FEDERAL RESERVE BANK *of* NEW YORK

2010 State Member Bank/Bank Holding Company Regulatory Reporting Update

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FEDERAL RESERVE BANK *of* NEW YORK

FAS 166 and 167 (ACU Topics 860 and 810)

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April 12, 2010

FAS 166

- Background
- Summary
- Elimination of Qualifying Special Purpose Entities (QSPEs)
- Transfers of Portions of Financial Assets
- Clarification of Sales Criteria
- Interests Held After Transfer of Financial Assets
- Loan Participations
- Guaranteed Mortgage Securitizations
- Disclosures
- Effective Date and Transition

Background

- Transfers of assets take many forms
- The transferor often has continuing involvement
- Continuing involvement raises accounting questions
  - Sale or borrowing?
- FAS Statement 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, provides guidance for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings
  - Common transfers include mortgage and credit card securitizations

Background

- Derecognition permitted only if effective control is surrendered
  1. Legal isolation
  2. Transferee can pledge assets
  3. Effective control
- Since FAS 140 was issued, there have been numerous questions about the permitted activities of a QSPE:
  - When are loan modifications permissible for loans that are at risk of default?
- FASB decided that it was important to clarify characteristics of QSPEs and other issues in FAS 140
  - FAS 166 is the result of feedback and redeliberations of the EDs that were issued and recent market conditions

Summary

- FASB issued FAS 166 in June, 2009. The standard is effective as of the beginning of the fiscal year that begins after November 15, 2009 (January 1, 2010 for calendar–year companies).

- FAS 166 modifies the financial components approach
  - Sale accounting requires transferor to surrender control over an entire financial asset, group of financial assets, or a participating interest in an entire financial asset to a third party that is not consolidated
  - Participating interest is a portion of a financial asset where the transferor and transferee proportionately share in all of the rights, risks and benefits of the entire financial asset.

Summary

- FAS 166 which amends FAS 140, eliminates the concept of QSPEs. Other amendments include:
  - Clarifies application of the conditions for surrender of control over transferred financial assets (isolation, ability of the transferee to pledge or exchange, effective control)
  - Amends the guidance on initial measurement of a transferor's interest in transferred financial assets
  - Specific conditions for reporting a transfer of a portion of a financial asset as a sale.
  - Beneficial interests required to be measured at fair value.
  - Elimination of "guaranteed mortgage securitization."

Elimination of QSPEs

- QSPEs are passive entities that have strict limitations on the types of assets they can hold and the ability to manage those assets.

- There were two important benefits of QSPEs:
  - The transferor of assets can achieve sale accounting (i.e., off-balance sheet, gain/loss recognition).
  - Neither the transferor nor transferee consolidates a QSPE.

- FAS 166 eliminates the concept of QSPEs. The exemption from consolidating QSPEs is removed by FAS 167.

Transfers of Portions of Financial Assets

- A transfer of a portion of a financial asset will be eligible for sale accounting only if it meets the definition of a proportionate interest:
  - Proportionate ownership interest in an entire financial interest.
  - All cash flows (excluding fees for services) are divided among participants in proportion to share of ownership.
  - Rights of each participating interest holder have the same priority.
    - There can be no recourse (other than standard representation and warranties) to the transferor or other participants.
    - No participating interest holder is subordinate to another.
  - No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree.

Clarification of Sales Criteria

- Acceptable consideration for a sale may now include beneficial interest in the transferred financial assets.
- There are no other significant changes in FAS 166 to sales criteria (paragraph 9). Some clarifications include:
  - Isolation (revised paragraph 9(a)) – Clarifies that transferred financial assets must be placed beyond the reach of the transferor, its consolidated affiliates and agents and their creditors.
    - All arrangements or agreements made in connection with a transfer must be considered.
  - Transferability Requirement (revised paragraph 9(b)) – Since there are no longer any QSPES, if the financial asset is transferred to a transferee entity whose sole purpose is to engage in securitization or asset-backed financing activities and that entity is constrained from pledging or exchanging the assets it receives, the transferability requirement is met if beneficial interest holders can pledge or exchange the asset.

Clarification of Sales Criteria

- Effective Control (revised paragraph 9(c)) – Clarifies that the effective control principle requires an analysis of a transferor's continuing involvements with transferred financial assets <u>and</u> with third-party beneficial interest holders. The transferor must evaluate whether it, its consolidated affiliates or agents effectively control the transferred financial assets directly or indirectly.
  - Provides examples of effective control but limits application guidance on effective control principle to the specific arrangements cited in the examples
  - Judgment is required to assess whether arrangements that are not described in the examples provide a transferor with effective control

Interest Held after Transfer of Financial Assets

- Measurement of interests that are retained by the transferor depends on whether they are received from the sale of an entire asset or a participating interest.
- Participating Interest
  - Participating interests will initially be measured at their allocated carrying amount based on relative fair values.
  - FASB believes that a participating interest is not a new financial asset and therefore does not need to be re-measured.
  - FAS 140 required that beneficial interests be measured at allocated carrying amounts.
  - This change in accounting would typically increase the gain recognized on the sale transaction compared with the current gain calculation.

