State Member Bank and Bank Holding Company Seminar

Friday, April 19, 2013

Agenda

- Call Report / FR Y-9C Reporting Changes
- FR Y-9C Common Reporting Issues
- Impact of Basel 2.5 on FR Y-9C
- Nonbank Reporting (FR Y-11 and FR 2314)
- FR Y-10 and FR Y-6 Reporting Changes

Call Report / FR Y-C Reporting Changes

Oscar Torres

Schedule HI-C/RI-C – Disaggregated Data on the Allowance for Loan and Lease Losses

- Effective with the reporting period March 31, 2013
- Completed by institutions with $1 billion or more in total assets

Schedule HI-C – Disaggregated Data on the Allowance for Loan and Lease Losses

To Be Completed by Institutions with $1 Billion or More in Total Assets	(Column A) Recorded Investment: Individually Evaluated for Impairment (ASC 310-10-35)				(Column B) Allowance Balance: Individually Evaluated for Impairment (ASC 310-10-35)				(Column C) Recorded Investment: Collectively Evaluated for Impairment (ASC 450-20)				(Column D) Allowance Balance: Collectively Evaluated for Impairment (ASC 450-20)				(Column E) Recorded Investment: Purchased Credit-Impaired Loans (ASC 310-30)				(Column F) Allowance Balance: Purchased Credit-Impaired Loans (ASC 310-30)			
Dollar Amount in Thousands	BHCK	Bil	Mil	Thou	BHCK	Bil	Mil	Thou	BHCK	Bil	Mil	Thou	BHCK	Bil	Mil	Thou	BHCK	Bil	Mil	Thou	BHCK	Bil	Mil	Thou
1. Real estate loans:																								
a. Construction loans	M708				M709				M710				M711				M712				M713			
b. Commercial real estate loans	M714				M715				M716				M717				M719				M720			
c. Residential real estate loans	M721				M722				M723				M724				M725				M726			
2. Commercial loans[1]	M727				M728				M729				M730				M731				M732			
3. Credit cards	M733				M734				M735				M736				M737				M738			
4. Other consumer loans	M739				M740				M741				M742				M743				M744			
5. Unallocated, if any													M745											
6. Total (for each column, sum of items 1.a through 5)	M746				M747				M748				M749				M750				M751			

[1] Include all loans and leases not reported as real estate loans, credit cards, or other consumer loans.

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Individually Evaluated Loans (Columns A and B)

- Column A captures the recorded investment in individually evaluated loans that have been determined as impaired.
- Column B captures the applicable allowance for loan and lease losses attributable to these individually impaired loans.
- Individually impaired loans are defined in ASC Subtopic 310-10, Receivables – Overall (formerly FAS 114, *"Accounting by Creditors for Impairment of a Loan"*)

Loans Collectively Evaluated (Column C and D)

- Column C captures the recorded investment in loans that have been collectively evaluated for impairment.
- Column D captures the applicable allowance for loan and lease losses attributable to these collectively evaluated impaired loans.
- Governed by ASC Subtopic 450-20, Loss Contingencies (formerly FAS 5, *"Accounting for Contingencies"*)

Purchased Credit-Impaired Loans (Column E and F)

- Column E captures the recorded investment in purchased credit-impaired loans.
- Column F captures the applicable allowance for loan and lease losses attributable to these purchased credit-impaired loans.
- Purchased credit-impaired loans are defined in ASC Subtopic 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, *"Accounting for Certain Loans or Debt Securities Acquired in a Transfer"*)

Loans: Common Classification Errors

- Commercial Real Estate Loans and C&I Loans
- Loans to financial institutions
- Loans to Foreign entities
  - Governments and official institutions
  - Financial institutions
  - Commercial entities

Loan Classification: Example 1

- Question: Is a loan secured by a commercial building site a construction loan or a commercial real estate loan? The loan is held for sale under the fair value option.

Counterparty	Purpose of Loan	Collateral	Cost	Fair Value
Construct, LLC	Commercial Land development	Land	$50 M	$46 M

- Reported at fair value as other construction, land development and other land loans secured by real estate
  - $46 M Schedule HC-C, Line 1.a (2)

Loan Classification: Example 1

Counterparty	Purpose of Loan	Collateral	Cost	Fair Value
Construct, LLC	Commercial Land development	Land	$50 M	$46 M

- Also reported on Schedule HC-Q, Assets and Liabilities Measured at Fair Value on a Recurring Basis
  - Assuming fair value measurements are inputs other than quoted prices for identical assets (Level 2), $46 M Schedule HC-Q, Line 3, columns A and D
  - Assuming fair value measurements inputs are unobservable (Level 3), $46 M Schedule HC-Q, Line 3, columns A and E

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Loan Classification: Example 2

- Should a loan be classified by its purpose (commercial activity) or its collateral (real estate)? The loan is held in the trading portfolio.

Counterparty	Purpose of Loan	Collateral	Cost	Fair Value
XYZ Hotels, Inc	Commercial activity	Hotel building	$ 19 M	$20 M

- Reported at fair value as secured by nonfarm nonresidential properties
  - $20M Schedule HC-D, Line 6.a (5)

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Loan Classification: Example 3

- Should a loan secured by mortgage-backed securities be considered secured by real estate? The loan is held for investment.

Counterparty	Purpose of Loan	Collateral	Cost	Fair Value
Top Rate Investment Company	Investment activity	MBS	$ 6.1 M	n/a

- Reported at cost as loans for purchasing or carrying securities
  - $6.1M Schedule HC-C, Line 9.b(1)
- Note: loans secured by mortgage-backed securities (MBS) or pools of mortgages are not classified as secured by real estate

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Loan Classification: Example 4

- How should a loan that is for the purpose of purchasing securities, but also secured by real estate be reported? The loan is held for sale.

