

Board of Governors of the Federal Reserve System

Supplemental Instructions

December 2005

Editing of Data by Respondents

The Federal Reserve has made changes to the FR Y-9 series to require validation checks to be performed by respondents as part of the electronic submission process. These changes were implemented as of September 30, 2004, for the FR Y-9C and FR Y-9LP reports and implemented as of December 31, 2004, for the FR Y-9SP and FR Y-9ES reports. This new process requires bank holding companies (BHCs) to perform published validity and quality checks on data (so-called edits) by the filing deadline. Respondents are encouraged to file reports electronically as soon as possible, rather than waiting until the submission deadline. Validity and quality edits are provided at the end of the reporting instructions for the FR Y-9C, FR Y-9LP, FR Y-9SP and FR Y-9ES. Although these changes have similarities to the Call Report Modernization Initiative, this effort is separate and distinct from that initiative, and it has different technical requirements.

Formerly, after the Federal Reserve received a BHC report, it was subjected to validation checks to assess the accuracy and reasonableness of the data submitted. If this validation process identified any edit exceptions in a BHC's report, a Federal Reserve analyst may have contacted the BHC and asked for clarification of the data associated with these edit exceptions. The BHC then provided revised data or explanatory comments concerning edit exceptions.

Under the new system, all BHCs must submit their FR Y-9 reports via the Federal Reserve's internet submission facility, IESUB, using either data entry or file transfer. This data collection system subjects a BHC's electronic data submission to the published validity and quality edit checks and transmits the results of such checks to the BHC shortly thereafter. The BHC is then expected to correct its report data to eliminate any validity edit exceptions. The BHC is also provided a method for supplying explanatory comments concerning quality edit exceptions. These explanatory comments are held confidential. BHC reports must be free of any validity edit failures and include explanations of all quality edit failures at the filing deadline. Reports that contain validity edit failures or have quality edit failures that are not explained on or before the filing deadline may be deemed late, on a case by case basis depending on the facts and circumstances giving rise to the late filing. The Federal Reserve expects BHCs to apply the enhanced process on a best efforts and "good faith" basis.

Companies that offer computer software to aid in the preparation of FR Y-9 reports or BHCs that have developed their own reporting software may also choose to incorporate validity and quality edit checks into their software. The Federal Reserve provided technical specifications to software vendors in May 2004.

Overall these changes are expected to reduce the number of inquiries received from Federal Reserve Bank analysts and improve the timeliness and quality of BHC data. Additional information will be forwarded to BHCs as it becomes available. The Federal Reserve will continue to provide updates as warranted about the enhanced IESUB submission process on the web site: www.reportingandreserves.org under the heading BHC Modernization project. For

example, see this website for information on guidelines for resolving edits and a document addressing frequently asked questions (FAQ).

Accelerated Filing Deadline

The Board approved the acceleration of the filing deadline for *top-tier* FR Y-9C filers and followed the Securities and Exchange Commission's (SEC's) phased-in approach by implementing a 40-day deadline in June 2004. This filing deadline applies for the March, June, and September report dates. The SEC recently adopted a final rule that maintains the 40 day filing deadline for the 10Q report for June 30, 2006, and all subsequent quarters. Consistent with this rule change, the Federal Reserve will also maintain the 40-day filing deadline for top-tier FR Y-9C reports, and will not implement the 30 calendar days plus 5 business days filing deadline previously proposed to be effective with the June 30, 2006, reporting date. The December filing deadline for top-tier FR Y-9C filers will remain at 45 days after the report date.

The FR Y-9LP, FR Y-9SP, FR Y-9ES and all lower-tier bank holding companies that file the FR Y-9C are not subject to the accelerated deadline. The deadline for these reports will remain at 45 days after the report date.