Interest Held after Transfer of Financial Assets

- Subsequent Transfers of Participating Interests
  - A transferor can get sale treatment for subsequent pro rata transfers of participating interests into a tranched securitization trust if the transferor gets back cash and/or a beneficial interest in the tranche.
    - The beneficial interest would be considered proceeds of the sale and measured at fair value.
    - Original participating interest is considered a sale of an entire financial asset in the subsequent transfer.

Interest Held after Transfer of Financial Assets

- Entire Financial Asset
  - When sale accounting is achieved, all proceeds must initially be measured at fair value.
  - FAS 166 requires that any beneficial interest obtained in a transfer should be considered proceeds of a sale and be measured at fair value (not allocated carrying amount).

Loan Participations

- FAS 166 tightens the requirements for loan participations
  - Participating interest definition is more restrictive
    - The proportion of ownership must remain constant over time.
    - There must be purely proportional distribution of cash flows.
    - There must be no subordination of rights among shareholders
    - No one party can pledge or sell loan unilaterally.

Guaranteed Mortgage Securitizations

- A guaranteed mortgage securitization (GMS) is a securitization of mortgage loans that includes a substantive third-party guarantee. In some GMSs, the seller receives 100% of beneficial interests in the QSPEs. Therefore, the transaction does not meet requirements of sale accounting.

Guaranteed Mortgage Securitizations

- Under current rules, there are two exceptions for GMSs that do not qualify as sales in accordance with FAS 140:
  - Seller can reclassify interests received as securities even if transferor retains all of the beneficial interests
  - If securities are classified as AFS or trading, the seller is required to recognize a servicing asset/liability at fair value.
- FASB removed both of these exceptions in FAS 166

Disclosures

- Disclosures are substantially the same as those required by FSPs FAS 140-4 and FIN 46(R)-8.
  - Apply to both public and nonpublic entities

- Additional disclosures that were not in the FSPs include:
  - Amount of maximum exposure to loss
  - Fair-value measurement of assets and liabilities that were proceeds from a sale of financial assets, along with fair value hierarchy level for each asset obtained and liability incurred.

Disclosures

- Disclosure requirements are effective for the first interim or annual reporting period beginning after November 15, 2009 and should be applied to both transfers that occurred before and after the effective date of FAS 166.
  - Disclosures will apply to each interim and annual reporting period thereafter.

Effective Date and Transition

- Applicable to transfers occurring on or after the beginning of fiscal years that begin after November 15, 2009.
  - Earlier application is prohibited
  - On the effective date, all existing QSPEs must be evaluated for consolidation in accordance with the applicable consolidation guidance (FAS 167).

Effective Date and Transition

- Disclosure requirements apply to both transfers that occurred before and after the effective date.
  - Applicable to each annual and interim reporting period thereafter.
  - Entities are encouraged, but not required, to disclose comparative information for periods earlier than the effective date.

FAS 167

- Summary
- Background
- New Consolidation Framework
- Exception to Consolidation
- Frequency of Reconsideration
- Fees Paid to Decision makers
- Deferral of FAS 167 for Certain Investment Funds
- Presentation and Disclosures
- Adoption Methods
- Effective Date and Transition

Summary

- FASB issued FAS 167 in June, 2009. The standard is effective as of the beginning of the fiscal year that begins after November 15, 2009 (January 1, 2010 for calendar–year companies).
- Former QSPEs will be evaluated for consolidation under FAS 167, which amends FIN 46(R).
- Other amendments include:
  - Quantitative risks and rewards assessment to determine the primary beneficiary of a variable interest entity (VIE) replaced with qualitative assessment of power.
  - Continuous reassessments of whether an entity is the primary beneficiary of a VIE.

Background

- FIN 46(R) deals with VIEs
  - VIEs are typically thinly capitalized not controlled by voting owners.
- FIN 46(R) requires an enterprise holding a variable interest in an entity to determine:
  - If the entity is a VIE and, if so,
  - Which “variable interest” (VI) holder should consolidate the VIE?
  - If the enterprise is the “Primary Beneficiary” (PB) of the VIE

Background

- Under FIN 46(R), the PB is the VI holder that absorbs the majority of the variability in future results of the VIE.
  - Variability is framed as “expected losses” and “expected residual returns.”
  - A complicated quantitative analysis may be required to analyze expected losses and expected residual returns.
- If a PB exists, they consolidate the VIE.
- QSPEs are exempt from consolidation under current guidance in FIN 46(R).

Background

- FAS 167 will provide users with improved information about enterprise's involvement with VIEs.
- Address constituent concerns about the application of certain key provisions of FIN 46(R).
- Improve disclosures.

New Consolidation Framework

- Quantitative risks and rewards calculation no longer determine who is the PB.
- The new consolidation framework uses a **qualitative** assessment. The PB is the party that has both:
  1. Power to direct those activities of a VIE that *<u>most significantly</u>* impact the VIE's economic performance.
  2. Obligation to absorb losses or right to receive benefits that could potentially be significant to the VIE.
- The ED had a "fall back" quantitative test. FAS 167 does not.

