Board of Governors of the Federal Reserve System

Supplemental Instructions **March 2009**

Editing of Data by Respondents

The Federal Reserve requires validation checks to be performed by respondents as part of the electronic submission process for the FR Y-9 series of reports. This 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. Additional information regarding this submission process may be found 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).

Other-Than-Temporary Impairment

When the fair value of an investment is less than its cost basis, the impairment is either temporary or other-than-temporary. To determine whether the impairment is other-than-temporary, a bank holding company must apply other pertinent guidance such as paragraph 16 of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*; FASB Staff Position (FSP) FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*; paragraph 6 of Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*; Emerging Issues Task Force (EITF) Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*; and FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*.

On January 12, 2009, the FASB issued FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*. This FSP amended EITF Issue 99-20 to align the impairment guidance in Issue 99-20 with the guidance in paragraph 16 of FASB Statement No. 115 and related implementation guidance. The FSP is effective for "interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted." All bank holding companies, both public *and* nonpublic, that hold beneficial interests that fall within the scope of EITF Issue No. 99-20 must adopt FSP EITF 99-20-1 for FR Y-9[1] reporting purposes in accordance with the FSP's effective date. Thus, both public and nonpublic bank holding companies should apply this FSP beginning in their December 31, 2008, reports. Bank holding companies should not apply the guidance in this FSP to the September 30, 2008, or earlier reporting periods.

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[1] Consolidated Financial Statements for Bank Holding Companies (FR Y-9C), Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP), Parent Company Only Financial Statements for Small Bank Holding Companies (FR Y-9SP).

On March 17, 2009, the FASB issued a proposed FSP that would amend the other-than-temporary impairment guidance that applies to certain investments in debt and equity securities (http://www.fasb.org/project/other-than-temporary_impairments.shtml). Under this proposed FSP, if a bank holding company intends to sell a debt or equity security or it is more likely than not that it will sell the debt or equity security before recovery of its cost basis, an other-than-temporary impairment exists and the entire amount of the impairment must be recognized in earnings. The fair value of the investment would become its new cost basis. The proposed FSP also provides that if the fair value of a debt security is less than its amortized cost and it is probable that a bank holding company will be unable to collect all amounts due according to the contractual terms of a debt security, but it is more likely than not that the bank holding company will not sell the debt security before recovery of its cost basis (except for the credit losses), the debt security is considered other than temporarily impaired. In this situation, the amount of the impairment related to the credit losses must be recognized in earnings, but the amount of the impairment related to other factors must be recognized in other comprehensive income. Although the debt security would be written down to its fair value, its new cost basis would be its previous cost basis less the credit losses recognized in earnings. The proposed FSP would be effective for interim and annual reporting periods ending after March 15, 2009. The comment period for this proposal ends on April 1, 2009, and the FASB Board is expected to take final action on the proposal on April 2, 2009.

If the FASB Board adopts a final FSP on other-than-temporary impairment with the same effective date as has been proposed, bank holding companies should apply the guidance in the final FSP in their FR Y-9 reports for March 31, 2009. If the proposal's recognition and presentation provisions are adopted as proposed, other-than-temporary impairment losses on held-to-maturity and available-for-sale securities that must be recognized in earnings should be reported in the FR Y-9C income statement in Schedule HI, items 6.a and 6.b, respectively. [For the FR Y-9LP, Schedule PI, item 1.d; for the FR Y-9SP, Schedule SI, item 7] Other-than-temporary impairment losses that must be recognized in other comprehensive income should be reported in the changes in bank holding company equity capital in Schedule HI-A, item 12, and included on the balance sheet in Schedule HC, item 26.b, "Accumulated other comprehensive income." [For the FR Y-9LP, Schedule PC, item 20.e; for the FR Y-9SP, Schedule SC, item 16.d] Any other-than-temporary impairment losses on held-to-maturity securities related to factors other than credit losses that are reported in "Accumulated other comprehensive income" should be included in Schedule HC-R, item 2, with the net unrealized gains (losses) on available-for-sale securities that are reported in this item.

Extended Net Operating Loss Carryback Period for Small Businesses

The American Recovery and Reinvestment Act of 2009, which was enacted on February 17, 2009, permits qualifying small businesses, including bank holding companies, to elect a net operating loss carryback period of three, four, or five years instead of the usual carryback period of two years for any tax year ending in 2008 or, at the small business's election, any tax year beginning in 2008. Under generally accepted accounting principles, bank holding companies may not record the effect of this tax change in their balance sheets and income statements for financial and regulatory reporting purposes until the period in which the law was enacted, i.e., the first quarter of 2009. Therefore, small bank holding companies that qualify for the extended net operating loss carryback period should not amend their December 31, 2008, FR Y-9SP report to reflect the effect of this first quarter 2009 tax law change.