Counterparty	Purpose of Loan	Collateral	Cost	Fair Value
Top Notch Investment Company	Purchasing equity securities	Top Notch's head office building	$ 2.2 M	$ 2.3 M

- Reported at the lower of cost or fair value, as loans secured by owner occupied nonfarm nonresidential real estate
  - $2.2 M Schedule HC-C, Line 1.e(1)

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Common Classification Errors

- **Commercial Real Estate Loans**
  - Commercial land development or construction loans secured by real estate
  - Loans secured by lien on nonfarm nonresidential properties where the lien is central to the extension of the credit

- **Commercial and Industrial Loans**
  - Include loans for commercial and industrial purposes to sole proprietorships, partnerships, corporations **<u>except those</u>**:
    - secured by real estate, or
    - for the purpose of purchasing or carrying securities

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Loan Classification: Example 5

- How should a loan that is partially secured by real estate be reported? The loan is held in our trading portfolio.

Counterparty	Purpose of Loan	Collateral	Cost	Fair Value
Fifty-Fifty Corporation	Commercial land development	*<u>Partially</u>* secured by real estate	$ 38 M	$ 35 M

- If value of the RE collateral at origination is greater than 50% of the principal amount of the loan, report as secured by real estate
  - $ 35M Schedule HC-D, Line 6.a.(1)
- If value of the RE collateral at origination is 50% or less of the principal amount of the loan, report as a commercial and industrial loan
  - $35M Schedule HC-D, Line 6.b

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Loan Classification: Example 6

- How should a loan to a REIT subsidiary be reported?

Counterparty	Purpose of Loan	Collateral	Cost	Fair Value
Subsidiary of a REIT	Commercial activity	unsecured	$ 1.4 M	n/a

- If the subsidiary is a qualified REIT subsidiary reported as loans to nondepository financial institutions
  - $1.4M Schedule HC-C, Line 9.a
- If subsidiary is a taxable REIT subsidiary reported as C&I loan
  - $1.4M Schedule HC-C, Line 4

Term	Definition
Qualified REIT subsidiary	100% owned and created to provide the REIT the business advantages of owning assets in subsidiaries.
Taxable REIT subsidiary	Provides real estate related services to tenants of properties owned by the REIT.

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Other Common Reporting Errors

- Asset-Backed Securities

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Asset-Backed Securities

- U.S Government Agency obligations
  - e.g., SBA, FHA, GNMA
  - *Excludes* mortgage-backed securities
- Mortgage-backed securities issued or guaranteed by U.S. Government agencies
    - FNMA
    - FHLMC
    - GNMA
    - REMIC issued by the VA
  - Other mortgage-backed securities
    - Non-U.S. government issuers
    - State and local housing authorities in the U.S.
  - Other asset-backed securities
    - e.g., credit card receivables, HELOCs, auto loans

Asset-Backed Securities: Example 7

- How would a residential MBS issued by Delaware State Housing Authority held for trading be classified?

Issuer	Underlying Assets	Fair Value
Delaware State Housing Authority	Residential mortgages	$6M

- Reported as other residential mortgage-backed securities
  - $6M Schedule HC-D, Line 4.c

Derivatives: Common Reporting Errors

- Misreporting of gains/(losses) in derivative transactions
- Incorrect reporting on Schedule HC-L, Line 11
  - Credit derivatives
  - Matured and settled derivative contracts
- Misinterpretation of risk category
  - Interest rate vs. foreign exchange contracts
- Incorrect reporting of notional amounts
  - The notional value is the underlying principal amount upon which the exchange of funds is based

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Derivatives – Gain(losses) Example 8

- We have multiple trading derivative assets and liabilities with the same counterparty subject to a qualifying master netting agreement meeting the offsetting criteria in the ASC 210-20. How should we report the net positive fair value of derivative contracts with the same counterparty and the changes in the fair value?

Counterparty	Fair Value @ 10/1/2013	Fair Value @ 12/31/2013	Gain/(loss)
BMN Company	$120,000	$100,000	$(20,000)

- Report the end-of-period fair value – derivatives with a positive fair value
  - $100K Schedule HC-D, Line 11
- Report the loss as part of noninterest income - trading revenue
  - $(20)K Schedule HI, Line 5.c

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Derivatives – Gain(losses) Example 9

- How should we report gains/(losses) from foreign exchange swaps used to hedge a Cumulative Translation Adjustment (CTA) exposure of a net investment in a foreign operation?
- If the net investment in the foreign operation is sold during the reporting quarter, how should we report such gains/(losses) from the CTA hedge?

Designation	Gains/ (Losses)
ASC 815 CTA Hedge	$100,000

- Report the gain as part of other comprehensive income
  - $100K Schedule HC, Line 26.b
  - $100K Schedule HI-A, Line 12
- Reclassify the gain into earnings as other noninterest income if sold
  - $100K Schedule HI, Line 5.l

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Derivatives – Exclusion Example 10

- For matured but unsettled derivative contracts as of the reporting date, should we still report them on Schedule HC-L?

Product	Notional	Maturity Date	Settlement Date
Interest rate swap	$10M	6/30/2013	7/2/2013

- No. Matured contracts should be excluded from Schedule HC-L
- Note: The unsettled amount should be either reported in other assets (if a receivable) or in other liabilities (if a payable.)

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Derivatives – Classification Example 11

- How should we report derivative contracts with multiple risk characteristics, for example currency interest rate swaps?