New Consolidation Framework

- Because FAS 166 eliminated QSPEs, the FIN 46(R) exception for consolidating QSPEs is gone.
  - All enterprises involved with “formally Q” SPEs will now be required to evaluate whether they should consolidate.
- FAS 167 requires deciding who should consolidate an entity before deciding whether assets transferred have been “sold.”
  - Harder to meet sales criteria if VIE is now a consolidated affiliate of the parent company
  - Sale will be honored for separate company reporting.

New Consolidation Framework

- Enterprises must first identify activities that most impact the VIE's economic performance.
- Then it must determine whether it has power to direct those activities.
  - Enterprise does not have to exercise power currently to direct those activities
  - Kick-out rights and participating rights are ignored, unless they can be exercised **unilaterally** by **one** enterprise.

New Consolidation Framework

  - Differs from substantive kick-out rights in other literature (i.e., EITF 04-5).
  - Unilateral ability to exercise kick-out rights or participating rights may identify the one party with the power to direct activities that most significantly impacts the VIE's economic performance.

- Troubled Debt Restructurings are in the scope of FAS 167.
- VIE is expected to have only one PB at a given time.

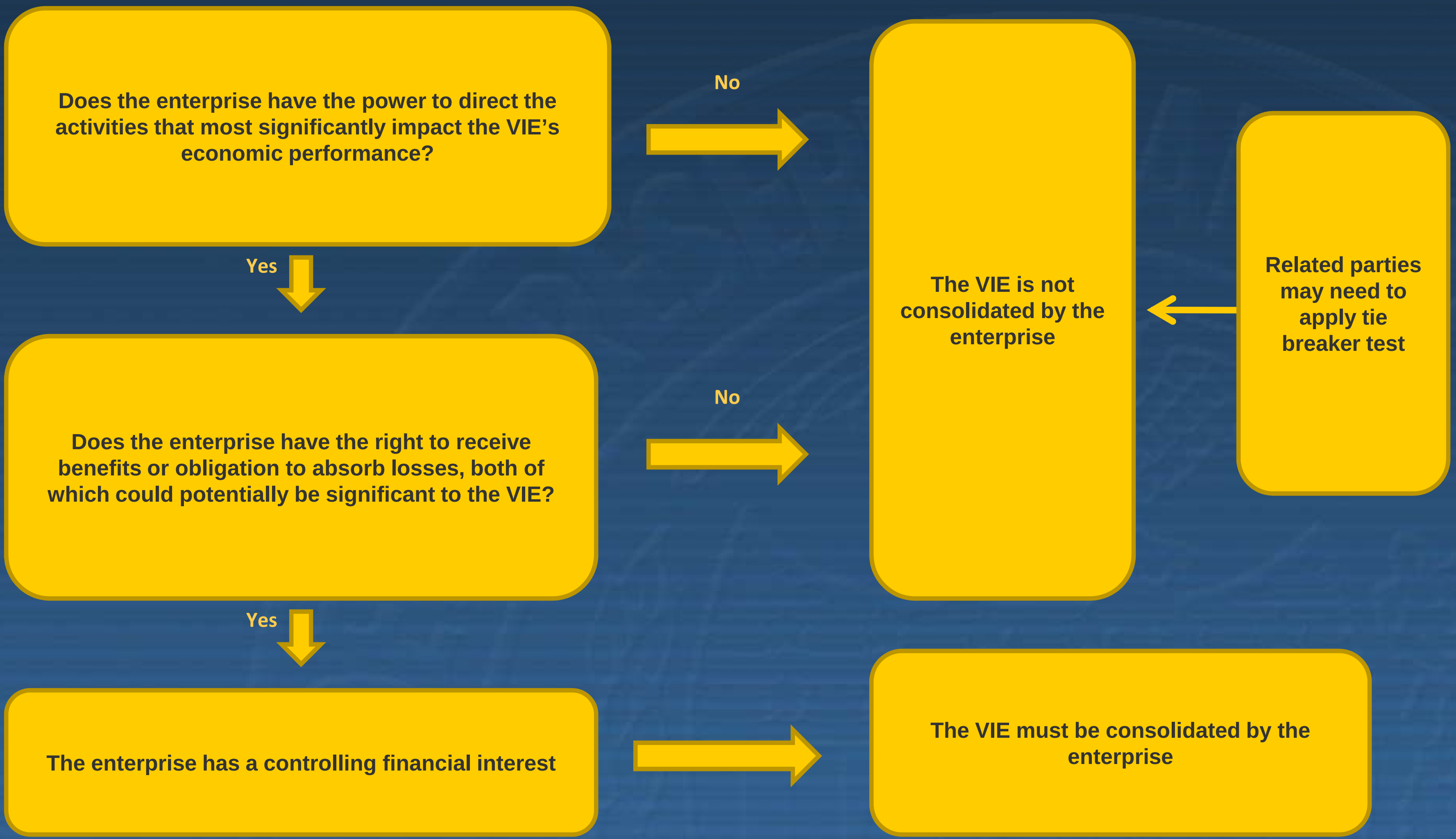
New Consolidation Framework – Related Party Provisions

- FIN 46(R) is amended so that the power/benefits principle is considered before applying related party provisions.
- Determine if an enterprise is the PB based upon the power benefits criteria.
- If an enterprise concludes that there is no PB, consider whether the enterprise and its related parties would be identified as the PB.
- If the related party group would have the "power" and "benefits," select the enterprise within that group that is most closely associated with the VIE.

