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Instructions for Preparation of the  
**Financial Statements for a  
Bank Holding Company Subsidiary  
Engaged in Bank-Ineligible  
Securities Underwriting  
and Dealing**

Reporting Form FR Y-20

Reissued June 2005

Read carefully and save for future use.

Questions related to these instructions for the preparation of the Financial Statements for a Bank Holding Company Subsidiary Engaged in Bank-Ineligible Securities Underwriting and Dealing should be addressed to the appropriate Federal Reserve Bank.

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# Contents for Y-20 Instructions

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# Instructions for the Preparation of Financial Statements for a Bank Holding Company Subsidiary Engaged in Bank-Ineligible Securities Underwriting and Dealing (FR Y-20)

## General Instructions

### Who Must Report

All bank holding companies that applied and received Federal Reserve Board approval under section 4(c)(8) of the BHC Act and section 225.23 of the Federal Reserve Board's Regulation Y (12 C.F.R. 225.23) for its designated subsidiary to engage, and are engaging, in underwriting and dealing in bank-ineligible securities to a limited extent, must submit the FR Y-20 financial statements to the appropriate Federal Reserve Bank. Bank holding companies are the parent company for Section 20 nonbanking subsidiaries. The parent company includes a foreign bank that is treated as a bank holding company under the International Banking Act of 1978 and the BHC Act of 1956.

**“Financial Statements for a Bank Holding Company Subsidiary Engaged in Bank-Ineligible Securities Underwriting and Dealing (FR Y-20)”** must be filed quarterly, as of the last calendar day of March, June, September, and December. This report should generally reflect only the nonbanking subsidiary of the bank holding company authorized to engage in bank-ineligible securities.

This report consists of a cover page (signature page), a Statement of Income (Schedule SUD-I), and a Memoranda Schedule.

The items reported in the Statement of Income **represent the results of the current calendar quarter only**. Except for line items M(5)(a) through M(5)(c), *year-to-date income and expense items are not included in this report*.

### Frequency of Reporting

Bank holding companies that have a Section 20 non-bank subsidiary must submit the Financial Statements

for a Bank Holding Company Subsidiary Engaged in Bank-Ineligible Securities Underwriting and Dealing (FR Y-20) quarterly, as of the last calendar day of March, June, September, and December. The required submission date is discussed later in the General Instructions.

### Organization of the Instructions

The instructions are divided into the following sections:

- (1) The General Instructions which describe the overall reporting requirements;
- (2) The Line Item Instructions for the Statement of Income (Schedule SUD-I); and
- (3) The Line Item Instructions for the Memoranda Schedule.

Additional copies of these instructions may be obtained from the Federal Reserve Bank in the District where the reporting bank holding company submits its FR Y-9C and FR Y-20 reports. They are also available on the Board of Governor's public web site at: <http://www.federalreserve.gov/boarddocs/reportforms/>.

### Preparation of the Report

Bank holding companies and their Section 20 subsidiaries are required to prepare and file the FR Y-20 report in accordance with generally accepted accounting principles (GAAP) and these instructions. All reports shall be prepared in a consistent manner.

The bank holding company's financial records shall be maintained in such a manner and scope so as to ensure that the FR Y-20 report can be prepared and filed in accordance with these instructions and reflect a fair presentation of the Section 20 company's financial condition and results of operations. Questions and requests for interpretations of these instructions should be addressed to the appropriate Federal Reserve Bank where the report is to be submitted.

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# General Instructions

## Accounting Basis and Definitions To Be Used for Reporting

### Consolidation Basis for Reporting on the FR Y-9C.

The amounts reported on the FR Y-20 should be reported in a manner consistent with the accounting and the consolidation methods used in consolidating the Section 20 subsidiary into the FR Y-9C, “Consolidated Financial Statements for Bank Holding Companies.”

### Section 20 Companies that have Majority Ownership of Other Subsidiaries.

The reporting requirements for Section 20 companies that have majority ownership of other subsidiaries vary depending on the nature of the subsidiary company. When a Section 20 company owns another Section 20 company, the following reports are required:

- (1) A complete FR Y-20 report filed on a fully consolidated basis of accounting; and
- (2) A complete stand-alone FR Y-20 report for the bottom tier Section 20 company.

When a Section 20 company owns a nonbank subsidiary that is *not* a Section 20 subsidiary (e.g., a futures commission merchant), the following reports are required:

- (1) A complete FR Y-20 report filed on a fully consolidated basis.

The cover page of this report includes a box in which a number is to be inserted to indicate the basis of accounting upon which the report has been prepared. Report in that box a:

- 1—to indicate that the report has been prepared on a fully consolidated basis of accounting; or
- 2—to indicate the report has been prepared on an unconsolidated basis of accounting (the section 20 company is reporting its financial position, results of operations, and other schedules and memorandum items as a single operating entity).

The Statement of Income (Schedule SUD-I) also includes a similar box. See the instructions for that schedule. For the *parent only* Statement of Income: respondents should complete the revenue portion of the schedule (line items 1 through 11) and memorandum items 3 and 4, and *they should not report* the expenses section (line items 12 through 27) and memorandum items 1, 2, and 5.

