2011 State Member Bank/Bank Holding Company Regulatory Reporting Update

Tuesday, March 29, 2011

Variable Interest Entities – HC-V

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FAS 167 Implementation

- June 2009 FASB issued FAS 167
  - Revised requirements for the consolidation of variable interest entities (VIE)
- Criteria for determining when an entity is a VIE
  - Equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support
  - Equity investors lack one or more of the following:
    - Direct or indirect ability to make decisions about entity's activities
    - Obligation to absorb expected losses of the entity
    - Right to receive expected residual returns of the entity
  - Equity investors have voting rights that are not proportionate to their economic interest

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Primary Beneficiary

- Institutions that hold VIEs must determine:
  - If an entity is a VIE
    - Using criteria highlighted on proceeding slide
  - Which "variable interest" holder should consolidate the VIE
  - Is the institution the ***primary beneficiary*** of the VIE
    - Use qualitative assessment to determine primary beneficiary
      - Power to direct activities of VIE that most significantly impact the economic performance of the VIE
      - Obligation to absorb losses or right to receive benefits that could potentially be significant to the VIE

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Schedule HC-V

- Currently, VIEs are reported on the FR Y-9C and consolidated on a line-by-line basis
- Goals:
  - Enhance disclosure requirements
    - Provide transparency about institution's activities and risks.
  - Disclose how institution's involvement with VIEs affect financial statements
- Schedule HC-V requires reporting of asset and liabilities of VIEs
  - Report assets that can be used only to settle obligations of the consolidated VIEs
  - Report liabilities for which creditors do not have recourse to the general credit of the reporting BHC
- Present separately for: securitization vehicles, asset-backed commercial paper conduits, and other VIEs.

Schedule HC-V: Assets

- Assets – similar to asset break-out on Schedule HC
  - Cash and balances due from depository institutions
  - HTM securities
  - AFS securities
  - Securities purchased under agreements to resell
  - Loans and leases held for sale
  - Loans and leases, net of unearned income
  - Less: Allowance for loan and lease losses
  - Trading assets (other than derivatives)
  - Derivative assets
  - OREO
  - Other Assets

Schedule HC-V: Liabilities

- Liabilities – similar to liability break-out on Schedule HC
  - Securities sold under agreements to repurchase
  - Derivative liabilities
  - Other Borrowed Money
  - Commercial paper
  - Other liabilities
- Amounts reported are a break-out of BHCs consolidated assets and liabilities reported on Schedule HC

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HC-V: Two Separate Data Items

- BHC's are required to report:
  - Total amounts of all other assets
    - All assets of consolidated VIEs that are not dedicated solely to settling obligations of the VIE
  - Total amounts of all other liabilities
    - All liabilities of consolidated VIEs for which creditors have recourse to the general credit of the reporting BHC
- The effect of these two data elements is to report total magnitude of consolidated VIEs.

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Schedule HC-V Example #1

- BHC has $500 million of other real estate owned, $20 million of which is held by the VIE and can be used to settle the VIEs obligations
  - Currently reporting: Schedule HC-M, “Other real estate owned”, Line 13, $500 million; Schedule HC, “Other real estate owned”, Line7, $500 million
  - New reporting: Schedule HC-M, "Other real estate owned", Line 13, $500 million; Schedule HC, "Other real estate owned", Line 7, $500 million; Schedule HC-V, "Other real estate owned", Line 1.j, $20 million

Schedule HC-V Example #2

- BHC has $1 billion of loans held for sale, $500 million of which is held by the VIE, $200 million of which creditors have recourse against the BHC for
  - Currently reporting: Schedule HC, “Loans and leases, held for sale”, Line 4a, $1 billion
  - New reporting: Schedule HC, "Loans and Leases, held for sale", Line 4.a, $1 billion; Schedule HC-V, "Loans and leases, held for sale", Line 1.e, $20 million; Schedule HC-V, "All Other Assets of Consolidated VIE", Line 3, $300 million

Schedule HC-V Example #3

- BHC has $30 million of other borrowed money with remaining maturity of less than 1 year, $5 million of which is held by the VIE and creditors have no recourse against the VIE for
  - Currently reporting: Schedule HC-M, “Other borrowed money”, Line 14.a, $30 million
  - New reporting: Schedule HC-M, "Other borrowed money", Line 14.a, $30 million; Schedule HC-V, "Other borrowed money", Line 2.d, $5 million

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HC-V: Sample Schedule

Schedule HC-V—Variable Interest Entities

	(Column A) Securitization Vehicles				(Column B) ABCP Conduits				(Column C) Other VIEs				
Dollar Amounts in Thousands	BHCK	Bil	Mil	Thou	BHCK	Bil	Mil	Thou	BHCK	Bil	Mil	Thou	
1. **Assets of consolidated variable interest entities (VIEs) that can be used only to settle obligations of consolidated VIEs:**													
a. **Cash and balances due from depository institutions**	J981				J982				J983				1.a.
b. **Held-to-maturity securities**	J984				J985				J986				1.b.
c. **Available-for-sale securities**	J987				J988				J989				1.c.
d. **Securities purchased under agreements to resell**	J990				J991				J992				1.d.
e. **Loans and leases held for sale**	J993				J994				J995				1.e.
f. **Loans and leases, net of unearned income**	J996				J997				J998				1.f.
g. **Less: Allowance for loan and lease losses**	J999				K001				K002				1.g.
h. **Trading assets (other than derivatives)**	K003				K004				K005				1.h.
i. **Derivative trading assets**	K006				K007				K008				1.i.
j. **Other real estate owned**	K009				K010				K011				1.j.
k. **Other assets**	K012				K013				K014				1.k.