New Consolidation Framework – Analysis

- High Risk of Losing Off-Balance Sheet Treatment
  - Revolving Securitization Structures (credit cards)
    - Ability to move accounts into and out of securitization trust and retention of subordinated position demonstrates **Power** and **Benefits.**
  - Other Securitization Structures (mortgage, auto, etc.)
    - If the sponsor retains a combination of servicing rights (**Power**) and a residual first position (**Benefits**).
  - ABCP Conduits
    - Ability to manage conduit's assets demonstrates **Power** and fees combined while ability to determine use of liquidity facilities demonstrates **Benefits.**

New Consolidation Framework



New Consolidation Framework - VIE Determination Example

- Limited Partnership (LP) is funded with $100 contribution by unrelated limited partners (LPs). General partner (GP) does not contribute any equity (i.e., non-equity holder decision maker). GP receives an incentive fee. LPs can kick-out GP by majority vote.
- Under FIN 46 (R), the entity is a voting interest since LPs have substantive Kick-out rights (assuming all other criteria for kick-out rights to be substantive are met).
- Under FAS 167, the entity is a VIE since Kick-out right is not substantive.
  - Kick-out rights held by a single LP and not unilaterally exercisable.

Exceptions to Consolidation

- **Power is shared** among more than one unrelated party, none of which has the unilateral power to direct the VIE's activities.
  - VIE is governed by voting equity interests and no one party holds power over a majority of voting interests.

Exceptions to Consolidation

- More than one unrelated party has the power to direct activities that “most significantly impact” the VIE”s economic performance.
  - Nature of activities that each party has the power to direct *<u>is the same</u>*.
  - No one party has power over the majority of activities.
  - The VI of each party are interests in the entire VIE and are not limited to activities that the party has power to direct.
- Party with the power to direct activities of a VIE does not have a significant VI in the VIE – They are truly just a hired hand.

Frequency of Reconsideration

- FIN 46(R)
  - Reconsideration of PB only upon specified events.
  - Reconsideration of VIE only upon specified events (similar to those for PB).
- FAS 167
  - Continuous reconsideration of consolidation conclusions. Any change in facts and circumstances could lead to a change in the consolidation status of a VIE.
  - Substantially the same as FIN 46(R). FAS 167 adds one more reconsideration event when the holders of the equity investment at risk as a group lose the power to direct the activities that most significantly impact the VIE's economic performance.

Fees Paid to Decision Makers

- A service provider/decision maker fee arrangement generally is a VI unless all of the following are met:
  - Fee is commensurate with services provided and is senior in priority.
  - The party has no other interests that expose it to more than an insignificant amount of variability.
  - The arrangement includes terms that are customary in nature.
  - Anticipated fee is insignificant relative to anticipated performance.
  - The arrangement absorbs only an insignificant amount of variability.

Deferral of FAS 167 for Certain Investment funds

- On January 27, 2010, the FASB voted to finalize ASU Consolidations (Topic 810): "Amendments to Statement 167 for Certain Investment Funds."

- The ASU will defer the effective date of FAS 167 for a reporting enterprise's interest in certain entities and for certain money market mutual funds.

- It addresses concerns that the joint consolidation model under development by the FASB and the IASB may result in different consolidation conclusions for asset managers and that an asset manager consolidating certain funds would not provide useful information to investors.

- The ASU will also amend certain provisions of paragraph B22 of FIN 46(R), as amended by FAS 167, to change how a decision maker or service provider determines whether its fee is a variable interest.

Deferral of FAS 167 for Certain Investment Funds

Key Provisions

- The ASU will defer application of FAS 167 for a reporting enterprise's interest in an entity if all of the following conditions are met:
  - The entity either has all of the attributes specified in paragraphs 15-2(a)-(d) of ASC 946-10 or it is an entity for which it is industry practice to apply guidance that is consistent with the measurement principles in ASC 946 for financial reporting purposes.
    - Investment activity
    - Unit ownership
    - Pooling of funds
    - Reporting entity
  - The reporting enterprise does not have an obligation to fund losses of the entity that could potentially be significant to the entity. In evaluating this condition, entities should consider implicit or explicit guarantees provided by the reporting enterprise and its related parties, if any.
  - The entity is not a securitization entity, an asset-backed financing entity, or an entity that was formally considered a QSPE.

Deferral of FAS 167 for Certain Investment Funds

- Examples of such entities that may satisfy these conditions include, but are not limited to, mutual funds, hedge funds, private equity funds, mortgage real estate investment funds, and venture capital funds.