FASB Statement No. 123 (Revised 2004) and Share-Based Payments

FASB Statement No. 123 (Revised 2004), *Share-Based Payment* (FAS 123(R)), requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments, e.g., stock options and restricted stock, granted to employees. Bank holding companies must adopt FAS 123(R) for FR Y-9C purposes in accordance with the standard's effective date and transition provisions. Public companies other than small business issuers, including bank holding companies that are subsidiaries of such public companies, must adopt FAS 123(R) as of the beginning of their first fiscal year beginning after June 15, 2005. All other companies, including small business issuers and bank holding companies that are not subsidiaries of public companies, must adopt FAS 123(R) as of the beginning of their first fiscal year beginning after December 15, 2005. Thus, all bank holding companies with a calendar year fiscal year must implement FAS 123(R) as of January 1, 2006.

Under FAS 123(R), the "compensation cost for an award of share-based employee compensation classified as equity shall be recognized over the requisite service period," which is typically the same as the vesting period, "with a corresponding credit to equity (generally, paid-in capital)." The recording of the compensation cost also gives rise to deferred tax consequences, i.e., a deferred tax asset, that must be recognized (and evaluated for realizability). For FR Y-9C purposes, the compensation expense should be included in Schedule HI, item 7.a., "Salaries and employee benefits," with the corresponding credit included in Schedule HC, item 25, "Surplus." In Schedule HI-A, Changes in Equity Capital, this credit should be included in item 5, "Sale of perpetual preferred stock," or in item 6, "Sale of common stock." This reporting treatment applies regardless of whether the shares awarded to the employee are shares of bank stock or shares of the bank's parent holding company.

Privatization of the Student Loan Marketing Association

On December 29, 2004, the Student Loan Marketing Association (SLMA), a government-sponsored enterprise created in 1972, was dissolved. On that date, SLMA defeased its remaining debt obligations by transferring them into a special and irrevocable trust and depositing U.S. Treasury securities with the trustee in amounts sufficient to pay the principal of and interest on its debt obligations. For FR Y-9C purposes, bank holding companies should continue to report SLMA debt obligations held for purposes other than trading as securities issued by U.S. Government-sponsored agencies in Schedule HC-B, item 2.b. Similarly, SLMA debt obligations held for trading purposes (in domestic offices) should continue to be reported as U.S. Government agency obligations in Schedule HC-D, item 2. Bank holding companies should refer to the guidance in the Federal Reserve's risk-based capital standards on the treatment of collateralized claims to determine the appropriate risk weight for these SLMA debt securities.

SLM Corporation, the successor to SLMA, is a private-sector corporation that has issued debt securities, including commercial paper. Bank holding companies should report SLM Corporation debt securities held for purposes other than trading as "Other domestic debt securities" in Schedule HC-B, item 6.a. SLM Corporation debt securities held for trading purposes (in domestic offices) should be reported as "Other debt securities" in Schedule HC-D, item 5. Bank holding companies should report holdings of securitized student loans issued by SLM Corporation (or its affiliates) as asset-backed securities in Schedule HC-B, item 5, unless held for trading purposes. Holdings of SLM Corporation common stock and preferred stock should be reported in Schedule HC-B, item 7, unless held for trading purposes. SLM Corporation debt securities, common stock, and preferred stock should be risk-weighted 100 percent. Its asset-backed securities should be risk-weighted in accordance with the ratings-based approach described on page HC-R-13 of the FR Y-9C instructions.

Agency Prepayment-Linked Notes

In 2004, the Federal National Mortgage Associations (Fannie Mae) and the Federal Home Loan Banks began to issue a type of fixed rate debt securities known as prepayment-linked or index amortizing notes. Principal and interest on the notes are paid monthly, with the principal payments indexed to the prepayment performance of a reference pool of mortgages or a reference mortgage-backed security. However, the notes are not collateralized by the mortgages or mortgage-backed security and they have stated final maturity dates that are generally 5 to 12 years from the date of issuance.

Because these securities are direct unsecured obligations of the issuing government-sponsored agency, bank holding companies should report their holdings of these prepayment-linked notes in Schedule HC-B, item 2.b, if they are not held for trading purposes. In addition, these securities are considered structured notes because of their repayment characteristics and, if not held for trading purposes, must also be reported in Schedule HC-B, Memorandum item 4. For risk-based capital purposes, these agency prepayment-linked notes are a claim on a U.S. government-sponsored agency and should be assigned a 20 percent risk weight.