Treasury Department's Capital Purchase Program

On October 14, 2008, the U.S. Treasury Department announced a Capital Purchase Program (CPP) under the Troubled Asset Relief Program mandated by the Emergency Economic Stabilization Act of 2008 (http://www.treas.gov/press/releases/hp1207.htm). The CPP is designed to encourage U.S. financial institutions to build capital to buttress the financial strength of the banking system, increase the flow of financing to U.S. businesses and consumers and support the U.S. economy. Under this program, the Treasury will purchase up to $250 billion of securities issued by qualifying financial institutions.

For bank holding companies (other than those that are Subchapter S) that are approved for participation in the CPP, the Treasury Department will purchase senior perpetual preferred stock and warrants to purchase common stock or senior perpetual preferred stock, depending on whether the bank holding company's common stock is "publicly traded." For such bank holding companies that are not publicly traded, the Treasury Department intends to immediately exercise the warrants for senior perpetual preferred stock ("warrant preferred stock"). The senior perpetual preferred stock issued to the Treasury Department, including warrant preferred stock, should be reported on FR Y-9C Schedule HC-M, item 24.a, "Issuances associated with the U.S. Department of Treasury Capital Purchase Program: Senior perpetual preferred stock or similar items," [for the FR Y-9SP, Schedule SC-M, item 23.a] and included in balance sheet (Schedule HC) item 23, "Perpetual preferred stock and related surplus." [For the FR Y-9LP, Schedule PC, item 20.a; for the FR Y-9SP, Schedule SC, item 16.a] Senior perpetual preferred stock issued by bank holding companies to the Treasury Department is cumulative but for regulatory capital purposes is treated the same as noncumulative perpetual preferred stock as an unrestricted core capital element included in Tier 1 capital. It will be included in the amount reported for "Total equity capital" in item 1 of Schedule HC-R, Regulatory Capital.

Warrants issued by a publicly traded bank holding company should be included in equity capital on the balance sheet provided the bank holding company has sufficient authorized but unissued shares of the common stock to allow exercise of the warrants and any other necessary shareholder approvals have been obtained. If the bank holding company does not have required shareholder approval, including shareholder approval for sufficient authorized but unissued shares of the common stock subject to the warrants that may be required for settlement, the warrants may be included in equity capital on the balance sheet provided that the bank holding company takes the necessary action to secure sufficient approvals prior to the end of the fiscal quarter in which the warrants are issued. The amount assigned to warrants classified as equity capital should be reported in Schedule HC-M, item 24.b, "Issuances associated with the U.S. Department of Treasury Capital Purchase Program: Warrants to purchase common stock or similar items," [for the FR Y-9SP, Schedule SC-M, item 23.b] and included in Schedule HC, item 25, "Surplus." [For the FR Y-9LP, Schedule PC, item 20.c; for the FR Y-9SP, Schedule SC, item 16.b, "Common stock (including related surplus)"] Warrants that are not eligible to be classified as equity capital should also be reported in Schedule HC-M, item 24.b [for the FR Y-

9SP, Schedule SC-M, item 23.b) and included in balance sheet item 20, "Other liabilities." [For the FR Y-9LP, Schedule PC, item 17; for the FR Y-9SP, Schedule SC, item 13]

Proceeds from a bank holding company's issuance to the Treasury Department of noncumulative perpetual preferred stock during the calendar year-to-date reporting period should be included in Schedule HI-A, item 5.a, "Sale of perpetual preferred stock, gross." Proceeds from warrants eligible to be classified as equity capital during the calendar year-to-date reporting period should be included in Schedule HI-A, item 6.a, "Sale of common stock, gross."

Business Combinations and Noncontrolling (Minority) Interests

In December 2007, the FASB issued Statement No. 141 (Revised), *Business Combinations* (FAS 141(R)), and Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (FAS 160). Under FAS 141(R), all business combinations are to be accounted for by applying the acquisition method. FAS 160 defines a noncontrolling interest, also called a minority interest, as the portion of equity in a bank holding company's subsidiary not attributable, directly or indirectly, to the parent bank holding company. FAS 160 requires a bank holding company 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.

FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Similarly, FAS 160 is effective for fiscal years beginning on or after December 15, 2008. Thus, for bank holding companies with calendar year fiscal years, these two accounting standards will take effect in 2009. Bank holding companies must apply these standards for FR Y-9C reporting purposes in accordance with their effective dates. The Glossary entry for "Business Combinations" in the FR Y-9C instruction book will be revised to incorporate the provisions of FAS 141(R) later in 2009.