- The ASU indicates that an entity that initially meets the deferral requirements may subsequently cease to qualify for the deferral as a result of changes in facts and circumstances.
  - In such a situation, the reporting enterprise's interest in the entity would no longer qualify for the deferral and FAS 167 would need to be applied.

- The ASU also defers the provisions of FAS 167 for a reporting enterprise's interest in an entity that is required to comply or operates in accordance with the requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds.

Deferral of FAS 167 for Certain Investment Funds

- The ASU also amends paragraph B22 of FIN 46(R), as amended by FAS 167. The ASU indicated that a quantitative calculation is not required, and should not be the sole determinant, in making an assessment under paragraph b22(c).
  - Paragraph B22 of FAS 167 discusses the conditions which must be met in order for fees to a legal entity's decision maker(s) not to be considered variable interests.

- The ASU will be effective as of the beginning of the first annual period that begins after November 15, 2009, and for interim periods within that first annual reporting period. The effective date coincides with the effective date of FAS 167. Early application is not permitted.

Presentation and Disclosure

- Separately present on the face of the balance sheet
  - Assets of a consolidated VIE that can be used only to settle the VIE's obligations.
  - Liabilities of a consolidated VIE without recourse to the general credit of the PB.
- Disclosures are subsequently the same as those required by FSP FAS 140-4 and FIN 46(R)-8.
  - Apply both to public and nonpublic entities.
  - If an enterprise determines that the power to direct the VIE's most significant activities is shared between multiple parties, disclose significant factors considered and judgments made in that determination.

Adoption Methods

- Any new consolidated VIE should be measured at their carrying amounts at the adoption date as if FAS 167 had always been applied.
- VIEs may be booked at fair value, if carrying value cannot be reconstructed.
- If fair value is not practicable and the entity is primarily for securitization or other asset backed financing (assets can only be used to settle related obligations) VIE can be measured at unpaid principal balance.

Adoption Methods

- Fair value option may be elected for consolidated VIEs upon initial adoption of FAS 167 on an entity-by-entity basis
  - Fair value applied to **all** of the eligible assets and liabilities of the particular VIE.

Effective Date and Transition

- FAS 167 is effective as of the beginning of the first fiscal year that begins after November 15, 2009 (January 1, 2010 for calendar year companies).
- All QSPEs and VIEs will need to be evaluated under the new guidelines as of January 1, 2010 (calendar year companies).
- Early adoption is prohibited, but retrospective application is allowed.
  - Entities can choose the number of years to restate (including none).
- Cumulative effect adjustment to retained earnings for any difference between the new net asset amount and the amount of any previously recognized interests.

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FAS 166/167 Impact on Regulatory Capital Reporting

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Regulatory Reports Division

April 12, 2010

Objectives

- Regulatory capital requirements associated with FAS 166/167 implementation
- Asset-Backed Commercial Paper programs
- Transition mechanism for risk-based capital requirements associated with FAS 166/167 implementation
  - Risk-weighted assets
  - Allowance for loan and lease losses
- FR Y-9C and Call Report updates related to FAS 166/167

Final Rule

- There will be an optional transition mechanism for RBC purposes for the recognition of assets associated with the implementation of FAS 166/167.

- There will be no other modifications to the RBC rules to provide alternative treatment for these assets.
  - Risk-based capital and leverage capital ratios will decrease; however, remain in excess of regulatory minimum
  - Current limits on the inclusion of the ALLL in Tier 2 capital and DTAs in Tier 1 capital are appropriate

- The exclusion of consolidated ABCP program assets from risk-weighted assets has been eliminated.

Transition Mechanism for Risk-Based Capital (RBC) Definitions

Exclusion Period (for RWA) - The first two quarters after the implementation date of FAS 166/167

Exclusion Amount (for RWA) - The amount of risk-weighted assets that would be added as a result of a banks consolidation of VIEs pursuant to FAS 167 as of the implementation date

- Includes assets held by VIEs that are consolidated ABCP programs subject to certain provisions

Phase-in period (for RWA and ALLL) - The third and fourth quarters after the implementation date of FAS 166/167

Transition for Risk Weighted Assets

- BHCs may elect to delay recognition of assets for RBC purposes
  - The exclusion amount would not be reflected in risk-based capital during the exclusion period.
    - For banks implementing FAS 166/167 as of 1/1/2010, the exclusion period covers reports for March 31, 2010 and June 30, 2010.
  - 50% of the exclusion amount would not be reflected in risk-based capital during the phase-in period. However, may not include an amount less than the aggregate RWA held based on its contractual exposures to VIEs as of the implementation date.
    - For banks implementing FAS 166/167 as of 1/1/2010, the phase in period covers reports for September 30, 2010 and December 31, 2010.