Tobacco Transition Payment Program

The Fair and Equitable Tobacco Reform Act, commonly referred to as the "Tobacco Buyout," was enacted into law on October 22, 2004, as part of the American Jobs Creation Act of 2004. This Act established the Tobacco Transition Payment Program, which is administered by the U.S. Department of Agriculture (USDA). Under this program, the Commodity Credit Corporation (CCC) will make annual payments to eligible tobacco quota holders (i.e., landowners) and tobacco producers (i.e., farmers) beginning in 2005 and ending in 2014.

The CCC will not make a lump-sum payment to an individual quota holder or producer in lieu of annual payments. However, the statute and the rules implementing the tobacco buyout program permit a private party, such as a banking institution, to make a lump-sum payment to the quota holder or producer in return for the right to receive one or more of the annual payments to be made by the CCC under the buyout program. More specifically, a quota holder or producer can obtain a lump-sum payment from a banking institution or other party by executing an "assignment" of tobacco buyout payments or a "successor-in-interest" contract. Under both of these financing arrangements, the consideration paid to the quota holder or producer must be greater than or equal to the present value of the transferred annual payments discounted at the prime rate plus two percentage points rounded to the nearest whole number. Assignment contracts and successor-in-interest contracts become effective only upon the approval of the CCC. The annual payments by the CCC will be made directly to the assignee or successor party.

However, any annual payments to be made to a banking institution or other party under an assignment contract will be reduced if the quota holder or producer owes any debt to an agency of the United States at any time over the life of the contract, thereby exposing the assignee to credit risk. On the other hand, on a successor-in-interest contract, a successor party obtains all rights to the transferred payments and the annual payments cannot be reduced for any debt owed by the quota holder or producer to an agency of the United States subsequent to the CCC's approval of the successor-in-interest contract. Nevertheless, the CCC will reduce any annual payments to the successor party if the successor owes any debt to an agency of the United States. In addition, to be eligible to be the successor to a producer contract, a bank holding company or other party must have been in compliance with the wetlands and highly erodible land provisions of the USDA's regulations and with controlled substances statutes in 2002, 2003, and 2004.

Bank holding companies that enter into CCC-approved assignment contracts and successor-in-interest contracts and make lump-sum payments to tobacco quota holders or producers should report these financing arrangements as "Loans to finance agricultural production and other loans to farmers" in Schedule HC-C, item 3. The discount reflected in these lump-sum payments should be recognized as interest income over the life of the contract using the interest method. For risk-based capital purposes, assignment contracts should be risk weighted at 100 percent because of the potential exposure to payment reductions for any debt owed by the quota holder or producer to an agency of the United States as outlined above. Successor-in-interest contracts from both quota holders and producers are, in essence, unconditionally guaranteed by the U.S. Government and should be risk weighted at zero percent.

FASB Interpretation No. 46

The FASB issued Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities*, in December 2003. Revised interpretation No. 46 replaces interpretation No. 46, which was issued in January 2003. This interpretation explains how to identify a “variable interest entity” (previously referred to as a “special purpose entity”) and how an organization should assess its interests in a variable interest entity to decide whether to consolidate that entity. Variable interest entities often are created for a single specified purpose, for example, to facilitate securitization, leasing, hedging, research and development, and reinsurance. Most small bank holding companies (BHCs) are unlikely to have any “variable interests” in variable interest entities.

In general, a variable interest entity is an entity in which either the controlling financial interests are not voting interests or the equity investors do not bear the entity’s residual economic risks. A variable interest is a contractual or ownership interest in an entity that changes when the value of the entity’s net assets changes. An organization that has a variable interest (or a combination of variable interests) that will absorb a majority of a variable interest entity’s expected losses if they occur, receive a majority of the entity’s expected residual returns if they occur, or both, is the “primary beneficiary” of the variable interest entity and must consolidate it.

