2002 State Member Bank / Bank Holding Company Regulatory Reporting Update

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2002 State Member Bank / Bank Holding Company Regulatory Reporting Update

- Topics:
  - Overview of March 2002 Report Changes
  - Amended Regulatory Capital Standards
  - Insurance Related Underwriting Activities Schedule HC-I

2002 State Member Bank / Bank Holding Company Regulatory Reporting Update

- Topics we will discuss:
  - Common Issues Encountered on the Report of Insured Depository Institutions Section 23A Transactions with Affiliates (FR Y-8)
  - Overview of the Report of Equity Investments in Non-Financial Companies (FR Y-12)

OVERVIEW of MARCH 31, 2002 CHANGES FFIEC 031/041 & FRY-9C

Monica Posen

Balance Sheet
RC and HC

- Beginning in March 2002
  - Federal Funds Sold and Securities Purchased under agreements to Resell will be reported separately
  - and
  - Federal funds purchased and securities sold under agreements to repurchase will be reported separately

Balance Sheet
RC and HC

- PURPOSE
  - To allow agencies to effectively monitor
    - individual bank funding sources
    - asset-liability management
    - liquidity risk

Balance Sheet
RC and HC

- In addition, the definition of Federal Funds will be revised to exclude:
  - Overnight Federal Home Loan Advances
    - include in “Other borrowed money”
    - include in Schedule RC-M, Federal Home Loan Bank advances "With a remaining maturity of one year or less."
    - include in HC-M "Other borrowed money with a remaining maturity of one year or less."

Balance Sheet
RC and HC

- In addition, the definition of Federal Funds will be revised to exclude(continued):
  - lending and borrowing transactions in foreign offices involving immediately available funds with an original maturity of one business day or under a continuing contract.
    - Reported in item 4.b “Loans and leases, net of unearned income” and item 16 “Other borrowed money”

Schedules RC & H

- Due to the change on the Balance sheet, instructions will be revised to exclude Fed funds transactions from:
  - – Securities purchased under agreements to resell (item 3).
  - – Securities sold under agreements to repurchase (item 4).

Schedule RC-K
Call Report 041 Only

- Beginning in March 2002
  - – Banks with assets of less than $25 million that file FFIEC 041 report form will begin reporting quarterly averages in the following four categories:
    - Loans secured by real estate
    - Commercial and industrial loans
    - “Credit cards” to individuals for household,family and other personal expenditures
    - “Other” consumer loans

Schedule RC-L & HC-L

- Beginning in March 2002 the fair value of credit derivatives on which the reporting institution is the guarantor and beneficiary will be required.
  - gross positive fair value
    - items 7.a.(1) & 7.b.(1)
  - gross negative fair value
    - items 7.a.(2) & 7.b.(2)

Schedule RC-L & HC-L

- Why the additional disclosure?
  - Increase in volume from $55 to $352 billion since 1997.
  - Increase use of these instruments as a risk management tool.

Schedule RC-L & HC-L

- How will this help the regulators?
  - Enable agencies to:
    - Determine the risk of credit derivatives at each institution.
    - Improve agencies ability to monitor and understand individual trading and hedging strategies.
    - Increase transparency of financial reporting.

Schedule RC-L & HC-L

- Notional Amount of Credit Derivatives should be excluded from the notional amount of Derivative Contracts lines 12 through 14.
- Fair Value of Credit Derivatives should be excluded from the fair value of derivative contracts line 15.

Schedule RC-L & HC-L

- MERCHANT CREDIT CARD SALES
  - – Addition of two new lines for year-to-date merchant credit card sales volume
    - 11.a. Sales for which the reporting bank is the acquiring bank.
    - 11.b. Sales for which the reporting bank is the agent bank with risk.

Schedule RC-L & HC-L

- MERCHANT CREDIT CARD SALES
  - – Acquiring Bank - contracts directly with merchant for settlement of credit card transactions.
  - – Agent Bank - indirect or third party association to process merchant credit card transactions.
    - guarantor of merchant transactions.

Schedule RC-L & HC-L

- CREDIT RISK
  - – Ability of merchant to pay charge backs.
  - – Unpaid merchant charge backs become a credit exposure.
- TRANSACTION RISK
  - – improper authorization.
  - – non-receipt of merchandise.

Schedule RC-L & HC-L

- Why the additional lines?
  - – Enable agencies to:
    - Identify and monitor risks associated with settlement of merchant credit card activity.
    - Monitor volume of sales transactions being processed or guaranteed.

Schedule RC-N & HC-N

- New Disclosure of Past due and Nonaccrual of Closed-end loans secured by 1-4 family residential properties (item 1.c.2)
  - a. secured by first liens
  - b. secured by junior liens

Schedule RC-N & HC-N

- Why the New Disclosure?
  - To provide a breakout of delinquency and loss rates for the two different types of closed-end loans.
  - Enable agencies to monitor home equity lending in the closed-end junior, lien 1-4 family residential loans category as is currently done for revolving open end loans.

Schedule RC-N & HC-N

- New Memo Item 5
  - Separate disclosing of repayment performance for loans and leases held for sale
    - Benefits
      - better understanding of the quality of loan.
      - to readily ascertain the relationship between banks' loan loss allowances for loans held for investment and the volume of such loans in past due or nonaccrual status.

Schedule RC-O (Call Report 031/041 Only)

- Revisions to Memoranda Section
  - Expanded to cover both the Total deposits in domestic offices of the bank and insured branches in Puerto Rico and U.S. territories and possessions.
  - Better estimate of uninsured deposits.

Schedule RC-T & HC-T

- Beginning in March 2002 Large Trust Institutions with:
  - (1) $250 million in total fiduciary assets
  - (2) gross fiduciary and related services income of more than 10 percent of revenue based on the preceding December 31 Call report
- Will be required to report items 4 through 19 for March, June and September Quarters

Income Statement - Schedule RI (Call 041 Only)

- Beginning in March 2002
  - Banks with assets of less than $25 million that file FFIEC 041 report form will begin reporting a breakdown of their total interest and fee income on loans into six categories:

Income Statement - Schedule RI (Call 041 Only)

- Six Categories of Loans
  - Loans secured by real estate
  - Commercial and industrial loans
  - “Credit cards” to individuals for household, family, and other personal expenditures
  - “Other” consumer loans
  - “Loans to foreign governments and official institutions
  - “All other loans”

Income Statement Schedule RI & HI

- Due to the accounting and reporting changes mandated by Statement No. 142 agencies are replacing item 7.c with:
  - Goodwill impairment losses (7c.1)
  - Amortization expense and impairment losses for other intangible assets (7c.2)

Income Statement
Schedule RI & HI

- Goodwill
  - will no longer be amortized but will be tested for impairment on an annual basis and between annual tests in certain circumstances.

