

**Board of Governors of the Federal Reserve System**

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**Instructions for Preparation of  
Annual Report of Merchant Banking Investments Held  
for an Extended Period**

Reporting Form FR Y-12A  
Issued December 2006

# GENERAL INSTRUCTIONS (FR Y-12A)

## Introduction

Section 4(k)(4)(H) of the Bank Holding Company Act (BHC Act) (12 U.S.C. §1843(k)(4)(H) and subpart J of the Board's Regulation Y (12 CFR 225.170 et seq.) permit bank holding companies and foreign banks that have made an effective election to become a financial holding company (FHC) to acquire shares, assets, and other ownership interests of companies engaged in nonfinancial activities not otherwise permissible for a FHC. Shares, assets, or other ownership interests held under section 4(k)(4)(H) of the BHC Act and Subpart J of the Board's Regulation Y (collectively, the Merchant Banking Authority) are referred to herein as merchant banking investments. Merchant banking investments include investments made or acquired under any legal authority, and that are held under the Merchant Banking Authority as of the reporting date.

A FHC may own or control a merchant banking investment only for the period of time necessary to allow the FHC to sell or dispose of the investment on a reasonable basis consistent with the financial viability of the FHC's merchant banking investment activities. Regulation Y implements this holding period restriction by generally permitting a FHC to own or control a merchant banking investment for up to 10 years. Merchant banking investments made in, or held through, a private equity fund as defined below, however, may be held for the duration of the fund, up to a maximum of 15 years. A FHC must obtain the Board's prior approval to own or control a merchant banking investment beyond these time periods. (See 12 CFR 225.172(b)(4); 225.173(c)).

The information collected on the FR Y-12A allows the Federal Reserve to monitor merchant banking investments made by

FHCs that are approaching or have exceeded the end of the relevant 10- or 15-year holding period. These investments may be illiquid or have other characteristics that make their disposition problematic, thereby posing potentially increased risk to the FHC and its depository institution affiliates.

## Who Must Report

A FHC must file an FR Y-12A report for a merchant banking investment if, as of December 31<sup>st</sup> of the relevant calendar year, the FHC has owned, controlled or held such investment under the Merchant Banking Authority for a period that exceeds the **“applicable reporting period”** for the investment, as defined below. Merchant banking investments that have been held beyond the applicable reporting period, and that must be reported on an FR Y-12A report, are referred to herein as **“covered investments.”**

A FHC includes any domestic bank holding company or foreign bank that has made an effective election to become a financial holding company under Subpart I of the Board's Regulation Y (12 CFR 225.81 et seq.). A domestic bank holding company is a bank holding company incorporated in one of the 50 States of the United States, the District of Columbia, Puerto Rico, or any U.S. territory or possession.

## Applicable Reporting Period

The applicable reporting period for a merchant banking investment is as follows:

1. For a merchant banking investment that is made in, or held through, a private equity fund (see below) – **13 years.**
2. For all other merchant banking investments – **8 years.**

*Note:* The applicable reporting period for a merchant banking investment is less than the permissible holding period for the investment. This is to allow the Federal

Reserve to monitor investments that are approaching the end of the holding period

### **Private Equity Fund**

A private equity fund may be a corporation, partnership, limited liability company, or other type of company that issues ownership interests in any form.

For purpose of this form, a “private equity fund” means any company that meets all of the following criteria:

1. The company is formed for the purpose of, and is engaged exclusively in, the business of investing in shares, assets, and ownership interest of companies for resale or other disposition;
2. The company is not an operating company;
3. No more than 25 percent of the total equity of the company is held, owned or controlled, directly or indirectly, by the FHC and its directors, officers, employees and principal shareholders;
4. The company has a maximum term or life of not more than 15 years; and
5. The company was not formed, and is not operated for, the purpose of making investments inconsistent with the authority granted in section 4(k)(4)(H) of the BHC Act or evading the limitations governing merchant banking investments contained in Subpart J of the Board’s Regulation Y.

See 12 CFR 225.173(a) and (b).