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HC-V: Sample Schedule

2. Liabilities of consolidated VIEs for which creditors do not have recourse to the general credit of the reporting bank holding company:				
a. Securities sold under agreements to repurchase	K015	K016	K017	2.a.
b. Derivative trading liabilities	K018	K019	K020	2.b.
c. Commercial paper	K021	K022	K023	2.c.
d. Other borrowed money (exclude commercial paper)	K024	K025	K026	2.d.
e. Other liabilities	K027	K028	K029	2.e.
3. All other assets of consolidated VIEs (not included in items 1.a through 1.k above)	K030	K031	K032	3.
4. All other liabilities of consolidated VIEs (not included in items 2.a through 2.e above)	K033	K034	K035	4.

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Troubled Debt Restructurings - (TDR)

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TDR

- Definition
- Changes impacting FR Y-9C, Call Report, FR Y-9LP, FR 2314, and FR Y-11
- Exposure Draft Overview
- Common Reporting Questions

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What is a TDR?

- TDR Principles in ASC Subtopic 310-40, Receivables-Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, “Accounting by Debtors and Creditors for Troubled Debt Restructurings”)
- Restructuring of a debt constitutes a TDR if:
  - At the date of restructuring, the creditor for economic or legal reasons related to a debtor’s financial difficulties grants a concession to the debtor that it would not otherwise consider.

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What is TDR?

- What is financial difficulty?
  - Indications of financial difficulties include:
    - Borrower is currently in default on any of its debt
    - Borrower has filed for bankruptcy
    - Without the current modification, the borrower cannot obtain funds from sources other than the existing lender at a market rate
- What is a concession?
  - Types of concessions include:
    - Reduction in interest payments
    - Extension of maturity date
    - Reduction in principal
    - Reduction in accrued interest

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What is a TDR?

- A TDR can be either of the following three types of transactions:
  - Transfer of assets by borrower in full settlement of the loan
  - A modification of the terms of the loan
  - Transfer of assets by borrower to partially satisfy a loan and loan modification on remaining loan balance

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Clarification on Modification of Interest Rates to a Borrower Experiencing Financial Difficulties

- What is market rate?
  - The rate that the institution was willing to accept at the time of the restructuring for a new loan with comparable risk.
- A restructuring that increases the contractual interest rate does not necessarily preclude it from being a TDR, since the rate may still be **below** the market rate.
  - Institution should compare the rate on the modified loan to the market rate
- A restructuring that changes the contractual interest rate at a rate **below** a market rate has granted a concession to the borrower, which results in the restructured loan being a TDR.

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TDR Changes Impacting the FR Y-9C, Call Reports, FR Y- 9LP, FR Y-11 and FR 2314 - Effective March 31, 2011

FR Y-9C & Call Reports

- Reason for change
  - In the aggregate, TDRs have grown significantly over the past three years.
  - For all FR Y-9C respondents, TDRs have grown from $11.4 billion at year-end 2007 to $106.2 billion as of March 31, 2010
  - Additional detail on FR Y-9C and Call Report would enable the Federal Reserve and industry to better understand:
    - the level of restructuring at banking institutions
    - the categories of loans involved in this activity
    - whether BHCs are working with their borrowers to modify and restructure loans

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FR Y-9C & Call Reports

- What was changed?
  - Recaptioned Schedule C, Part I, Memoranda item 1 and Schedule N, Memoranda item 1 to replace the term "restructured" with "troubled debt restructurings"
  - On Schedule C, Part I, and Schedule N,
    - Breakdown of the "Other loans" category for reporting of troubled debt restructurings.

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FR Y-9C and Call Reports

- Recaptioned Schedule C, Part I, Memoranda item 1 and Schedule N, Memoranda item 1 to replace the term **“restructured”** to **“troubled debt restructurings”**. The change was made to clarify:
  - Intent was always to collect information on troubled debt restructurings
  - Do not include loan modifications and restructurings that do not constitute troubled debt restructurings
    - e.g., where a bank grants a concession to a borrower who is not experiencing financial difficulties

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FR Y-9C and Call Reports

- Impact on reporting
  - New items on Schedule C, Part 1 and Schedule N, Memoranda to separately report troubled debt restructurings, which are already within the scope of ASC Subtopic 310-40
  - Lease agreements are excluded from Schedule C, Part I, Memoranda Item 1 and Schedule N, Memoranda Item 1
    - Under GAAP, troubled debt restructurings do not include changes in lease agreements
  - Loans to individuals for household, family, and other personal expenditures are included in the reporting of TDRs

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FR Y-9C and Call Reports

- New items on Schedule C, Part 1 and Schedule N, Memoranda
  - Construction, land development, and other land loans in domestic offices
    - 1-4 family residential construction loans
    - Other construction loans and all land development and other land loans
  - Loans secured by 1-4 family residential construction loans in domestic offices
  - Loans secured by multifamily (5 or more) residential properties in domestic offices
  - Loans secured by nonfarm nonresidential properties in domestic offices
    - Loans secured by owner-occupied nonfarm nonresidential properties
    - Loans secured by other nonfarm nonresidential properties
  - Commercial and industrial loans
  - All other loans, including loans to individuals for household, family, and other personal expenditures

