Supporting Statement for
Financial Statements for Bank Holding Companies
(FR Y-9C, FR Y-9LP, FR Y-9SP, FR Y-9CS and FR Y-9ES; OMB No. 7100-0128)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to revise, without extension, the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128), for implementation in 2007. This family of reports also contains the following mandatory reports, which are not being revised:

(1) the Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP; OMB No. 7100-0128),
(2) the Parent Company Only Financial Statements for Small Bank Holding Companies (FR Y-9SP; OMB No. 7100-0128),
(3) the Financial Statements for Employee Stock Ownership Plan Bank Holding Companies (FR Y-9ES; OMB No. 7100-0128), and
(4) the Supplement to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9CS; OMB No. 7100-0128).

Pursuant to the Bank Holding Company Act of 1956, as amended, the Federal Reserve requires bank holding companies (BHCs) to provide standardized financial statements to fulfill the Federal Reserve's statutory obligation to supervise these organizations. BHCs file the FR Y-9C and FR Y-9LP quarterly, the FR Y-9SP semiannually, the FR Y-9ES annually, and the FR Y-9CS on a schedule that is determined when the supplement is used.

The Federal Reserve proposes to modify information collected on the FR Y-9C to: (1) collect certain data on the sources of fair value measurements from all institutions that choose, under generally accepted accounting principles, to apply a fair value option to one or more financial instruments and one or more classes of servicing assets and liabilities and from certain institutions that report trading assets and liabilities; (2) collect an item to capture the change in the fair value of liabilities accounted for under the fair value option that is attributable to a BHC's own creditworthiness for purposes of measuring regulatory capital; (3) collect certain data on 1-4 family residential mortgage loans with terms that allow for negative amortization; and (4) revise instructions for the reporting of time deposits and brokered deposits. The Federal Reserve also proposes to clarify the FR Y-9C instructions for the reporting of assets serviced for others. The proposed changes would be effective as of March 31, 2007.

A copy of the proposed reporting form, marked to show the revisions, is attached. The total current annual burden for the FR Y-9 family of reports is estimated to be 182,741 hours. The overall reporting burden is estimated to increase by 1,225 hours with the proposed revisions.

Background and Justification

The FR Y-9C, FR Y-9LP, and FR Y-9SP are standardized financial statements for the consolidated BHC and its parent. The FR Y-9ES is a financial statement for BHCs that are Employee Stock Ownership Plans (ESOPs). The Federal Reserve also has the authority to use the FR Y-9CS, a free form supplement, to collect any additional information deemed to be critical and needed in an expedited manner. The FR Y-9 family of reports historically has been, and continues to be, the primary source of financial information on BHCs between on-site inspections. Financial information from these reports is used to detect emerging financial problems, to review performance and conduct pre-inspection analysis, to monitor and evaluate capital adequacy, to evaluate BHC mergers and acquisitions, and to analyze a BHC's overall financial condition to ensure safe and sound operations.

Description of the Information Collection

FR Y-9C

The FR Y-9C consists of standardized financial statements similar to the commercial banks' Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 & 041; OMB No. 7100-0036). The FR Y-9C collects consolidated data from the BHC. The FR Y-9C is generally filed by top-tier BHCs with total consolidated assets of $500 million or more.[1]

Proposed Revisions Related to Call Report Revisions

The Federal Reserve proposes to make the following revisions to the FR Y-9C to parallel proposed changes to the Call Report. BHCs have commented that changes should be made to the FR Y-9C in a manner consistent with changes to the Call Report. Comments received on the Call Report proposal were taken into consideration for this proposal.

Reporting on Fair Value Measurements and the Use of the Fair Value Option

On September 15, 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, *Fair Value Measurements* (FAS 157), which is effective for BHCs and other entities for fiscal years beginning after November 15, 2007. Earlier adoption of FAS 157 is permitted as of the beginning of an earlier fiscal year, provided the BHC has not yet issued a financial statement or submitted FR Y-9C data for any period of that fiscal year. Thus, a BHC with a calendar year fiscal year may voluntarily adopt FAS 157 as of January 1, 2007. The fair value measurements standard provides guidance on how to measure fair value and would require BHCs and other entities to disclose the inputs used to measure fair value based on a three-level hierarchy for all assets and liabilities that are re-measured at fair value on a recurring basis.[2]

The FASB issued a final Statement No. 159, *The Fair Value Option for Financial Assets and*

1 Under certain circumstances defined in the General Instructions, BHCs under $500 million may be required to file the FR Y-9C.