Trust Preferred Securities and Limits on Restricted Core Capital Elements

On March 10, 2005, the Federal Reserve announced the amendment of its risk-based capital standards for bank holding companies to allow the continued inclusion of outstanding and prospective issuances of trust preferred securities in the tier 1 capital of bank holding companies, 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 and Class C minority interest[2] (collectively, restricted core capital elements) included in the tier 1 capital of bank holding companies. These new quantitative limits were scheduled to become effective on March 31, 2009. However, on March 23, 2009, the Federal Reserve adopted a rule extending the

[2] Class B minority interest in consolidated subsidiaries is defined as qualifying cumulative perpetual preferred stock directly issued by a consolidated U.S. depository institution or foreign bank subsidiary. Class C minority interest in consolidated subsidiaries is defined as 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.

compliance date for the tighter limits to March 31, 2011 in light of the current stressful financial conditions and the severely constrained ability of bank holding companies to raise additional capital in the markets. Nevertheless, it is also prudential and appropriate to recognize the large percentage of bank holding companies currently in compliance with the tighter limits on capital components adopted by the 2005 Board rule and to encourage such bank holding companies to continue to comply with the tighter limits and for other bank holding companies to come into compliance as quickly as feasible in the current financial environment.

Accordingly, and consistent with the new and revised items implemented on FR Y-9C Schedule HC-R for the first quarter of 2009, the instructions for these new and revised items require reporting in accordance with the revised limits to become effective on March 31, 2011, but only requires the exclusion of amounts from Tier 1 or Tier 2 capital that are subject to such exclusion under the quantitative limits under the Board's risk-based capital rule applicable until March 31, 2011. A bank holding company's amount of restricted core capital elements that are includable in Tier 1 capital under the limits applicable until March 31, 2011, but that would be excluded from Tier 1 capital and included in Tier 2 capital under the limits applicable on March 31, 2011, are reported on Schedule HC-R, line item 10, "Other additions to (deductions from) Tier 1 capital." Refer to the section "Reporting of Qualifying Restricted Core Capital Elements in Tier 1 Capital" beginning on page HC-R-3 of the FR Y-9C reporting instructions for further information.

Treatment of Purchased Subordinated Securities That Are Direct Credit Substitutes Not Eligible for the Ratings-Based Approach

Additional guidance on this topic will be included in the FR Y-9C reporting instructions in June 2009. Bank holding companies should refer to the guidance presented in the commercial bank Consolidated Reports of Condition and Income (Call Reports; FFIEC 031/041) for Schedule RC-R beginning on page RC-R-17.

Troubled Debt Restructurings

Consistent with FASB Statement No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings (FAS 15), the FR Y-9C reporting instructions define a "troubled debt restructuring" (TDR) as a restructuring in which a bank holding company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that the bank holding company would not otherwise consider. In general, troubled debt restructurings include a modification of the terms of a loan that provides for a reduction of either interest or principal.

In the FR Y-9C report for March 31, 2008, bank holding companies began reporting the amount of 1-4 family residential mortgage loans that have undergone troubled debt restructurings and are in compliance with their modified terms in Schedule HC-C, Memorandum item 1.a. The amount of 1-4 family residential mortgages that have undergone TDRs and under their modified terms are past due 30 days or more or are in nonaccrual status also began to be reported in Schedule HC-N, Memorandum item 1.a. Furthermore, all restructured troubled loans should continue to be reported in the appropriate loan category in Schedule HC-C (Loans and Lease Financing

Receivables) and, if appropriate, in Schedule HC-N (Past Due and Nonaccrual Loans, Leases, and Other Assets).

The accounting standards for TDRs are set forth in FAS 15 as amended by FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan (FAS 114), and are summarized in the Glossary section of the FR Y-9C reporting instructions. All loans whose terms have been modified in a TDR, including both commercial and retail loans, must be evaluated for impairment under FAS 114. Under FAS 114, when measuring impairment on a restructured troubled loan using the present value of expected future cash flows method, the cash flows are discounted at the effective interest rate of the original loan, i.e., before the restructuring. For a residential mortgage loan with a "teaser" or starter rate that is less than the loan's fully indexed rate, the starter rate is not the original effective interest rate. FAS 114 also permits a bank holding company to aggregate impaired loans that have risk characteristics in common with other impaired loans, such as modified residential mortgage loans that represent TDRs, and use historical statistics along with a composite effective interest rate as a means of measuring the impairment of these loans.

Split-Dollar Life Insurance Arrangements

The Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) has issued guidance on the accounting for the deferred compensation and postretirement benefit aspects of split-dollar life insurance arrangements. This guidance is effective for fiscal years beginning after December 15, 2007, including interim periods within those fiscal years, with earlier application permitted. EITF Issue No. 06-4 addresses endorsement split dollar arrangements (http://www.fasb.org/pdf/abs06-4.pdf) while EITF issue No. 06-10 covers collateral assignment split dollar arrangements (http://www.fasb.org/pdf/abs06-10.pdf). In general, in an endorsement split-dollar arrangement, the employer (such as a bank holding company or subsidiary) owns and controls the insurance policy on the employee, whereas in a collateral assignment split-dollar arrangement, the employee owns and controls the insurance policy.

According to the consensus reached by the EITF under each issue, an employer such as a bank holding company should recognize a liability for the postretirement benefit related to a split-dollar life insurance arrangement if, based on the substantive agreement with the employee, the bank holding company has agreed to maintain a life insurance policy during the employee's retirement or provide the employee with a death benefit. This liability should be measured in accordance with either FASB Statement No. 106 (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract). In addition, for a collateral assignment split-dollar arrangement, the EITF also reached a consensus that an employer such as a bank holding company should recognize and measure an insurance asset based on the nature and substance of the arrangement.