Product	Contract Size		Settlement FX Rate	Spot Rate on the Reporting Date	Receive	Pay
A USD/GBP interest rate swap	15M USD	10M GBP	1.5 GBP/USD	1.6 GBP/USD	Floating in USD	Fixed in GBP

- Report the foreign currency side as Foreign Exchange Contracts.
  - $16M Schedule HC-L, Line 11, Column (B)
    - 16M USD = 10M GBP * 1.6 GBP/USD
- Note: In general, when contracts involve the exchange of payment streams in different currencies, their predominant risk characteristic is foreign exchange risk.

Derivatives – Classification Example 12

- Should a currency swap contract with multiple payment streams be reported separately as spot (Schedule HC-L, Line 8) and forward contracts (Schedule HC-L, Line 11.b)?

Product	Notional	Fixed	Floating	Term	Initial Swap Date
A USD/GBP interest rate swap	$16M	1.5%	LIBOR+1%	Payments settled quarterly	6/30/2013

- No. Report it as foreign exchange swap contracts
  - $16M Schedule HC-L, Line 11.e, Column (B)
- Note: The derivative contracts with multiple payment streams should be reported as ONE contract according to predominant risk and type

Derivatives – Notional of Interest Rate Contracts Example 13

- How should we report the notional of swap contracts with an embedded amortization schedule on Schedule HC-L?

Product	Amortizing Factor	Lockout Period	Stated Notional	Amortized Notional in Yr 3
An index amortizing rate swap	Notional declines in accordance with the path of LIBOR	2 years	$1,000,000	$200,000

LIBOR	Change in BP	Amortization Rate
3.50%	0	80%

- Report amortized notional as of the reporting date in year 3
  - $200K Schedule HC-L, Line 11.e, Column (A)
- Note: Amortizing swaps should be reported at notional value based on the amortization schedule as of the reporting date.

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Derivatives – Notional of Interest Rate Contracts Example 14

- Should we report OTC interest rate collars used to hedge a floating-rate loan as swap contracts on Schedule HC-L?

Cap Notional	Cap Rate	Cap Premium	Floor Notional	Floor Rate	Floor Premium
$5 M	10%	$100K	$5 M	5%	$100K

- Report notional in purchased and written option lines
  - $5M Schedule HC-L, Line 11.d.1, Column (A)
  - $5M Schedule HC-L, Line 11.d.2, Column (A)
- Note: Collars are separate option contracts (one purchased and one written) that combine to make a cap and a floor. The notional value for the written portion of the contract should be reported in Line 11.d.1 and the purchased portion should be reported in Line 11.d.2.

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Derivatives – Notional of Commodities Example 15

- What price should be used in calculating commodity derivative contracts, contract price or spot price on the report date?

Product	Quantity	Remaining Term	Unit Contract Price	Unit Spot Price
A fixed-for-floating commodity price swap (crude oil)	100,000 barrels settled monthly	4 months	$20	$22

- Report notional amount calculated based on the contract price
  - $8M Schedule HC-L, Line 11.e, Column D
    - $8M =$20 *100,000 *4

- Note: Notional value of commodity derivative contracts with multiple exchanges of principal should be calculated based on the contract price multiplied by the remaining payments.

Derivatives – Notional of Foreign Exchange Contracts

- Reporting of Notional Amount
  - Only one side of a foreign currency transaction is to be reported
  - Two circumstances:
    - Foreign currency vs. USD
      - Report the foreign leg (in USD)
    - Foreign currency vs. foreign currency
      - Report the purchase leg (in USD)
  - All amounts should be reported in USD equivalent values using <u>Spot Rate</u> on the report date (i.e. 3/31, 6/30, 9/30, 12/31)

Derivatives – Notional of Foreign Exchange Contracts Example 16

- In the case that we buy/sell JPY against USD, how should we calculate the notional amount of the future contract?

Contract Size	Initial Contract Price	Settlement Value	Spot Rate
12,500,000 JPY	0.012654 USD/JPY	158,175 USD	0.012195 USD/JPY

- Report $152,438 as notional amount
  - $152,438 Schedule HC-L, Line 11.a, Column (B)
    - 152,438 USD = 12,500,000 JPY * 0.012195
- Note: The calculations are summarized as follows

Long Position: we buy JPY and sell USD	Initial Contract Size JPY * Spot Rate
Short Position: we sell JPY and buy USD	Initial Contract Size JPY * Spot Rate

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Funds Held at Non-depository Institutions

- Funds held at a non-depository institution should be reported as "Other assets" on Schedule HC-F, Line 6.
  - Examples:
    - Funds held in margin accounts at:
      - brokers
      - nonbank clearing organizations
    - Cash collateral held at an investment bank
- Balances due from non-depository institutions should NOT be reported as "Cash balances due from depository institutions" on Schedule HC, Line 1.

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Example 17

- Question: How would the following funds held at a non-depository institution be reported?

Counterparty	Amount in Deposit Account	Purpose
ABC Investment Bank	$400 million	Collateral for OTC Interest Rate Option

- Reported as other assets
  - $400M Schedule HC-F, Line 6

Example 18

- Question: How would the following funds held at a non depository institution be reported?

Counterparty	Amount in Deposit Account	Purpose
Broker BB	$400 million	Margin Account

- Reported as other assets
  - $400M Schedule HC-F, Line 6

Cash Collateral

- Cash collateral received and held in deposit accounts at other depository institutions should be reported in "Cash and balances due from depository institutions" on Schedule HC, Line 1.
- Cash collateral received and held in a deposit account at another depository institution should NOT be reported in "Other assets".

Example 19

- Question: How would the following cash collateral received for a letter of credit and held in a deposit account at another bank be reported?