### **A FHC Must Request an Extension to Hold its Merchant Banking Investment Beyond the 10- or 15-Year Holding Period.**

As noted above, a FHC may not hold a merchant banking investment beyond the holding period specified in Regulation Y for

generally permitted under Regulation Y.

the investment without obtaining the Board’s prior approval under 12 CFR 225.172(b)(4) or 225.173(c)(2). Filing an FR Y-12A for a merchant banking investment does **not** relieve a FHC of its obligation to seek the Board’s prior approval to hold the investment beyond the 10- or 15-year holding period for the investment. A separate request to hold the investment beyond the relevant holding period must be filed by the FHC as provided in 225.172(b)(4) and 225.173(c)(2).

### **How to Prepare the Report**

FHCs that meet the reporting criteria described above should complete a separate FR Y-12A for each covered investment that it owns, controls, or holds as of December 31<sup>st</sup> of the relevant calendar year. A FHC, however, may complete one FR Y-12A cover page when reporting multiple covered investments. In a multi-tiered organization with one or more FHCs, only the top-tier FHC should complete the FR Y-12A, which would be prepared on a consolidated basis.

### **Where and When to File this Report**

The report must be submitted by February 15<sup>th</sup> of the following calendar year. For example, if, as of December 31, 2006, a FHC owns a covered investment, the FHC must submit a FR Y-12A for the investment by February 15, 2007. Reporting FHCs should submit an original and one copy of the report to the appropriate Federal Reserve Bank.

### **Alternative Report Form**

In lieu of using the printed FR Y-12A report form, a FHC may report the required data on computer print-outs that are in the identical format and size as the printed form, including line items and columns in the order in which they appear on the printed form. The cover page must be signed by an

executive officer of the reporting institution. Executive officer is defined in 12 CFR

### **Reporting in Dollars**

All amounts should be converted to U.S. dollars using the Spot Exchange Rate on the report date, regardless of the currencies in which the transactions reported are denominated. The translations should be made on the same basis as used by the FHC to prepare its Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) or Annual Report of Foreign Banking Organizations (FR Y-7) report.

### **Rounding**

Report all dollar amounts rounded to the nearest million. Report all percentage amounts rounded down to the nearest whole percentage. For example, a percentage of 61.75 should be reported as 61. Note: There are two exceptions to this rounding rule: when the percentage is greater than 50 but less than 51, report the percentage as 51 or if the percentage is greater than 0 but less than 1, report the percentage as 1.

### **Confidentiality**

The Board generally considers that the information obtained through this report is confidential on the basis that disclosure of specific commercial or financial information relating to investments held for extended periods of time could result in substantial harm to the competitive position of the FHC. If, for any reason, the Board believes that particular information cannot be withheld from disclosure, the Board will inform the reporter of its views and give the reporter an opportunity to object, as required under section 261.15 of the Board's Rules Regarding Availability of Information, 12 CFR 261.15.

### **Tacking Rules**

A FHC must follow the "tacking" rules set forth in sections 225.172(b)(2) and (3) of

215.2(e)(1).

Regulation Y in determining the period of time that the FHC has held an investment under the Merchant Banking Authority. These rules are designed to prevent evasion of the holding period limitations on Merchant Banking Investments. Under these rules:

1. The period of time that a FHC is deemed to have held an investment under the Merchant Banking Authority includes any period of time that the FHC or any subsidiary of the FHC (including a depository institution subsidiary) previously held the investment under any other provision of the Federal banking laws that imposes a limited holding period on the investment.

**Example:** A bank subsidiary of FHC acquired 100 shares of ABC Manufacturing on October 1, 2000, in satisfaction of a debt previously contracted ("DPC"). In 2002, the FHC decides to retain these shares and transfers them to a nonbank subsidiary of the FHC in reliance on the Merchant Banking Authority. Under section 225.172(b)(3), the FHC is deemed to have held the shares under the Merchant Banking Authority since October 1, 2000. This is because Federal law restricts the time period that a bank may hold assets acquired DPC. Accordingly, the FHC would have to file a FR Y-12A for the investment if it continued to hold the investment under the Merchant Banking Authority as of December 31, 2008.

2. A merchant banking investment acquired by a FHC from a company (the "selling company") in which the FHC holds an interest under the Merchant Banking Authority is deemed to have been acquired by

the FHC under the Merchant Banking Authority on the date the investment was initially acquired by the selling company.

