

Annual
State Member Bank/
Bank Holding Company
Presentation
2005

Federal Reserve Bank of New York
March 22, 2005

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Overview of Proposed Changes
to FFIEC 009 series

Alex Santana
Statistics Function
March 22, 2005

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Overview

- Background
- Proposed Schedule 1 changes
- Proposed Addition of Schedule 1.a
- Proposed Schedule 2 changes
- Announcements

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Background

The FFIEC issued a Federal Register notice during the first quarter delaying the implementation of the proposed changes published on August 17, 2004.

- The proposed changes were re-evaluated based on comments received.

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Background

- Comments
 - Separate foreign-office claims from cross border claims
 - Continue to collect three sector breaks for inward and outward risk transfers instead of two
 - Delete the memorandum items
 - Delete foreign-office commitments to and guarantees on local residents on an ultimate-risk basis
 - Add a column to collect foreign-office liabilities by country of residence of the creditor
 - Extend the filing period to 60 days

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Background

- Comments
 - Meetings were held with the commentors to discuss their concerns and comments. As result, the FFIEC decided to postpone and re-evaluate the proposed changes.

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Background

- Why the change?
 - Harmonize U.S. data with data on cross-border exposures collected by other countries and disseminated by the Bank of International Settlements (BIS).
 - Bring U.S. data into agreement with current BIS guidelines.

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Proposed Schedule 1 Changes

- Additions:
 - Three columns to collect foreign office claims on local residents in non-local currency on an immediate-counter party basis by sector
 - One column to collect foreign office claims on local residents in local currency on an immediate-counter party basis
 - Three columns to collect foreign office claims on local residents on an ultimate risk basis by sector

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Proposed Schedule 1 Changes

- Additions cont'd:
 - Commitments will be split from guarantees and credit derivatives and reported on an ultimate-risk basis.

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Proposed Schedule 1 Changes

- Deletions:
 - Total cross-border claims (Column 4)
 - Maturity breakdown of immediate cross border claims (Columns 6 and 7) greater than 1 year
 - Commitments on an immediate-counterparty basis (Columns 15, 16 and 17)

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Proposed Addition of Schedule 1.a

- Foreign Office Liabilities and Memorandum Items
 - Three columns will collect information on foreign office liabilities
 - Foreign Office Liabilities in Non-Local Currency
 - Foreign Office Liabilities in Local Currency
 - Total Liabilities Booked at Foreign Offices
 - Memorandum items (currently Columns 20 and 21) of Schedule 1 will be moved to Schedule 1.a
 - Column 14, Net due to/from Own Related Offices currently in Schedule 1 will be moved to the Memorandum Items of Schedule 1.a

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Proposed Schedule 2 Changes

- The addition of one column to collect the credit equivalent amount of foreign exchange and derivative products.

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Announcements

- A Federal Register notice will be published shortly. The notice will be available for public comment for 60 days.
- A FFIEC 009 presentation will be held on Thursday, June 16, 2005, which will cover a column by column review of the changes.
 - Presentation will also be available via the Internet
 - Registration information will be available at:
www.newyorkfed.org/newsevents/events/banking.html
We will send out a notice when registration is opened.

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Final Rule on Trust Preferred Securities

Juan C. Climent
Policy Department
March 22, 2005

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Background

- Since 1989, qualifying cumulative perpetual preferred securities have been limited in tier 1 capital to 25% of core capital elements
- From 1996 to 2004, minority interest in the form of TRUPs was includable in BHC's tier 1 capital, subject to 25% limit
- Since 2000, pooled issuances of TRUPs have taken place, allowing small BHCs to access the market

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FIN 46

- New TRUPs rule was largely a response to FASB release of FIN 46 / FIN 46R in 2004
 - Accounting authorities generally concluded that TRUPs must be deconsolidated from BHC financial statements under GAAP
 - TRUPs may no longer be treated as minority interest in the equity accounts of a consolidated subsidiary
- A change in GAAP accounting for a capital instrument does not necessarily change the regulatory capital treatment of such an instrument

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Tier 1 Eligibility of TRUPs

- The following TRUPs features provide capital support: long lives approaching economic perpetuity; dividend deferral rights approaching economically indefinite deferral; deep subordination; and redemption subject to FRS approval
- BHCs in deteriorating financial condition have deferred dividends on TRUPs to preserve cash flow

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Stricter Qualitative Limits

Restricted Core Capital Elements

Qualifying cumulative perpetual preferred stock (and surplus)