Income Statement
Schedule RI & HI

- Impairment of Goodwill for each reporting unit
  - banks subsidiaries
  - nonbank subsidiaries

Income Statement
Schedule RI & HI

- Impairment measured at reporting unit level as though it had been pushed down to the bank but,
- Recognized on financial statements of the parent company

Income Statement
Schedule RI & HI

- Shell Bank Holding Company
  - Impaired goodwill recognized at bank level could be recognized at the bank holding company level without a separate impairment test.

Income Statement
Schedule RI & HI

- Are adjustments to capital guidelines permissible to utilize net goodwill?

- NO
  - Agencies will consider this at a future date
  - No change at this point.

Income Statement
Schedule RI & HI

- Other Intangible Assets
  - will be tested for impairment and some must be amortized.

Income Statement
Schedule RI & HI

- STATEMENT NO. 142
  - Will Not Apply When:
    - goodwill and intangible assets are acquired in combinations between two or more institutions with a mutual form ownership

Schedule RI-B & HI-B
Part I

- Due to the changes in Schedule N, Charge-offs and Recoveries is being revised to capture closed-end loans secured by 1-4 family residential properties for both:
  - secured by first liens
  - secured by junior liens

Schedule RI-B & HI-B Part II

- Due to the issue of "Interagency Guidance on Certain Loans Held for Sale" on March 26, 2001, instructions will be revised and a new item added to provide disclosure for write-downs arising from transfers of loans to a held-for-sale (HFS) account

Schedule RI-B & HI-B Part II

- Write-downs arising from transfers of loans to a Held-For-Sale (HFS) Account
  - Interagency Guidance Applies when:
    - An institution decides to sell loans that were not originated or otherwise acquired with the intent to sell
    - The fair value of those loans has declined for any reason other than a change in the general market level of interest or foreign exchange rates

Schedule RI-B & HI-B Part II

- How should write-downs be reported?
  - Charge off in Schedule RI-B, Part I
  - Corresponding reduction in the allowance should be reported in Schedule RI-B, Part II, item 4

Regulatory Capital Update

by Meredith Miske

Amended Capital Standards

- Final rules on the capital treatment of:
  - recourse obligations, direct credit substitutes, and residual interest in asset securitizations
  - nonfinancial equity investments

Background, History, & Prior Capital Treatment

- Asset Securitizations
- Residual Interests
- Direct Credit Substitutes

What is an Asset Securitization?

- Process by which loans and credit exposures are pooled and reconstituted into securities with one or more classes that may be sold

What is an Asset Securitization? (continued)

- Risk of credit losses from underlying assets are distributed to different parties, each loss position serves as a credit enhancement:
  – First Dollar: Position first to absorb losses
  – Senior: position last to absorb losses

What is an Asset Securitization? (continued)

- Increases liquidity because it provides an efficient mechanism sell credit exposures

What is an Asset Securitization? (continued)

- Federally sponsored mortgage programs:
  - guarantees the securities sold
  - may assume risk of the underlying mortgage

What is an Asset Securitization? (continued)

- When the securitized asset is NOT federally sponsored:
  - seller of privately securitized asset provides other forms of credit enhancements
  - takes 1st or 2nd dollar loss positions to reduce investors credit risk

What is an Asset Securitization? (continued)

- How is a credit enhancement provided depends on the type of securitization transaction:
  - Credit enhancements may be provided by the seller through "recourse" in connection with sales of whole loans or loan participations.
  - "Recourse" refers to the credit risk a bank retains in connection with the transferred assets.

What is an Asset Securitization? (continued)

- Sponsor of a securitization may provide a portion of the total credit enhancement internally through the structure of the securitization through the use of:
  - overcollateralization
  - retained subordinated interest
  - other on balance sheet assets

What is an Asset Securitization? (continued)

- Residual Interest
  - Credit enhancement provided through on balance sheet assets

Direct Credit Substitutes

- A third party can provide a credit enhancement in an asset securitization.
- If provided by another banking organization, the other banking organization assumes a portion of the assets' risk.
- If third party credit enhancement is not provided, the bank retains virtually all of the risk associated with the asset transferred.

History of Capital Treatment for Asset Securitizations

Proposals/Rulemaking

- May 25, 1994
- November 5, 1997
- March 8, 2000

May 25, 1994 Proposal Included:

- Reduced the capital requirement for low level recourse transactions
- Treated a bank's first loss (not second) direct credit substitute positions like recourse
- Use credit ratings to determine the capital treatment for certain recourse obligations and direct credit substitutes.

November 5, 1997 Proposed to use:

- Credit ratings used to determine capital treatment for:
  - recourse obligations
  - direct credit substitutes
  - senior asset-backed securities in asset securitizations

March 8, 2000 (Recourse Proposal):

- Eliminated certain options in the ‘97 proposal
- Built on the ratings approach by permitting the limited use of:
  - qualifying internal risk rating system OR
  - a rating agency or other 3d party review of credit positions in structured programs OR
  - qualifying software to determine the capital requirement of unrated direct credit substitutes

Summary of 3/8/00 Proposal (continued):

- Also required a sponsor of revolving credit securitization that contained an early amoritization feature to hold capital against the amount of assets under management in that securitization

History of Residual Interests

- Interagency Guidance: December 1999
- Residual Proposal: September 27, 2000

Interagency Guidance December 1999 Summary

- Guidance issued in response to increase use of securitizations highlighted risks of
  - asset securitizations
  - residual interests
- Addressed supervisory concern with risk management and oversight of securitization programs.

Interagency Guidance December 1999 Summary (continued):

- Stressed need to implement policies to:
  - limit the amount of residual interests that may be carried as a percentage of capital
  - regulatory restrictions to be established

Residual Proposal
September 27, 2000 Summary:

- Addressed concerns of residual interests stated in 12/99
- Deduction from Tier 1 capital for the amount of residual interest in excess of 25% of Tier 1 capital (concentration limit)
- Remaining interests would have $-for-$ capital charge even if it exceeded the 8% held against the transferred asset supported by the residual

Prior RBC Treatment

Old RBC standards applied different capital treatment to recourse obligations, including residual interests, and direct credit substitutes.