Counterparty	Amount
Cash collateral received from AA Corporation and held at XYZ Bank	$300 million

- Reported as cash balances due from depository institutions
  - $300M Schedule HC, Line 1

Equity securities no readily determinable fair values

- Equity securities that do not have readily determinable fair values should be reported as other assets at historical cost on Schedule HC-F, Line 4, because:
  - Outside the scope of ASC Topic 320, Investments-Debt and Equity Securities (formerly FAS 115, *Accounting for Certain Investments in Debt and Equity Securities).*
  - An equity security does not have a readily determinable fair value if:
    - Sales or bid-and-asked quotations are
      - not currently available on a securities exchange registered with the SEC, and
      - not publicly reported by the National Association of Securities Dealers Automated Quotations systems or the National Quotations Bureau

Example 20

- How would the following stock held by your institution be reported?

Instrument	Historical Cost
Stock of a Federal Home Loan Bank	$770 million

- Reported as other assets
  - $770 million Schedule HC-F, Line 4
    - Equity securities that do not have readily determinable fair values

Fair Value and Schedule HC-Q

- Level 1 inputs are quoted prices in active markets for identical assets/liabilities that the reporting entity has the ability to assess at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset/liability either directly or indirectly (e.g., yield curves, interest rates…etc.).
- Level 3 inputs are unobservable inputs for the asset/liability. The inputs reflect the reporting entity's own assumptions about the assumptions a market participant would make in pricing the exit price of an asset/liability.

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Example 21

- How would the following be reported on Schedule HC-Q?

Product	Fair Value on Balance Sheet (HC)	Gross Fair Value	Netting Adjustment	Notes
Interest rate swap	$0	$100 million Positive fair value	$100 million	Fair value is based on a model whose inputs are observable (public data on interest rates)
		$100 million Negative Fair Value	$100 million	FIN 39 netting applies

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Example 21

Schedule HC-Q—Assets and Liabilities Measured at Fair Value on a Recurring Basis

Schedule HC-Q is to be completed by all bank holding companies.

	(Column A) Total Fair Value Reported on Schedule HC				(Column B) LESS: Amounts Netted in the Determination of Total Fair Value				(Column C) Level 1 Fair Value Measurements				(Column D) Level 2 Fair Value Measurements				(Column E) Level 3 Fair Value Measurements				
Dollar Amounts in Thousands	BHCY	Bil	Mil	Thou	BHCK	Bil	Mil	Thou	BHCK	Bil	Mil	Thou	BHCK	Bil	Mil	Thou	BHCK	Bil	Mil	Thou	
Assets																					
1. Available-for-sale securities	1773				G474				G475				G476				G477				1.
2. Federal funds sold and securities	BHCK																				
purchased under agreements to resell	G478				G479				G480				G481				G482				2.
3. Loans and leases held for sale	G483				G484				G485				G486				G487				3.
4. Loans and leases held for investment	G488				G489				G490				G491				G492				4.
5. Trading assets:	BHCT																				
a. Derivative assets	3543			0	G493		100	000	G494				G495		100	000	G496				5.a.
	BHCK																				
Liabilities																					
8. Deposits	F252				F686				F694				F253				F254				8.
9. Federal funds purchased and securities																					
sold under agreements to repurchase	G507				G508				G509				G510				G511				9.
10. Trading liabilities:	BHCT																				
a. Derivative liabilities	3547			0	G512		100	000	G513				G514		100	000	G515				10.a.
	BHCK																				

Example 22

- How would the following be reported on Schedule HC-Q?

Product	Fair Value on Balance Sheet (HC)	Fair Value	Netting Adjustment	Notes
Resale Agreement	$0	$42 million Fair value option elected, and measurement Level 2	$42 million	Fair value option elected FIN 41 netting applies
Repurchase Agreement	$0	$42 million Fair value option elected, and measurement Level 2	$42 million	Fair value option elected FIN 41 netting applies

Example 22

Schedule HC-Q—Assets and Liabilities Measured at Fair Value on a Recurring Basis

Schedule HC-Q is to be completed by all bank holding companies.

	(Column A) Total Fair Value Reported on Schedule HC				(Column B) LESS: Amounts Netted in the Determination of Total Fair Value				(Column C) Level 1 Fair Value Measurements				(Column D) Level 2 Fair Value Measurements				(Column E) Level 3 Fair Value Measurements				
Dollar Amounts in Thousands	BHCY	Bil	Mil	Thou	BHCK	Bil	Mil	Thou	BHCK	Bil	Mil	Thou	BHCK	Bil	Mil	Thou	BHCK	Bil	Mil	Thou	
Assets																					
1. Available-for-sale securities	1773				G474				G475				G476				G477				1.
2. Federal funds sold and securities purchased under agreements to resell	BHCK G478			0	G479		42	000	G480				G481		42	000	G482				2.
Liabilities																					
8. Deposits	F252				F686				F694				F253				F254				8.
9. Federal funds purchased and securities sold under agreements to repurchase	G507			0	G508		42	000	G509				G510		42	000	G511				9.

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Other OBS Items Common Reporting Errors

- Incorrect Reporting: Line 1
  - Commitment that are not legally binding
  - Commitment supporting asset-backed commercial paper
  - Commitment to purchase equity in unconsolidated subsidiaries

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Other OBS Items – Commitment Example 23

- A BHC decided to extend credit to a financial institution on 3/31, but a legally binding contract was not formed until 4/1. Should the BHC report this commitment to line 1.e.2, Other unused commitments Loans to financial institutions as of 3/31/2013?

Counterparty	Commitment	3/30/2013 (Friday)	4/2/2013 (Monday)
BOC Bank, N.A	$10,000,000	Credit extension is approved by the Board of Directors	A legally binding contract is formed

- No. Do NOT report this commitment to FR Y-9C. Loan commitments that are not legally binding on the report date should be excluded from the FR Y-9C.

Other OBS Items – Commitment Example 24

- Should we report unused commitments to advance funds to asset-backed commercial paper conduits sponsored by non-related institutions to Schedule HC-L, Line 1.e.(3), “All other unused commitments”?