Bank holding companies with split-dollar life insurance arrangements must apply the consensuses in EITF Issues No. 06-4 and No. 06-10 for FR Y-9 reporting purposes in accordance with their effective date. Thus, a bank holding company with a calendar year fiscal year must apply the relevant guidance as of January 1, 2008, and should recognize the effects of applying the consensus as a cumulative-effect adjustment to the opening balance of retained earnings on that date. This adjustment should be reported in Schedule HI-A, item 2, "Restatements due to corrections of material accounting errors and changes in accounting principles," and may be separately disclosed in Schedule HI, Notes to the Income Statement—Other.

Measurement of Fair Values in Stressed Market Conditions

The valuation of various assets and liabilities on the balance sheet – including trading assets and liabilities, available-for-sale securities, loans held for sale, assets and liabilities accounted for under the fair value option (which is discussed in the following section), and foreclosed assets – involves the use of fair values. During periods of market stress, the fair values of some financial instruments and nonfinancial assets may decline.

Institutions are reminded that the objective of a fair value measurement is to determine the price that would be received to sell an asset or transfer a liability in an orderly transaction (e.g., not a forced or distressed sale) at the balance sheet date. Accordingly, fair values should reflect current market conditions and consider recent transaction prices, where available. This fair value objective is generally applicable to all fair value measurements, whether or not a bank holding company has early adopted FASB Statement No. 157, *Fair Value Measurements* (FAS 157), which is discussed in the following section.

On September 30, 2008, the SEC's Office of the Chief Accountant and the FASB staff jointly issued clarifications that address several fair value measurement questions that have arisen in the current market environment (http://www.fasb.org/news/2008-FairValue.pdf). These clarifications are based on the fair value measurement guidance in FAS 157. On October 10, 2008, the FASB issued FASB Staff Position No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP FAS 157-3) (http://www.fasb.org/pdf/fsp_fas157-3.pdf). This FSP clarifies the application of FAS 157 in such a market and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. Bank holding companies should consider these clarifications when measuring fair value for FR Y-9 reporting purposes.

On March 17, 2009, the FASB issued a proposed FSP that would provide additional guidance on determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurement purposes under FAS 157 (http://www.fasb.org/project/fas157_active_inactive_distressed.shtml). The proposed FSP would be effective for interim and annual reporting periods ending after March 15, 2009. The comment period for this proposal ends on April 1, 2009, and the FASB Board is expected to take final action on the proposal on April 2, 2009.

Fair Value Measurement and Fair Value Option

FASB Statement No. 157, *Fair Value Measurements* (FAS 157), issued in September 2006, defines fair value, establishes a framework for measuring the fair value of assets and liabilities based on a three-level hierarchy, and expands disclosures about fair value measurements. The FASB's three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting bank holding company has the ability to access at the measurement date (e.g., the FR Y-9C reporting date). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

According to FAS 157, observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. In contrast, unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

FAS 157 is effective for fiscal years beginning after November 15, 2007, and, with certain exceptions, is to be applied prospectively. However, on February 12, 2008, the FASB issued FASB Staff Position No. FAS 157-2, which delays the effective date of FAS 157 to fiscal years beginning after November, 15, 2008, and interim periods within those fiscal years for all nonfinancial assets and nonfinancial liabilities, except for those items that are recognized or disclosed at fair value on a recurring basis, i.e., at least annually, in the financial statements. However, this delay does not apply to entities that have issued interim or annual financial statements or FR Y-9C reports that include the application of the measurement and disclosure provisions of FAS 157. Bank holding companies must adopt FAS 157 for FR Y-9C reporting purposes in accordance with the standard's effective date, including the delayed effective date for eligible nonfinancial assets and nonfinancial liabilities. Thus, a bank holding company with a calendar year fiscal year should have adopted FAS 157 as of January 1, 2008, and as of January 1, 2009, for eligible nonfinancial assets and nonfinancial liabilities subject to the delay mentioned above.

FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), issued in February 2007, is effective as of the beginning of a bank holding company's first fiscal year that begins after November 15, 2007, and generally should not be applied retrospectively to prior fiscal years. FAS 159 allows bank holding companies to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings. In general, a bank holding company may elect the fair value option for an eligible financial asset or liability when it first recognizes the instrument on its balance sheet or enters into an eligible firm commitment. A bank holding company may also elect the fair value option for eligible items that exist on the effective date of FAS 159. A bank holding company's decision to elect the fair value option for an eligible item is irrevocable. Because FAS 159 creates a fair value option, a bank holding company is not required to adopt FAS 159 for FR Y-9 reporting purposes. A bank holding company that elects the fair value option is expected to apply sound risk management and control practices to the assets and liabilities that will be accounted for at fair value under the option. The bank holding company is also expected to meet the principles and objectives of FAS 159 when applying the fair value option.