Recourse Obligations (prior capital treatment):

- Single treatment regardless of the method used to account for the transfer regardless of whether the transaction is reported as sale of assets or financing in the 9C/Call.
- RBC is held against the full risk-weighted amount of the assets transferred with recourse, unless the transaction is subject to the low-level recourse rule

Recourse Obligations (prior capital treatment):

- Financing Transaction: the transferred assets remain on the balance sheet and are risk-weighted
- Sale: The entire outstanding amount of the assets sold with recourse (not just contractual amount of the recourse obligation) is converted into on-balance sheet credit equivalent amount using a 100% credit conversion factor and is risk-weighted.

Direct Credit Substitutes

- Off-balance sheet direct credit substitutes, such as financial standby letters of credit provided for third-party assets, carry a 100% credit conversion factor.
- Only the face amount of direct credit substitute is converted into an on-balance sheet credit equivalent amount.

Direct Credit Substitutes

- If a direct credit substitute covers less that 100% of the potential losses on assets enhanced, it results in a lower capital charge than for a comparable recourse arrangement.

Direct Credit Substitutes

- Purchased subordinated interests receive the same capital treatment as off-balance sheet direct credit substitutes.
- Only the dollar amount of the purchased subordinated interest is placed in the appropriate risk-weight category.

Direct Credit Substitutes

- Retained subordinated interest in connection with the transfer of an a bank's own assets is considered to be a transfer of assets with recourse.
- Capital must be held against the carrying amount of the retained subordinated interest and the outstanding dollar amount of all senior interests that it supports, subject to the low-level recourse rule.

RBC Treatment under the Final Rule

- Effective Date: 1/1/02
- Ratings Based Approach
- Residual Interest - New Standard

Effective Date: 1/1/02

- EFFECTIVE DATE: Any transactions covered by this final rule settled on or after January 1, 2002.
- EARLY ADOPTION: Transactions entered into prior to the effective date may elect early adoption if the organizations capital ratios benefit from the final rule.
- DELAYED IMPLEMENTATION: Transaction entered into prior to the effective date may delay implementation until December 31, 2002 if the transactions result in an increase regulatory capital requirements.

Ratings Based Approach

Use ratings from rating agencies to determine capital requirements for:

- recourse obligations
- residual interests (except credit enhancing I/O strips)
- direct credit substitutes
- senior and subordinated securities in asset securitizations.

Long Term Rating Category

Rating Category	Rating	RW
Highest or second highest investment grade…..…...AAA or AA		20%
Third highest investment grade…………………………..A		50%
Lowest investment grade……………………………..…BBB		100%
One Category Below investment grade……………..…...BB		200%
More than one category below investment grade, or unrated……………………………………………..…..B or unrated		(*)

(*) Not eligible for ratings-based approach

Short Term Rating Category

Rating Category	Rating	RW
Highest investment grade..……………...………..	A-1, P-1	20%
Second highest investment grade………………...	A-2, P-2	50%
Lowest investment grade……………………..…..	A-3, P-3	100%
Below investment grade……………………….....	Not prime	(*)

(*) Not eligible for ratings-based approach

Ratings Approach

- Capital requirement for a position is computed by multiplying the face amount of the position by the appropriate risk weight.

Rated Positions: Traded

- Required to be rated by one agency
- Traded if:
  - position may be sold to unaffiliated investors relying on the rating or
  - an unaffiliated third party may enter into a transaction in which a third party relies on the rating of a position

Rated Positions: Nontraded

- Must be rated by more than one agency
- If ratings differ, the lowest single category will be used to determine the charge
- Long-term: rating must be one grade below investment grade or better
- Short-term: rating must be investment grade or better

Unrated Positions

- Three Approaches
  - Internal Risk-Rating System
  - Ratings of Specific Positions in Structured Finance Programs
  - Qualifying Rating Software Mapped to Public Rating Standards

Approach 1: Internal Risk-Rating System

- The final rule permits a qualifying internal risk rating system to be used. That system can be used to apply the ratings-based approach to:
  - Unrated direct credit substitutes in asset-backed commercial paper programs.
  - Credit enhancement qualify for a risk weight of 100% or 200% under the ratings-based approach, but not for a risk weight of less than 100%.

Approach 2: Ratings of Specific Positions in Structured Finance Programs

- A rating obtained from a rating agency for unrated direct credit substitutes or recourse obligations (but not residual interests) in structured finance programs that satisfy specifications set forth by rating agencies may be used.

Approach 3: Qualifying Rating Software Mapped to Public Rating Standards

- Banks can rely on qualifying credit assessment computer programs that the rating agencies develop for rating unrated direct credit substitutes or recourse obligations (not residual interests).

Residual Interest-New Standard

- A residual interest (defined under final rule):
  - is any on-balance sheet asset that represents an interest (including a beneficial interest) created by a transfer that qualifies as a sale (in accordance with GAAP) of financial assets, and
  - exposes a bank to credit risk associated with the transferred asset that exceeds a pro rata share of the claim on the asset.

Residual Interest-New Standard (continued)

- A credit enhancing I/O strip is an on balance sheet asset that in form or substance:
  - represents the contractual right to receive some or all of the interest due on assets transferred &
  - exposure to credit risk exceeds pro rata claim on underlying assets whether through subordination provision or other credit enhancing techniques

Residual Interest-New Standard (continued)

- Residual interests include any retained on-balance sheet asset that functions as a credit enhancement in a securitization, regardless of how the asset is reported in financial or regulatory reports.
- Purchased credit-enhancing I/O strips are residual interests for regulatory capital purposes.
- The definition of residual interest includes overcollateralization.

Residual Interest (continued)

- Final rule imposes:
  - A concentration limit on credit enhancing I/O strips, whether retained or purchased, to 25% of Tier 1 capital.
  - A “dollar-for-dollar” capital charge even if it exceeds the full risk-based capital charge of the assets transferred (includes all residual interests that do not qualify for the ratings-based approach)

Interaction with the Market Risk Rule

- For organizations complying with the market risk rule, positions in the trading book arising from asset securitizations, including recourse obligations, residual interest, direct credit substitutes are subject to the market risk rule.