Counterparty	Commitment
RBK Company	$5,000,000

- No. Report this commitment as follows:
  - $5M Schedule HC-L, Line 9, and
  - $5M Schedule HC-S Memoranda, Line 3.b.(2), “Unused commitments to provide liquidity to conduit structures: conduits sponsored by other unrelated institutions”

Other OBS Items – All Other OBS Items Example 25

- If a BHC has unfunded commitments of $2 million to make equity investments in an unconsolidated subsidiary, how should the BHC report this item given the total equity capital reported to Schedule HC, Line 27.a is $7.5 million?

Counterparty	Commitments	Total Equity Capital	% of Total
ABC Corp.	$2,000,000	$7,500,000	26.7%

- Report and itemize it as other off-balance-sheet items
  - $2M Schedule HC-L, Line 9
  - $2M with its description in a line between Schedule HC-L, Lines 9.a through 9.g
- Note: Unfunded commitments to purchase equity should be reported to Line 9 because it exceeded 10% of total equity capital. Because it exceeded 25% of total equity capital, it also should be disclosed in one line between Lines 9.d through 9.g

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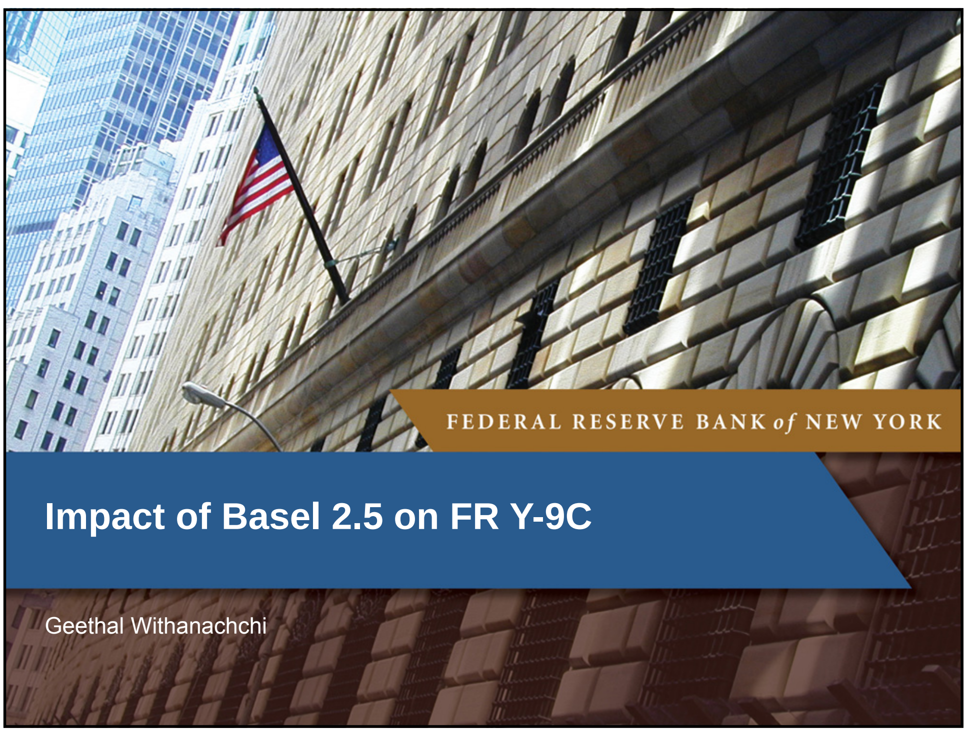

Background

- Basel 2.5 rules amended the definition of "covered positions", requiring bank holding companies (BHCs) subject to the market risk capital guidelines to move certain positions from the trading book to the banking book on Schedule HC-R, Regulatory Capital.
- As a result, covered positions are defined as trading assets and liabilities (as reported on Schedule HC-D) that are held for the purpose of short-term resale, or with the intent of benefitting from actual or expected short-term price movements, or to lock in arbitrage profits.

Background

- The amended definition also includes trading assets and liabilities that hedge covered positions only if the hedge is within the scope of the BHC's hedging strategy.
- In addition, the trading asset or liability with constraints in terms of a BHC's ability to liquidate it readily or value it reliably on a daily basis no long meets the definition of a covered position.
- As a result of the modification, the characterization of an asset or liability as "trading" under U.S. Generally Accepted Accounting Principles (GAAP) in ASC 320 (Investments – Debt and Equity Securities) and ASC 825 (Financial Instruments) will not necessarily determine whether the asset or liability is a "trading position" under Basel 2.5.

Reporting Changes

The positions that are likely to be moved to the banking book from trading book include:

- Private equity investments
- Direct real estate holdings
- Pipeline and warehouse loans held for securitization
- Credit derivatives hedging a non-covered position
- Hedge fund exposures hedging a covered position
- Approved non-trading structural foreign currency positions

Reporting Changes

- If designated as trading in accordance with FR Y-9C instructions, these positions should continue to be reported on Schedule HC-D. However, for capital reporting purposes, they should be excluded from the Schedule HC-R, item 58, “Market risk equivalent assets”, and reported to the appropriate banking book line item, allocated with proper risk weight (zero, twenty, fifty, or hundred percent) as part of the risk-weighted assets subject to the credit risk capital guidelines

Additional Information

- BHCs should refer to the Federal Register-Vol.77-No. 169 published on August 30, 2012, which is available at:
  - http://www.ffiec.gov/federalregister.htm

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Objectives

- Filing Requirements
- Common Reporting Errors

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Quarterly Reporting

- Who is required to file?