Transition for Risk Weighted Assets

- VIE assets can be excluded from RWA if the assets must be consolidated as a result of FAS 167 implementation, provided the VIE existed and was not consolidated for regulatory reporting prior to implementation date
- Assets held by VIEs that are consolidated ABCP programs can be excluded from RWA provided bank is the sponsor of the program and excluded VIEs assets from RWA prior to the implementation date
- The exclusion applies to all VIEs that qualify
- The exclusion amount from RWA should be reported on Schedule R, Column B, “assets not subject to risk weighting”

Transition for Risk Weighted Assets

- VIE assets not included in exclusion amount
  - VIE assets that bank provided recourse through credit enhancement beyond any contractual obligation to support assets sold
  - VIE assets that bank held based on its contractual exposures to VIEs as of implementation date

Allowance for Loan and Lease Losses

- If the transition is adopted for RWA, then the transition for ALLL can be adopted.
  - During the exclusion period, banks may include without limit in Tier 2 capital the inclusion amount (The full amount of the ALLL calculated as of the implementation date that is attributable to the assets it excluded due to the transition mechanism for RWA.)
  - During the phase-in period, 50% of the inclusion amount may be included without limit in Tier 2 capital, and the excess of 50% may be included limited to 1.25% of gross RWA
- ALLL that is not attributable to the consolidated VIE assets is still subject to the regulatory limit of 1.25% of gross RWA.

FR Y-9C Report Update

Notes to the Income Statement—Other

	TEXT	Dollar Amount in Thousands	BHCK	Bil	Mil	Thou
1.		**Cumulative effect of the initial application of FAS 167 related to newly consolidated variable interest entities**	J536			

Notes to the Balance Sheet—Other

	TEXT	Dollar Amounts in Thousands	BHCK	Bil	Mil	Thou
1.		**Amount of excess restricted core capital elements included in Schedule HC-R, item 10.**	G914			
2.		**Amount of assets included in Schedule HC-R, item 43, Column B, that were booked on-balance-sheet on the implementation date as a result of the bank holding company's implementation of FAS 167**	J463			
3.		**Amount of ALLL recognized on the implementation date for assets that were booked on-balance-sheet as a result of the bank holding company's implementation of FAS 167**	J537			

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Schedule RI-E—Continued

Dollar Amounts in Thousands	Year-to-date RIAD	Bil	Mil	Thou	
4. Restatements due to corrections of material accounting errors and changes in accounting principles (from Schedule RI-A, item 2) (itemize and describe all restatements):					
a. **Cumulative effect of the initial application of FASB ASC 810-10 (former FAS 167) related to newly consolidated variable interest entities**	J536				4.a.
b. TEXT B527	B527				4.b.

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Changes to the FR Y-9C and Call Report

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Regulatory Reports Division

April 12, 2010

Summary of Reporting Changes

- **Changes impacting FR Y-9C and Call Report**
  - Unused Commitments and Other Loans
  - Other Than Temporary Impairment of Debt Securities
  - Brokered deposits
  - Effect of FAS 166/167 on Schedule S
  - Assets Covered by FDIC Loss-Sharing Agreements
- **Changes impacting the FR Y-9C only**
  - Average Loan details collected on Schedule K
- **Changes impacting the Call Report only**
  - Deposits
  - Income and Expense Allocations Applicable to Foreign Offices
  - Loans to Small Businesses and Small Farms
  - Number of Certain Deposit Accounts
  - Reverse Mortgages

Summary of Reporting Changes

- Changes impacting Nonbank Subsidiary Reports (FR Y-11 and FR 2314)

- Changes impacting the Consolidated Bank Holding Company Report of Equity Investments in Nonfinancial Companies (FR Y-12)

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Changes Impacting the FR Y-9C and Call Reports

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Unused Commitments and Loans

Reason for changes

- To improve the ability to separately measure the supply of credit available to households and to businesses

What is changed?

- Additional categories for Unused commitments for credit card lines
- Additional categories for All other unused commitments
- Additional category for All other loans

When are the changes effective?

- For the March 31, 2010 FR Y-9C and Call Report

Unused Commitments (Schedule L)

Impact on reporting: Credit card lines

- Currently, unused commitments associated with credit card lines combine consumer credit card lines with credit card lines for businesses and other entities. Unused commitments for credit card lines will be split into two categories :
  - Unused consumer credit card lines (item 1.b.(1))
  - Other unused credit card lines (item 1.b.(2))

Unused Commitments (Schedule L)

Impact on reporting: All other unused commitments

- Currently, all other unused commitments includes unused commitments to fund commercial and industrial (C&I) loans. To better analyze business credit conditions, all other unused commitments will be split into three categories:
  - Unused commitments to fund C&I loans
  - Unused commitments to fund loans to financial institutions (including depository and nondepository)
  - All other unused commitments

Loans (Schedule C)

Impact on reporting: All other loans

- All other loans will be split into two categories:
  - Loans to nondepository financial institutions
  - All other loans

Clarification of the Instructions for Reporting Unused Commitments

Reason for changes

- To clarify the reporting of commitments where the acceptance of the terms is not in writing, but is legally binding to the bank and borrower

What is changed?

- Instructions for reporting unused commitments has been clarified to include:
  - Commitments to issue a commitment at some point in the future are those where the BHC has extended terms, the borrower has accepted the offered terms, and the terms extended and accepted are in writing, or if not in writing, are legally binding on the BHC and the borrower, even though the related loan agreement has not yet been signed.