The Call Report

- Line 10
- Disallowed Credit Enhancing Interest-Only Strips Calculation
- Treatment of 200% risk-weight

The Call Report

- Line 10 - Other additions and deductions to capital
  - Include the portion of credit enhancing I/O strips included in total assets that does not qualify for tier 1 inclusion

The Call Report (continued)

- Treatment of 200% risk-weight: Balance sheet reporting at amortized cost:
  - Column B: Amortized cost of asset as a negative number
  - Column F: Amortized cost of asset multiplied by 2

The Call Report (continued)

- Treatment of 200% risk-weight: Balance sheet reporting FV with unrealized gains/losses in OCI:
  - Column B
    - if FV exceeds cost: difference between FV and amortized cost as a positive number
    - if cost exceeds fair value: difference between FV and amortized cost as a negative number
    - amortized cost of asset as a negative number

The Call Report (continued)

- Treatment of 200% risk-weight: Balance sheet reporting at fair value with unrealized gains/losses in OCI:
  - Column F: amortized cost asset multiplied by 2

The Call Report (continued)

- Treatment of 200% risk-weight: Balance sheet reporting FV with unrealized gains/losses in current earnings:
  - Column B: fair value of asset as negative number
  - Column F: fair value of asset multiplied by 2

Regulatory Capital Treatment of Nonfinancial Equity Investments

Effective Date 4/1/02

- Investments Affected:
  - Individual investments made after 3/13/00, anything before 3/13/00 is excluded
  - New charges do not apply to any investment made under 24f of the FDI Act are exempt and prior investments are grandfathered
  - Rule does not apply to equity securities held in satisfaction of debts previously contracted or made through an insurance underwriting affiliate

Final rule affects equity investments made under:

- 4k4h of the BHC Act
- The authority to acquire up to 5% of voting shares of any company under 4c6 or 4c7 of the BHC Act
- The authority to invest in SBICs under 302(b) of the SBIC Act of 1958
- Portfolio investment provisions of Regulation K
- The authority to make investments under section 24 of the FDI Act (other than 24f).

Equity investment includes:

Purchase, acquisition, or retention of any equity investment:

- Common stock
- Preferred stock
- Partnership interest
- Interests in limited liability companies
- Trust certificates and warrants
- Call options which give right to purchase equity investments

Equity Investment Includes (continued):

Equity feature of debt instruments

- Warrant
- Call option

Deductions from Tier 1 Capital Required by Final Rule

Deduct from tier 1 capital, the aggregate carrying value as a percentage of tier1:

- Less than 15%: 8% deduction from tier 1
- 15% - 24.99%: 12% deduction from tier 1
- 25% or above: 25 percent deduction from tier 1

Amount deducted is excluded from RWA for purposes of computing the institution's RBC ratio.

SBIC Investments

- Rule exempts additional regulatory capital charge on SBIC investments held directly or indirectly by a:
  - Bank (to the extent the aggregate carrying value of investments do not exceed 15% of bank's T1)
  - BHC (to the extent that the aggregate carrying value of all investments do not exceed 15% of the aggregate of the BHC's pro-rata interest in T1 of the subsidiary banks).

Anything over 15% must follow the new rules and amounts not deducted will be risk-weighted at 100%.

Example

Tier 1 capital: $5 million

Aggregate carrying value of nonfinancial equity investments: $1 million (20% of T1)

14.99% of Tier 1: $749 thousand (.08) = $59,920

Remaining 5.01%: $255 thousand (.12) = $30,600

Total Amount to be deducted from capital: $90,520

FDI ACT

The Board of Directors of the FDIC may approve a lower capital deduction for investment approved under section 24 of the FDI Act after a review of proposed activity as long as they represent less than 15% of the tier 1 capital of the bank or higher if necessary

Other Changes To Schedule RC-R

- Tier 1 Capital Subtotal
  - Facilitate the calculation of certain disallowed assets
  - Adjustments for banks with financial subsidiaries

The Call Report

- Line 28.a
  - 1/2 of aggregate outstanding equity investment in financial subs
- Worksheet Provided to determine this amount

The Call Report (continued)

- Line 28.b
  - Aggregate amount of outstanding equity investment in financial subs
- Worksheet Provided to determine this amount

INSURANCE ACCOUNTING

Michael Tursi

INSURANCE ACCOUNTING

- General Nature of the Insurance Business
- GAAP for Insurance Enterprises
- GAAP and SAP Differences
- Form HC- I

General Nature of the Insurance Business

- The function of insurance is to provide for the pooling of risks among many persons who are exposed to similar risks.

General Nature of the Insurance Business

- The primary purpose of life insurance is to provide financial assistance at the time of death.
  - The long period of coverage involving the risk of death is what distinguishes it from other forms of insurance

General Nature of the Insurance Business

- The primary purpose of the property and liability insurance is the spreading of risks.

- For a premium, insurance companies relieve the policyholder of all or part of a risk and to spread the total cost of similar risks among large groups of policyholders.

General Nature of the Insurance Business

- Most life insurance is sold on a level premium basis under which the annual premium remains constant.
- The amount of the premium is based upon an assumed interest rate, and upon the frequency of deaths according to the mortality tables.
- After deducting benefits and other costs each year, premiums accumulate.

General Nature of the Insurance Business

- This accumulation, when combined with future net premiums and future investment income should generate a sum sufficient to pay the claims.
- The liability which corresponds to the fund is referred to as the “policy reserve.”

General Nature of the Insurance Business

- Life insurance companies also write annuity policies, on either an individual or a group basis, under which the insured (annuitants) receive fixed payments over varying periods.
- Another major line of business for the life insurance industry is health insurance (accident and health).

General Nature of the Insurance Business

- Insurance written by property and liability insurance companies may be broadly classified.
  - Personal lines consist of insurance policies issued to individuals
    - Large numbers of relatively standard policies with small premiums per policy (e.g., homeowner's and individual automobile policies)

General Nature of the Insurance Business

– Commercial lines consist of policies issued to business enterprises.
  - Commercial lines involve policies with relatively large premiums that are often retroactively adjusted based on claims experience.
  - The initial premium is often only an estimate because it may be related to payroll or other variables (e.g., worker's compensation and general liability).

General Nature of the Insurance Business

- The following are the principal types of insurance organizations:
  - **Stock companies**, are corporations organized with ownership and control of operations vested in the stockholders. Generally, the stockholders are not liable in case of bankruptcy or impairment of capital.
  - **Mutual companies**, are organizations in which the ownership and control of operations are vested in the policyholders. On the expiration of their policies, policyholders lose their rights and interests in the company.

General Nature of the Insurance Business

- The insurance industry is regulated by the state insurance regulators.

- State statutes:
  - Restrict investments of insurance companies.

General Nature of the Insurance Business

  - Prescribe methods of valuation of securities and other assets.
  - Require maintenance of minimum reserves, risk-based capital, and surplus.
  - Define those assets not permitted to be reported as “admitted assets” in annual statements filed with insurance departments.
    - Admitted assets are assets permitted by state law to be included in an insurance company’s annual statement. These assets are an important factor when regulators measure insurance company solvency.