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FR Y-9C and Call Reports

- All other loans, including loans to individuals for household, family, and other personal expenditures
  - If any loan categories (as defined in Schedule C, Part I) exceed 10% of the amount of "All other loans" restructured in troubled debt restructurings, additional reporting in preprinted captions on Memoranda item 1.f, for the following loan categories:

    1) Loans secured by farmland in domestic offices
    2) Loans to depository institutions and acceptances of other banks
    3) Loans to finance agricultural production and other loans to farmers (FR Y-9C & FFIEC 031)
    4) Loans to individuals for household, family, and other personal expenditures:
       1) Credit card loans
       2) Automobile loans
       3) Other consumer loans (includes single payment, installment, all student loans, and revolving credit plans other than credit cards)
    5) Loans to foreign governments and official institutions
    6) Other loans (FFIEC 041: include loans to finance agricultural production and other loans to farmers)
    7) Loans secured by real estate in foreign offices (FFIEC 031 only)

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FR Y-9LP

- Schedule PC-B, Memoranda Item 8
  - Modify instructions to:
    - Clearly indicate that the loans to be reported should be TDRs
    - Exclude leases
      - TDRs do not include changes in lease agreements
    - Include loans to individuals for household, family, and other personal expenditures and all loans secured by 1-4 family residential properties whose terms have been modified in TDRs

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FR Y-11 and FR 2314

- Schedule BS-A, Item 7
  - Modify instructions to:
    - Clearly indicate that the loans to be reported should be TDRs
    - Exclude leases
      - TDRs do not include changes in lease agreements
    - Include loans to individuals for household, family, and other personal expenditures and all loans secured by 1-4 family residential properties whose terms have been modified in TDRs

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Exposure Draft
Proposed Accounting Standards Update, *Clarifications to Accounting for Troubled Debt Restructurings by Creditors*

FASB Exposure Draft

- FASB Exposure Draft on October 12, 2010, Proposed Accounting Standards Update, *Clarifications to Accounting for Troubled Debt Restructurings by Creditors.* The ASU is effective for interim and annual periods on or after June 15, 2011.
  - In determining whether a borrower is experiencing **financial difficulty**, the Exposure Draft proposes that:
    - a borrower that is not currently in default may still be considered to be experiencing financial difficulty when payment default is considered "probable in the foreseeable future".

FASB Exposure Draft

- In determining whether **concessions** were granted, the Exposure Draft proposes the following:
  - Creditors are precluded from using the borrower effective rate test in determining whether a restructuring is a TDR.
  - If the borrower cannot obtain a new loan with similar risk characteristics as the restructured debt at a market rate, the restructuring would be considered to be at below market rate and therefore should be considered a TDR.
  - A restructuring that temporarily or permanently increases the contractual interest rate does not necessarily preclude it from being a TDR, since the rate may still be below the market rate.
  - A restructuring that results in an insignificant delay in contractual cash flows should not be considered a TDR

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Common Reporting Questions

- Question: Should purchased impaired loans accounted for in accordance with AICPA Statement of Position 03-3 (ASC 310-30) be reported as TDRs on the FR Y-9C, Schedule HC-C, Loans, Memoranda, Line 1 “Loans restructured in troubled debt restructurings that are in compliance with their modified terms”?

- Answer: Purchased impaired loans held for investment that are accounted for in accordance with ASC 310-30 should be reported in Schedule HC-C, Memoranda, Line 5), “Purchased impaired loans held for investment accounted for in accordance with AICPA Statement of Position 03-3”.
  - Purchased impaired loans that are restructured as TDRs prior to their acquisition should be excluded from HC-C, Memoranda, Line 1 and reported on Memoranda, Line 5.
  - Purchased impaired loans that are restructured as TDRs subsequent to their acquisition and are in compliance with their modified terms should be reported on Schedule HC-C, Memoranda, Line 1, according to the type of loan, in addition to Memoranda, Line 5.
  - TDRs that are 30 days or more past due or in nonaccrual status based on the modified terms should be excluded from Schedule HC-C, Memoranda, Line 1 and reported in the appropriate line items of Schedule HC-N.

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Common Reporting Questions

- Question: Are loans where a temporary grace period is granted but the terms of the loan have not been modified classified as TDR?

- Answer: If the terms have not been modified, the loan is not considered a TDR and should be reported on Schedule C in the line appropriate for the type of the loan and Schedule N in the line and column appropriate for the past due status, to the extent that the loan meets the criteria for reporting on Schedule N.

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Common Reporting Questions

- Question: What is the reporting of TDR loans in years subsequent to the restructuring, when rates are at market and when rates are at less-than-market?

- Answer: Once an obligation has been restructured because of credit problems, it continues to be considered restructured until paid in full. However, a restructured obligation that is in compliance with its modified terms and yields a market rate, should not be reported as a TDR on Schedule HC-C, Memoranda (Line item 1) or Schedule HC-N, Memoranda (Line item 1), as appropriate, in the calendar year after the year in which restructuring took place.