+

Minority interest related to cumulative perpetual preferred directly issued by consolidated depository institution subsidiary or foreign bank sub (class B minority interest)

+

Minority interest related to perpetual preferred issued by a consolidated subsidiary that is neither a depository institution or foreign bank sub (class C minority interest)

+

Qualifying TRUPs

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Stricter Quantitative Limits

- Limited to 25% of core capital elements, *net of goodwill*, less any associated deferred tax liability

Internationally Active BHCs

- Limited to 15% of core capital elements, *net of goodwill*, less any associated deferred tax liability
- Definition of internationally active is in line with Basel II NPR
- May also include mandatory convertible preferred securities up to the 25% limit

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Transition Period

- Stricter quantitative and qualitative limits become effective starting March 31, 2009
- Current less strict 25% limit during transition period
- Internationally active BHCs generally expected to limit cumulative perpetual preferred and TRUPs to 15% of core capital
- Excess TRUPs may be included in tier 2 capital
- BHCs with restricted core capital elements in excess of new tier 1 and tier 2 limits must consult with Fed on a plan for ensuring compliance by this date

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Limits to Excess TRUPs in Tier 2

- Excess TRUPs can continue to be included in tier 2 capital; however, starting March 31, 2009, they will be limited, together with term sub debt, limited-life preferred stock and class C minority interest, to 50% of tier 1 capital

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Regulatory Reporting Proposal

- New HC item 19.b, “Subordinated notes payable to trusts issuing trust preferred securities”
- TRUPs would no longer be included in Schedule HC, item 20, “Other liabilities”
- In addition, TRUPs would no longer be reported in Schedule HC-R, memoranda item 3.d, “Other cumulative preferred stock eligible for inclusion in Tier 1 capital (e.g., trust preferred securities)”

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March 2005 BHC Report Changes

Henry Castillo
Statistics Function
March 22, 2005

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Schedule HC- Balance Sheet

Changes in the reporting of TRUPS required

to:

- Conform to FIN 46
- To clearly display subordinated notes issued to deconsolidated TRUPS.

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March 2005 FR Y-9C Reporting Changes Schedule HC- Balance Sheet

TRUPS:

- Add a new item, “Subordinated notes payable to trusts issuing trust preferred securities” (item 19.b).
- Revise the definition of “Other liabilities” (item 20) to exclude subordinated notes payable to trusts issuing trust preferred securities (TPS).

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March 2005 FR Y-9C Reporting Changes Schedule HC- Balance Sheet

- Revise the definition of Schedule HC-R, “Other cumulative preferred stock eligible for inclusion in Tier 1 capital” (memoranda item 3.d), to exclude Trust Preferred Securities.
 - Since subordinated notes payable to TRUPS will now be reported separately on item 19.b.

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Schedule HC-Balance Sheet

Add memoranda 1, to disclose:

1. The name and address of their external auditing firm.
2. The name and email address of the engagement partner.

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Schedule HC-Balance Sheet

- This information will be used to more efficiently communicate banking industry issues related to accounting and auditing with the audit firms.
- The item would be collected initially in the March 31, 2005, report and annually as of December 31.

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Schedule HC-Balance Sheet

- The information in memoranda item 1, would identify firms providing full-scope auditing services to top-tier BHCs in which an opinion is rendered on their financial statements
- BHC's that do not have a full-scope audit conducted of their financial statements would not need to complete this item.

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Schedule SC-M, Memoranda

- Add new item 4, "Amount of nonvoting equity capital, including related surplus (included in balance sheet items 16.a, 16.b, 16.c, and 16.d)"
- This item would include the amount of retained earnings and accumulated other comprehensive income that is associated with perpetual preferred and other stock which does not possess voting rights.

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March 2005 FR Y-11 and FR 2314 Reporting Changes

- Revise the definition of, “All other assets,” (item 7) to exclude investments in unconsolidated subsidiaries and associated companies.
 - Only investments in nonrelated companies should be included in this item.