General Nature of the Insurance Business

- The state regulates insurance premium rates to ensure that they are adequate, reasonable, and not discriminatory.

General Nature of the Insurance Business

- The commissioners of various states organized the National Association of Insurance Commissioners (“NAIC”).
- Findings of NAIC are not in themselves binding on any state, its recommendations for new rules or procedures or for changes in the old ones are usually accepted and adopted by the states in the form of legislation or regulation.

General Nature of the Insurance Business

- Important activities of the NAIC include financial reporting and examination
- In 1999, NAIC completed a process to codify statutory accounting practices for certain insurance enterprises resulting in a revised *Accounting Practices and Procedures Manual*, effective January 1, 2001
- The insurance laws and regulations of most states require insurance enterprises domiciled in those states to comply with the guidance in the revised Manual.

General Nature of the Insurance Business

- AICPA SOP 01-5 requires insurance enterprises that prepare GAAP financial statements to disclose a description of the prescribed or permitted statutory accounting practice and the related monetary effect on statutory surplus of using an accounting practice that differs from either state prescribed statutory accounting practices or NAIC statutory accounting practices.

GAAP for Insurance Enterprises

- Accounting for Policy Premiums
  - Premiums from short-duration contracts should be recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided.
  - This generally results in premiums being recognized as revenue evenly over the contract period.

GAAP for Insurance Enterprises

- Accounting for Policy Premiums (continued)
  - Unearned premiums, the portion of the premium applicable to the unexpired period of the policy, are included as an unearned premium reserve.
  - Some premiums are subject to adjustments (e.g., retrospectively rated or other experience rate contracts).

GAAP for Insurance Enterprises

Accounting for Policy Reserves

- Policy reserves are a property and liability insurer's estimate for the unpaid cost of insured events that have occurred.
- These reserves are recorded by charging the income statement for losses and loss adjustment expenses and crediting a liability account (loss and loss adjustment reserves).

GAAP for Insurance Enterprises

- Accounting for Policy Reserves (continued)
  - A fundamental distinction between loss reserves used by a property and liability company and benefit reserves used by a life insurance company is that loss reserves are only set up for accidents or events which have occurred.
  - A life insurance company typically sets up a benefit reserve long before the insured event.

GAAP for Insurance Enterprises

- Accounting for Policy Reserves (continued)
  - An insurance company's loss reserves consist of one or more of the components described below. All of these components should be considered in the loss reserving process but do not have to be separately estimated.
    - **Case-basis reserves**. The sum of the values assigned by claims adjusters to specific known claims that were recorded by the insurance company but not yet paid at the financial statement date.
    - **Case-development reserves.** The difference between the case-basis reserves and the estimated ultimate cost of such recorded claims.

GAAP for Insurance Enterprises

- Accounting for Policy Reserves (continued)
    - **Incurred but not reported (IBNR).** The estimated cost to settle claims arising from insured events that occurred but were not reported to the insurance company as of financial statement date.
    - **Reopened-claims reserve**. The cost of future payments on claims closed as of the financial statement date that may be reopened.

GAAP for Insurance Enterprises

- Accounting for Policy Reserves (continued)
  - Sometimes, case-development reserves, IBNR, and the reopened-claims reserves are calculated as a single reserve and broadly referred to as IBNR.
  - In addition to the basic components of loss reserves, a company will also need to estimate the effect of the following components:
    - Reserves for loss adjustment expenses
    - Reduction for salvage
    - Reduction for subrogation
    - Drafts outstanding
    - Reserves for assessments based on paid losses
    - Reinsurance receivables

GAAP for Insurance Enterprises

- Accounting for Aggregate Reserve for Life Policies
  - The aggregate reserve for life policies and contracts is an amount which is considered adequate to provide future guaranteed benefits as they become payable.
  - It is the aggregate result of an actuarial computation on each policy or group of policies.
  - It represents the present value of future guaranteed benefits reduced by the present value of future net premiums.

GAAP for Insurance Enterprises

- Accounting for Aggregate Reserve for Life Policies (continued)
  - The two most significant factors in determining the policy reserves are the mortality and interest rate assumptions.
  - There are several policy reserving methods in use:
    - **Net level**. The valuation net premium is a level percentage of the gross premium.
    - **Modified or preliminary term**. This method provides a smaller increment to reserves in the first year to offset some of the higher first year expense on a policy.

GAAP for Insurance Enterprises

- Accounting for Policy Acquisition Costs
  - Acquisition costs are primarily related to the acquisition of new and renewal insurance contracts (e.g., commissions, underwriting costs, and inspection fees).
  - Acquisition costs should be capitalized and amortized by a method similar to that used for amortizing unearned premiums.

GAAP for Insurance Enterprises

- Accounting for Reinsurance
  - Reinsurance is the indemnification by one insurer of all or part of a risk originally undertaken by another insurer.
  - An insurance company may accept, insurance of a class or amount that could result in claims the insurer does not have the financial capacity to absorb.
  - Such risks are spread among other insurance companies.

GAAP for Insurance Enterprises

- Accounting for Reinsurance (continued)
  - An insurer may use reinsurance contracts to finance the growth of its business in terms of premiums written and loss reserves.
  - The insurance company's gross capacity (ability to write business) is limited by law or regulation based on the amount of its statutory surplus.
  - The greater the ratio of premiums written or liabilities to such surplus, the less likely it is that the surplus will be sufficient to withstand adverse claim experience on business written.

GAAP for Insurance Enterprises

- Accounting for Reinsurance (continued)
  - A ceding company is a company that transfers all or part of an insurance risk to another company through reinsurance.
    - The ceding company remains primarily liable to the policyholder.
    - The ceding company bears the risks the that the reinsurer may be unable to meet its obligations for the risks assumed under the reinsurance agreement.

GAAP for Insurance Enterprises

- Accounting for Reinsurance (continued)
  - If a contact with another insurance company meets the requirements for reinsurance, it is accounted for under FAS 113, Accounting and reporting for *Reinsurance of Short-Duration and Long-Duration Contracts*.
  - When an insurance contract qualifies as a reinsurance, the ceding company must determine the proper accounting related to reinsurance.
  - Proper accounting depends on whether the existing contract is a short-duration or long-duration insurance contact.

GAAP for Insurance Enterprises

- Accounting for Reinsurance (continued)
  - Accounting for short-duration contracts depends on whether the reinsurance is:
    - Prospective: reinsurance exists when a reinsurer agrees to pay the ceding company for losses that might be incurred in the future.
    - Retroactive: reinsurance exists when a reinsurer agrees to pay the ceding company for liabilities from past events.