The FR Y-9C report instructions include general consolidation accounting instructions that can be used when reporting on a consolidated basis.

### Applicability of Generally Accepted Accounting Principles to Bank Holding Company Reporting Requirements.

The presentation by bank holding companies of Section 20 company recognition of income and expenses should be reported in accordance with *Generally Accepted Accounting Principles*. Bank holding companies may be required to report certain other accounts and types of, or the nature of, certain transactions on the report’s schedules. In addition, these instructions designate where and how a particular asset or liability should be reported. (For example, if GAAP classifies a transaction as U.S. Treasury securities and these instructions classify the transaction as obligations of U.S. Government-sponsored agencies, the transaction should be reported as obligations of U.S. Government-sponsored agencies).

*Netting.* Trading securities should be reported on a gross basis (*netting of short sales of securities is not permitted*), unless the conditions for offsetting transactions, specified in FASB Interpretation No. 39, “Offsetting of Amounts Related to Certain Contracts,” (FIN No. 39) are met. Refer to the glossary definition of “offsetting” in the FR Y-9C report’s instructions. Repurchase and reverse repurchase transactions may be netted on Schedule SUD-Balance Sheet to the extent allowable under Generally Accepted Accounting Principles. See FASB Interpretation No. 41, “Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements.”

*Exception from Accounting Standards.* Broker/dealer entities are exempt from certain accounting standards under Generally Accepted Accounting Principles. For example, the Financial Accounting Standards Board’s Statement of Financial Accounting Standards No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” specifically excludes enterprises in certain industries (i.e. brokers and dealers) (see paragraphs nos. 4 and 108). That standard, however, does apply to the consolidated financial statements of bank holding companies.

**Bank-Eligible Securities.** Bank-eligible securities are securities that member banks may underwrite and deal in as authorized by section 16 of the Glass–Steagall Act (12 U.S.C. 24 Seventh) prior to passage of the

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# General Instructions

Gramm-Leach-Bliley Act (Public Law 106–102) November 12, 1999.<sup>1</sup> Member banks were authorized to underwrite and deal in obligations of the United States, general obligations of states and political subdivisions, municipal revenue bonds for housing, university or dormitory purposes, and certain securities issued or guaranteed by government agencies.<sup>2</sup>

The United States–Canada Free-Trade Agreement authorized member banks to underwrite and deal in Canadian governmental securities. The Board determined, in consideration of the trade agreement and the nature of the Canadian government securities market, that a Section 20 nonbank subsidiary may engage in transactions involving Canadian government securities with a U.S. bank or thrift affiliate to the same extent it is permitted to do so with respect to U.S. and other government securities. A purchase of Canadian government securities by a Section 20 subsidiary from a U.S. bank or thrift affiliate is considered as a purchase of bank-eligible securities. The authority is extended to all Section 20 subsidiaries, whether owned by foreign or U.S. bank holding companies.

To further clarify, a Section 20 nonbanking subsidiary may deal in, underwrite, and purchase for its own account qualified Canadian government obligations to the same extent that it may deal in, underwrite, and purchase for its own account obligations of the United States or general obligations of any state or any political subdivision thereof. “Qualified Canadian government obligations” refers to any debt obligation which is backed by Canada, any province of Canada, or any political subdivision of any such province to a degree which is comparable to the liability of the United States, any state, or any political subdivision thereof for any obligation which is backed by the full faith and credit of the United States, such state, or such political subdivision. The term “province of Canada” refers to any province of Canada and includes the Yukon Territory and the Northwest Territories and their successors.

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1. See Schedule SUD-I, Appendix A, for a brief outline that denotes further what is considered bank-eligible versus bank-ineligible Section 20 subsidiary nonbanking activities.

2. For purposes of complying with the Board’s Section 20 revenue test, revenue earned from dealing in or holding certain custodial receipts, known as proprietary strips of U.S. Treasury bonds and notes, may be treated as bank-eligible revenue. (To create proprietary strips, certain investment banking firms have stripped coupons from U.S. Treasury bonds and notes and sold separately the principal and individual coupons at a present value discount of their face value.)

**Bank-Ineligible Securities.** Bank-ineligible securities represent securities in which member banks were not authorized to underwrite or deal in prior to passage of the Gramm-Leach-Bliley Act. Member banks were not permitted to underwrite or deal in:

- (1) Municipal revenue bonds, including so-called “public ownership” and industrial development bonds;<sup>3</sup>
- (2) 1–4 family mortgage-related securities (obligations secured by or representing an interest in residential real estate);<sup>4</sup>
- (3) Consumer-receivable-related securities (obligations secured by or representing an interest in loans or receivables of a type generally made to or due from consumers);
- (4) Commercial paper in which the reporting company was an underwriter or dealer;
- (5) Debt securities, including sovereign debt securities, corporate debt, debt securities convertible into equity securities, and securities issued by a trust or other vehicle secured by or representing interests in debt obligations;
- (6) Equity securities; and
- (7) Any other bank-ineligible securities.