**Example:** On June 30, 2001, FHC acquired a 10 percent voting interest in Venture Capital Fund under the Merchant Banking Authority. On January 1, 2003, the fund acquires 100 shares of XYZ Manufacturing Company. On January 1, 2005, the FHC acquires the 100 shares of XYZ Manufacturing Company from Venture Capital Fund. For purposes of the FR Y-12A, the FHC is deemed to have acquired those 100 shares under the Merchant Banking Authority on the date that Venture Capital Fund initially acquired those shares (i. e. January 1, 2003). See 12 CFR 225.172(b)(2)(i).

3. A FHC may not extend the reporting or holding period for a Merchant Banking Investment by selling the investment to another company in which the FHC holds an interest under the Merchant Banking Authority.

**Example:** On October 1, 2001, FHC acquired 49 percent of the stock of Widget Company under the Merchant Banking Authority. FHC also owns 30 percent of XYZ Investment Fund under the Merchant Banking Authority. On January 1, 2008, FHC sells its entire interest in Widget Company to XYZ Investment Fund. FHC continues to retain an indirect interest in Widget Company (through its holdings of XYZ Investment Fund) under the Merchant Banking Authority and the FHC is considered to have held its interest in Widget Company under the Merchant

**Banking Authority since October 1, 2001 (i.e. the date the FHC initially acquired its interest in Widget Company). See 12 CFR 225.172(b)(2)(ii). Accordingly, FHC must file a FR Y-12A for its investment in Widget Company if it continues to hold an interest in the company under the Merchant Banking Authority as of December 31, 2009.**

## **Instructions for the Cover Page (FR Y-12A)**

### **Report Date**

Provide the report date on which the FR Y-12A is required. Information must be submitted by February 15<sup>th</sup> of the following calendar year.

### **Reporter's Name, Street, and Mailing Addresses**

*Legal Name:* Provide the reporter's full legal name.

*Street Address, City, County, State/Province, Country, and Zip/Postal Code:* Provide the street address of the reporter's main office. Do not use a post office box number as the street address. Provide the nine-digit zip code, if available.

*Reporter's Mailing Address (if different from street address):* Provide the address to which mailings for the reporter should be sent. A street address or post office box is acceptable. Provide the nine-digit zip code, if available.

### **Contact's Name and Mailing Address for this Report**

*Name and Title:* Print the name and title of the person at the FHC that may be contacted concerning the reporter's submission. The contact person should be an individual that had responsibility for preparing or submitting the report on the reporter's behalf.

*Phone Number:* Provide the telephone number (including area code and if applicable, the extension) of the contact person.

*Fax Number:* Provide the fax number (including the area code) of the contact person.

*E-mail Address:* Provide the electronic mailing address of the contact person.

*Contact's Mailing Address (if different from above):* Provide the address to which mailing for the reporter's contact person should be sent. The street address or post office box is acceptable. Provide the nine-digit zip code, if available.

### **Executive Officer**

*Printed Name & Title:* Print the name and title of the Executive Officer who has authority to execute the report on behalf of the FHC.

*Signature of Executive Officer, Date of Signature:* An Executive Officer of the reporter must sign and date the cover page of the FR Y-12A report to indicate that the report has been reviewed for accuracy. Each report submitted should be signed and certified by an executive officer of the FHC. "Executive Officer" is defined in 12 CFR 215.2(e)(1). The signer may or may not be the same person as the contact person for the report.

## Instructions for Specific Line Items (FR Y-12A)

### Direct Holder Section

#### Direct Holder's Name and Location

Provide the legal name, city and county, state/province, country, and zip/postal code of the Direct Holder<sup>1</sup>. Report the nine-digit zip code, if available.

**NOTE:** Before submitting the FR Y-12A report, the top tier bank holding company must verify that a FR Y-10 or FR Y-10F Nonbanking Schedule has been filed on behalf of the Direct Holder. Also note that effective June 2007, the information collected on the FR Y-10F report will be incorporated into a new FR Y-10 report.

