Supporting Statement for
Financial Statements for Bank Holding Companies
(FR Y-9C, FR Y-9LP, FR Y-9SP, FR Y-9CS and FR Y-9ES; OMB No. 7100-0128)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to revise, without extension,[1] the following mandatory reports for implementation in March and June 2009.

(1) the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128) and

(2) the Parent Company Only Financial Statements for Small Bank Holding Companies (FR Y-9SP; OMB No. 7100-0128).

This family of reports also contains the following mandatory reports, which are not being revised:

(1) the Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP; OMB No. 7100-0128),

(2) the Financial Statements for Employee Stock Ownership Plan Bank Holding Companies (FR Y-9ES; OMB No. 7100-0128), and

(3) the Supplement to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9CS; OMB No. 7100-0128).

Pursuant to the Bank Holding Company Act of 1956, as amended, the Federal Reserve requires bank holding companies (BHCs) to provide standardized financial statements to fulfill the Federal Reserve's statutory obligation to supervise these organizations. BHCs file the FR Y-9C and FR Y-9LP quarterly, the FR Y-9SP semiannually, the FR Y-9ES annually, and the FR Y-9CS on a schedule that is determined when the supplement is used.

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)

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[1] The Federal Reserve would extend the expiration date by one month to maintain consistency with other holding company reports.

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.

The Federal Reserve requests latitude to modify proposed revisions to the FR Y-9 family of reports that are appropriate and consistent with any revisions to the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 & 041; OMB No. 7100-0036) proposed by the FFIEC for implementation in 2009. Also, as is customary for Call Report changes, institutions will be advised that they may report reasonable estimates for any new or revised data item in their FR Y-9C report for March 31, and June 30, 2009, reporting dates, if the information is not readily available.

A copy of the proposed reporting forms, marked to show the revisions, is attached. The total current annual burden for the FR Y-9 family of reports is estimated to be 231,052 hours. The overall reporting burden is estimated to increase by 5,830 hours with the proposed revisions.

Background and Justification

The FR Y-9C, FR Y-9LP, and FR Y-9SP are standardized financial statements for the consolidated BHC and its parent. The FR Y-9ES is a financial statement for BHCs that are Employee Stock Ownership Plans (ESOPs). The Federal Reserve also has the authority to use the FR Y-9CS, a free form supplement, to collect any additional information deemed to be critical and needed in an expedited manner. 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.

Description of the Information Collection

FR Y-9C

The FR Y-9C consists of standardized financial statements similar to the Call Report 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.[2]

The Federal Reserve proposes to implement a number of changes to the FR Y-9C 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.

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

[2] Under certain circumstances defined in the General Instructions, BHCs under $500 million may be required to file the FR Y-9C.

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.[3] 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 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.

[3] 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.

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[4] and Class C[5] 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[6], and restricted core capital elements), less goodwill net of any associated deferred tax liability[7]. Stated 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[8]) that may be included in the tier 1 capital of an internationally active BHC[9] 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

[4] 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.

[5] 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.

[6] 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.

[7] Algebraically this may be expressed as A–(B-C) where A represents all core capital elements, B represents goodwill, and C represents any deferred tax liability associated with goodwill.

[8] 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.

[9] 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 Country Exposure Report (FFIEC 009; OMB No. 7100-0035).

amortization provisions and quantitative restrictions as if the trust preferred securities were limited-life preferred stock. As a limited-life capital instrument approaches maturity, it begins to take on characteristics of a short-term obligation. For this reason, the outstanding amount of term subordinated debt and limited-life preferred stock eligible for inclusion in tier 2 capital is reduced, or discounted, as these instruments approach maturity: one-fifth of the outstanding amount is excluded each year during the instrument's last five years before maturity. When remaining maturity is less than one year, the instrument is excluded from tier 2 capital.

The aggregate amount of term subordinated debt and limited-life preferred stock 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) and,
    - 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 and;
- 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).[10] 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 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

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[10] 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).

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 1 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 1 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),[11] 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 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

[11] SAB 108 can be accessed at 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.

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).[12] 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.

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.[13] 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.

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[12] SAB 99 can be accessed at 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.

[13] For example, see the FR Y-9 report Supplemental Instructions for June 2007 at www.federalreserve.gov/reportforms/supplemental/SI_FRY9_200706.pdf.

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) loans, entitled *Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices* (CRE Guidance).[14] 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 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

[14] 71 FR 74580, December 12, 2006.

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.[15]

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;
- corporate and similar loans;[16]
- 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.

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[15] 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.