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March 2005 FR Y-11 and FR 2314 Reporting Changes

- Revise the definition of, “Balances due from related organizations,” (item 9) to include:
 - the amount of the subsidiary’s investments in unconsolidated subsidiaries.
 - balances due from the subsidiaries of the reporting nonbank subsidiary.
- This will make reporting of unconsolidated subsidiaries consistent with other regulatory reports

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Accelerated Time Schedule

- Top Tier BHC, FR Y-9C and FR Y-9LP
 - December reports remain at 45 days
 - March 2005, June 2005, September 2005, March 2006: 40 days
 - June 2006 and thereafter: 35 days
- Lower Tier BHC, FR Y-9C, FR Y-9LP and FRY-9SP
 - Remain at 45 days
- FR Y-9ES
 - Remains due July 31

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Current and Proposed FR Y-9C filing deadlines through June 2006

FR Y-9C Report Date	Current filing schedule for top-tier FR Y-9C <i>after report date</i>	Proposed filing schedule for top-tier FR Y-9C <i>after report date</i>	filing schedule for all other FR Y-9C filers <i>after report date</i>
March 31, 2005	40 calendar days	40 calendar days	45 calendar days
June 30, 2005	35 calendar days	40 calendar days	45 calendar days
September 30, 2005	35 calendar days	40 calendar days	45 calendar days
December 31, 2005	45 calendar days	45 calendar days	45 calendar days
March 31, 2006	35 calendar days	40 calendar days	45 calendar days
June 30, 2006	35 calendar days	35 calendar days	45 calendar days

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Proposed June 2005 Call Report Changes

- Add three new items to conform with new accounting standard : AICPA Statement of position 03-03, *Accounting of Certain Loans or Debt Securities Acquired in a Transfer*.
- Reason for new items:
 - Allow agencies to understand the relationship between allowances for loan and lease losses and the carrying amount of loan portfolios that include purchased impaired loans.
- Applies to loans purchased or acquired in a purchase business combination with evidence of a deterioration in credit quality since origination. ³⁵

Schedule RC-C, Loans and Leases

- Two new memoranda items:
 - The outstanding balance of purchased impaired loans.
 - The carrying amount as of report date of purchased impaired loans.

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Schedule RI-B, Changes in Allowance for Loan and Lease Losses

- Add new memoranda item to report the amount of loan loss allowances for purchased impaired loans included in total allowance for loan and lease losses as of report date.

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Consolidated Bank Holding Company Report of Equity Investments (FR Y-12) Changes

Sarit Kessel
Statistics Function
March 22, 2005

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Reporting Threshold Changes

- The aggregate nonfinancial investments threshold was decreased from \$200 million to \$100 million (on an acquisition cost basis) and the consolidated Tier 1 capital threshold increased from 5 percent to 10 percent for respondents that file the FR Y-9C
- The total capital threshold was increased from 5 percent to 10 percent for respondents who file the FR Y9-SP

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Schedule A - Type of Investments Changes

- Retitled memorandum item 3, “Impact on net income from items 1, 2, and 3 above” to “Pre-tax impact on net income from items 1, 2, and 3 above”
 - Clarifies that the impact on net income should be calculated pre-tax
- Added memorandum item 4, “Investments managed for others”
 - Provides new information regarding the extent of the institution’s PEMB operation

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Schedule B - Type of Security Changes

- Added memorandum item 2, “Does the BHC hold any warrants or similar instruments received in connection with equity investment activity”
 - Identifies activity that potentially increases the risk profile of the corporation

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Schedule C - Type of Entity Within the Banking Organization Changes

- Added column B, “Net Unrealized Holding Gains Not Recognized as Income”
 - Identifies net unrealized holding gains (or losses) that are not recognized as income, consistent with what is reported on Schedule A and B
- Renumbered column B, “Carrying Value” as Column C

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Schedule C - Type of Entity Within the Banking Organization Changes

- Added item 2b, “Edge and agreement corporations”
 - New breakout is consistent with item 1
- Added item 2d, “Private equity subsidiaries”
 - Segregates activity in nonbank subsidiaries primarily devoted to PEMB activity

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Schedule C - Type of Entity Within the Banking Organization Changes

- The following items have been deleted:
 - Column C, “Direct Investments in Public Entities”
 - Column D, “Direct Investments in Nonpublic Entities”
 - Column E, “ All Indirect Investments”
- Data were not significantly different than data collected in Schedule A and Columns A and B of Schedule C

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New Schedule D - Nonfinancial Investment Transactions During Reporting Period

- Collects information on all PEMB activity of the BHC, on an aggregate basis
- Enhances off-site monitoring of PEMB activity

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New Schedule D - Nonfinancial Investment Transactions During Reporting Period

- Column A and B collects acquisition cost and carrying value for all purchases, returns of capital, and net changes in valuation made for all direct investments
- Column C and D collects acquisition cost and carrying value for all purchases, returns of capital, and net changes in valuation for all indirect investments

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FR Y-9C Impact of FR Y-12 Changes *Schedule HC-M, Memoranda and Schedule SC-M, Memoranda*

Overview

- Modify or delete items used to determine if the reporting bank holding company must complete the FR Y-12
- Add items to identify private equity merchant banking (PEMB) activity by institutions exempt from filing the FR Y-12
- These changes coincide with changes to information collected on the FR Y-12 regarding the supervision of merchant banking investments.