**Underwriting and Dealing in Securities Originated by Bank Affiliates.** Obligations that represent interests in loans originated or purchased by a Section 20 subsidiary’s affiliated bank are considered securities. However, according to opinions of the Office of the Comptroller of the Currency, a national bank may issue and sell to the public obligations representing interests in certain types of loans. Accordingly, a Section 20 subsidiary may report as neutral revenue (i.e., as neither bank-eligible nor bank-ineligible), the revenue derived from underwriting and dealing in obligations that represents interests in a pool of bank loans, such as mortgage loans, retail loans to finance the purchase of motor vehicles, or loans generated from revolving credit card accounts, where the

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3. Industrial development bonds consist of only those tax-exempt bonds in which the governmental issuer, or the governmental unit on behalf of which the bonds are issued, is the owner of the financed facility (such as airports, mass commuting facilities, and water pollution control facilities) for federal income tax purposes.

4. For loans originated or purchased by a Section 20 subsidiary’s affiliated bank, see the instructions below.

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# General Instructions

loans comprising the pool were originated or purchased by an affiliated bank.

## **Interest Derived from Investment Grade Corporate Debt and Certain Municipal Revenue Securities.**

Member banks are permitted to purchase and sell for their own account certain securities, including securities such as investment grade corporate debt and certain municipal revenue securities (collectively, “investment securities”), that the banks could not underwrite or deal in prior to passage of the Gramm-Leach-Bliley Act . The interest earned by a Section 20 subsidiary on investment securities, as opposed to the profit or loss obtained from the purchase and resale of such securities, can be viewed as representing the revenue earned from engaging in portfolio investment functions that a bank may conduct with regard to these securities. Accordingly, the interest earned by a Section 20 subsidiary on investment securities that it holds is deemed to be bank-eligible revenue.<sup>5</sup> See Schedule SUD-I, line items 3 and 5.

**Interest Derived from Securities NOT Rated as Investment Grade.** Member banks are permitted to purchase and sell for their own accounts certain unrated or non-investment grade debt securities (e.g., a high yield security) as an “investment security” that the banks may not underwrite or deal in. To qualify for this treatment, a member bank is required to conclude, on the basis of estimates that the bank reasonably believes are reliable, that:

- (1) The obligor will be able to satisfy its obligations under that security; and
- (2) The security may be sold with reasonable promptness at a price that corresponds reasonably to its fair value.

The aggregate *par value* of securities that may receive this specialized treatment *may not exceed 5 percent* of the bank’s capital and surplus (i.e., Tier 1 and Tier 2 capital plus loan loss reserves that are not included in Tier 2 capital).

Interest on these types of investment securities may be treated as bank-eligible revenue, provided the bonds

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5. This paragraph is consistent with the Board’s action of September 11, 1996, amending its section 20 orders to reflect a new interpretation of the revenue test regarding the treatment of interest earned on debt securities that a member bank may hold for its own account.

satisfy all of the criteria contained in the preceding paragraph. For purposes of calculating the 5 percent of capital limitation under, and consistent with past Board precedent, Section 20 subsidiaries may rely upon the capital and surplus of their affiliated lead bank—rather than the Section 20 subsidiary’s capital. Interest derived from holding such securities in excess of the 5 percent par value limitation, or that do not otherwise satisfy all of the above criteria, would be treated as “bank-ineligible” revenue.

**Revenue Limit.** Effective March 6, 1997, the Federal Reserve Board of Governors set the revenue limit for the amount of revenue that a Section 20 subsidiary may derive from underwriting and dealing in bank-ineligible securities to 25 percent of the subsidiary’s total revenue less neutral revenue (*cumulative revenue over the last eight calendar quarters*).

## **Signatures**

The report must be signed by an authorized officer of the bank holding company or by an officer of the subsidiary as agent for the bank holding company. All copies shall bear the same signatures as on the originals, but these signatures may be facsimiles or photocopies.

## **Submission of the Reports**

The reports are to be submitted for each report date to the Federal Reserve Bank in the District where the bank holding company (top tier) is located or has traditionally reported. No caption on the report form shall be changed in any way. No item is to be left blank. An entry must be made for each item (i.e., an amount or zero). A zero should be entered whenever the subsidiary can participate in an activity, but does not have any outstanding balances on the report date.

All reports shall be completed clearly and legibly by typewriter or in ink. Bank holding companies may submit computer printouts in a format identical to that of the report form, including all item and column captions and other identifying numbers.

## **Submission Date**

The term “submission date” is defined as the date by which a bank holding company’s completed original

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# General Instructions

FR Y-20 report must be received by the appropriate district Federal Reserve Bank. Reports must be received no more than 45 calendar days after the end of the calendar quarter (subject to the timely filing provisions set forth in the following paragraph). For example, the March 31 report must be received by May 15 and the June 30 report by August 14. Earlier submission would aid the Federal Reserve in reviewing and processing the reports and is encouraged. No extensions of time for submitting reports are granted.