  - A restructured obligation that yields a lower than market rate continues to be considered restructured until paid in full and should be reported as a TDR on the FR Y-9C.

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Changes to Regulatory Reports

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Summary of Reporting Changes

NOTE: These changes are in addition to the changes impacting VIEs and TDRs.

Changes impacting the FR Y-9C and Call Report

- Automobile Loans
- Commercial mortgage-backed securities
- Life insurance assets
- Captive Insurance/reinsurance subsidiaries
- Valuation adjustments on trading derivatives
- Assets covered by FDIC Loss-Sharing Agreements

Changes impacting the FR Y-9C only

- Quarterly Averages of Securities and loan portfolio

Summary of Reporting Changes

Changes impacting the Call Report only

- Collective investment funds
- Deposits obtained through deposit listing service companies
- Noninterest-Bearing Transaction Accounts

Changes impacting the FFIEC 101

- Qualifying Trust Preferred Securities
- Savings Association’s Risk-based Capital Ratio
- Equity Exposures

Changes impacting Nonbank Subsidiary Reports (FR Y-11 and FR 2314)

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Changes to the FR Y-9C and Call Report

Automobile Loans

Reason for change

- Currently, there is limited disclosure of auto lending and collecting this information will allow the agencies to gain supervisory oversight and assist with understanding consumer lending activities.

What is changed?

- New data items for automobile loans previously collected in "Other consumer loans" on Schedules RI-B, and Schedules C, D and N.

When are the changes effective?

- March 31, 2011

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Automobile Loans

Definition:

Automobile loans will include all consumer loans arising from retail sales of passenger cars and other vehicles

All consumer loans that are collateralized by automobiles where:

- Proceeds **only** go toward automobile purchase should be reported as "Automobile loans".

- Proceeds are towards automobile purchase **and** used for other purposes:

  - Originated/purchased before April 1, 2011 may be reported as either "Automobile loans" or "Other consumer loans", at the banks option.

  - Originated/purchased on or after April 1, 2011, should be reported as "Other customer loans".

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Commercial MBS (Issued/Guaranteed by U.S. Government and Sponsored Agencies)

Reason for change

- MBS issued or guaranteed by U.S. Government agencies have a substantially different risk profile than privately issued Commercial MBS (CMBS). A breakdown will allow agencies to identify all MBS issued or guaranteed by U.S. Government agencies.

What is changed?

- New data items to split the existing items on CMBS in Schedules B and D

When are the changes effective?

- March 31, 2011

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Commercial MBS (Issued/Guaranteed by U.S. Government and Sponsored Agencies)

Schedule RC-B item 4.c

- Commercial MBS
  1) Commercial pass-through securities:
     a) Issued or guaranteed by FNMA, FHLMC, or GNMA
     b) Other pass-through securities
  2) Other commercial MBS
     a) Issued or guaranteed by FNMA, FHLMC, or GNMA
     b) All other commercial MBS

Schedule RC-D item 4.c (4.d on Y-9C)

- Commercial MBS issued or guaranteed by FNMA, FHLMC, or GNMA
- All other commercial MBS

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Life Insurance Assets

Reason for change

- The aggregate amount of life insurance assets is currently reported in Schedule F, Other Assets, without regard to whether the holdings are general account or separate account policies. More detailed disclosure will assist in monitoring and analyzing the credit risk involved and performance measures in a volatile market.

What is changed?

- New data items on Schedule F to separately disclose:
  - General account life insurance assets
  - Separate account life insurance assets
  - Hybrid account life insurance assets

When are the changes effective?

- March 31, 2011

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Captive Insurance / Reinsurance Subsidiaries

Reason for change

- To monitor the insurance activities of banking organizations as well as any safety and soundness risks posed to the parent bank from the activities of these subsidiaries.

What is changed?

- Currently, self-insurance activity is eliminated on the consolidated financial statements.
- New data items on Schedule M item 14 (item 7 on FR Y-9C) to disclose:
  - Total assets of captive insurance subsidiaries
  - Total assets of captive reinsurance subsidiaries

When are the changes effective?

- March 31, 2011

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Credit and Debit Valuation Adjustments

Reason for change

- The recognition of credit adjustments, made to the fair value of banks' derivative assets and liabilities that are reported as trading assets and liabilities, have a material impact on overall trading revenues. Additional items will improve understanding of the level and trend of banks' trading revenues.

What is changed?

- Two new Memorandum items on Schedule RI (for banks with $100 billion or more in total assets) for the impact on trading revenue of changes in the creditworthiness of derivative counterparties.

When are the changes effective?

- March 31, 2011

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Credit and Debit Valuation Adjustments

Memorandum 8.f (9.f onY-9C)

- Impact on trading revenue from changes in the creditworthiness of the bank's derivatives counterparties on the bank's derivative assets

Memorandum 8.g (9.g onY-9C)

- Impact on trading revenue from changes in the creditworthiness of the bank's derivatives counterparties on the bank's derivative liabilities

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Assets Covered by FDIC Loss-Sharing Agreements (LSA)

Reason for change

- To expand the information collected on the carrying amounts of assets covered by loss-sharing agreements with the FDIC to provide a more precise and accurate picture of a bank's asset quality

What is changed?