For FR Y-9C purposes, bank holding companies with variable interests in variable interest entities must apply the provisions of Interpretation No. 46 (Revised) to those entities in accordance with the interpretation's effective date and transition provisions. Application of Interpretation No. 46 (Revised) by bank holding companies that are public companies, or subsidiaries of such public companies, was required for specified types of variable interest entities at various dates beginning December 31, 2003, through December 31, 2004. Application of Interpretation No. 46 (Revised) by bank holding companies that are neither public companies nor subsidiaries of public companies was required immediately for variable interest entities created after December 31, 2003, and for all other variable interest entities at the beginning of the first fiscal year beginning after December 15, 2004 (January 1, 2005, for calendar year bank holding companies).

The assets and liabilities of a consolidated variable interest entity should be reported on the FR Y-9C balance sheet (Schedule HC) on a line-by-line basis according to the asset and liability categories shown on the balance sheet. This reporting treatment also carries over to the other schedules in the FR Y-9C.

Reporting of Trust Preferred Securities

The Federal Reserve added a new item to the balance sheet (Schedule HC, item 19(b)) to specifically break out information on subordinated notes payable to unconsolidated trusts issuing trust preferred securities, and trust preferred securities issued by consolidated special purpose entities. This information will no longer be included in Schedule HC, Balance Sheet, item 20, “Other liabilities,” or Schedule HC-G, Other Liabilities, item 4,” Other.” BHCs are advised that this reporting change does not represent any change to the risk-based capital treatment for trust preferred securities. Consistent with guidance previously provided in Federal Reserve

Supervisory Letter SR 03-13 of July 2, 2003, BHCs should continue to include the allowable amount of eligible trust preferred securities in their tier 1 capital for regulatory capital purposes until further notice. The amounts in tier 1 capital should be reported in Schedule HC-R, Regulatory Capital, item 6(b), “Qualifying trust preferred securities,” in accordance with the reporting instructions.

Bank holding companies are encouraged to consult with their external auditor on the appropriate application of generally accepted accounting principles (GAAP), including FIN 46 and revised FIN 46 (FIN 46R), on the consolidation or deconsolidation of trusts issuing trust preferred stock for financial statements and regulatory reporting. Consistent with their GAAP determination and SR 03-13, bank holding companies that deconsolidate such trusts for financial reporting purposes should include the full amount of the deeply subordinated note issued to the trust in Schedule HC, Balance Sheet, item 19(b), and the bank holding company’s investment in the special purpose subsidiary should be reported in Schedule HC, item 8, “Investments in unconsolidated subsidiaries and associated companies.” The amount of the subordinated note issued to the trust, net of the bank holding company’s investment in the special purpose subsidiary, is equivalent to the amount of the trust preferred securities issued. The net amount (that is allowed in tier 1 capital) should be reported in Schedule HC-R, item 6.b. Note that Schedule HC-R, memoranda item 3.d, no longer includes amounts related to trust preferred securities. Amounts of trust preferred securities (or notes payable to unconsolidated special purpose entities that issue trust preferred securities, net of the BHC’s investment in the entity) that are in excess of the limits for cumulative preferred stock that can be included in Tier 1 capital, should be reported in item 16, “Other Tier 2 capital components.”

The investment in unconsolidated subsidiaries that issue trust preferred securities should not be risk weighted for risk based capital purposes. This would apply to special purpose entities issuing trust preferred securities that are not consolidated by BHCs under FIN 46. If the investment is netted for determining Tier 1 treatment, a consistent application is to exclude the investment from risk-weighted assets. Therefore, the amount of the investment in unconsolidated subsidiaries that issue trust preferred securities should be reported in Schedule HC-R, line item 42, “All other assets,” column B, “Items not subject to risk-weighting.”

Bank holding companies that file the FR Y-11 should continue to report special purpose entities issuing trust preferred securities that qualify as a subsidiary as defined by Regulation Y and in the FR Y-11 reporting instructions, regardless of whether the entity is consolidated on the FR Y-9C report. Bank holding companies that file the FR Y-9LP should continue to report any notes payable to special-purpose subsidiaries that issue trust preferred securities in Schedule PC-B, item 16 (and included in Schedule PC, item 18(b) and Schedule PC-B, item 5(b)). However, for purposes of reporting information on nonbank subsidiaries in Schedule PC-B, item 15, the term “subsidiary” is inclusive of only companies that have been consolidated in the FR Y-9C. Therefore, if the bank holding company has deconsolidated the special purpose entity issuing trust preferred securities, the entity would not be reflected in this item.