  Quarterly Reporting:
  - total assets equal to or greater than $1 billion; or
  - total off-balance-sheet activities equal to or greater than $5 billion; or
  - equity capital of at least 5% of the consolidated equity capital of the top-tier BHC; or
  - operating revenue is at least 5% of consolidated operating revenue of the top-tier BHC.

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Annual Reporting

- **Annual Reporting – Detailed**
  - total assets are greater than or equal to $250 million (but < $1 billion).
- **Annual Reporting – Abbreviated**
  - total assets are greater than or equal to $50 million but less than $250 million;

    OR
  - total assets are greater than 1% of consolidated assets of top-tier BHC.

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Exemptions

- Who is exempt? –check exemption list in general instructions before filing.

Examples:

- Functionally Regulated
  - (e.g. SEC, CFTC, State Insurance Commissioners, State Securities Departments)
- Subsidiaries holding shares as a result of debts previously contracted ("DPC" assets)
- Merchant banking investment companies
  - Under section 4(k)4(H) of the BHC Act

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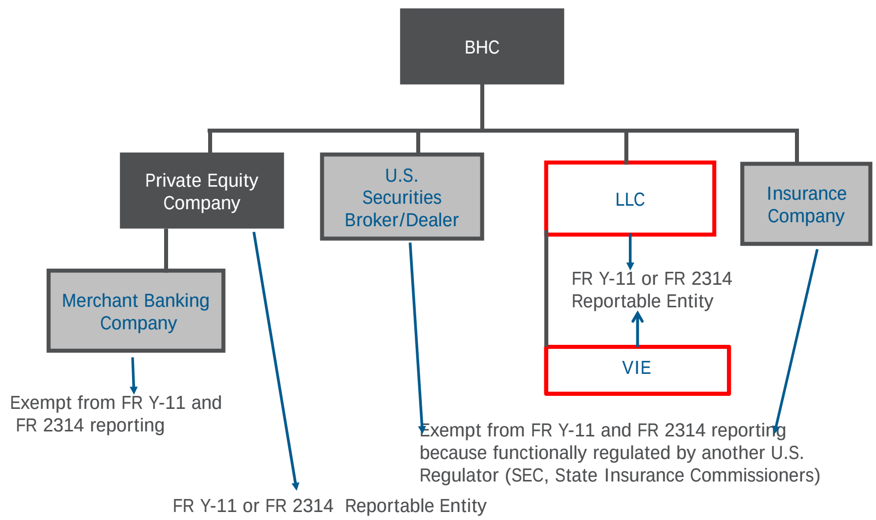
Reporting Criteria



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Filing Criteria - Timing

- If a subsidiary meets the reporting criteria to file quarterly as of June 30 of the preceding year, the BHC must file the quarterly report beginning in March of the current year and would continue to file until it falls below the reporting criteria for four consecutive quarters and other criteria listed in the instructions apply.

- If a subsidiary meets the reporting criteria due to a business combination, the BHC must file a quarterly report beginning with the first quarter following the effective date of the business combination.

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Filing Criteria – Frequency of Reporting

- Once a nonbank subsidiary satisfies the criteria to file the FR Y-11 and / or the FR 2314 for the June quarter during the calendar year, the nonbank subsidiary must file March the following year and continue to file quarterly for the remainder of the calendar year.

Example:	Total Assets*	Report Filed
Year 2012		
March 31, 2012:	$800 Million	N/A
June 30, 2012:	$1.5 Billion	N/A
Year 2013		
March 31, 2013:	$ 1.2 Billion	Quarterly FR Y-11
June 30, 2013:	$600 Million	Quarterly FR Y-11
September 30, 2013:	$1.5 Billion	Quarterly FR Y-11
December 31, 2013:	$900 Million	Quarterly FR Y-11

**For purposes of this example, off-balance-sheet activities is not applicable for this reporter and therefore that criteria are not met in any quarter*

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Common Reporting Errors Reporting Method

- No Consolidation
  - Separate report for each legal entity that is a subsidiary of the BHC (directly or indirectly owned) and that meets the reporting criteria.
  - Each BHC should separately assess whether a VIE meets the definition of a subsidiary and determine if any such entity meets the criteria for filing the report.
  - For purposes of these reports, a subsidiary generally includes a company 25 percent or more owned or controlled by another company and is defined by Section 211.2(w) of Regulation K for the FR 2314, and Section 225.2 of Regulation Y for the FR Y-11.

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Common Reporting Errors Reporting Method

- Equity method accounting for all subsidiaries of the reporting entity

Income Statement – net income of reporter's sub:

“Equity in undistributed income” (Line 11)

Balance Sheet – net investment balance of reporter's sub:

“Balances due from related institutions - gross” (Line 9), if positive

“Balance due to related institutions - gross” (Line 16), if negative

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Common Reporting Errors Reporting Method

- OCI including the cumulative translation adjustment pertaining to the subsidiaries of the reporting entity is included as part of the net income of the subsidiary, and is reported in Schedule IS, “Equity in undistributed income” (Line 11).
- Accumulated OCI of the reporter's subsidiaries is reported on Schedule BS, “Balances due from related institutions” (Line 9).

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Reporting of Related Party Balances

- Related Parties
  - Reported gross on Schedule BS, Line 9 (Due From) or Line 16 (Due to) and includes:
    - Balances with the top tier bank holding company or banking organization and the subsidiary bank holding companies of the top tier bank holding company;
    - Balances with subsidiary banks (or their branches);
    - Balances with other subsidiaries (including those of the parent and the reporting nonbank subsidiaries;
    - Investment in all subsidiaries (whether consolidated or unconsolidated) and associated companies, less dividends paid/declared.

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Related Parties Transactions - Example

- A nonbank subsidiary received a loan in the amount of $450 million from its parent on 1/31/2013, and on 2/20/2013 the nonbank subsidiary placed $200 million deposits at its parent. How should the nonbank subsidiary report both transactions on 3/31/2013?