The Federal Reserve is considering the regulatory capital implications of the use of a fair value option, including the fair value option in FASB Statement No. 155 on certain hybrid financial instruments (FAS 155) and FASB Statement No. 156 on servicing assets and liabilities (FAS 156). Except as discussed below, changes in the fair value of assets and liabilities to which a fair value option is applied that are recognized in earnings should be reflected in Tier 1 capital, pending further guidance from the Federal Reserve. For a liability to which a fair value option is applied, bank holding companies should consider the effect of a change in their own creditworthiness on the fair value of the liability. The Federal Reserve has determined that bank holding companies should exclude from Tier 1 capital the cumulative change in the fair value of liabilities accounted for under a fair value option that is included in retained earnings (Schedule HC, item 26.a) and is attributable to changes in the bank holding company's own creditworthiness. For regulatory capital purposes, this excluded portion of the change in fair value is, in essence, an adjustment to the bank holding company's reported retained earnings and should be reported in Schedule HC-R, item 7.b, so that it is taken into account in determining the Tier 1 capital subtotal (reported in Schedule HC-R, item 8) that is used to determine the regulatory capital limits on such items as servicing assets, deferred tax assets, and credit-enhancing interest-only strips.

FASB Interpretation No. 48 on Uncertain Tax Positions

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), was issued in June 2006 as an interpretation of FASB Statement No. 109, *Accounting for Income Taxes.* Under FIN 48, the term "tax position" refers to "a position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities." FIN 48 further states that a "tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets."

According to FIN 48, a bank holding company should initially recognize the effects of a tax position in its financial statements when, based on the technical merits, it is more likely than not (i.e., a likelihood of more than 50 percent) that the position will be sustained upon examination by the taxing authority, including the resolution of any related appeals or litigation. The more-likely-than-not evaluation must consider the facts, circumstances, and information available at the report date. When a tax position meets the more-likely-than-not recognition threshold, it should initially and subsequently be measured as the largest amount of tax benefit greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. FIN 48 also provides guidance on subsequent recognition, derecognition, and measurement of tax positions, including the effect of changes in judgment, and on the recognition of interest and penalties. The June 2007 FR Y-9C reporting instructions were updated to include a revised Glossary entry for "Income Taxes" that includes guidance on FIN 48.

Bank holding companies must adopt FIN 48 for FR Y-9 reporting purposes in accordance with the interpretation's effective date. As originally issued, FIN 48 was effective for fiscal years beginning after December 15, 2006. However, for eligible nonpublic enterprises the FASB

Board has decided to defer the effective date of FIN 48 to the annual financial statements for fiscal years beginning after December 15, 2008. A nonpublic enterprise is eligible for this deferral provided it (a) has not issued a full set of annual financial statements incorporating the recognition, measurement, and disclosure requirements of FIN 48 and (b) is not a subsidiary of a public enterprise. A nonpublic enterprise that meets these conditions is eligible for the deferral even if it issued interim or quarterly financial information in 2007 that reflected the adoption of FIN 48.

Thus, eligible nonpublic bank holding companies must adopt FIN 48 for FR Y-9 reporting purposes for annual periods beginning after December 15, 2008, based on their respective fiscal years. For example, an eligible nonpublic bank holding company with a calendar year fiscal year must adopt FIN 48 as of January 1, 2009, but is not required to reflect the effect of its adoption of FIN 48 for FR Y-9 reporting purposes until it prepares its FR Y-9 for the December 31, 2009, report date. An eligible nonpublic bank holding company that applied the recognition and measurement provisions of FIN 48 in its FR Y-9 reports for 2007 report dates can either: (a) choose not to adopt the effective date deferral and continue to apply FIN 48 in its FR Y-9 reports going forward; or (b) choose to adopt the effective date deferral and its December 2007 FR Y-9 report should have been prepared without reflecting the application of FIN 48. As noted above, a nonpublic bank holding company that is a subsidiary of a public company does not meet the eligibility conditions for the deferral of the effective date of FIN 48 and at present should be preparing its FR Y-9 reports in accordance with FIN 48.

FASB Statement No. 158 on Defined Benefit Postretirement Plans

FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158), issued in September 2006, requires a bank holding company that sponsors a single-employer defined benefit postretirement plan, such as a pension plan or health care plan, to recognize the funded status of each such plan on its balance sheet. An overfunded plan is recognized as an asset while an underfunded plan is recognized as a liability. As of the end of the fiscal year when a bank holding company initially applies FAS 158, the postretirement plan amounts recognized on the bank holding company's balance sheet before applying FAS 158 must be adjusted to recognize gains or losses, prior service costs or credits, and transition assets or obligations that have not yet been included in the net periodic benefit cost of its plans. These adjustment amounts are recognized directly in equity capital as components of the ending balance of accumulated other comprehensive income (AOCI), net of tax. Thereafter, a bank holding company must recognize certain gains and losses and prior service costs or credits that arise during each reporting period, net of tax, as a component of other comprehensive income (OCI) and, hence, AOCI. Postretirement plan amounts carried in AOCI are adjusted as they are subsequently recognized in earnings as components of the plans' net periodic benefit cost. For further information on accounting for defined benefit postretirement plans, bank holding companies should refer to FAS 158; FASB Statement No. 87, *Employers' Accounting for Pensions* (FAS 87); and FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (FAS 106).