### Covered Investment Section

#### Line Item 1 – Acquisition Date of Covered Investment

Provide the date on which the FHC initially acquired the covered investment under the Merchant Banking Authority. In determining the date, use the tacking rules described in the General Instructions.

#### Line Item 2 – Name and Location of Company Held

Provide the legal name, city and county, state/province, country, and zip/postal code of the company in which the covered investment is made. Report the nine-digit zip code, if available.

#### Line Item 3 – Primary Activity of Company Held

#### NAICS Activity Code

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<sup>1</sup> The Direct Holder is the legal entity within the FHC's corporate structure that directly holds the covered investment.

Consult the Report of Changes in Organizational Structure (FR Y-10) or the Report of Changes in FBO Organizational Structure (FR Y-10F), Appendix B "North American Industry Classification System (NAICS) Activity Codes" for commonly reported activities and select the code that best describes the primary activity conducted by the company held. If an appropriate code is not listed in Appendix B, select a five- or six-digit NAICS code from the U.S. Census Bureau's website <http://www.census.gov/epcd/www/naics.html>.

If you are unable to identify a five- or six-digit NAICS code corresponding to the activity, provide a text description of the primary activity of the company held.

#### Line Item 4 – Type of Interest Held by Financial Holding Company

Check the appropriate box(es) to indicate the types of interest(s) held by the FHC. If none of the listed descriptions adequately describes the type of interest, check the box next to "Other" and provide a text description.

#### Line Item 5 – Percentage of Ownership Held by Financial Holding Company

Report the percentage interest of voting and non-voting equity held by the FHC. In determining the FHC's voting and nonvoting ownership interest, the FHC should assume that the FHC (and no other investor) has exercised all rights, warrants, and options held by the FHC and has converted all convertible debt held by the FHC. Report the percentage rounded down to the nearest whole percentage. For example, a percentage of 61.75 should be reported as 61. *Note:* There are two exceptions to this rounding rule: when the percentage is greater than 50 but less than 51, report the percentage as 51, or if the percentage is greater than 0 but less than 1, report the percentage as 1.

**Line Item 6 – Acquisition Cost of Covered Investment**

Report the acquisition cost of the covered investment (*in millions of U.S. Dollars*). For purposes of this report, acquisition cost represents the total amount paid by the FHC for the covered investment. In instances where the FHC did not pay consideration for the investment (e.g., warrants taken in lieu of cash), report the initial carrying value of the investment at its initial fair value (e.g., warrants carried at \$1).

**Line Item 7 – Carrying Value of the Covered Investment**

For the covered investment, report the carrying value of the investment (*in millions of U.S. Dollars*) as of the reporting date (December 31<sup>st</sup> of the relevant year). For purposes of this report, carrying value refers to the amount of the investment as reflected in the FHC's consolidated financial statements prepared in accordance with applicable accounting standards. If the covered investment is not reflected in the FHC's consolidated financial statements, provide the carrying value of the investment as reflected on the books of the direct holder of the investment. For example, an available-for-sale equity security generally is accounted for under FAS 115 at fair value on the balance sheet. Therefore, under US GAAP, the fair value of such an investment would be considered the carrying value of the security.

**Line Item 8 – Plan and Schedule for Disposition of a Covered Investment**

For the covered investment, provide a brief narrative explanation of how the FHC plans to sell or otherwise dispose of the investment and the anticipated time frame for such sale or disposition. When possible, the narrative should identify the key aspects of the FHC's plan for disposition, and the timetable for disposing of the investment. For example, this line item could state: "IPO expected to occur in next year" or

"Discussing sale to third party and expect to close on \_\_\_\_." If circumstances warrant, a separate page may be attached to the FR Y-12A elaborating on the details for disposing of a covered investment.

**Other Definitions**

For the definition of Appropriate Federal Reserve Bank, Bank Holding Company, Company, Control, Depository Institution, Edge Corporation, and Financial Holding Company, please refer to the FR Y-10 and FR Y-10F Glossary.

For the definition of Carrying Value, Direct Investment, Equity Investment, Indirect Investment, Nonfinancial Company, and Subsidiary, please refer to the glossary of the Consolidated Bank Holding Company Report of Equity Investments in Nonfinancial Companies (FR Y-12).