- New data items were added to capture assets covered under LSA

When are the changes effective?

- March 31, 2011

Assets Covered by FDIC Loss-Sharing Agreements

Impact on reporting

- New data items on Schedule M to report a more granular breakdown of:
  - Loans and leases
  - Other real estate owned
- New data items on Schedule N to report a more granular breakdown of nonperforming loans and leases covered by LSA

Changes Impacting Call Report Only

Collective Investment Funds (CIF)

Reason for change

- Annual reporting on CIFs limit the agencies' ability to detect changes in investor behavior and bank investment management strategies at an early stage.

What is changed?

- The reporting frequency for Schedule RC-T, memorandum item 3, from annual to quarterly for institutions that meet one of the following thresholds:
  - Total fiduciary assets greater than $250 million
  - Gross fiduciary and related services income > 10% of revenue for the preceding calendar year.

When are the changes effective?

- March 31, 2011

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Deposit Listing Service Companies

Definition:

- A company that compiles information about the interest rates offered on deposits by insured depository institutions.
- Deposit listing services allow investors to easily identify high-yielding deposits sources and are considered volatile sources of funding since such customers are highly rate sensitive and may transfer funds to other institutions if better rates become available.

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Deposits Obtained Through Deposit Listing Service Companies

Reason for change

- To collect data, specifically deposits obtained through the use of deposit listing service, to analyze institutions' liquidity and funding, including their reliance on non-core sources to fund their activities.

What is changed

- New Memorandum item to Schedule RC-E to capture the amount of deposits obtained through the use of deposit listing services that are not brokered deposits

When are the changes effective?

- March 31, 2011

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Noninterest-Bearing Transaction Accounts

Reason for changes

- Transaction Account Guarantee (“TAG”) Program expired on December 31, 2010 replaced with temporary unlimited insurance coverage.

What is changed?

- Removal of Memorandum items 4.a and 4.b on Schedule O related to participation in the FDIC TAG program

When are the changes effective?

- March 31, 2011

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Changes Impacting FR Y-9C only

Quarterly Averages of Securities and Loan portfolio

Reason for changes

- To expand the information collected on quarterly averages of securities and loan portfolios to be consistent with information currently reported on the Call reports and with firms' public SEC filings.
- To facilitate analysis when the value or size of a firm's assets has changed or fluctuated over a quarter, particularly when used to calculate net charge-off, growth and return on average asset rates.

What is changed?

- New data items to report a more granular breakdown on securities and loan portfolios on Schedule K

When are the changes effective?

- For the March 31, 2011 reports

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Quarterly Averages of Securities and Loan portfolio

<u>Securities</u>

- U.S. Treasury and U.S. government agency obligations (exclude MBS)
- MBS
- All other securities

<u>Loans</u>

- Loans secured by 1-4 family residential properties
- All other loans secured by RE
- Loans to finance agricultural production and other loans to farmers
- Commercial and industrial loans
- Loans to individuals for household, family, and other personal expenditures:
  - Credit cards
  - Automobile loans
  - Other

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Changes Impacting the FFIEC 101

Qualifying Trust Preferred Securities

Reason for changes

- To align the reporting of qualifying trust preferred securities, to that of Schedule HC-R of the FR Y-9C.

What is changed?

- New data items to breakdown qualifying trust preferred securities on Schedule A into two components:

  1. The amount of qualifying restricted core capital elements (other than cumulative perpetual preferred stock) held by BHC
  2. Qualifying mandatory convertible preferred securities held by internationally active BHC

When are the changes effective?

- March 31, 2011

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Savings Association's Risk-based Capital Ratio

Reason for changes

- To align the reporting of all banks, bank holding companies, and savings associations

What is changed?

- To eliminate Part 2 of Schedule A, Risk-Based Capital Numerator and Ratios for Saving Associations
- All banks, bank holding companies, and savings associations would report capital numerator information on Schedule A.

When are the changes effective?

- March 31, 2011

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Equity Exposures

Reason for changes

- To clarify what line items need to be reported based on which of the three approaches the bank uses to calculate risk-weighted asset amounts for its equity exposures

What is changed?

- New data items to expand the number of columns shown on Schedule R from 2 to 6 to allow for reporting of a distinct set of exposure and risk-weighted asset information for banks using each of the three approaches:
  - SRWA
  - Full IMA
  - Publicly traded/partial IMA

When are the changes effective?

- March 31, 2011

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Changes impacting Nonbank Subsidiary Reports (FR Y-11 and FR 2314A)

Reason for changes

- To clarify the reporting of the net change in fair values of financial instruments accounted for under a fair value option

What is changed?

- Revised item name on Schedule IS, Memoranda 2:
  - Net change in fair values of financial instruments accounted for under a fair value option (included in items 5.a.(3), 5.a.(6), 5.a.(10) and 5.b above)

When are the changes effective?

- March 31, 2011

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Proposed Call Report Changes Effective June 30, 2011

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Proposed Changes to Call Report

- Federal Register Notice published on March 16, 2011
  - Deposit Insurance Assessment Base
  - Risk-Based Assessment System for Large Insured Depository Institutions
- Proposed changes effective June 30, 2011

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Deposit Insurance Assessment Base

- Reason for Proposed Change
  - Dodd-Frank legislation requires the FDIC to amend its regulations to redefine the assessment base used for calculating deposit insurance assessments.
  - With certain exceptions, the assessment base is redefined as an amount equal to the average consolidated total assets minus the average tangible equity. Tier 1 capital will be the measure of tangible equity.

