above criteria. However, loans treated as trading assets and the amount of loans held for trading that are past due or in nonaccrual status are not separately disclosed on the FR Y-7N.

The Federal Reserve proposes to revise Schedule BS-M-Memoranda to also capture 1) the fair value of loans held for trading, 2) the fair value of loans held for trading that are past due 90 days or more or in nonaccrual status, and 3) the unpaid principal balance of these loans that are past due or in nonaccrual status. Collection of these data would allow the Federal Reserve to better monitor the specific risk exposures associated with and the delinquency patterns exhibited by such trading assets.

On November 15, 2007, the Securities and Exchange Commission (SEC) approved amendments to its rules that would allow foreign private issuers to file financial statements prepared using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board without a reconciliation to U.S. generally accepted accounting principles (GAAP). The Federal Reserve is evaluating the potential use of IFRS on the FR Y-7N/NS reports.

This family of reports also contains the Abbreviated Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7NS) and the Capital and Asset Report for Foreign Banking Organizations (FR Y-7Q), which are not being revised.

5. *Report title:* Consolidated Report of Condition and Income for Edge and Agreement Corporations.

*Agency form number:* FR 2886b.

*OMB control number:* 7100-0086.

*Frequency:* Quarterly.

*Reporters:* Edge and agreement corporations.

*Annual reporting hours:* 2,288

*Estimated average hours per response:* 15.15 banking corporations, 9.60 investment corporations.

*Number of respondents:* 15 banking corporations, 50 investment corporations.

*General description of report:* This information collection is mandatory (12 U.S.C. 602 and 625). Schedules RC-M (except data item 3) and RC-V are held as confidential pursuant to section (b)(4) of the Freedom of Information Act (5 U.S.C. 552 (b)(4)).

*Abstract:* The mandatory FR 2886b comprises a balance sheet, income statement, 2 schedules reconciling changes in capital and reserve accounts, and 10 supporting schedules, and it parallels the Call Report that commercial banks file. The Federal Reserve uses the data collected on the FR 2886b to supervise Edge corporations, identify present and potential problems, and monitor and develop a better understanding of activities within the industry.

*Current Actions:* The Federal Reserve proposes to make the following revisions to the FR 2886b to: (1) reduce the reporting frequency to annual for Edge and agreement corporations with total assets of \$50 million or less; (2) collect a new Schedule RC-D, Trading Assets and Liabilities, comparable to, but less detailed than, Schedule HC-D,

Trading Assets and Liabilities, on the FR Y-9C report; and (3) collect additional information on option contracts and other swaps (other than interest rate swaps and foreign exchange swaps). The proposed changes would be effective as of March 31, 2009.

### **Proposed Reporting Threshold**

The FR 2886b data are currently submitted quarterly by all Edge and agreement corporations. In accord with risk-focused supervision and in an effort to reduce reporting burden, the Federal Reserve proposes to establish that Edge and agreement corporations with total consolidated assets of \$50 million or less would submit the FR 2886b data annually as of December 31.<sup>15</sup> All Edge and agreement corporations with consolidated assets of more than \$50 million would continue to file the FR 2886b quarterly. Of the current respondent panel, 14 investment corporations and 3 banking corporations would qualify for annual reporting.

### **New Schedule for Trading Assets and Liabilities**

Since the Federal Reserve is solely responsible for authorizing, supervising, and assigning ratings to Edge and agreement corporations, it is critical to receive sufficient information to understand the risk profiles of Edge and agreement corporations and not to rely on information provided at the consolidated level by the parent bank or BHC. A number of large banking organizations conduct substantial trading and structured finance activities through their subsidiary Edge and agreement corporations, an activity that carries potentially very high risk.

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<sup>15</sup> Edge and agreement corporations meeting the asset size criteria of \$50 million or less would no longer file the March, June and September reports and would file annually as of December 31, beginning with the December 31, 2009, reporting date.

Total trading assets data reported by FR 2886b respondents has increased approximately 310 percent to \$225 billion or nearly 18 percent of total assets between March 31, 2000, and March 31, 2008. This activity is concentrated at 9 investment Edge and agreement corporations, 8 of which have trading assets of over \$2 million and 5 of which have trading assets of over \$1 billion. To better assess the risk associated with this trading activity, the Federal Reserve proposes to collect a separate schedule for trading assets and liabilities, comparable to proposed FR Y-9C Schedule HC-D, Trading Assets and Liabilities, with somewhat less detail. The proposed new Schedule RC-D, Trading Assets and Liabilities, would include the following data items reported on a consolidated basis by Edge and agreement corporations

1. U.S. Treasury securities
2. U.S. government agency obligations (exclude mortgage-backed securities)
3. Securities issued by states and political subdivisions in the U.S.
- 4.a Residential mortgage backed securities
- 4.b Commercial mortgage backed securities
5. Other debt securities
6. Loans
7. Other trading assets
8. Derivatives with a positive fair value
9. Total trading assets
10. Liability for short positions:
  - a. Equity securities
  - b. Debt securities