[16] 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.

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, 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.

FR Y-9SP

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.

Proposed Revisions

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.

Frequency

No changes are proposed to the reporting frequency of the FR Y-9 family of reports. The current reporting frequencies provide adequate timely data to meet the analytical and supervisory needs of the Federal Reserve.

Time Schedule for Information Collection

The FR Y-9C and FR Y-9LP are filed quarterly as of the end of March, June, September, and December. The filing deadline for the FR Y-9C is forty calendar days after the March 31, June 30, and September 30 as-of dates. The filing deadline for the FR Y-9C is forty-five calendar days after the December 31 as-of date. The filing deadline for the FR Y-9LP is forty-five calendar days after the quarter-end as-of date.

The FR Y-9SP report must be submitted within forty-five calendar days after the as-of date. The FR Y-9SP is reported semiannually as of the end of June and December. The annual FR Y-9ES is collected as of December 31 and submitted to the Federal Reserve Banks by July 31, unless an extension is granted for filing by October 15.

The data from the FR Y-9 family of reports that are not given confidential treatment are available to the public on the FFIEC website at www.ffiec.gov/nicpubweb/nicweb/nichome.aspx and through the National Technical Information Service.

Legal Status

The Board's Legal Division has determined that the FR Y-9 family of reports are authorized by section 5(c) of the Bank Holding Company Act [12 U.S.C. 1844(c)]. Overall, the Board does not consider the financial data in these reports to be confidential. However, a respondent may request confidential treatment 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)]. The applicability of these exemptions would need to be determined on a case-by-case basis.

Consultation Outside the Agency

On November 13, 2008, the Federal Reserve published a notice in the *Federal Register* (73 FR 67159) requesting public comment for 60 days on the revision, without extension, of the FR Y-9C and FR Y-9 SP reports. The comment period for this notice expires on January 12, 2009.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimates of Respondent Burden

The current annual reporting burden for the FR Y-9 family of reports is estimated to be 231,052 hours and would increase to 236,882 hours as shown in the following table. The average estimated hours per response for FR Y-9C filers would increase from 40.50 hours to 41.65 hours resulting from an increase of 1.15 hours for proposed new data items. The Federal Reserve anticipates that most of the proposed new data items would be applicable to only a small number of respondents, and estimate that less than half of the respondents would be required to provide new information on acquired loans and leases, construction and development loans with interest reserves, pledged loans, and issuances related to the CPP. The Federal Reserve estimates that roughly two-thirds of respondents would be required to provide new information related to restricted core capital elements. The average estimated hours per response for FR Y-9SP filers would increase from 5.25 hours to 5.40 hours resulting from an increase of 0.15 hours for proposed new data items. The Federal Reserve estimates that less than half of FR Y-9SP respondents would be required to provide new information on issuances related to the CPP. The revised total burden for the FR Y-9 family of reports would represent just over 5 percent of total Federal Reserve System annual burden.

	Number of respondents	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
<u>*Current*</u>				
FR Y-9C	976	4	40.50	158,112
FR Y-9LP	1,218	4	5.25	25,578
FR Y-9SP	4,468	2	5.25	46,914
FR Y-9ES	96	1	0.50	48
FR Y-9CS	200	4	0.50	400
Total				231,052
<u>*Proposed*</u>				
FR Y-9C	976	4	41.65	162,602
FR Y-9LP	1,218	4	5.25	25,578
FR Y-9SP	4,468	2	5.40	48,254
FR Y-9ES	96	1	0.50	48
FR Y-9CS	200	4	0.50	400
Total				236,882
Change				+5,830

The total cost to the public is estimated to increase from the current level of $14,244,356 to $14,603,775 for the revised BHC reports.[17]

Estimate of Cost to the Federal Reserve System

Current costs to the Federal Reserve System for collecting and processing these reports are estimated to be $1,852,881 per year. With the revisions the estimated costs will increase to $1,923,981 per year. The one-time costs to implement the revised reports are estimated to be $79,420.

[17] Total cost to the public was estimated using the following formula. Percent of staff time, multiplied by annual burden hours, multiplied by hourly rate: 30% Clerical @ $25, 45% Managerial or Technical @ $55, 15% Senior Management @ $100, and 10% Legal Counsel @ $144. Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics, *Occupational Employment and Wages*, news release.