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Deposit Insurance Assessment Base

- What changes are being proposed?
  - DIs with assets of $1 billion or more and all newly insured DIs
    - Average consolidated assets are to be reported based on daily balances during the calendar quarter.
    - Average tangible equity will be the average of the current quarter's month-end balances.
  - DIs with less than $1 billion in assets
    - Average consolidated assets may be reported based on weekly balances or daily averages
    - Average tangible equity will be the end-of-quarter amount of Tier 1 capital.

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Deposit Insurance Assessment Base-Proposed Reporting Changes

- Added to Schedule RC-O
  - New item to report average consolidated total assets
  - New item to report if DI has measured the average using the daily or weekly averaging method
  - New item to report average Tier 1 capital on a monthly average basis by DIs with $1 billion or more in total assets, and all newly insured DIs. DIs with assets less than $1 billion will report quarter-end Tier 1 capital as their "average."
- Banks that measure average total assets for Schedule RC-K purposes using the same method they are required to use for the proposed new Schedule RC-O item, will be able to carry the average over.

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Deposit Insurance Assessment Base-Custodial Banks

- A custodial bank is an insured DI with fiduciary and custody and safekeeping assets of at least $50 billion. A custodial bank is permitted to deduct certain average low-risk assets from its assessment base.
- Proposed reporting changes for custodial banks
  - Add a yes/no question that would ask whether the DI meets the definition of a custodial bank.
    - If yes, the DI would report the average amount of:
      - Qualifying low-risk assets
      - Transaction account deposit liabilities linked to a fiduciary custody or safekeeping account
    - These two items are in addition to the proposed changes discussed previously.

Risk-Based Assessment System for Large Insured Depository Institutions

- Reason for Change
  - The assessment system applicable to large insured DIs has been amended to better capture risk.
    - Assessment rates for large insured DIs will be calculated using a scorecard that combines CAMELS ratings and certain forward-looking financial measures.
- What are the proposed changes?
  - Most of the data used as input to the scorecard measures for large institutions and highly complex institutions are available from the Call Reports; however data items needed to compute the following four scorecard measures are not:
    - Higher risk assets
    - Top 20 counterparty exposures
    - Largest counterparty exposures
    - Criticized/classified items

Risk-Based Assessment System for Large Insured Depository Institutions- Proposed Reporting Changes

- Criticized and Classified Items
  - Four new data items: Special Mention; Substandard; Doubtful; Loss
- Nontraditional Mortgage Loans
  - One new item for the balance sheet amount of nontraditional 1-4 family residential mortgage loans
- Subprime Consumer Loans
  - One new item for the balance sheet amount of subprime consumer loans
- Leveraged Loans
  - One new item for the amount of leveraged loans

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Risk-Based Assessment System for Large Insured Depository Institutions- Proposed Reporting Changes

- Loans Wholly or Partially Guaranteed by the U.S. Government
  - For loans other than those guaranteed by FDIC loss-sharing agreement, new items to report, for seven loan categories, the portion of the amount of funded loans that is guaranteed or insured by the U.S. Government including its agencies and its government-sponsored agencies.
- Other Real Estate Owned Wholly or Partially Guaranteed by the U.S. Government
    - For ORE excluding ORE covered under FDIC loss-sharing agreements, one new item to report the amount of ORE that is recoverable from the U.S. government and agencies.

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Risk-Base Assessment System for Large Insured Depository Institutions- Proposed Reporting Changes

- Core Deposit Ratio
  - One new item to support the calculation of the core deposits/total liabilities ratio
- Highly Complex Institutions only
  - Top 20 Counterparty Exposures
    - One new item for the total amount of the DIs 20 largest counterparty exposures
  - Largest Counterparty Exposure
    - One new item to report the amount of DIs the largest counterparty exposure

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Financial Statements of U.S. Nonbank (FR Y-11) & Foreign Subsidiaries of U.S. Bank Holding Companies (FR 2314)
Common Reporting Errors

Geraldine Bitton

Regulatory Reports Division

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
    - (ex. 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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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 through March of the following year

- 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 – Timing

- If a subsidiary does NOT meet the reporting criteria to file quarterly as of June 30 of the preceding year

BUT

- Meets any of the quarterly criteria as of 12/31, the subsidiary should file a long form annual report (even though it meets the quarterly criteria)

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Multiple BHC Ownership

- If the subsidiary is owned by multiple BHCs – majority owner BHC should submit the report
- If the subsidiary is owned equally by multiple BHCs – largest BHC, based on consolidated assets, should submit the report

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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

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Common Reporting Errors Reporting Method

- Consolidation of VIEs for which the reporter is considered the PB under FAS 167 is not permitted either

However:

Must separately assess whether each VIE meets the definition of a “subsidiary” as defined in the general instructions and in Section 211.2(w) of Regulation K, for the FR 2314 and Section 225.2 of Regulation Y for the FR Y-11 to determine if any such entities individually meet the criteria for filing

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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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Common Reporting Errors Related Party Transactions

- 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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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) in accordance with FAS 155,156 and 159
  - 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.