The filing of a bank holding company's completed FR Y-20 financial statements will be considered timely, regardless of when the reports are received by the appropriate Federal Reserve Bank, if these reports are mailed first class and postmarked no later than the third calendar day preceding the submission deadline. In the absence of a postmark, a bank holding company whose completed FR Y-20 is received late may be called upon to provide proof of timely mailing. A "Certificate of Mailing" (U.S. Postal Service Form 3817) may be used to provide such proof. If an overnight delivery service is used, entry of the completed original reports into the delivery system on the day before the submission deadline will constitute timely submission. In addition, the hand delivery of the completed original reports on or before the submission deadline to the location to which the reports would otherwise be mailed is an acceptable alternative to mailing such reports. Bank holding companies that are unable to obtain the required officer's signature on their completed original reports in sufficient time to file these reports so that they are received by the submission deadline may contact the district Federal Reserve Bank to which they mail their original reports to arrange for the timely submission of their report data and the subsequent filing of their signed reports.

If the submission deadline falls on a weekend or holiday, the report must be received by 5:00 P.M. on the first business day after the Saturday, Sunday, or holiday. Any report received after 5:00 P.M. on the first business day after the Saturday, Sunday, or holiday deadline will be considered late unless it has been postmarked at least three calendar days prior to the original Saturday, Sunday, or holiday submission deadline (original deadline), or the institution has a record of sending the report by overnight service one day prior to the original deadline.

## Amended Reports

During subsequent periods following the submission of the FR Y-20 report, it may be necessary to amend or restate financial statements for previous quarters. The Federal Reserve may require the bank holding company to file an amended FR Y-20 report if the restatement results in material or significant changes to previously submitted FR Y-20 reports. A bank holding company should file an amended report when internal or external auditors have made audit adjustments that result in a restatement of financial statements previously submitted to the Federal Reserve. Bank holding companies should contact the appropriate Reserve Bank for information on submitting revised reports. Amendment of the financial statement should be done in a manner consistent with the amendment instructions of the consolidated FR Y-9C Report. Amendments to the FR Y-20 report may necessitate amendments to the FR Y-9C Report.

## Confidentiality

The Board of Governors of the Federal Reserve System considers the information provided by each respondent on the financial statements and schedules included in the FR Y-20 as confidential pursuant to the Freedom of Information Act [5 U.S.C. §552(b)(4)]. If it should be determined subsequently that any information collected on this form must be released, the respondent(s) will be notified.

## Miscellaneous General Instructions

**Rounding.** All dollar amounts must be reported in thousands, with the figures rounded to the nearest thousand. Items less than \$500 will be reported as zero. Rounding could result in details not adding to their stated totals. However, in order to ensure consistent reporting, the rounded detail items should be adjusted so that the totals and the sums of their components are identical. In other words, the total should be equal to the sum of its rounded components.

**Verification.** All addition and subtraction should be double-checked before reports are submitted. Totals and subtotals in supporting items should be cross-checked to corresponding items elsewhere in the reports.

Bank holding companies should retain the work papers and other supporting records used in the preparation of these reports for review by Federal Reserve System



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## General Instructions

examiners and staff. The supporting records, schedules, and documentation should accurately reflect the items

reported on the FR Y-20 report, including their composition and description.

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## LINE ITEM INSTRUCTIONS FOR THE

# Statement of Income

## Schedule SUD-I

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The line item instructions should be read in conjunction with the other sections of these instructions and the numbered line items listed on the FR Y-20 reporting form. Please refer to the discussion of the Organization of the Instructions found in the General Instructions and Appendix A of Schedule SUD-I.

### The Accounting Basis for Preparing Schedule SUD-I

The box preceding the reporting of revenues indicates the accounting basis upon which this schedule is prepared. Enter in the box a:

- 1—to indicate that this schedule is prepared on a consolidated basis, or
- 2—to indicate that this schedule is prepared on an unconsolidated basis (the section 20 company is reporting on its results of operations and memorandum items as a single operating entity), or
- 3—to indicate that this schedule is prepared to report the results of operations for the parent company only.

*(When the parent company only statement of income is required it must be attached to and submitted with the consolidated statement of income).*

**Bank-Eligible Revenues**—Column (a): Report in column (a) the amount of bank-eligible revenues earned from underwriting, dealing, brokerage, and other activities whose revenues are designated as bank-eligible revenues by the Board (e.g., private placement activities and riskless principal transactions).

**Bank-Ineligible Revenues**—Column (b): Report in column (b) the amount of bank-ineligible revenues earned from underwriting or dealing (or activities incidental thereto).

### Structuring Bank-Eligible and Bank-Ineligible Transactions.

Financial transactions should be structured so that the revenue derived from transactions can be clearly identified as being revenue derived from bank-eligible or bank-ineligible securities underwriting and dealing activities. This principal applies unless the Board has determined that the derived revenues from a particular transaction should be treated as neutral, revenue that

cannot be identified as being either bank-eligible or bank-ineligible revenues.

### Hedging Transactions.

Revenue derived from hedging transactions should be reported in a manner that reflects, and is consistent with, the Section 20 subsidiary's risk management strategies. Some subsidiaries engage in hedging transactions using securities or derivative instruments to hedge against the general financial position or portfolio risk of the subsidiary. Other subsidiaries engage in hedging the price movement of a specific on-or off-balance sheet security (or securities) or other position by coupling other securities or derivatives with the specific position, thus linking the two items.