Currently, FAS 87 and FAS 106 permit bank holding companies that sponsor single-employer defined benefit postretirement plans to choose to measure plan assets and obligations either as of the end of the fiscal year or as of a date not more than three months before the end of the fiscal year. FAS 158 eliminates this choice by generally requiring that, for fiscal years ending after December 15, 2008, plan assets and obligations must be measured as of the end of the fiscal year.

Bank holding companies that sponsor single-employer defined benefit postretirement plans must adopt FAS 158 for FR Y-9C reporting purposes in accordance with the standard's effective date and transition provisions with respect to both funded status and measurement date. In the fiscal year that the measurement date provisions of FAS 158 are initially applied, bank holding companies should report the adjustment of the opening balance of retained earnings and any adjustment of the opening balance of AOCI in Schedule HI-A, item 2, “Restatements due to corrections of material accounting errors and changes in accounting principles,” and should consider disclosing this total amount in Notes to the Income Statement—Other.

In addition, according to an interim decision announced by the banking agencies on December 14, 2006, bank holding companies should reverse the effects on AOCI of FAS 158 for regulatory capital purposes, including for purposes of reporting and measuring the numerators and denominators for the leverage and risk-based capital ratios. The intent of the reversal is to neutralize the effect on AOCI of the application of FAS 158 on regulatory capital. Bank holding companies should exclude from regulatory capital any amounts recorded in AOCI resulting from the initial and subsequent application of both the funded status and measurement date provisions of FAS 158. For FR Y-9C reporting purposes, these excluded amounts should be reported in item 4 of Schedule HC-R, Regulatory Capital, together with the accumulated net gains (losses) on cash flow hedges. If the sum of the amounts included in AOCI (Schedule HC, item 26.b) for defined benefit postretirement plans under FAS 158 and for cash flow hedges represents a net gain (i.e., a net increase) in reported equity capital, this sum should be reported as a positive value in item 4 of Schedule HC-R. If the sum represents a net loss (i.e., a decrease) in reported equity capital, it should be reported as a negative number in item 4 of Schedule HC-R.

For purposes of reporting and measuring the denominators for the risk-based and leverage ratios, bank holding companies should also adjust their assets for any amounts recorded in AOCI affecting assets resulting from the initial and subsequent application of the funded status and measurement date provisions of FAS 158. Specifically, assets recognized or derecognized as an adjustment to AOCI as part of the incremental effect of applying FAS 158 should be reported as an adjustment to assets in item 42 of Schedule HC-R, column B, and should also be reported in item 26 of Schedule HC-R. For example, derecognition of an asset recorded as an offset to AOCI as part of the initial incremental effect of applying FAS 158 should be recorded as a negative amount in item 42, column B, of Schedule HC-R and as a positive amount in item 42, column F. This amount should also be added back to average total assets for leverage capital purposes by reporting it as a negative number in item 26 of Schedule HC-R. As another example, the portion of a benefit plan surplus asset that is included in Schedule HC, item 26.b as an increase to AOCI and is included in item 42, column A, of Schedule HC-R should be excluded from risk-weighted assets by reporting the amount as a positive number in item 42, column B. This amount should also be deducted from average total assets for leverage capital purposes by reporting the amount as a positive number in item 26 of Schedule HC-R. In addition, the adjustments for purposes of calculating risk-based capital and the leverage ratio described above should be adjusted for subsequent amortization of such amounts from AOCI into earnings.

Reporting of Maturity Data on Credit Derivative Contracts in Schedule HC-R

Bank holding companies report the remaining maturities of credit derivative contracts that are subject to risk-based capital requirements in Schedule HC-R, Memorandum items 2.g.(1) and (2), based on the rating of the underlying reference asset. Bank holding companies should report the full gross notional amount of all such credit derivative contracts in these Memorandum items. For credit derivative contracts that are subject to the market risk capital guidelines and for which the bank holding company is the protection seller (guarantor), bank holding companies should ensure that they report the notional amount rather than an amount based on the unpaid or unearned premiums on these derivatives.

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

Bank holding companies should continue to follow the guidance on accounting for share-based payments under FASB Statement No. 123 (Revised 2004), *Share-Based Payment* (FAS 123(R)), that was included in the FR Y-9C Supplemental Instructions for December 31, 2006. These instructions can be accessed via the Federal Reserve's Web site (www.federalreserve.gov/boarddocs/reportforms/supplemental/SI_FRY9_200612.pdf).