Attachment 1

Loan Secured by Real Estate

The revised definition of a "loan secured by real estate" would read as follows:

For purposes of this report, a loan secured by real estate is a loan secured wholly or substantially by a lien or liens on real property for which the lien or liens are central to the extension of the credit – that is, the borrower would not have been extended credit in the same amount or on terms as favorable without the lien or liens on real property. To be considered wholly or substantially secured by a lien or liens on real property, the estimated value of the real estate collateral (after deducting any more senior liens) must be greater than 50 percent of the principal amount of the loan at origination. A loan satisfying the criteria above, except a loan to a state or political subdivisions in the U.S., is to be reported as a loan secured by real estate in the FR Y-9C, (1) regardless of whether the loan is secured by a first or a junior lien; (2) regardless of the department within the bank holding company or bank holding company subsidiary that made the loan; (3) regardless of how the loan is categorized in the bank holding company's records; and (4) regardless of the purpose of the financing. Only in a transaction where a lien or liens on real property (with an estimated collateral value greater than 50 percent of the loan's principal amount at origination) have been taken as collateral solely through an abundance of caution and where the loan terms as a consequence have not been made more favorable than they would have been in the absence of the lien or liens, would the loan <u>not</u> be considered a loan secured by real estate for purposes of the FR Y-9C. In addition, when a loan is partially secured by a lien or liens on real property, but the estimated value of the real estate collateral (after deducting any more senior liens) is 50 percent or less of the principal amount of the loan at origination, the loan should not be categorized as a loan secured by real estate. Instead, the loan should be reported in one of the other loan categories used in this report based on the purpose of the loan.

Unused Commitments

The revised instruction for Schedule HC-L, data item 1, "Unused commitments," would read as follows:

Report in the appropriate subitem the unused portions of commitments. Unused commitments are to be reported gross, i.e., include in the appropriate subitem the amounts of commitments acquired from and conveyed to others.

For purposes of this item, commitments include:

(1) Commitments to make or purchase extensions of credit in the form of loans or participations in loans, lease financing receivables, or similar transactions.

(2) Commitments for which the bank holding company has charged a commitment fee or other consideration.

(3) Commitments that are legally binding.

(4) Loan proceeds that the bank holding company is obligated to advance, such as:

- (a) Loan draws;
- (b) Construction progress payments; and

(c) Seasonal or living advances to farmers under prearranged lines of credit.

(5) Rotating, revolving, and open-end credit arrangements, including, but not limited to, retail credit card lines and home equity lines of credit.

(6) Commitments to issue a commitment at some point in the future, including commitments that have been entered into even though the related loan agreement has not yet been signed.

(7) Overdraft protection on depositors’ accounts offered under a program where the bank holding company advises account holders of the available amount of overdraft protection, for example, when accounts are opened or on depositors' account statements or ATM receipts.

(8) The bank holding company’s own takedown in securities underwriting transactions.

(9) Revolving underwriting facilities (RUFs), note issuance facilities (NIFs), and other similar arrangements, which are facilities under which a borrower can issue on a revolving basis short-term paper in its own name, but for which the underwriting bank holding companies have a legally binding commitment either to purchase any notes the borrower is unable to sell by the rollover date or to advance funds to the borrower.

Exclude forward contracts and other commitments that meet the definition of a derivative and must be accounted for in accordance with FASB Statement No. 133, and which should be reported in Schedule HC-L, item 11. Include the amount (not the fair value) of the unused portions of loan commitments that do not meet the definition of a derivative that the bank holding company has elected to report at fair value under a fair value option. Also include forward contracts that do not meet the definition of a derivative.

The unused portions of commitments are to be reported in the appropriate subitem regardless of whether they contain "material adverse change" clauses or other provisions that are intended to relieve the issuer of its funding obligations under certain conditions and regardless of whether they are unconditionally cancelable at any time.

In the case of commitments for syndicated loans, report only the bank holding company's proportional share of the commitment.

For purposes of reporting the unused portions of revolving asset-based lending commitments, the commitment is defined as the amount a bank holding company is obligated to fund – as of the report date – based on the contractually agreed upon terms. In the case of revolving asset-based lending, the unused portions of such commitments should be measured as the difference between (a) the lesser of the contractual borrowing base (i.e., eligible collateral times the advance rate) or the note commitment limit, and (b) the sum of outstanding loans and letters of credit under the commitment. The note commitment limit is the overall maximum loan amount beyond which the bank holding company will not advance funds regardless of the amount of collateral posted. This definition of “commitment” is applicable only to revolving asset-based lending, which is a specialized form of secured lending in which a borrower uses current assets (e.g., accounts receivable and inventory) as collateral for a loan. The loan is structured so that the amount of credit is limited by the value of the collateral.