In instances where a firm hedges general portfolio risk, the revenues derived from hedging instruments should be reported as *bank-eligible* or *bank-ineligible* based on the nature of the hedging instrument (e.g., T-bonds or U.S. Treasury futures would generate *bank-eligible* revenue while stock index securities options would generate *bank-ineligible* revenue). In contrast, a subsidiary that hedges the price movement of a specific position with other securities or derivatives transactions should report the net gain or loss from the linked instruments, based on the nature of the specific position being hedged (e.g., a corporate bond hedged by a short U.S. Treasury security position would be reported as a combined *bank-ineligible* net gain or loss).

### Revenue

#### Line Item 1 Commissions on securities transactions.

Report the amount of commissions earned on equity, debt, and commodity transactions for customers. Report

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## Schedule SUD-I—Statement of Income

the amount of commissions earned on accounts carried by other brokers. Include commissions earned on option transactions.

### **Line Item 2 Gains or (losses) on securities owned account (dealing).**

Report the amount of gains or losses on securities owned and sold in the secondary market.

For securities recorded in a trading account, include realized and unrealized gains and losses from securities held for sale in the ordinary course of business. The amounts reported shall not be reduced by any allocation of income taxes. *Interest expense incurred to carry trading positions is not netted against this item.*

Include realized and unrealized gains and losses from sales of securities and futures and spot commodities recorded in the firm's investment accounts.

### **Line Item 3 Profit or (losses) from securities underwriting.**

This line item includes gross profit (loss) from the management of, or participation in, underwriting transactions. It represents the difference between the proceeds from the sale of securities (price paid by the public) and their purchase price (contract price) adjusted for discounts, commissions, and allowances received from or given to other brokers, less related direct expenses. Any fees or direct expenses that can be associated with a specific underwriting should be considered in determining the amount of gross profit (loss). Include profit or losses derived from serving as a selling group member.

Interest may be earned from short-term holdings of "investment securities" (see the General Instructions) acquired in connection with securities underwriting. The underwriter(s) may settle with the issuer prior to all bonds being sold to investors; accordingly, the underwriter(s) owns the bonds and accrues interest during this interim period. Such interest earnings may be excluded from line item 3 and be reported as bank-eligible interest income on line item 5, "interest income and dividends." Interest earnings from securities underwritten and held by the Section 20 company, securities which are not permitted to be purchased and sold by member banks for their own account, may be reported as bank-ineligible interest on line item 5, or continue to be reported on line item 3 as authorized in the Board's September 11, 1996 press release.

Employee compensation and employment costs of those persons working for the underwriting group or department, or other related expenses of the department, are treated as indirect expenses and are not deducted in determining gross profit (loss). They are operating costs of the entity and should be treated as such.

Include fees earned from mergers and acquisitions and any other underwriting activity.

### **Line Item 4 Fees on private placements.**

Report fees earned for the placement (initial issuance or a resale of previously issued securities) of debt or equity securities. Such fees are received for the private placements of securities not registered under the Securities Act of 1933. Fees earned as agent from the private placement of bank-ineligible securities in accordance with the Securities Act of 1933 and the Rules of the Securities and Exchange Commission, and the Board's Regulation Y should be reported as bank-eligible revenue.

Private placement or secondary market trading revenue derived from SEC Rule 144A securities that involve taking a position should be classified as bank-ineligible revenue. In the case of an initial private placement, the proceeds of the entire issue should be classified as bank-ineligible revenue if any of the securities placed are taken into inventory. The fees derived from other Rule 144A transactions, that are effected solely as agent, should be reported as bank-eligible revenue.

### **Line Item 5 Interest income and dividends.**

Report interest and dividend income earned on trading and investment account securities. Interest income is reported as either bank-eligible revenue or bank-ineligible revenue in accordance with the nature of the respective underlying securities. For example, interest income derived from non-investment grade corporate debt is reported generally as bank-ineligible revenue and interest income derived from all investment-grade debt securities is treated as bank-eligible revenue. See the General Instructions.

Include as bank-eligible revenue interest income received from securities borrowing transactions in which the broker-dealer borrows securities and deposits (pledges) an equivalent amount of cash that earns interest (rebate).

Dividends received on bank-ineligible equity securities should be reported as bank-ineligible revenue. Cash

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# Schedule SUD-I—Statement of Income

payments (expenses) paid in lieu of dividends owed on short equity positions (equity securities sold but not yet purchased) should be reported as interest expense and should not be netted against dividend revenue.

## **Line Item 6 Margin interest income.**

Report interest earned on debit balances in customers' margin accounts.

## **Line Item 7 Interest income on securities purchased under agreements to resell.**

Report interest earned on securities purchased under agreements to resell. Interest revenue derived from any reverse repurchase agreement secured with collateral that could be taken by a member bank (i.e., that a member bank could hold for its own account) is treated as bank-eligible revenue.

## **Line Item 8 Fees for investment advisory, financial advice, or other services.**

Report fees earned from providing investment advice, research, administrative, asset management, account supervision, or other services for customers.