Tobacco Transition Payment Program

Bank holding companies should continue to follow guidance on the tobacco buyout program included in the FR Y-9C Supplemental Instructions for June 30, 2006, which can be accessed via the Federal Reserve's Web site (www.federalreserve.gov/boarddocs/reportforms/supplemental/SI.FRY9.200606.pdf).

FASB Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities*

Bank holding companies should continue to follow the guidance provided on this subject in the FR Y-9C Supplemental Instructions provided for December 31, 2005. These Supplemental Instructions can be accessed via the Federal Reserve's Web site (www.federalreserve.gov/boarddocs/reportforms/supplemental.cfm?WhichFormID=FR_Y-9C).

Reporting of Trust Preferred Securities

Bank holding companies should continue to follow the guidance provided on this subject in the FR Y-9C Supplemental Instructions provided for December 31, 2005. These Supplemental Instructions can be accessed via the Federal Reserve's Web site (www.federalreserve.gov/boarddocs/reportforms/supplemental.cfm?WhichFormID=FR_Y-9C).

Commitments to Originate and Sell Mortgage Loans

Bank holding companies should continue to follow the guidance provided on this subject in the

FR Y-9C Supplemental Instructions provided for December 31, 2005. These Supplemental Instructions can be accessed via the Federal Reserve's Web site (www.federalreserve.gov/boarddocs/reportforms/supplemental.cfm?WhichFormID=FR_Y-9C).

Listing of Revisions

<u>Revisions to the FR Y-9C for March 2009:</u>

<u>Report Form and Corresponding Instructions</u>

(1) *Cover page.* Updated reporting date to March 31, 2009.

(2) *Schedule HI, items 13 and 14.* Added new items for "Net income (loss) attributable to noncontrolling (minority) interests" and "Net income (loss) attributable to bank holding company."

(3) *Schedule HI, memoranda item 12.* Item is to be completed by bank holding companies with $1 billion or more in total assets.

(4) *Schedule HI-A, item 4.* Modified item to report net income (loss) attributable to bank holding company only (excluding income attributable to noncontrolling interests).

(5) *Schedule HC, item 22.* Deleted item.

(6) *Schedule HC, item 27.b.* Added new item to equity capital section for noncontrolling (minority) interests in consolidated subsidiaries (former item 22).

(7) *Schedule HC-C, item 12.* Added item for loans and leases held for investment that are acquired in business combinations with acquisition dates in the current calendar year, broken out by loan categories of secured by real estate, commercial and industrial, individuals (consumer), and all other. Added three columns for each loan category to collect (A) fair value of acquired loans and leases at acquisition date, (B) gross contractual amounts receivable at acquisition, and (C) best estimate at acquisition date of contractual cash flows not expected to be collected.

(8) *Schedule HC-D, item 13.a.* Added three way breakout of liability for short positions involving (1) equity securities, (2) debt securities, and (3) all other assets.

(9) *Schedule HC-D, memoranda items 9.a.(1) and 9.a.(2).* Added items for (1) gross fair value of commodity contracts and (2) gross fair value of physical commodities held in inventory.

(10) *Schedule HC-D, memoranda item 9.b.* Renumber former item 9 (other trading assets) as item 9.b.

(11) *Schedule HC-L, items 2.a and 3.a.* Items are to be completed by bank holding companies with $1 billion or more in total assets.

(12) *Schedule HC-M, items 24.a and 24.b.* Added items for issuances associated with the U.S. Department of Treasury Capital Purchase Program, with breakouts for (a) senior perpetual preferred stock or similar items, and (b) warrants to purchase common stock or similar items.

(13) *Schedule HC-R, items 6.a, 6.b, and 6.c.* Added new items for (a) qualifying Class A noncontrolling (minority) interests in consolidated subsidiaries, and (c) qualifying mandatory convertible preferred securities of internationally active bank holding companies. Revised (b) from qualifying trust preferred securities to qualifying restricted core capital elements (other than cumulative perpetual preferred stock).

(14) *Schedule HC-R, item 12.* Modified item to include restricted core capital elements (except Class B noncontrolling (minority) interest) includible in Tier 2 capital.

(15) *Schedule HC-R, item 13.* Modified item to include Class B noncontrolling (minority) interest includible in Tier 2 capital.

(16) *Schedule HC-R, memorandum item 8.* Added a new item for restricted core capital elements included in Tier 1 capital, with breakouts for (a) qualifying Class B noncontrolling (minority) interest, (b) qualifying Class C noncontrolling (minority) interest, (c) qualifying cumulative perpetual preferred stock, and (d) qualifying trust preferred securities.

(17) *Schedule HC-R, memorandum item 9.* Added new item for goodwill net of any associated deferred tax liability.

(18) *Schedule HC-R, memorandum item 10.* Add a new item for the ratio of qualifying restricted core capital elements to total core capital elements less (goodwill net of any associated deferred tax liability).

<u>Instructions Only</u>

(1) *Schedule HI, item 1.c.* Clarified instruction to include interest income from excess and reserve balances due from Federal Reserve banks, but to exclude any credit associated with clearing balances due from Federal Reserve banks.