2 The FASB's three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting BHC has the ability to access at the measurement date (e.g., the FR Y-9C reporting date). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

Financial Liabilities (FAS 159), on February 15, 2007. This standard allows BHCs and other entities to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings. The Federal Reserve anticipates that relatively few BHCs will elect to use the fair value option for a significant portion of their financial assets and liabilities.

According to the FASB's Web site (www.fasb.org), the FASB Board has decided to require that the effective date of the final fair value option standard be the same as the effective date of FAS 157. Thus, the final fair value option standard should be effective for financial statements issued for fiscal years beginning after November 15, 2007. The FASB Board has also decided to permit an entity to early adopt the final fair value option standard provided that the entity also adopts all of the requirements (measurement and disclosure) of FAS 157 concurrent with or prior to the early adoption of the final fair value option standard. Furthermore, the FASB Board would permit early adoption of the final fair value option standard within 120 days of the beginning of the entity's fiscal year, thereby making the fair value option election retroactive to the beginning of that fiscal year (or the date of initial recognition, if later) provided that the entity has not yet issued any interim financial statements for that fiscal year. Thus, a BHC with a calendar year fiscal year that voluntarily adopts FAS 157 as of January 1, 2007, would also be able to adopt the final fair value option standard as of that same date.

The Federal Reserve proposes to clarify the FR Y-9C reporting instructions to explain where financial assets and liabilities measured under the fair value option should be reported in the existing line items of the FR Y-9C. The Federal Reserve also proposes to add a new Schedule HC-Q to the FR Y-9C to collect data, by major asset and liability category, on the amount of assets and liabilities to which the fair value option has been applied along with separate disclosure of the amount of such assets and liabilities whose fair values were estimated under level two and under level three of the FASB's fair value hierarchy. The categories are:

- Securities held for purposes other than trading with changes in fair value reported in current earnings,
- Loans and leases,
- All other financial assets and servicing assets,
- Deposit liabilities,
- All other financial liabilities and servicing liabilities, and
- Loan commitments (not accounted for as derivatives).

In addition, the Federal Reserve proposes to collect data on trading assets and trading liabilities in the new schedule from those BHCs that complete Schedule HC-D, Trading Assets and Liabilities, that is, BHCs that reported average trading assets of $2 million or more for any quarter of the preceding calendar year. In the proposed new schedule, such BHCs would report the carrying amount of trading assets and trading liabilities whose fair values were estimated under level two and under level three of the FASB's fair value hierarchy. Trading assets and trading liabilities are required to be reported at fair value and thus are not covered under the fair value option.

The Federal Reserve anticipates using this fair value information to make appropriate risk assessments for on-site examinations and off-site surveillance. The addition of these data items should result in minimal additional reporting burden for BHCs because FAS 157 requires disclosure of amounts under all three levels of the fair value hierarchy on a quarterly and annual basis in financial statements.

The FASB's fair value measurements standard requires BHCs and other entities to consider the effect of a change in their own creditworthiness when determining the fair value of a financial liability. The Federal Reserve proposes to add one new data item to Schedule HC-R, Regulatory Capital, for the cumulative change in the fair value of all financial liabilities accounted for under the fair value option that is attributable to changes in the BHC's own creditworthiness. This amount would be excluded from the BHC's retained earnings for purposes of determining Tier 1 capital under the Federal Reserve's regulatory capital standards.

Finally, the Federal Reserve plans to clarify the instructions to Schedule HI for the treatment of interest income on financial assets and interest expense on financial liabilities measured under a fair value option. The instructions would be modified to instruct BHCs to separate the contractual year-to-date amount of interest earned on financial assets and interest incurred on financial liabilities that are reported under a fair value option from the overall year-to-date fair value adjustment and report these contractual amounts in the appropriate interest income or interest expense items on Schedule HI. In addition, the Federal Reserve proposes to modify memoranda item 6, Other noninterest income, by adding data item 6.i, Net change in the fair values of financial instruments accounted for under a fair value option.