## **Line Item 9 Other revenue.**

Report all other bank-eligible and bank-ineligible income not included within the above reported items. This includes fees earned from providing Federal Reserve authorized nonbanking services to affiliates that do not comprise securities underwriting and dealing activities. *Do not include neutral revenue* (revenue that is considered as neither bank-eligible nor bank-ineligible revenue). Line item 11 includes neutral revenue.

## **Line Item 10 Total bank-eligible and bank-ineligible revenue.**

Report revenue received from all sources whether related or unrelated to securities activities. Sum the respective amounts for column (a) and column (b) by computing the sum of items 1 through 9.

## **Line Item 11 Total gross revenue.**

Sum the amounts for item 10 reported in columns (a) and (b) and include any neutral revenue (line item M4), revenue that is considered as neither bank-eligible nor bank-ineligible revenue as described in the General Instructions and the line item instructions for Schedule SUD-I, line items M3 and M4.

## **Expenses**

*(For the parent only Statement of Income, respondents should omit line items 12 through 27.)*

## **Line Item 12 Interest expense on securities sold under agreements to repurchase.**

Report interest expense on securities sold under agreements to repurchase.

## **Line Item 13 Other interest expense.**

Include all interest paid to banks, interest paid on customers' accounts, and interest paid on all other unsubordinated and subordinated borrowings. Subordinated borrowings include: subordinated loan agreements and secured demand notes.

## **Line Item 14 Salaries and employee benefits.**

Report all salaries, employee commissions, bonuses, profit sharing contributions, payroll taxes, and benefits paid to or incurred for employees.

## **Line Item 15 Commissions paid to brokers and others.**

Include security and commodity commissions paid to other brokers, and clearance fees paid to clearing corporations, associations, depositories, and exchanges.

## **Line Item 16 Floor brokerage, exchange, and clearance fees.**

Report floor brokerage, exchange fees, and clearance fees paid to other brokers, on agency and principal business.

## **Line Item 17 Expense on premises and fixed assets, net of rental income.**

Enter the cost of rent, heat, light, maintenance, depreciation and amortization, and general insurance.

## **Line Item 18 Losses in error account and bad debts.**

Report losses resulting from mistakes in trading for customers, losses for uncollectible customer accounts resulting from potential losses on fails, transfers, dividends receivable, and security shortages. Also include loss provisions for bad debt expense associated with loans and leases held for trading.

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# Schedule SUD-I—Statement of Income

**Line Item 19 Communications and data processing.**

Include the cost of telephones and leased wires, tickers, quotation, news, direct computer link services (e.g., with other broker-dealers, branches, clearing organizations, exchanges, analytical service firms, major customers, etc.) equipment depreciation and rental and service bureau charges. Also include costs such as non-depreciated computer equipment and supplies, software costs, postage, stationery, office supplies, forms, and other similar costs relating to communications and data processing.

**Line Item 20 Other expense.**

Report all other costs incurred that are not reported above.

**Line Item 21 Total expense.**

Report the total of items 12 through 20.

**Line Item 22 Income (loss) before taxes and undistributed income.**

Report the sum of items 11 minus item 21.

**Line Item 23 Applicable income taxes.**

Report the total estimated federal, state and local, and foreign income tax expense applicable to income (loss) before undistributed income (item 22), including the tax effects of gains (losses) on securities not held in trading accounts. Include the current and deferred portions of these income taxes. If the amount is a tax benefit rather than a tax expense, enclose it in parentheses.

**Line Item 24 Extraordinary items, net of tax effect.**

Report material (in relation to reported earnings or a trend therein) gains or losses that are both unusual in nature and infrequent in occurrence. This may include gains or losses resulting from the extinguishment of the company's own debt, material aggregate gains (losses) on troubled debt restructuring and significant asset disposals. Also include any material aggregate gains or losses from disposals of segments of the firm's business.

**Line Item 25 Income (loss) before undistributed income of subsidiaries and associated companies.**

Sum items 22 through 24 minus item 23.

**Line Item 26 Equity in undistributed income (losses) of unconsolidated subsidiaries and associated companies.**

Report the amount of equity in undistributed income of unconsolidated subsidiaries, less applicable taxes. Include equity in securities gains or losses, extraordinary items, and cumulative effects of changes in accounting principles of the unconsolidated subsidiaries and associated companies, less applicable income taxes.

**Line Item 27 Net income (loss).**

Sum items 25 and 26.

**Memoranda**

*(For the parent only Statement of Income, respondents should omit memorandum items 1, 2, and 5.)*

**Line Item M1 Revenue derived from intercompany transactions:****Line Item M1(a) Bank-eligible revenue.**

Report the amount of intercompany revenue (losses) derived from bank-eligible securities underwriting and dealing activities conducted with the parent company.

**Line Item M1(b) Bank-ineligible revenue.**

Report the amount of intercompany revenue (losses) derived from bank-ineligible securities underwriting and dealing activities conducted with the parent company.