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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)
  - 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 1 for FR2314 or Line 2 for FR Y11

**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 - 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 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 & 13
  - Resale agreements involving assets other than securities and FFS are reported as “Loans” on Schedule BS, Line 3.a

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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 FAS 133 must be reported as held for trading
    - Fair Value reported on BS, “All other assets,” (Line 7), if a positive fair value
    - Fair Value reported on BS, “Other liabilities,” (Line 14), if a negative fair value

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 other than cash (ie. against other securities) are reported in “All Other Off Balance Sheet Liabilities,” (Line 30)

Structure Reporting Update for Bank Holding Companies and Unaffiliated State Member Banks

Tamika Bowman

Banking Structure Division

Agenda

- Structure reporting forms filed by Bank Holding Companies (BHCs) and State Member Banks (SMB) not affiliated with a BHC
- Changes to the FR Y-6 & FR Y-10 Instructions, effective December 31, 2010
- Changes to the FR Y-10 online application, effective March 31, 2011
- FR Y-6 & FR Y-10 Training in 2012

Structure Reporting Forms Filed by BHCs and SMBs

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

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Changes to the FR Y-6 Instructions Effective 12/31/2010

- Annual Report of Bank Holding Companies
  (FR Y-6):
  - The FR Y-6 Reporting instructions have been updated for report item 2(b) to include the URL where the branch report can be downloaded and when it will be available.

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Changes to the FR Y-10 Instructions

- Report of Changes in Organizational Structure (FR Y-10):
  - No Changes

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Changes to the FR Y-10 Online Application Effective 3/31/2011

- FR Y-10 Online Application
  - Online Reporting Changes
    - Changed to "Event based" reporting
    - Implementation of "Force Find" feature
    - Video training first week of April 2011

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Training for the FR Y-6 & FR Y-10

- 2012 TBA

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FFIEC 009 INSTRUCTIONAL CLARIFICATION

ALEX SANTANA

International Reports Division

Clarification of the Instructions for Reporting Guaranteed Claims

Reason for change

- To clarify that though foreign resident guarantees on a claim on a U.S. resident does not cover transfer risk it should continue to be reported as an outward risk transfer for the United States and an inward risk transfer to the sector and country of residence of the guarantor.

What is changed?

- Instructions have been clarified to include:
  - Note: If a claim on a U.S. resident is guaranteed by a foreign resident, it should be reported in the row for the United States in Columns 9 through 10 (depending on the sector of the immediate counterparty), and in the row for the country of the foreign guarantor in Columns 12 through 14 and in Columns 15 through 20 (depending on the sector of the foreign guarantor and whether the claim is cross-border or not), as instructed in Section IV.B and as illustrated in examples 11, 12, 13, and 17 in Section IV.C. In such cases, it is not necessary for the guarantee to cover transfer risk, because a loan to a U.S. resident carries no transfer risk.

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Clarification of the Instructions for Reporting Guaranteed Claims

Reason for change

- To clarify the reporting of claims on an ultimate risk basis when guaranteed by a credit derivative whose notional amount exceeds the underlying claim. Currently, the instructions only provide guidance on credit derivative protection of equal or less value of the underlying claim.

What is changed?

- Additional examples were incorporated which illustrate that claims guaranteed by credit derivative should be reallocated to the country of the guarantor for the notional amount of the credit derivative protection purchased.

When are the changes effective?

- For the March 31, 2011 FFIEC 009 Report

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Clarification of the Instructions for Reporting Guaranteed Claims

- Examples:

(21) The respondent's U.S. office has a $20 million claim on a Malaysian financial company. The respondent purchased credit protection from a German bank against the risk of default by the Malaysian financial company through a credit derivative. The credit derivative has a notional value of $20 million. The arrangement is considered an effective risk transfer. Entries would be:

Country	Col 3	Col 11	Col 12	Col 15
Malaysia	20	20	---	---
Germany	---	---	20	20

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Clarification of the Instructions for Reporting Guaranteed Claims

- Examples (cont'd):

(22) The respondent's U.S. office has a $20 million claim on a Brazilian financial company. The respondent purchased credit protection from a German bank against the risk of default by the Brazilian financial company through a credit derivative. The credit derivative has a notional value of $30 million, resulting in the recovery amount on credit protection exceeding the value of the guaranteed claim. The arrangement is considered an effective risk transfer. Entries would be:

Country	Col 3	Col 11	Col 12	Col 15
Brazil	20	20	---	---
Germany	---	---	30	30

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Frequently Asked Questions

- How should claims on derivative contracts be reported if collateral is held?

  Collateralized by Securities

  - The portion of the claim that is collateralized should be reported in the sector and country of residence of the party issuing the security
  - The uncollateralized portion of the claim should be reported in the sector and country of residence of the counterparty to the derivative contract.

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Frequently Asked Questions

- How should claims on derivative contracts be reported if collateral is held? (cont'd)

  Collateralized by Cash

  - If the following criteria are met, cash collateral received can be netted against claims on derivative contracts:
    - FIN 39-1 applies and
    - Collateral is held by the reporting institution
  - If cash collateral is held by a third party foreign resident, then the collateralized portion should be reported in the sector and country of the institution holding the collateral
  - The uncollateralized portion of the claim should be reported in the sector and country of residence of the counterparty to the derivative contract.