Other-Than-Temporary Impairment of Securities and EITF Issue No. 03-1

Under FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity*

Securities, an institution must determine whether an impairment of an individual available-for-sale or held-to-maturity security is other than temporary. An impairment occurs whenever the fair value of a security is less than its (amortized) cost basis. If an impairment is judged to be other than temporary, the cost basis of the individual security must be written down to fair value through earnings, thereby establishing a new cost basis for the security.

In March 2004, the FASB ratified the consensus reached by its Emerging Issues Task Force (EITF) on EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. The EITF's consensus applies to debt and equity securities accounted for under FASB Statement No. 115, i.e., held-to-maturity securities and available-for-sale securities, and to equity securities that do not have readily determinable fair values that are accounted for at cost. The consensus was intended to provide additional guidance for determining whether investments in these securities have incurred an other-than-temporary impairment.

In November 2005, the FASB issued FASB Staff Position Nos. FAS 115-1 and FAS 124-1 to nullify the measurement and recognition guidance contained in EITF Issue No. 03-1, the effective date of which the FASB had previously delayed. The guidance in this FASB Staff Position is to be applied beginning in 2006 and references existing other-than-temporary impairment guidance, which institutions were already expected to apply. Such guidance includes FASB Statement No. 115, EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*, and Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 59, *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities* (Topic 5.M. in the Codification of Staff Accounting Bulletins).

Reporting "Loaned" Securities on the Balance Sheet

The FR Y-9C reporting instructions include a revised Glossary entry for "Securities Borrowing/Lending Transactions." As revised, the Glossary entry states that, for transactions accounted for as secured borrowings under FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, "loaned" securities should continue to be reported on the balance sheet as available-for-sale securities, held-to-maturity securities, or trading assets, as appropriate. The instructions had previously required bank holding companies to recategorize such "loaned" securities from securities to "Other assets." In addition, "loaned" securities that are reported as available-for-sale or held-to-maturity in Schedule HC-B, Securities, should also be reported as "Pledged securities" in Memorandum item 1 of the schedule. However, bank holding companies should note that the instructions for reporting "Securities lent" in Schedule HC-L, item 6, and Schedule HC-R, item 48, have not changed.

AICPA Statement of Position 03-3 on Purchased Impaired Loans and Debt Securities

In December 2003, the AICPA issued Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. In general, this Statement of Position applies to purchased impaired loans and debt securities, i.e., loans and debt securities that a banking

organization has purchased, including those acquired in a purchase business combination, when there is evidence of deterioration of credit quality since the origination of the loan or debt security and it is probable, at the purchase date, that the banking organization will be unable to collect all contractually required payments receivable. The Statement of Position applies to loans and debt securities acquired in fiscal years beginning after December 15, 2004, with early adoption permitted. Bank holding companies must follow Statement of Position 03-3 for FR Y-9C reporting purposes in accordance with its effective date based on their fiscal years. The Statement of Position does not apply to the loans that a banking organization has originated.

For further information on this Statement of Position, please refer to the new Glossary entry for "Purchased Impaired Loans and Debt Securities" and the revised Glossary entry for "Allowance for Loan and Lease Losses," included in the update to the FR Y-9C instructions for September 30, 2005. The September 2005 updated instructions also included instructions for three items pertaining to purchased impaired loans: Schedule HC-C, Loans and Leases, Memorandum items 5.a and 5.b, and Schedule HI-B, part II, Changes in Allowance for Loan and Lease Losses, Memorandum item 4.