- c. All other assets
- 11. All other trading liabilities
- 12. Derivatives with a negative fair value
- 13. Total trading liabilities

#### Memoranda

- 1. Asset-backed securities:
  - a. Credit card receivables
  - b. Home equity lines
  - c. Automobile loans
  - d. Other consumer loans
  - e. Commercial and industrial loans
  - f. Other
- 2. Structured financial products:
  - a. Cash
  - b. Synthetic
  - c. Hybrid
- 3. Retained beneficial interests in securitizations (first-loss or equity tranches)
- 4. Equity securities:
  - a. Readily determinable fair values
  - b. Other
- 5. Loans pending securitization
- 6.a Gross fair value of commodity contracts
- 6.b Gross fair value of physical commodities held in inventory

Proposed data items 1 through 13 would be reported by Edge and agreement corporations that reported trading assets of \$2 million or more in Schedule RC, data item 5. Proposed memoranda items 1 through 6.b would be reported by Edge and agreement corporations that reported trading assets of \$1 billion or more in Schedule RC, data item 5. These thresholds are consistent with the thresholds for filing, and all data items on this schedule would be defined as reported, on FR Y-9C Schedule HC-D.

The consolidated FR Y-9C incorporates data from subsidiary Edge and agreement corporations. As mentioned previously, this reporting form collects the same trading asset and liability data items that are being proposed on the FR 2886b. Therefore, FR 2886b respondents should not realize a significant increase in reporting burden with the creation of Schedule RC-D as such information is already collected (or soon will be) for reporting on the FR Y-9C.

### **Revisions to Information Collected on Option Contracts and Swaps**

Respondents currently report the notional value of option contracts in Schedule RC-L, Derivatives and Off-Balance-Sheet Items, in data item 10, with a breakout between written and purchased option contracts. Information by type of option contract is not currently collected. Written option contracts data reported by FR 2886b respondents have increased 308 percent to \$1,120 billion between March 31, 2000 and March 31, 2008. Purchased option contracts have increased 294 percent to \$1,079 billion over this same time period. To better assess the risk associated with each type of option contract, the Federal Reserve proposes to collect the following breakouts for written options and purchased options: interest rate contracts, foreign exchange contracts, equity derivative contracts, and commodity and other contracts.

Respondents also currently report the notional value of swaps in Schedule RC-L, data item 11, with a breakout between interest rate swaps, foreign exchange swaps, and other swaps. Other swaps data reported by FR 2886b respondents has increased by 229 percent to \$186 billion between March 31, 2000, and March 31, 2008. To better assess the risk associated with the growing use of these types of swap contracts included in the other category, the Federal Reserve proposes to split this data item into equity derivative swap contracts, and commodity and other swap contracts.

The consolidated FR Y-9C report incorporates data from subsidiary Edge and agreement corporations. This report collects the categories of option contracts and swap contracts that are being proposed. Therefore, FR 2886b respondents should not realize a significant increase in reporting burden with these proposed revisions to Schedule RC-L as such information is already collected for reporting on the FR Y-9C.

**Proposal to approve under OMB delegated authority the extension for three years, with revision, of the following report:**

6. *Report title:* Bank Holding Company Report of Insured Depository Institutions'

Section 23A Transactions with Affiliates

*Agency form number:* FR Y-8

*OMB control number:* 7100-0126

*Frequency:* Quarterly

*Reporters:* Top-tier bank holding companies (BHCs), including financial holding companies (FHCs), for all insured depository institutions that are owned by the BHC and by foreign banking organizations (FBOs) that directly own a U.S. subsidiary bank

*Annual reporting hours:* 52,010

*Estimated average hours per response:* Institutions with covered transactions: 7.8;  
Institutions without covered transactions: 1.0.

*Number of respondents:* Institutions with covered transactions: 1,013; Institutions  
without covered transactions: 5,101.

*General description of report:* This information collection is mandatory (section 5(c) of  
the Bank Holding Company Act (12 U.S.C. 1844(c)) and section 225.5(b) of Regulation  
Y (12 CFR 225.5(b)) and is given confidential treatment (5 U.S.C. 552(b)(4)).

*Abstract:* This reporting form collects information on transactions between an insured  
depository institution and its affiliates that are subject to section 23A of the Federal  
Reserve Act. The primary purpose of the data is to enhance the Federal Reserve's ability  
to monitor bank exposures to affiliates and to ensure banks' compliance with section 23A  
of the Federal Reserve Act. Section 23A of the Federal Reserve Act is one of the most  
important statutes on limiting exposures to individual institutions and protecting against  
the expansion of the federal safety net.

*Current Actions:* The Federal Reserve proposes to require that all respondents  
electronically submit all FR Y-8 reports effective with the June 30, 2009, report date. The  
Federal Reserve proposes the electronic submission requirement to increase the quality  
and timeliness of the data.

Board of Governors of the Federal Reserve System, November 7, 2008.

(signed)

**Jennifer J. Johnson,**

Secretary of the Board.

[FR Doc. 08-00000 Filed 00-00-08; 8:45AM]

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