GAAP for Insurance Enterprises

- Accounting for Reinsurance (continued)
  - When prospective, the ceding company should record an asset (Prepaid Reinsurance Premium) for an amount equal to the amounts paid for the reinsurance.
    - The asset recorded should be amortized over the remaining life of the contract using the same method as the protection granted by the insurance contract.

GAAP for Insurance Enterprises

- Accounting for Reinsurance (continued)
  - Payments for retroactive reinsurance are recorded as reinsurance receivables.
    - The amount of the payments may be less than or exceed the amount of the liabilities reported by the contract that is subject to reinsurance.
    - When there is a difference between the receivable and the liability at the date of reinsurance, one or both accounts must be adjusted for the difference.

GAAP for Insurance Enterprises

- Accounting for Reinsurance (continued)
    - When the reinsurance receivable exceeds the recorded liability, either the receivable should be reduced, the liability increased for the difference, or both should be adjusted to account for the difference.
    - The adjustment is charged to income in the accounting period that encompasses the reinsurance.
    - If the receivable is less than the liability, the receivable is increased to equal the liability and a deferred gain is recognized for the difference.
  - If the reinsurance contract is classified as long-duration, the cost paid for reinsurance is amortized over the remaining life of the contract that is reinsured.

GAAP for Insurance Enterprises

- Premium Deficiency
  - A premium deficiency relating to short-duration insurance contracts indicates a probable loss
  - A premium deficiency should be recognized if the sum of expected claim costs and claim adjustment expenses, expected dividends to policyholders, unamortized acquisition costs, and maintenance costs exceed related unearned premiums.

GAAP for Insurance Enterprises

- Claim Fluctuation Reserves
  - A reserve established to protect the insurer against unfavorable claims experience.
  - This reserve typically applies, under both GAAP and statutory accounting, to group medical insurance policies that have experience ratings, especially to small group health experience that tends to be less predictable than the experience of large groups.

GAAP for Insurance Enterprises

- Premium Deposits
  - Amounts that an insurer's policyowners leave on deposit with the insurer to pay for future premiums.
  - Premium deposits apply to more than one future accounting period and are frequently discounted.

GAAP for Insurance Enterprises

- Separate Account Assets
  - Separate account assets constitute a separate record of fiduciary responsibility for the assets which fund the liability to variable or fixed-benefit annuity contractholders, pension funds, and others.
  - Assets usually consist of stocks, bonds, cash, dividends receivable, and amounts due from brokers.
  - Investments of variable annuity accounts are valued at market value.

GAAP and SAP Differences

- Bond Investments
  - **SAP**
    - Bonds that meet NAIC securities valuation designations 1 and 2 are carried at amortized cost.
    - All other bonds are carried at the lower of amortized cost or fair market value.
    - Bonds are not classified as available-for-sale (“AFS”). (Statement of Statutory Accounting Principles (“SSAP”) No. 26).
  - **GAAP**
    - Insurance enterprises follow FAS 115.

GAAP and SAP Differences

- Common and Preferred Stock Investment
  - **SAP** Common and preferred stocks are reported at fair market values as published by the NAIC. However, preferred stocks the NAIC designates as high quality are carried at cost. (SSAP Nos. 30 and 32).
  - **GAAP** Insurance enterprises follow FAS 115.

GAAP and SAP Differences

- Investments in Subsidiaries
  - **SAP** Majority-owned subsidiaries are generally not consolidated. Stocks of subsidiaries or affiliates are valued based on one of the following:
    - Investments with ownership interests of less than 85% in companies that are publicly traded on a major exchange use NAIC designated market values.
    - Investments in insurance companies not covered by the category above, use the equity method (statutory equity with certain adjustments).

GAAP and SAP Differences

- Subsidiaries (continued)
    - Investments in non-insurance companies that hold assets primarily for the insurance company or an affiliate, use the equity method (GAAP equity with statutory adjustments)
    - Investments in non-insurance companies that hold assets primarily for entities other than the insurance company or an affiliate, use the GAAP equity method (must be audited).
    - Any other value that can be substantiated to the satisfaction of the NAIC subcommittee.
  - The changes in values are reported as direct charges or credits to surplus and do not affect earnings. (SSAP No.46)

GAAP and SAP Differences

- Investments in Subsidiaries (continued)
  - **GAAP** Majority owned subsidiaries (ownership of greater than 50% of the voting common stock) are consolidated. Investments in unconsolidated affiliates (20 to 50% ownership) are generally accounted for using the equity method.

GAAP and SAP Differences

- Nonadmitted Assets
  - **SAP** Nonadmitted assets have economic value but cannot be used to fulfill policyholder obligations. Such assets, principally furniture and fixtures, prepaid expenses, and certain receivable balances and, in certain states, federal income tax recoverables, are charged against surplus. (SSAP Nos. 4,19, 29 and 87)

GAAP and SAP Differences

- Nonadmitted Assets (continued)
  - **GAAP** These assets are generally included at cost or recoverable amount.
- Policy Acquisition Costs
  - **SAP** Costs of acquiring policies are charged to expense when incurred (generally, at the beginning of the policy period) (SSAP No. 71).

GAAP and SAP Differences

- Policy Acquisition Costs (continued)
  - **GAAP** Acquisition costs (e.g., agent and broker commissions) that vary with and are primarily related to new and renewal business are deferred and amortized over the policy period.

GAAP and SAP Differences

- Policyholder Dividends
  - **SAP** Policyholder dividends are reported as liabilities when declared. Life policy dividends payable include amounts payable to the following calendar year that have not been declared in the current year (SSAP Nos. 51 and 65).
  - **GAAP** Undeclared policyholder dividends on participating policies should be provided for ratably over the premium paying period or charged to earnings (in a manner similar to minority interest). At the balance sheet date, undeclared dividends are estimated and accrued.

GAAP and SAP Differences

- Policy Reserves
  - **SAP** Statutory reserves for policyholder benefits are required for unmatured life policies and other life policies with specific kinds of risks. Reserves are established based on a statutory formula (SSAP No. 51).
  - **GAAP** Liabilities for losses are based on estimates of the ultimate amount of losses to be incurred.

GAAP and SAP Differences

- Deferred Taxes
  - **SAP** Deferred federal income taxes are recorded based on the temporary differences between statutory and tax basis balance sheets (SSAP No. 83).
  - **GAAP** Deferred federal income taxes are provided for temporary differences and carryforwards.

GAAP and SAP Differences

- Leases
  - **SAP** All leases shall be considered operating leases (SSAP No. 22).
  - **GAAP** Leases are classified as operating or capital leases based on the provisions of the lease agreement.