Product	Amount	Item Name	Schedule, Line
Borrowings	$450 million*	Balances due to related institutions, gross	BS, Line 16
Deposits	$200 million*	Balances due from related institutions, gross	BS, Line 9

*include in Schedule BS-M where applicable

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Common Reporting Errors Fair Value Option

- Nonbank subsidiaries that have elected to account for financial instruments or servicing assets at fair value under a fair value option (FVO) with changes in fair value recognized in earnings.
  - Assets and liabilities that are reported under the FVO are reported at fair value on Schedule BS.
  - FVO assets and liabilities with third parties and related institutions are also disclosed on Schedule BS, Memoranda, Line 1.a and 1.b., respectively.

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Common Reporting Errors Fair Value Option

Dollar Amounts in Thousands	SUBC	Bil	Mil	Thou	
Derivatives and Off-Balance-sheet Items					
20. Unused commitments on securities underwriting	3817				20.
21. Unused commitments on loans and all other unused commitments	A013				21.
22. Standby letters of credit and foreign office guarantees	A014				22.
23. Commercial and similar letters of credit	3411				23.
24. Commitments to purchase foreign currencies and U.S. dollar exchanges (spot, forward, and futures)	3415				24.
25. All other futures and forward contracts (excluding contracts involving foreign exchange)	A015				25.
26. Option contracts:					
a. Written option contracts	A098				26.a.
b. Purchased option contracts	A099				26.b.
27. Notional value of interest rate swaps	3450				27.
28. Notional value of exchange swaps (e.g., cross-currency swaps)	3826				28.
29. Notional value of other swaps	3829				29.
30. All other off-balance-sheet liabilities	A100				30.

Memoranda

Dollar Amounts in Thousands	SUBC	Bil	Mil	Thou	
Memoranda items 1.a. and 1.b. are to be completed by subsidiaries that have elected to account for financial instruments or servicing assets and liabilities at fair value under a fair value option.					
1. Financial assets and liabilities measured at fair value under a fair value option					
a. Total assets	F819				M.1.a.
b. Total liabilities	F820				M.1.b.

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Common Reporting Errors Fair Value Option

- Income Statement
  - Periodic revaluation adjustments to the carrying value of assets and liabilities reported under a FVO are reported as, “Other noninterest income” on Schedule IS, Line 5.a (10).
  - Servicing assets/liabilities reported at fair value under a FVO “Net servicing fees”, Line 5.a(6).
  - The net change in fair values of financial instruments accounted for under a FVO should be reported as, “Net change in fair values of financial instruments accounted for under a fair value option” on Schedule IS, Memorandum, Line 2 for the FR 2314 and FR Y-11.

  **Excludes revaluation adjustments of trading assets and trading liabilities. These are reported in “Trading Revenue,” Line 5.a (3).

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Common Reporting Errors Assets and Liabilities Fair Value Option Example

- How should MTM changes on loans and subordinated debt that are FVO reported?

Product	Book Value	Fair Value Amount	Change in Fair Value from marked to market	Schedule IS
Loans	$100 million	$116 million	$16 million Reported Amount $16 million Reported Amount	Other noninterest income, Line 5.a (10) Memoranda, Net change in fair value of financial instruments accounted for under a fair value, Line 2
Subordinated debt	$150 million	$125 million	($25 million) Reported Amount ($25 million) Reported Amount	Other noninterest income, Line 5.a (10) Memoranda, Net change in fair value of financial instruments accounted for under a fair value, Line 2

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Common Reporting Errors Trading Assets & Liabilities

- Realized gains and losses and other income and expenses resulting from the sale and purchase of all assets and liabilities held in the trading account in:
  - "Trading revenue", Line 5.a (3).

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Common Reporting Errors ALLL

- Allowance for Loan & Lease Losses (ALLL) must be reported on a standalone basis for each legal entity.
  - ALLL cannot be reported at the parent bank level or at another subsidiary level.
  - ALLL should exclude reserves for credit risk on off balance sheet items. These should be reported in "Other liabilities," Line 14 on Schedule BS and in "Noninterest expense," Line 7 on Schedule IS.
- Specific Reserves
  - Loans are to be reported net of specific reserves (exclude specific reserves from ALLL).

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Common Reporting Errors
Past Due & Nonaccrual Loans - TDRs

- Include in Schedule BS-A, “Loans restructured in troubled debt restructuring included in items 7.a through 7.c above” to clearly indicate that loans in this item should be troubled debt restructuring and exclude leases.

- Loans restructured in TDRs include those loans that have been restructured or renegotiated to provide a reduction of either interest or principal because of a deterioration in the financial position of the borrower.
  - A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not considered a TDR.
  - For further information, see the FR Y-9C Glossary entry for ‘‘troubled debt restructurings.’’

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Common Reporting Errors Assets & Liabilities

- Deferred Tax Assets and Liabilities
  - Income taxes are reported on a stand-alone basis.
  - Deferred tax assets and liabilities must be reported net for each tax jurisdiction and should be reported on Schedule BS, “All other assets”, Line 7 or “Other liabilities”, Line 14, respectively.
- Repurchase Agreements and Resale Agreements
  - Repurchase agreements and FFP are reported as “Other borrowed money” on Schedule BS, Line 12 and 13.
  - Resale agreements and FFS are reported as “Loans” on Schedule BS, Line 3.a.

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Common Reporting Errors –Example
Resale and Repurchase agreements

- A nonbank subsidiary entered into repurchase agreements of $850 million with a nonrelated party on 1/31/2013 and then entered into resale agreements of $780 with another nonrelated party. How should the nonbank subsidiary report both transactions on 3/31/2013?