(2) *Schedule HI, items 7.c.(1) and 7.c.(2), and Schedule HC-M, item 12.c.* Removed reference to FASB Statement No. 72.

(3) *Schedule HC, items 1.a and 1.b.* Modified instruction to indicate that all balances due from Federal Reserve banks are excluded from item 1.a and included in item 1.b.

(4) *Schedule HC-B, item 7.* Clarified the types of equity securities reportable in this item.

(5) *Schedule HC-C, item 1.a.* Clarified reporting of loans written as combination construction-permanent loans secured by real estate.

(6) *Schedule HC-R, item 16.* Removed instruction indicating to report in this item trust preferred securities includible in tier 2 capital.

(7) *Glossary, entry for Accounting Changes.* Modified section for "Corrections of accounting errors" providing guidance on quantifying misstatements.

(8) *Glossary, entry for Loans Secured by Real Estate.* Clarified to explain that the estimated value of the real estate collateral must be greater than 50% of the principal amount of loan at origination for loan to be considered secured by real estate.

SUMMARY OF EDIT CHANGES EFFECTIVE FOR MARCH 31, 2009, FR Y-9C and FR Y-9LP CHECKLISTS

FR Y-9C
(Validity - V, Quality - Q, Intraseries - I)

Added Edits:

Validity: 0150, 0151, 1191

Quality: 5620, 5621, 7151, 7152, 7153, 7154, 7155, 7156, 7157, 7158, 7159, 7160, 7161, 9170 (HI-12, BHCKG104), 9170 (HI-13, BHCKG103), 9406 (HC-C1bB, BHDM1420), 9430 (HC-D13a1A, BHCKG209), 9430 (HC-D13a1B, BHDMG209), 9430 (HC-D13a2A, BHCKG210), 9430 (HC-D13a2B, BHDMG210), 9430 (HC-D13a3A, BHCKG211), 9430 (HC-D13a3B, BHDMG211), 9470 (HC-L2a, BHCK3820), 9470 (HC-L3a, BHCK3822), 9480 (HC-K3a, BHDM3465), 9480 (HC-K3b, BHDM3466), 9480(HC-K3c, BHDMF724), 9520 (HC-M24a, BHCKG234), 9520 (HC-M24b, BHCKG235), 9560 (HC-SM2d, BHCKF699)

Intraseries: 0060, 0063, 0064, 0065, 0066, 0067, 0068, 0069, 0070, 0071, 0072, 0073, 0074, 0075, 0076, 0079, 0080, 0084, 0085, 0086, 0090, 0091, 0092, 0142, 0143, 0144, 0146, 0147, 0148, 0149, 0150, 0151, 0152, 0153, 0154, 0155, 0156, 0157, 0158, 0159, 0160, 0161, 0162, 0163, 0164, 0165, 0166, 6041, 6042, 6043

Ended Edits:

Quality: 0072, 0076, 0214, 5778, 6212, 6273, 6893, 7145, 9170 (HI-10, BHCK4484), 9430 (HC-D13aA, BHCK3546), 9430 (HC-D13aB, BHDM3546), 9480 (HC-L2a, BHCK3820), 9480 (HC-L3a, BHCK3822), 9550 (HC-P5a, BHCKF184), 9550 (HC-P5b, BHDMF560), 9550 (HC-R6a, BHCKB589)

Intraseries: 0130, 6040, 6212, 6273

Revised Edits:

Validity: 0129, 0141, 1170, 1190, 1430, 1500, 2125, 2127, 2135, 2489, 2509, 2524, 3280, 3490, 3510, 3550

Quality: 0073, 0090, 0091, 0092, 0144, 0157, 0158, 0204, 0215, 0216, 0227, 0228, 0229, 0230, 0231, 0232, 5350, 5792, 6199, 6208, 6210, 6218, 6227, 6253, 6271, 6283, 6290, 6782, 6800, 6816, 6828, 7100, 7110, 7120, 7134, 7135, 7147, 7150, 9170 (HI-10, BHCK4300), 9170 (HI-11, BHCK4320), 9170 (HI-14, BHCK4340), 9380 (HC-27b, BHCK3000), 9390(HC-26c, BHCKA130), 9390 (HC-27a, BHCK3210), 9430 (HC-D13bB, BHDMF624), 9550 (HC-R12, BHCKG217), 9550 (HC-R13, BHCKG218), 9550 (HC-RM8c, BHCK5990), 9550 (HC-RM8d, BHCKC502), 9510(HC-M20c2, BHCK5043)

Intraseries: 0087, 0088, 0089, 0218, 0226, 5297, 5780, 5797, 6208, 6210, 6218, 6227, 6253, 6271, 6283, 6290, 6295, 6326, 6815

FR Y-9LP
(Validity - V, Quality - Q, Intraseries - I, Interseries - R)

Revised Edits:

Interseries: 0695