**Line Item M2 Expenses incurred in intercompany transactions.**

Report the amount of all expenses, including applicable income taxes, incurred as the result of intercompany transactions with the parent company.

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# Schedule SUD-I—Statement of Income

**Line Item M3 Revenue Limitation: Report the ratio of revenue derived from bank-ineligible securities underwriting and dealing activities to total gross revenue less neutral revenue.**

**Revenue Test.** Compute and report the last eight-calendar-quarter ratio of revenue derived from bank-ineligible securities underwriting and dealing to total gross revenues, less any reported neutral revenues. This two-year ratio therefore consists of the ratio of bank-ineligible revenue (item 10, column (b)) divided by the total gross revenue (item 11, column (a)) minus neutral revenue (item M(4)), computed using revenues from the last eight calendar quarters. Neutral revenues are revenues derived from obligations that represent interests in a pool of bank loans, such as mortgage loans, retail loans to finance the purchase of motor vehicles, or loans generated from revolving credit card accounts, where the loans comprising the pool were originated or purchased by an affiliated bank.

During the first two year period, in which a Section 20 subsidiary engages in bank-ineligible securities activities, sum the amount of revenues derived from bank-ineligible securities during the initial two year period (the time period may be less than two years from commencement of operations) and divide that amount by the total gross revenues less any neutral revenue during the same period. After the first two years, sum the amount of bank-ineligible revenues derived from securities activities for the last eight calendar quarter-ends and divide that amount by the aggregate gross revenues less any neutral revenues earned during the same time period. Report the percentage as having been extended to two decimal places (e.g., 15.85 percent).

**Line Item M4 Current quarter revenue derived from neutral assets.**

Report for the current quarter-end the amount of neutral revenue earned. Revenue derived from underwriting and

dealing in obligations that represent interests in a pool of bank loans, such as mortgage loans, retail loans to finance the purchase of motor vehicles, or loans generated from revolving credit card accounts, where the loans comprising the pool were originated or purchased by an affiliated bank, is treated as neither bank-eligible nor bank-ineligible revenue.

**Line item M5 Year-to-date total gross revenue, total expenses, and net income.**

**Line item M5(a) Year-to-date total gross revenue.**

Report the amount of total gross revenues earned for the current year from January 1 through the most recent quarter-end for which the FR Y-20 report is prepared. This report item represents the calendar quarter's total gross revenues reported for line item 11 of Schedule SUD-I for the current quarter plus the total gross revenues for the previous calendar quarters since January 1. The amount reported includes neutral revenues.

**Line item M5(b) Year-to-date total expenses.**

Report the amount of total expenses for the current year from January 1 through the most recent quarter-end for which the FR Y-20 report is prepared. This report item represents the calendar quarter's total expenses reported for line item 21 of Schedule SUD-I for the current quarter plus the total expenses for the previous calendar quarters since January 1.

**Line item M5(c) Year-to-date net income.**

Report the amount of net income for the current year from January 1 through the most recent quarter-end for which the FR Y-20 report is prepared. This report item represents the calendar quarter's net income reported for line item 27 of Schedule SUD-I for the current quarter plus the net income for the previous calendar quarters since January 1.

# Memoranda

## Schedule SUD-M

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The line item instructions should be read in conjunction with the other sections of these instructions and the numbered line items listed on the FR Y-20 reporting form. Please refer to the discussion of the Organization of the Instructions found in the General Instructions.

### Intercompany Assets

Intercompany assets represent assets obtained as the result of transactions with affiliates. When reporting on a consolidated basis, no intercompany assets should be reported for transactions with subsidiaries of the reporting Section 20 company. For purposes of this report, these intercompany assets should be eliminated in the accounting process of consolidation. For the purposes of this report, intercompany assets are the following:

#### **Line Item 1 Balances due from related institutions:**

Report intercompany transaction balances due from the parent company, subsidiary banks and their subsidiaries, and nonbank subsidiaries of the parent bank holding company. This may include cash, receivables and all other amounts due from operating the underwriting subsidiary. All amounts are reported gross.

#### **Line Item 1(a) Due from bank holding company (parent company only), gross.**

Report intercompany transaction balances due from the parent company. The parent company includes a foreign bank that is treated as a bank holding company under the International Banking Act of 1978 and the BHC Act of 1956. All amounts are reported gross. This may include receivables and amounts owed from operating the subsidiary or providing services to the parent company.

#### **Line Item 1(b) Due from subsidiary banks of the bank holding company, gross.**

Report intercompany transaction balances due from subsidiary banks and their subsidiaries of the bank holding company. This may include cash due from subsidiary banks or amounts owed for services provided.

#### **Line Item 1(c) Due from nonbank subsidiaries of the bank holding company, gross.**

Report intercompany transaction balances due from nonbank subsidiaries of the bank holding company.

If the parent company files the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128), item 1 need not be reported.