When are the changes effective?

- For the March 31, 2010 FR Y-9C and Call Report

Other-Than-Temporary Impairment (OTTI) of Debt Securities

Reason for changes

- FAS 115-2, *Recognition of Other-than Temporary Impairments*, requires losses on debt securities to be reported in current earnings as "Realized gains (losses) on held-to-maturity securities" (item 6a) or "Realized gains (losses) on available-for-sale securities," (item 6b) if the entity intends to sell the debt security or does not anticipate recovery in the fair value before sale or maturity.
  - The effect of OTTI losses on debt securities on net income is not identifiable
- OTTI losses an institution expects to recover before it sells the debt security should be reported in other comprehensive income, net of applicable taxes.
  - The portion of other comprehensive income attributable to OTTI losses is not identifiable

Other-Than-Temporary Impairment (OTTI) of Debt Securities

Impact on reporting

- Three new Memorandum items have been added to Schedule IS to capture the calendar year-to-date amounts for:
  - OTTI losses on debt securities
  - The portion of OTTI losses recognized in other comprehensive income
  - OTTI losses recognized in earnings

When are the changes effective?

- For the March 31, 2010 FR Y-9C and Call Report.

Brokered Deposits

Reason for changes

- On Schedule E, the reporting of brokered deposits less than $100,000 is not currently defined consistently with reporting of time deposits less than $100,000.

What is changed?

- Brokered deposits, reported in Memoranda item 1 and 2, will be reported based on their outstanding balance, rather than the denominations in which they were issued.

When are the changes effective?

- For the March 31, 2010 FR Y-9C and Call Report

The Effect of FAS 166/167 on Schedule S, Servicing, Securitizations, and Asset Sale Activities

Reason for changes

- On June 12, 2009, FASB issued FAS 166/167, which revised the accounting standards for financial asset transfers and the consolidation of variable interest entities

What is changed?

- Data items reported on Schedule S should only include those securitizations for which the transferred assets qualify for sale accounting or are otherwise not carried as assets on the BHC's consolidated balance sheet

When are the changes effective?

- For the March 31, 2010 FR Y-9C and Call Report

Assets Covered by FDIC Loss-Sharing Agreements

Reason for changes

- Currently there is no guidance on how a BHC that acquires a failed bank should report any loss-sharing agreements

What is changed?

- New data items were added to capture assets covered under loss-sharing agreements

When are the changes effective?

- For the March 31, 2010 FR Y9-C and Call reports

Assets Covered by FDIC Loss-Sharing Agreements

Impact on reporting

- New data items will be added to Schedule M. BHCs that have entered into loss-sharing agreements with the FDIC will separately report the carrying amounts of:
  - Loans and leases
  - Other real estate owned
  - Debt securities
  - Other assets

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Changes Impacting the FR Y-9C Only

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Reformatting of the Loan Information Collected on Schedule K, Quarterly Averages

Reason for changes

- Inconsistent details for average loan information

What is changed?

- Average loan detail will be revised to mirror information collected on the Call Report

When are the changes ?

- Effective for the March 31, 2010 FR Y-9C

Reformatting of the Loan Information Collected on Schedule K, Quarterly Averages

Impact on reporting

- Item 3, which currently reports consolidated loans and leases, will be revised to collect average total loans and leases in domestic offices
- Item 3c, which currently collects all other loans in domestic offices, will be revised to collect average total loans in foreign offices, Edge and agreement subsidiaries, and International Banking Facilities (IBFs).

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Changes Impacting the Call Report Only

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Deposits

Reason for changes

- As a result of recent legislation, the temporarily raised standard maximum deposit insurance amount (SMDIA) will remain at $250,000, until December 31, 2013.

Impact on reporting

- New data items were added to Schedule E for:
  - Total time deposits of $100,000 through $250,000
  - Total time deposits of more than $250,000
  - Brokered deposits of $100,000 through $250,000
  - Brokered deposits of more than $250,000

When are the changes effective?

- For the March 31, 2010 Call Report

Reporting Frequency for the Number of Certain Deposit Accounts

Reason for change

- Currently, the number of deposit accounts that exceeds the deposit insurance limit is recorded quarterly, while the number of deposit accounts within the limit is reported annually as of June 30th.

What is changed?

- Frequency of reporting all Memorandum items on Schedule RC-O, with regards to the number of deposit account will be quarterly

When are the changes effective?

- For the March 31, 2010 Call report

Reporting Frequency for Loans to Small Businesses and Small Farms

Reason for change

- To better monitor credit flowing to entrepreneurs and small business owners

What is changed?

- Frequency of reporting Schedule C, Part II, Loans to Small Businesses and Small Farms, will change from annually to quarterly

When are the changes effective?

- For the March 31, 2010 Call report

Internal Income and Expense Allocations Applicable to Foreign Offices

Reason for changes

- Currently, banks use their best estimate to allocate income and expense applicable to foreign offices.

What is changed?

- Elimination of Item 11 on Schedule RI-D, “Internal allocations of income and expense applicable to foreign offices”

When are the changes effective?