FORM HC-I

- Bank holding companies that are not financial holding companies are not required to complete Schedule HC-I.
- In a multi-tiered organization, Schedule HC-I must be submitted only by the top-tiered bank holding company that completes the FR Y-9C, regardless of the tiering level where the financial holding company designation applies
- Report all items in this schedule in accordance with **GAAP**.

FORM HC-I

- Changes for the March 31, 2002 FR Y-9C
  - The schedule will be retitled as “Insurance - Related Underwriting Activities (including reinsurance)” to clarify that insurance agency activities are to be excluded.
  - New line items for both Part I, Property and Casualty, and Part II, Life and Health include the separate reporting of:
    - Total assets
    - Total equity
    - Net income, for each of the two underwriting activities.
  - In addition, Part II, Life and Health, would include a new item for the reporting of reinsurance recoverables

FORM HC-I

- Changes for the March 31, 2002 FR Y-9C (continued)
  - Part III, All Insurance - Related Activities, would be eliminated because of the revisions made to Parts I and II.

FORM HC-I

- Part I - Property and Casualty

  Assets
  - Line item 1 Reinsurance Recoverables
    - Amounts recoverable from reinsurers for paid and unpaid claims and claim settlement expenses, including estimated amounts receivable for unsettled claims, claims incurred but not reported, or policy benefits.

  Liabilities
  - Line item 2 Claims and Claims Adjustment Expense Reserves
    - Loss reserves are an insurer's estimate of its liability for the unpaid costs of insured events that have occurred.

FORM HC-I

- Part I - Property and Casualty (continued)

  Liabilities

  – Line item 3 Unearned Premiums
    - That portion of the premium applicable to the unexpired period of the insurance policy.

FORM HC-I

- Part II - Life and Health

  Assets

  – Line item I Separate Account Assets
    - Separate account assets represent assets that are maintained by the insurance enterprise for purposes of funding fixed-benefit or variable annuity contracts, pension plans, and similar activities.
    - The contract holder generally assumes the investment risk, and the insurance enterprise receives a fee for investment management, administrative expenses, and mortality and expense risks assumed.

FORM HC-I

- Part II - Life and Health (continued)

  Liabilities

  – Line item 2 Policyholder benefits and Contractholder Funds

    - The aggregate reserve for life policies and contracts is an amount which is considered adequate to provide future guaranteed benefits as they become payable under the provisions of the insurance policies in force.
    - The policy reserve is the aggregate result of an actuarial computation on each policy or groups of policies.
    - Theoretically, the policy reserve represents the present value of future guaranteed benefits reduced by the present value of future net premiums.

FORM HC-I

- Part II - Life and Health (continued)

  Liabilities

  – Line item 3 Separate Account Liabilities

    - Separate account liabilities represent liabilities that are maintained by the insurance enterprise for purposes of funding fixed-benefit or variable annuity contracts, pension plans, and similar activities.
    - Report all liabilities qualifying under GAAP for separate account summary presentation in the insurer's balance sheet.

Common Errors on the Report of Insured Depository Institutions' Section 23A Transactions with Affiliates (FR Y-8)

Monica Posen

Frequently Asked Questions

- What is an affiliate?
- Do I have to report this transaction?

What is an Affiliate

- Bank holding company parent
- All subsidiaries of the bank's parent holding company
- Banking subsidiary of the bank
- Financial subsidiaries and their subsidiaries
- An investment company (generally a mutual fund) advised by the banking organization (bank or affiliate)
- Any company sponsored or advised on a contractual basis by a bank, subsidiary or affiliate (REIT) or an investment company for which the bank or affiliate is advisor
- Any company controlled by controlling shareholders of a bank

What is not an Affiliate

- Any nonbank subsidiary of a bank
  - any company other than a bank or financial subsidiary that is a subsidiary of the insured depository institution
- Any bank premises company
- Safe deposit company
- A company that does nothing other than invest in U.S. Government securities
- Any DPC company

What Transactions are Covered Transactions Under Section 23A

- Any loan or extension of credit to an affiliate, including fed funds sold and lines of credit
- Purchase of assets from an affiliate
- Purchase of, or investment in, securities issued by an affiliate
- Acceptance of securities issued by the affiliate as collateral for a loan or extension of credit to a third party
- Issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate
- Purchase of, or investment in, securities issued by a financial subsidiary of the insured depository institution by an affiliate
- Covered transactions with a third party if the proceeds are used for the benefit of an affiliate

What Transactions are Exempt From Section 23A

- Sister bank transactions
  - A Bank controls 80% or more of another bank, or
  - A Bank is 80% or more controlled by another bank, or
  - Two or more banks are 80% controlled by the same parent holding company
- Making deposits in an affiliate bank if in the ordinary course of business
- Giving immediate credit to an affiliate for uncollected items received in the ordinary course of business
- Making a loan or extension of credit fully secured by U.S. Governments or a segregated deposit

What Transactions are Exempt From Section 23A

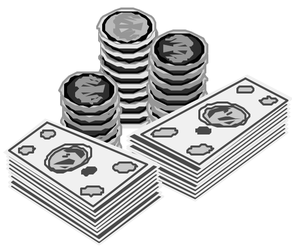
- Purchasing assets at a readily identifiable market quotation
- Purchasing loans on a non recourse basis from an affiliate

Common Reporting Errors

- Excluding transactions that are covered transactions under Section 23A
- Including transactions that are exempt from Section 23A
- Including transactions with entities that are not considered affiliates
  - Reporting exempt sister bank transactions as covered transactions
  - Mistaking subsidiaries of the bank with financial subsidiaries
- Excluding transactions with entities that are considered affiliates
- Reporting transactions in millions rather than thousands

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

Rich Molloy



Background

- Before - Gramm-Leach-Bliley (GLB)
  - BHCs held nonfinancial equity investments but, limitations existed on the amounts of investments that could be held.
  - These investments were made primarily through:

Background

- Before - Gramm-Leach-Bliley (GLB)
  - Edge and Agreement subsidiaries
  - Small Business Investment Corp. (SBICs)
  - Bank Holding Companies

Background

- GLB
  - allows financial holding companies to make investments in any type of nonfinancial company as part of a securities underwriting, merchant banking or investment banking activity

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Purpose
  - Allow examiners to monitor growth of nonfinancial equity investments

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Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- FR Y-12 must be submitted quarterly if a BHC:
  - files the FR Y-9C

  AND

  - has total nonfinancial equity investments that are >= the lesser of $200 million or 5% of the BHCs consolidated Tier 1 capital as of the report date

  AND

  - makes an effective election to become an FHC or the BHC directly or indirectly has an Edge corporation, agreement corporation or hold equities under the BHC Act section 4(c)(6) or 4(c)(7)

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Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- FR Y-12 must be submitted semi-annually if a BHC:
  - files the FR Y-9SP

  AND
  - has total nonfinancial equity investments that are >= 5% of the BHCs total capital reported on Schedule HC "Total equity capital (sum of 16.a through 16.e)" (Line 16.f)

  AND
  - makes an effective election to become an FHC or directly or indirectly has an Edge corporation, agreement corporation or hold equities under the BHC Act section 4(c)(6) or 4(c)(7)

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Consolidation
  - Same as FR Y-9C
  - The bank holding company should consolidate its subsidiaries on the same basis as described in generally accepted accounting principles (GAAP).