Frequently Asked Questions

- Examples:

A U.S. bank, the respondent, has a claim on a derivatives contract on a Japanese bank ($28 million). Under the bilateral collateralization agreement, exposures greater than $15 million are collateralized with cash (held by the reporter). The Japanese bank pledges $15 million in cash which is held by the respondent. Schedule 2 entries would be:

Country	Col 1	Col 4
Japan	12	12
United States	---	---

Frequently Asked Questions

- Examples (cont'd):

Same as the example above, except that the cash collateral is held by a Switzerland bank. Schedule 2 entries would be:

Country	Col 1	Col 4
Switzerland	15	15
Japan	12	12
United States	---	---

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Frequently Asked Questions

- Examples (cont'd):

Same as the original example, except that German government bonds were pledged as collateral. Schedule 2 entries would be:

Country	Col 1	Col 2	Col 4
Germany	---	15	15
Japan	12	---	12
United States	---	---	---

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FR 2436 SEMIANNUAL REPORT OF DERIVATIVES ACTIVITY
JUNE 2011 REPORT CHANGES

Justin McAvoy

Government Securities Dealers Statistics Unit

June 2011 Report Changes

- Second phase of the two-phase data improvement effort focused on credit derivatives:

- Phase One Implemented in June 2010 Focused on the Highest Priorities:
  - Expanded Counterparty Sector Expansion
    - Sector expansion including Central Counterparties, Special Purpose Vehicles, and Hedge Funds
    - Applied to all credit derivative tables 4A-4E
  - Multi Name Index CDS
    - Index/Non Index Multi Name Credit Derivatives added on Table 4D

June 2011 Report Changes

- Phase Two as of June 30, 2011, Expanded CDS Breakdowns by:
  - Contract Rating (Table 4B)
  - Economic Sector of Obligor (Table 4C)
  - Residency of Counterparty (New Table 4E)
  - Counterparty Credit Exposures from CDS (New Table 4G)
  - Synthetic CDO's (New Table 4H)

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June 2011 Report Changes

Table 4B Notional Amounts of Credit Default Swaps Outstanding by Rating Category

- Old breakdown (Investment Grade, Below Investment Grade, Not Rated)
- New Breakdown
  - High Investment Grade (AAA-AA)
  - Low Investment Grade (A-BBB)
  - Below Investment Grade (BB and below)
  - Not Rated

Contracts with multiple ratings should use the lower of the highest two ratings.

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June 2011 Report Changes

Table 4C Notional Amounts of Credit Default Swaps Outstanding by Sector of Reference Entity

Economic sector of obligors has been broadened significantly from Sovereign/Non Sovereign.

- Sovereign, including State and Local Governments
- Financial Firms
- Non-Financial Firms
- Asset-Backed Securities including Other Securitized Products when a breakdown by sector of the reference entity can’t be determined
- Multiple Sectors for multi-name instruments where the reference entities belong to different sectors

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June 2011 Report Changes

NEW Table 4E Notional Amounts of Credit Default Swaps Outstanding by Location of Counterparty

Old table 4E is now Table 4F

With All Counterparties in:

- United States
- Japan
- Western Europe
- Latin America
- Other Asian Countries (ex Japan)
- All Other Countries

- Also with other Reporting Dealers in the United States

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June 2011 Report Changes

NEW Table 4G Counterparty Credit Exposure From Credit Default Swaps

Report Net Positive and Net Negative Fair Values of All Contracts

- Claims
- Liabilities

Netting Permitted With Same Counterparty and if the Reporter has a Legally Enforceable Right of Setoff

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June 2011 Report Changes

NEW Table 4H Notional Amounts of Collateralized Debt Obligations Outstanding

Investment Instruments Where the Investor Does Not Have a Claim Against a Reference Pool of Assets

Originator uses CDS or Total Return Swaps to Cover a Predetermined Amount of Losses in a Specified Loan Pool

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Reporting Central

Frank Innocenti
Automation Support Division

Reporting Central

- What is Reporting Central?
- Why are we replacing IESUB?
- What is the transition plan?
- Where can I find Reporting Central documentation?

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What is Reporting Central?

- Reporting Central is an application which will replace the current Internet Electronic Submission (IESUB) system for reports submission
- Multi-year project beginning in 1st quarter 2012
- Reports will be transitioned by series families or groups of reports.

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Why Are We Replacing IESUB?

- IESUB is a 15 year old application
- Reporting Central will take advantage of newer technologies and enhanced security features
- We will switch from using Logon IDs and Passwords to digital certificates

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What is the Transition Plan?

- First reports to transition will be the Treasury International Capital (TIC) and the FFIEC 009/009A
- No decision has been made as to which group of reports will go next
- Current IESUB spreadsheet file format or data entry will be accepted in the new Reporting Central application

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Transition Plan Continued

- Those who currently file TIC or FFIEC 009/009A reports will receive communications directly beginning in the next few weeks
- Digital Certificate sign ups will begin early in the 3rd quarter
- Separate report series sign up will begin in early 4th quarter
- Respondent seminar will take place in early 1st quarter 2012

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Where Can I Find Reporting Central Documentation?

- All Reporting Central documentation will appear at the following URL:

  http://www.frbservices.org/centralbank/reportingcentral/index.html

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