Product	Amount (Gross)	Item Name	Schedule, Line
Repurchase agreements	$850 million	Other borrowed money	BS, Line 12 or Line 13
Resale agreements	$780 million	Loans and lease financing receivables AND: All other loans for non-depository counterparties Loans to depository institutions for depository counterparties	BS, Line 3.a BS-A, Line 5 BS-A, Line 2

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Common Reporting Errors Assets & Liabilities

- Goodwill
  - Goodwill is reported on Schedule BS, "All other assets," Line 7.
    - Impairments to goodwill are reported as "noninterest expense" on Schedule IS, Line 7.
- Other Assets & Other Liabilities
  - Other assets reported on Schedule BS-M, Line 5 should be equal to or less than balance reported on Schedule BS, "All other assets," Line 7.
  - Other liabilities reported on Schedule BS-M, Line 8 for the FR 2314 and Line 12 for the FR Y-11 must be equal to or less than balance reported on Schedule BS, "Other liabilities," Line 14.

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Common Reporting Errors Derivatives

- Derivatives and Off-balance Sheet items reported on Schedule BS, Lines 20 – 30 include transactions with related and nonrelated institutions.

- Notional Value of foreign exchange spot contracts are reported with foreign exchange futures and forwards on Schedule BS, Line 24.

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Common Reporting Errors Derivatives

- Derivatives
  - Accrued interest receivable and payable from derivative contracts excluded from the calculation of fair value should be reported separately on Schedule BS, "All other assets," Line 7 and "Other liabilities," Line 14, respectively. (Methodology should be applied consistently).

  - Unrealized gains and losses from derivative contracts held for trading with nonrelated institutions are reported net on Schedule IS, "Trading Revenue," Line 5.a (3).

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Common Reporting Errors Derivatives

- Derivatives
  - Fair Value of Derivatives held for purposes other than trading – with nonrelated parties
    - Derivatives held for purposes other than trading that do not qualify for hedge accounting under ASC 815-20 must be reported as held for trading.
    - Fair value if hedging applies reported on BS, "All other assets," (Line 7), if a positive fair value.
    - Fair value if hedging applies reported on BS, "Other liabilities," (Line 14), if a negative fair value.

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Common Reporting Errors
All Other Off Balance Sheet Liabilities

- All credit derivatives are reported in "All Other Off Balance Sheet Liabilities," (Line 30) .

- All securities borrowed/lent against collateral <u>other than cash</u> (i.e. against other securities) are reported in "All Other Off Balance Sheet Liabilities," (Line 30).

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FEDERAL RESERVE BANK *of* NEW YORK

FR Y-10 and FR Y-6 Reporting Changes

Richard Crawn

Agenda

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

Report of Changes in Organizational Structure

(FR Y-10)

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FR Y-10 Schedule Changes

Banking and Nonbanking Schedules

- General Partner or Limited Partner
  - Added check boxes to specifically capture the direct ownership interests of:
    - General Partner/Managing Member

    or
    - Limited Partner/Non-Managing Member
- State or Country (if foreign) of Incorporation
  - Added a requirement to report state or country (if foreign) of incorporation
- LLLPs
  - Added Limited Liability Limited Partnership (LLLPs) to Business Organization Type options

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FR Y-10 Schedule Changes

4(K) Schedule

- Large Merchant Banking or Insurance Company Investments Section
  - Updated Instructions to clarify that investments are in a "Nonfinancial Company" rather than in a "Nonbanking Company"
  - Item 1.a. – Event Types
    - Added three New event types:
      - Divestitures
      - No Longer Reportable
      - Name Changes

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FR Y-10 Schedule Changes

Domestic Branch Schedule Instructions

- Updated the instructions to clarify that branches acquired through a bank failure should be reported under the event type "Purchase of Branches"

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FR Y-10 New Savings and Loan Schedule

Savings and Loan Schedule

- Added a schedule to report Savings and Loan Holding Companies (SLHCs), savings and loan associations and federal savings banks

Note:

- Consequently, items that are now reported on this schedule were removed from the list of Nonbanking Company Types for Item 9 on the Nonbanking Schedule

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Annual Report of Holding Companies

(FR Y-6)

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FR Y-6 Report Title Change

- Annual Report of Holding Companies – FR Y-6
  - FR Y-6 title was revised from “Annual Report of Bank Holding Companies” to “Annual Report of Holding Companies”

FR Y-6 Confidentiality

- Confidentiality Request Instructions
  - The instructions were clarified to indicate how requests for confidentiality are granted

FR Y-6 Organization Chart

- Report Item 2a: Organization Chart
  - Percentage Ownership by Direct Holder
    - Specific partner or member interests became reportable on the organization chart
  - State and Country of Incorporation
    - The requirement for the reporting of state or country (if foreign) of incorporation became reportable on the organization chart

FR Y-6 Organization Chart

- The reportability of Debts Previously Contracted (DPC) was clarified to include:
  - A company that holds only foreclosed properties should not be reported
  - A company that holds a mixture of foreclosed properties and nonperforming loans that are not yet in default should be reported

FR Y-6 Securities Holders

- Report Item 3: Securities Holders
  - Clarified the instructions to include individuals acting in concert with one or more persons (including families)
  - Added reporting requirement of Small Business Lending Fund (SBLF) investments of 5% or more to the list of reportable security holders

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FR Y-6 Insiders

- Report Item 4: Insiders

  Updated the definition of a “principal securities holder” to include:
  - Individuals acting in concert with one or more persons (including families)
  - Options, warrants or other securities or rights that can be converted into or, which, in their aggregate, and including voting securities currently held, would exceed 10 percent of any class of voting securities

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Conclusion

- The FR Y-10 and FR Y-6 reporting forms and instructions are available at:
  - www.federalreserve.gov/reportforms

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