

# Federal Reserve Bank of New York

## 2007 State Member Bank/Bank Holding Company Seminar

### Questions (Qs) and Answers (As)

#### Fair Value Measurement and Fair Value Option

Q: Are the new fair value reporting requirements also applicable to other reports (e.g., FR Y-9LP, stand alone nonbank reports)?

A: While reporting assets and liabilities at fair value in accordance with U.S. GAAP is applicable to any regulatory reports prepared under U.S. GAAP, Schedule Q is only being implemented for the FR Y-9C and Call reports at this time.

Q: Should AFS or HTM securities measured under the fair value option be classified as trading securities and risk-weighted under the market risk rules?

A: If the fair value option is applied to AFS and HTM securities as part of the initial adoption of FAS 159 for existing securities, then those securities would be classified as trading as prescribed by FAS 159.

Q: Do all assets have to be measured at fair value by next year?

A: All assets that are measured at fair value under existing accounting standards have to be measured pursuant to FAS 157 as of its effective date. FAS 159 provides an option to elect a fair value measurement for certain financial assets and financial liabilities.

Q: Which trading assets are reported on schedule Q?

A: All trading assets, including those that were reclassified from AFS and HTM securities as a result of initially adopting FAS 159.

Q: Are loans that are selected to be measured at fair value under the fair value option reported on Schedule D, Trading Assets?

A: Loans accounted for under the fair value option are reported on Schedule C, Loans and Lease Financing Receivables.

Q: Where are the unrealized gains and losses related to assets measured at fair value reported on the income statement?

A: Unrealized gains/losses are reported in other non-interest income (gain) or other non-interest expense (loss). However, the interest income and interest expense from the asset or liability measured at fair value are reported in the appropriate interest income or expense category.

Q: If the Fair Value Option is not adopted, do trading assets have to be reported on Schedule Q?

A: Once FAS 157, Fair Value Measurement is adopted, and if you are otherwise required to report Schedule D, Schedule Q must be reported, regardless if you have applied FAS 159 or other accounting standards that apply a fair value options (e.g., FAS 155, FAS 156).

#### Negative Amortization Loans

Q: What is the threshold for reporting negative amortization loans?

A: Reporters with closed-end loans with negative amortization features secured by 1-4 family residential properties are required to report, on Schedule C, the total carrying amount of these loans. Reporters that had such loans that exceeded the lesser of \$100 million or 5 percent of total loans as of December 31, 2006, are also required to report, the total maximum remaining amount of negative amortization contractually permitted, and the total amount of negative amortization included in the carrying amount reported in the first memorandum item. In addition, on the income statement, respondents that meet the threshold are required to report the noncash income from these loans on the income statement memoranda section.

#### Pension Accounting, FAS 158

Q: Is the pension liability already included in Accumulated Other Comprehensive Income also included in Schedule R, item 4?

A: Reporting institutions should reverse the effects of FAS 158 for regulatory capital purposes, including the reporting and measuring of the leverage ratio and risk-based capital. The intent of the reversal is to neutralize the effect of the application of FAS 158 on regulatory capital. Reporting institutions should exclude from regulatory capital any amounts recorded in AOCI resulting from the adoption and application of FAS 158 (i.e., the incremental effect of applying FAS 158).

#### Loans Secured by nonfarm nonresidential properties

Q: Does the new breakdown of owner occupied and other properties apply to multi-family properties?

A: No. The new breakdown applies to loans secured by commercial real estate (nonfarm nonresidential properties).

## Credit Derivatives

Q: What is the difference between the new income statement disclosures to report the net gains (losses) on credit derivatives held for trading (where the credit derivative is used to economically hedge credit exposures outside the trading account) and the trading revenue from cash and derivatives instruments managing credit exposures and net gains/losses on credit derivatives held for trading?

A: Trading revenue on cash and derivatives instruments managing credit exposures includes the net gains/losses from trading cash instruments and derivatives contracts that the bank manages as credit exposures, such as debt securities and credit derivatives. Net gains/losses on credit derivatives held for trading includes only credit derivatives.

## Schedule S

Q: Comment on the clarification to Schedule S, Memo item 2, “Outstanding principal balance of assets serviced for others (including participations serviced for others)”.

A: The revision to the instructions for this item clarifies that the outstanding principal balance of assets serviced for others is reported regardless of whether the servicing involves whole loans and other financial assets or only the portion that the reporter is responsible for servicing for others involved in loan participations.

## FR Y-12

Q: Does the FR Y-12A apply to mutual holding companies?

A: The type of holding company does not matter. The FR Y-12A only applies to a holding company that has Financial Holding Company status.

## FR Y-10

Q: Will all the changes to the FR Y-10 that become effective 6/30/2007 be available on The FR Y-10 online for electronic submission?

A: Yes.

Q: What do you put in the WEB address if the BHC doesn't have one—but only the bank does? Would you put NA or use the Banks?

A: Report the web address for the bank, if one exists. If there are multiple banks in the organization, report the web address for what would be the “lead bank” or the bank in the organizational structure with the largest asset size.