GNMA Mortgage Loan Optional Repurchase Program

A seller-servicer must report all delinquent residential mortgage loans backing Government National Mortgage Association mortgage-backed securities that must be rebooked as assets in accordance with FASB Statement No. 140 (GNMA loans), whether they have been repurchased or are eligible for repurchase, as loans held for sale (Schedule HC, item 4.a) or loans held for investment (Schedule HC, item 4.b), based on facts and circumstances, in accordance with generally accepted accounting principles. In addition, if a bank holding company services GNMA loans, but was not the transferor of the loans that have been securitized, and purchases individual delinquent loans out of the GNMA securitization, the bank holding company must also report the purchased loans as loans held for sale or held for investment. All GNMA loans recognized as assets should be reported as past due in Schedule HC-N in accordance with their contractual repayment terms. Such delinquent GNMA loans should be reported in items 1.c, 11, and 11.b of Schedule HC-N. This reporting treatment for delinquent GNMA loans is discussed in the revised instructions for Schedules HC-C and HC-N for the September 30, 2005, FR Y-9C report.

In addition, an institution that forecloses on real estate backing a delinquent GNMA loan should report the property as "other real estate owned" and not as an "other asset" on the FR Y-9C balance sheet. However, because this has not been the common reporting practice, institutions should continue to report these foreclosed properties in their FR Y-9C reports in accordance with their existing reporting policies for such properties through the December 31, 2005, report date. Thereafter, i.e., beginning with the March 31, 2006, report date, all institutions should report foreclosed real estate from GNMA loans as "other real estate owned" on the balance sheet.

Commitments to Originate and Sell Mortgage Loans

On May 3, 2005, the agencies issued an Interagency Advisory on Accounting and Reporting for Commitments to Originate and Sell Mortgage Loans. The advisory provides supplemental

guidance on the appropriate accounting and reporting for commitments to originate mortgage loans that will be *held for resale*, which the advisory refers to as derivative loan commitments, and for commitments to sell mortgage loans under mandatory delivery and best efforts contracts.

It also addresses the guidance that institutions should consider in determining the fair value of derivatives, including SEC Staff Accounting Bulletin No. 105, *Application of Accounting Principles to Loan Commitments*, which applies to the recognition of derivative loan commitments. The interagency advisory can be accessed on the Federal Reserve Board's Web site at www.federalreserve.gov/boarddocs/srletters/2005/sr0510.htm.

Commitments to originate mortgage loans that will be held for resale, which are referred to as derivative loan commitments, are derivatives and must be accounted for at fair value on the balance sheet by the issuer. All loan sales agreements, including both mandatory delivery and best efforts contracts, must be evaluated by both the seller and the purchaser to determine whether the agreements meet the definition of a derivative under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by FASB Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. Institutions must also account for loan sales agreements that meet the definition of a derivative, which are referred to as forward loan sales commitments, at fair value on the balance sheet.

The advisory also addresses the guidance that should be considered in determining the fair value of derivatives. In this regard, when quoted market prices are not available, which is typically the case for derivative loan commitments and forward loan sales commitments, estimates of fair value should be based on the best information available in the circumstances. A simplified example is included to provide general guidance on one approach that may be used to value commitments to originate mortgage loans that will be held for resale. In addition, the advisory states that the agencies expect all institutions, including those that are not required to file reports with the SEC, to follow the guidance in SEC Staff Accounting Bulletin No. 105, *Application of Accounting Principles to Loan Commitments*, in recognizing derivative loan commitments. The Staff Accounting Bulletin can be accessed at www.sec.gov/interps/account/sab105.htm.

According to the advisory, under a typical derivative loan commitment, the borrower can choose to (1) "lock-in" the current market rate for a fixed-rate loan, i.e., a fixed derivative loan commitment; (2) "lock-in" the current market rate for an adjustable-rate loan that has a specified formula for determining when and how the interest rate will adjust, i.e., an adjustable derivative loan commitment; or (3) wait until a future date to set the interest rate and allow the interest rate to "float" with market interest rates until the rate is set, i.e., a floating derivative loan commitment.