### Intercompany Liabilities:

Intercompany liabilities represent obligations incurred from transactions with affiliates. When reporting on a consolidated basis, no intercompany liabilities should be reported for transactions with subsidiaries of the reporting Section 20 company. These intercompany liabilities should be eliminated in the accounting process of consolidation. For the purposes of this report, intercompany liabilities are the following:

#### **Line Item 2 Balances due to related institutions.**

These line items (25(a) through 25(c)) include intercompany liabilities that are owed to affiliates or are derived from subordinated debt agreement(s) with affiliates that are considered capital under the SEC's net capital rule (Rule 15c3-1). The aggregate amount of that subordinated debt is reported in line item M(1).

#### **Line Item 2(a) Due to bank holding company (parent company, only), gross.**

Report the amount of all intercompany liabilities that are owed to the parent bank holding company. The parent company includes a foreign bank that is treated as a bank holding company under the International Banking Act of 1978 and the BHC Act of 1956. Such liabilities may consist of administrative service agreements, utilized lines of credit, management fees, advances or any other amounts due to the bank holding company parent.

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# Memoranda

**Line Item 2(b) Due to subsidiary banks of the bank holding company, gross.**

Report the amount of all intercompany liabilities owed to the subsidiary banks and their subsidiaries of the bank holding company. Such liabilities may consist of short-term loans and transaction processing fees.

**Line Item 2(c) Due to the nonbank subsidiaries of the bank holding company, gross.**

Report the amount of all intercompany liabilities owed to the nonbank subsidiaries of the bank holding company.

If the parent company files the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128), item 2 need not be reported.

## Memoranda

**Line Item 3 Amount of intercompany liabilities reported in items 25(a), 25(b), and 25(c) that qualify as liabilities subordinated to claims of general creditors.**

Report the amount of intercompany liabilities that are derived from subordinated debt agreement(s) that are considered capital under SEC net capital rules (Rule 15c3-1).

If the parent company files the consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128), item 3 need not be reported.



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# SUD—Appendix A

## Revenue Derived from Bank-Eligible Versus Bank-Ineligible Nonbanking Activities

Refer to the General Instructions pertaining to the discussion on “Bank-eligible Securities” and “Bank-ineligible Securities” when determining whether revenues should be classified as either bank-eligible or bank-ineligible revenue. In addition to this discussion, the following is a brief outline denoting further what is considered bank-eligible versus bank-ineligible nonbanking activities. Determining the nature of the underwriting and dealing activities affects how revenues are to be classified and reported on Schedule SUD-I for the purposes of the Board’s limitation on bank-ineligible revenue of Section 20 companies.

### Section 20 Revenue Test

- (1) General rule—revenue is considered **bank-eligible** if the underwriting and dealing activity can be conducted by a bank directly.

Bank-eligible securities are securities that member banks may underwrite and deal in, as authorized by Section 16 of the Glass–Steagall Act, 12 U.S.C. 24 Seventh. This statute as interpreted by 12 CFR 1 (Regulations of the OCC<sup>1</sup>) governs bank-eligible securities activities; if a bank is precluded from *underwriting* or *dealing* in a type of security, then the revenues derived from such underwriting and dealing should be classified as **bank-ineligible** revenue.

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1. State member banks are, under 12 U.S.C. 335, subject to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are national banks. Dealers in securities are prohibited by 12 U.S.C. 378 from engaging in banking business. Section 378 specifically provides, however, that it does not prohibit national banks or state banks or trust companies (whether or not members of the Federal Reserve System) or other financial institutions or private bankers from dealing in, underwriting, purchasing and selling investment securities to the extent permitted to national banking organizations by the provisions of 12 U.S.C. 24.

- Unless transactions are conducted as specifically linked hedge transactions (see “Hedging Transactions”), revenues derived from hedging transactions are classified based upon the status of the underlying hedging instrument (e.g., T-bond futures are bank-eligible and equity options are bank-ineligible securities). For specifically linked transactions, the total combined net gain or loss should be reported based on the nature of the specific position being hedged (e.g., a corporate bond hedged by a short U.S. Treasury security position would be reported as a combined bank-ineligible net gain or loss).
  - Revenues derived from stock index futures contracts and options thereon (i.e., those traded on commodity exchanges) should be classified as bank-eligible revenue.
  - Revenues derived from stock index contracts traded on securities exchanges should be classified as bank-ineligible revenue.
- (2) *Exception* to the above general rule—all revenue derived from “incidental” activities are treated as **bank-ineligible** revenue unless the BHC and its Section 20 company have received specific Board authorization, pursuant to section 4(c)(8) of the BHC Act, to conduct the “activity” independently.

### Additional Approved Bank-Eligible Activities.

The Federal Reserve Board, by Board order or regulation, has indicated that revenue derived from certain bank-eligible activities is **bank-eligible** revenue. These activities include:

- brokerage transactions
  - securities (discount and full-service)
  - loans
  - leases
  - gold and silver
  - currency and interest rate products

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## Schedule SUD—Appendix A

- futures commission merchant transactions
- riskless principal transactions
- private placement transactions
- advisory services
  - financial advisory services
  - investment adviser to mutual fund
  - advice to governmental units
- foreign exchange
- mergers and acquisitions
- acting as “dealer-manager” in cash tender offers (however, revenue derived from underwriting or distribution of securities, must be treated as bank-ineligible revenue)
- trading bank-eligible derivative instruments