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Are investments made through SBICs that are not consolidated with the BHC reported?
  - Nonfinancial investments made through a SBIC that are not consolidated with the BHC should be reported.

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Do investments made by joint ventures that are held less than 50% need to be reported?
  – Only nonfinancial equity investments held by the BHC or any company which is consolidated with the BHC under GAAP.
  – *However, the investment in the joint venture should be reported if it is nonfinancial in nature.*

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- What Nonfinancial Equity Investments are reported on the FR Y-12?
  - Equity investments made under Merchant Banking Authority of BHC Act (section 4(k)(4)(H).
    - Equity investments not considered financial or incidental to financial activities under BHC Act (section 4(k))

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- What Nonfinancial Equity Investments are reported on the FR Y-12?
  - Equity investments made through consolidated or unconsolidated SBICs under Small Business Act of 1958 (section 302b).
  - Equity investments made in a nonfinancial company under portfolio investment provisions of Regulation K.

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- What Nonfinancial Equity Investments are reported on the FR Y-12?
  - Equity investments made under FDI Act (section 24)

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- What Nonfinancial Equity Investments are excluded from the FR Y-12?
  - ***Exclude***
    - Equity securities held in trading accounts.
    - Equity investments made under other legal authorities.
    - DPC investments

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Does the percentage ownership in a nonfinancial company matter?
  - The amount of ownership in a nonfinancial company is not applicable in determining if an investment is reported.

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Report Columns
  - Acquisition cost
    - The amount paid for the investment when it was acquired by the BHC.

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Report Columns
  - Acquisition cost
    - Is the acquisition cost adjusted for earnings/losses or dividends?
      - The acquisition cost is the amount initially paid for an investment and should not be adjusted.

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Report Columns
  - Net Unrealized Holding Gains Not Recognized as Income
    - For equity investments treated as securities and classified as available-for-sale under FAS 115, this is the unrealized gains reported in OCI.
    - (Unrealized Holding Gains - Unrealized Holding Losses) *if Net Unrealized Holding Loss report zero.*

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Report Columns
  - Carrying Value
    - The amount of the investment as it is reflected on the consolidated financial statements.
    - For equity investments accounted for under the equity method of accounting, this is the acquisition cost adjusted for pro-rata share of earnings/losses and decreased by cash dividends or similar distributions.

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Report Columns
  - Carrying Value
    - For nonfinancial equity investments accounted for as securities under FAS 115, this is the fair value.
    - For nonfinancial equity investments that do not have readily determinable fair values, report the historical cost.

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Report Columns
  - Publicly Quoted Value (Schedule A, Line 1 only)
    - The market value of publicly traded nonfinancial equity investments at the end of the reporting period. If quoted market price is not available report zero.

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- How are investments in funds that invest in nonfinancial and financial companies reported?
  - The total amount of the BHC's investment in the fund is reported if any of the funds investments are in nonfinancial companies.

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Three Schedules
  - Schedule A: Type of Investments
  - Schedule B: Type of Security
  - Schedule C: Type of Entity within the Organization

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Schedule A
  - Breakout of nonfinancial equity investments:
    - direct investments in public
    - direct investments in nonpublic
    - all indirect

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Schedule A
  - Memoranda 1 - Total Portfolio
    - Check the box that corresponds to the number of companies for direct investments and funds or similar entities for indirect investments.

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Schedule A
  - Memoranda 2 - Investments held under merchant banking authority
    - For FHCs only
    - For investments made under merchant banking authority granted by GLB and Regulation Y, report the acquisition cost, net unrealized holding gains not recognized in income, and carrying value.

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Schedule A
  - Memoranda 3 - Impact on net income from items 1, 2, 3 above
    - For BHCs that file FR Y-9C only
    - Effect nonfinancial equity investments (excluding investments held in trading accounts) had on net income as reported on Schedule HI. (If negative enclose in parenthesis)

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Schedule B - Type of Security
  - Report the acquisition cost and carrying value by investment type.
    - Common stock
    - Convertible debt and convertible preferred stock
    - Other equity

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Schedule B - Type of Security
  - Memorandum
    - Unused equity commitments
      - report unused commitments to invest in equities of nonfinancial entities.

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Schedule C - Type of Entity within the Banking Organization
  - Breakout of nonfinancial equity investments by where the investment is held within the BHC.
    - Acquisition Cost - Column A
    - Carrying Value - Column B

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Schedule C - Type of Entity within the Banking Organization
  - Line 1.a - 1.c for investments held, directly or indirectly by a subsidiary depository institution.
    - SBICs consolidated in the financial statements of the depository institution. (Line 1.a)
    - Edge or agreement corporations owned or controlled by subsidiary depository institutions. (Line 1.b)
    - Other investments of the subsidiary depository institution not included in 1.a or 1.b. (Line 1.c)

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Schedule C - Type of Entity within the Banking Organization
  - Line 2.a - 2.d for nonfinancial equity investments held, directly or indirectly by the parent holding company or other nonbank subsidiaries.
    - Investments made by subsidiaries registered by the BHC as a broker dealer. (Line 2.a)

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Schedule C - Type of Entity within the Banking Organization
    - SBICs consolidated in the financial statements of the BHC and not owned or controlled through a depository institution. (Line 2.b)
    - Investments held under Merchant Banking Authority. (Line 2.c)
    - Other investments of the BHC and its nondepository subsidiaries not included in 2.a - 2.c. (Line 2.d)

Consolidated Report of Equity Investments in Nonfinancial Companies (FR Y-12)

- Schedule C - Type of Entity within the Banking Organization
  - Memorandum
    - Report acquisition cost and carrying value of nonfinancial equity investments in companies based on domicile of the company
      - Domestic (include Puerto Rico and U.S. territories and possessions)
      - Foreign