Bank holding companies are expected to apply the guidance in the advisory when preparing their FR Y-9C reports. However, until certain questions that have been raised about floating derivative loan commitments are resolved, institutions should follow their existing reporting policies for floating derivative loan commitments and need not account for and report these commitments as derivatives for FR Y-9C reporting purposes. All other derivative loan commitments should be reported as over-the-counter written interest rate options in Schedule HC-L, Derivatives and Off-Balance Sheet Items, not as unused commitments in item 1 of Schedule HC-L. The principal amount of the mortgage loans to be originated under these

derivative loan commitments must be reported as the notional amount of the derivatives in Schedule HC-L, item 11.d.(1), column A, and in Schedule HC-L, item 13, column A. Bank holding companies must also report the fair value of these derivative loan commitments in the appropriate subitem of Schedule HC-L, item 14.b. As with written options, derivative loan commitments are outside the scope of the credit conversion process that applies to derivatives under the Federal Reserve's risk-based capital standards. However, if the fair value of any of these derivative loan commitments after initial recognition is positive and therefore reported as an asset, this positive fair value is subject to the risk-based capital standards and must be risk weighted as an on-balance sheet asset.

Bank holding companies should note that commitments to originate mortgage loans that will be held for investment purposes and commitments to originate other types of loans are not considered derivatives. The unused portion of loan commitments that are not considered derivatives should continue to be reported in Schedule HC-L, item 1. Unused commitments with an original maturity exceeding one year are subject to the risk-based capital standards and must be reported in Schedule HC-R, item 53.

Reporting Asset-Backed Commercial Paper Conduits in Schedule HC-R

An asset-backed commercial paper (ABCP) program is usually carried out through a bankruptcy-remote special-purpose entity, which generally is sponsored and administered by a banking organization to provide funding to its corporate customers by purchasing asset pools from, or extending loans to, those customers. The program provides funding for these assets through the issuance of commercial paper into the market. Typically, the sponsoring organization provides liquidity and credit enhancements to earn a favorable external rating on the commercial paper issued by the ABCP program. Because these programs typically are sponsored by large banking organizations, the reporting and regulatory capital requirements applicable to these programs should have no impact on most small bank holding companies.

In July 2004, the banking agencies issued a final rule that sets forth the risk-based capital treatment for assets in ABCP conduits that sponsoring banking organizations are required to consolidate in accordance with FASB Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities*. The final rule permits sponsoring banking organizations to exclude the consolidated ABCP program assets from their risk-weighted asset bases when they calculate their risk-based capital ratios. It also imposes a 10 percent credit conversion factor on eligible ABCP program liquidity facilities with an original maturity of one year or less that provide liquidity support to these programs. Eligible liquidity facilities with an original maturity exceeding one year remain subject to the current 50 percent credit conversion factor. In contrast, ineligible liquidity facilities (both short-term and long-term) are treated as direct credit substitutes or recourse obligations and are subject to a 100 percent credit conversion factor. In addition, any minority interests in consolidated ABCP programs are not eligible for inclusion in Tier 1 capital (or total risk-based capital) if the bank excludes the consolidated ABCP program assets from risk-weighted assets pursuant to the final rule. Bank holding companies involved with ABCP programs should refer to the final rule for complete information on the risk-based capital treatment of these programs.

Under the agencies' final rule, banking organization sponsors of any consolidated ABCP programs should include the consolidated assets in the appropriate balance sheet asset categories when completing items 34 through 43, column A, in Schedule HC-R, Regulatory Capital. The amounts of these consolidated assets should also be reported in items 34 through 43, column B, "Items not Subject to Risk-Weighting," unless the bank holding company has chosen to consolidate the ABCP program assets onto its balance sheet for risk-based capital purposes, as permitted under the final rule, and risk weights them accordingly. However, unless this consolidation option has been chosen, sponsoring banking organizations must continue to hold risk-based capital against all exposures arising in connection with these programs, whether or not the programs are consolidated for accounting purposes, including direct credit substitutes, recourse obligations, residual interests, and loans. These exposures should be reported in the appropriate items of Schedule HC-R.