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Schedule HC-M, Memoranda

- Revise item 19, to clarify the legal authorities that apply to the non-financial equity investments covered (SC-M, item 20)
- Item renumbered to Line 17 (SC-M, item 18)

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Schedule HC-M, Memoranda

- Modify question 17 to reflect reporting threshold change for the FR Y-12, and renumber it as item 18 (SC-M item 18 renumbered as 19)
- Delete item 18, “Has the bank holding company made an effective election to become a financial holding company?” (SC-M, item 19)

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Schedule HC-M, Memoranda

- Items 17 and 18 will determine if the reporting BHC must complete the FR Y-12 (SC-M, items 18 and 19)
 - If the answer to item 17 is no, then the BHC does not need to complete the FR Y-12 and can skip item 18.
 - If the answer to item 17 is yes and the answer to item 18 is no, the BHC does not need to complete the FR Y-12.
 - If the answer to both item 17 and item 18 is yes, then the BHC must complete the FR Y-12 report.

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Schedule HC-M, Memoranda

- Add new item 19(a), “Has the bank holding company sold or otherwise liquidated its holding of any nonfinancial equity investment since the previous reporting period? (SC-M, item 20(a))
 - This item will used to track PEMB activity, including activity by BHCs that are not required to file the FR Y-12

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Schedule HC-M, Memoranda

- Add new item 19(b), “Does the bank holding company manage any nonfinancial equity investments for the benefit of others? (SC-M, item 20(b))
 - This item will used to identify PEMB participants, including participants that are not required to file the FR Y-12
- All respondents that are not required to file the FR Y-12 must complete items 19(a) and 19(b) (SC-M, items 20(a) and 20(b))

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BHC Report Modernization

Howard Brickman
Statistics Function
March 22, 2005

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BHC Modernization

- FR Y-9C and LP - September 2004
- FR Y-9C, LP, SP, and ES - December 2004

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Report Submission

Via IESUB (initial and revised)

- Data Entry
- File Transfer

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Features

- Pop-up boxes
- Tutorial
- Help/User Guide
- Feedback

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Call Report Modernization Initiative

Presented at:
FRBNY's Annual State Member Bank/ Bank Holding
Company Presentation

Rich Molloy
Statistics Function
March 22, 2005

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Project Goals

- Update the process by which Call Report data are defined, managed and used
- Gain industry-wide efficiencies in the exchange of financial data by using the Internet and XML-based standards
- Create an extensible platform for current and future reporting needs

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Call Report Modernization Project

- FFIEC Call Agencies
 - FDIC
 - FRB
 - OCC
- XBRL – e**X**tensible **B**usiness **R**eporting Language
- Testing Schedule
- General Enrollment
- Operational launch is planned for the third quarter – October 1, 2005

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Expected Results

- Faster exchange of data between banks and FFIEC Call Agencies
- Resources shared more effectively among FFIEC Call Agencies
- Easier accommodation of Call Report changes
- Long-term potential to facilitate bankers' reuse of data among multiple regulatory and internal reporting needs
- Provides structure for automating straight-through processing

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Major Business Model Changes - Agencies

- What's New
 - Centralized data storage and processing facility
 - Shared costs and management
 - Meta-data published in XBRL format
 - Historical data available for banks and vendors
 - Expedited data publication
- What's the Same
 - Timely and accurate Call Report requirements
 - Customer service for requirements; exceptions and accounting rules

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Major Business Model Changes - Banks

- What's New
 - Elimination of paper-based meta-data materials (forms, instructions, validation criteria)
 - Pre-validation of data required
 - Math and logic errors eliminated before processing
 - Quality edit variances require explanation
 - Internet delivery of data to CDR
 - More responsibility for amended data
- What's the Same
 - Ultimate responsibility for data
 - Relationship with software providers
 - Little or no impact on legacy systems

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Industry Participation

Focus Groups

- Facilitate communication and coordination with major stakeholders
- Four major Focus Groups:
 - XBRL Standards Group
 - Technology Forecasting Group
 - Call Report Software Vendors Focus Group
 - Financial Institutions Focus Group

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Additional Information



Operational launch is planned for the
third quarter – October 1, 2005

Additional information available at:
www.FFIEC.gov/FIND

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