- For the March 31, 2010 Call report

Reverse Mortgages

Reason for change

- To collect reverse mortgage data to effectively identify and monitor institutions that offer these products.
- To collect data from institutions who do not underwrite or fund reverse mortgages, but instead refer borrowers to other reverse mortgage lenders and receive compensation
- To collect data on reverse mortgages originated and sold in the secondary market.

What is changed?

- New data items will be added to Schedule RC-C and RC-L to be collected annually

When are the changes effective?

- For the December 31, 2010 Call Report

Reverse Mortgages

Impact on reporting

- New Memorandum items added to RC-C, Part 1 to capture Reverse mortgages outstanding that are held for investment purposes, with an additional break out for:
  - HECM reverse mortgages
  - Proprietary reverse mortgages
- New data items added to RC-L to capture unused commitments held for investment, with an additional break out for:
  - HECM reverse mortgages
  - Proprietary reverse mortgages

Reverse Mortgages

Impact on reporting (continued)

- New Memorandum items added to RC-C, Part 1 to capture the number of referrals made during the year for which the bank received compensation, with an additional break out for:
  - HECM reverse mortgages
  - Proprietary reverse mortgages

- New Memorandum items added to RC-C, Part 1 to capture the principal amount of reverse mortgages originated for sale that have been sold, with an additional break out for:
  - HECM reverse mortgages
  - Proprietary reverse mortgages

Changes to Nonbank Subsidiaries Reports (FR Y-11 and FR 2314)

What is changed?

- Revised the instructions for Schedule IS, data item 7(b), Noninterest expense pertaining to related organizations, to clarify the reporting of negative amounts.
  - Negative amounts reported in this data item <u>should not</u> be netted and reported in data item 5(b), Noninterest income from related organizations

When is the change effective?

- For the March 31, 2010 FR Y-11 and FR 2314 reports

Changes to the Consolidated Bank Holding Company Report of Equity Investments in Nonfinancial Companies (FR Y-12)

What is changed?

- One memorandum item will be added to Schedule A to collect data on the pre-tax impact of management fee income
- Two columns will be added to Schedule D to collect acquisition cost and carrying value for all transactions involving all direct nonpublic investments
- The reporting instructions will clarify:
  - The reporting of negative amounts
  - That BHCs should only exclude equity securities in a trading account that are short term in nature (namely, those that are managed or purchased with the intent to sell in relation to short-term movement in the price of the investment).

When is the change effective?

- For the March 31, 2010 FR Y-12 reports

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Structure Reporting Update for Bank Holding Companies and Unaffiliated State Member Banks

Judy Adaku Ekwughalu

Banking Structure Division

April 12, 2010

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Agenda

- Structure reporting forms filed by Bank Holding Companies (BHCs) and State Member Banks (SMB) not affiliated with a BHC
  - Annual Report of Bank Holding Companies (FR Y-6)
  - Report of Changes in Organizational Structure (FR Y-10)
- Changes to the FR Y-6 Instructions, effective December 31, 2009
- Changes to the FR Y-10 Instructions, effective December 31, 2009
- Training

Structure Reporting Forms Filed by BHCs and SMBs

- Annual Report of Bank Holding Companies (FR Y-6)
- Report of Changes in Organizational Structure (FR Y-10)

Changes to the FR Y-6 Instructions Effective 12/31/2009

- Annual Report of Bank Holding Companies (FR Y-6):
  - The changes to the report instructions impact:
    - General Instructions: 1) Audit Requirement 2)Signature
    - Report Item 2a (Organization Chart)
    - Report Item 3 (Securities Holder)

Changes to the FR Y-6 Instructions Effective 12/31/2009

- Annual Report of Bank Holding Companies (FR Y-6):
  - General Instructions:
    - The revised reporting instructions are intended to:
      - clarify when total assets of an institution are measured for the annual audit requirement
      - extend the deadline for completion of the annual audit requirement for nonpublic companies as amended by part 363 of FDICIA 112
      - explain the legal responsibilities of the person attesting to the validity of the report

Changes to the FR Y-6 Instructions Effective 12/31/2009

- Annual Report of Bank Holding Companies (FR Y-6):
  - Report Item 2a (Organization Chart):
    - The revised reporting instructions are intended to:
      - reference accounting standard (FAS 167) with respect to the exclusion of variable interest entities

Changes to the FR Y-6 Instructions Effective 12/31/2009

- Annual Report of Bank Holding Companies (FR Y-6):
  - Report Item 3 (Securities Holders):
    - The revised reporting instructions are intended to:
      - clarify the instructions with respect to warrants issued by the U.S. Treasury through the TARP CCP program that are convertible into common stock

Changes to the FR Y-10 Instructions Effective 12/31/2009

- Report of Changes in organizational Structure (FR Y-10):
  - Specific Instructions for Nonbanking Schedules:
    - The revised reporting instructions are intended to:
      - reference accounting standard (FAS 167) with respect to the exclusion of variable interest entities

Training

- FR Y-10 and FR Y-6 training

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