Bank holding companies that provide eligible liquidity facilities to ABCP programs, whether or not they are the program sponsor, must report these facilities in the following manner in Schedule HC-R, item 53 (unless a sponsor has chosen the consolidation option). The full amount of the unused portion of an *eligible* liquidity facility with an original maturity exceeding one year should be reported in item 53, column A. For an *eligible* liquidity facility with an original maturity of one year or less, 20 percent of the unused portion of the facility should be reported in item 53, column A, to produce the effect of a 10 percent conversion factor when reporting the credit equivalent amount of the liquidity facility in item 53, column B. For *ineligible* liquidity facilities (both direct credit substitutes and recourse obligations), bank holding companies should report the full amount of the unused portion of the facility in Schedule HC-R, item 51, column A. Finally, any minority interests in consolidated ABCP programs should not be included in Schedule HC-R, item 6.a, "Qualifying minority interests in consolidated subsidiaries and similar items" if the consolidated program assets are excluded from risk-weighted assets.

Listing of Revisions

Revisions to the FR Y-9C for December 2005:

Report Form and Corresponding Instructions

- (1) *Cover page.* Updated reporting date to December 31, 2005
- (2) *Schedule HC, memoranda item 1.* Added item to collect information identifying whether the bank holding company (BHC) has engaged in a full-scope independent external audit as of the December 31 report date.

Instructions

Edits: Updates to the FR Y-9C Checklist and FR Y-9C Edits.

Revisions to the FR Y-9LP for December 2005:

Report Form

Cover page. Updated reporting date to December 31, 2005.

Instructions

Edits: Updates to the FR Y-9LP Checklist and FR Y-9LP Edits.

Revisions to the FR Y-9SP for December 2005:

Report Form

- (1) *Cover page.* Updated reporting date to December 31, 2005.
- (2) *Schedule SC, memoranda item 1.* Added item to collect information identifying whether the bank holding company (BHC) has engaged in a full-scope independent external audit as of the December 31 report date.

Instructions

Edits: Updates to the FR Y-9SP Checklist and FR Y-9SP Edits.

Revisions to the FR Y-11/S for December 2005

Report Form

Cover page. Revised the reporting date to December 31, 2005.

**SUMMARY OF EDIT CHANGES EFFECTIVE
FOR December 31, 2005 FR Y-9C CHECKLISTS**

FR Y-9C

(Validity - V, Quality - Q, Intraserries - I)

New Edits:

Validity: 2150, 2155

Quality: 5799, 5801, 5802, 5803, 5804, 5806

Intraserries: 5798

Revised Edits:

Quality: 9480 (HC-L1b), 9480 (HC-L8), 9480 (HC-L14a1B)

Deleted Edits:

Quality: 9200 (HI-Mem8a1), 9200 (HI-Mem8a2), 9200 (HI-Mem8b1), 9200 (HI-Mem8b2), 9200 (HI-Mem8c1), 9200 (HI-Mem8c2), 9480 (HC-M11)

Renumbered Edits:

Validity EDCK 2565 was renumbered to Quality EDCK 6048

Intraserries EDCK 5800 was renumbered to Intraserries EDCK 5797

Quality EDCK 5805 was renumbered to Quality EDCK 5807

**SUMMARY OF EDIT CHANGES EFFECTIVE
FOR December 31, 2005 FR Y-9LP CHECKLISTS**

FR Y-9LP

(Validity - V, Quality - Q, Intraserries - I, Interseries - R)

New Edits:

Intraserries: 0825, 0831, 0833

**SUMMARY OF EDIT CHANGES EFFECTIVE
FOR December 31, 2005 FR Y-9SP CHECKLISTS**

FR Y-9SP

(Validity - V, Quality - Q, Intraserries - I, Interseries - R)

New Edits:

Validity: 0370, and 0371

Intraserries: 0810

Quality: 0811, 0812, 0813, 0814, 0815, 0816, 9000, 9010, 9020, 9030, 9040, 9050, 9060, 9070,
9080, 9090, 9100, 9110, 9120, 9130, and 9140

Revised Edits:

Validity: 0535

Quality: 0767

Deleted Edits:

Quality: 0012