Reporting of Certain Data on 1-4 Family Residential Mortgage Loans with Terms that Allow for Negative Amortization

Recently, the volume of 1-4 family residential mortgage loan products whose terms allow for negative amortization and the number of institutions providing borrowers with such loans has increased significantly. Loans with this feature are structured in a manner that may result in an increase in the loan's principal balance even when the borrower's payments are technically current. When loans with negative amortization are not prudently underwritten and not properly monitored, they raise safety and soundness concerns. However, due to the classification of these loans with all other 1-4 family residential mortgage loans in the FR Y-9C, the Federal Reserve has no readily available means of identifying the industry's exposure to such loans. Therefore, the Federal Reserve proposes to collect four data items to monitor the extension of negatively amortizing residential mortgage loans in the industry.

The Federal Reserve proposes to collect one memorandum item from all BHCs on Schedule HC-C, Loans and Leases, for the total amount of closed-end loans with negative amortization features secured by 1-4 family residential properties in order to obtain an overall measure of this potentially higher risk lending activity. In addition, the Federal Reserve proposes to collect two memoranda items on Schedule HC-C and one memorandum item on Schedule HI, Income Statement, from BHCs with a significant volume of negatively amortizing 1-4 family residential mortgage loans. The determination of the threshold for significant volume would be based on the aggregate carrying amount of negatively amortizing loans that exceed the lesser of $100 million or 5 percent of the total loans and leases (in domestic offices, net of earned income) reported on Schedule HC-C. For reporting during 2007, a BHC with negatively amortizing loans would determine whether it met the size threshold for submitting the three additional memorandum data items using data submitted in its December 31, 2006, FR Y-9C report. For reporting in 2008 and subsequent years, the determination would be based on data from the previous year-end FR Y-9C report.

The two additional Schedule HC-C memoranda items are (1) the total maximum remaining amount of negative amortization contractually permitted on closed-end loans secured by 1-4 family residential properties and (2) the total amount of negative amortization on closed-end loans secured by 1-4 family residential properties that is included in the carrying amount of these loans. The first memorandum item would provide a measure of the maximum exposure that could be incurred for negative amortization loans in the current 1-4 family residential property loan portfolio. The second memorandum item would then identify what component of 1-4 family mortgage loans is comprised of negative amortization loans. The Schedule HI memorandum item is year-to-date non-cash income on closed-end loans with a negative amortization feature secured by 1-4 family residential properties. This memorandum item would identify the amount and extent of interest revenue accrued and uncollected to ascertain the degree this potentially higher risk lending activity supports the BHC's overall net income. BHCs with negatively amortizing 1-4 family residential loans in excess of the reporting threshold for these data items would report these three data items for the entire calendar year following the end of any calendar year when this threshold was exceeded.

Reporting of Certain Brokered Time Deposit Information

The FFIEC proposed to revise the reporting treatment of brokered time deposits on Call Report Schedule RC-E, Deposit Liabilities. Memorandum item 2.b, Total time deposits of less than $100,000, would be revised to include brokered time deposits issued in denominations of $100,000 or more that are participated out by the broker in shares of less than $100,000, as well as brokered certificates of deposit issued in $1,000 amounts under a master certificate of deposit. Memorandum item 2.c, Total time deposits of $100,000 or more, would be revised to exclude such brokered deposits.

The Federal Reserve proposes to make similar instructional changes to seven data items on Schedule HC-E, Deposit Liabilities, to retain consistent definitions with the Call Report and to accommodate the consolidation of subsidiary bank information into the FR Y-9C report. The Federal Reserve proposes to revise the instructions for data item 1.d, Time deposits of less than $100,000 held in domestic offices of commercial bank subsidiaries; data item 2.d, Time deposits of less than $100,000 held in domestic offices of other depository institution subsidiaries; Memorandum item 1, Brokered deposits less than $100,000 with a remaining maturity of one year or less; and Memorandum item 2, Brokered deposits less than $100,000 with a remaining maturity of more than one year, to include brokered time deposits issued in denominations of $100,000 or more that are participated out by the broker in shares of less than $100,000 and brokered certificates of deposit issued in $1,000 amounts under a master certificate of deposit. Data item 1.e, Time deposits of $100,000 or more held in domestic offices of commercial bank subsidiaries; data item 2.e, Time deposits of $100,000 or more held in domestic offices of other depository institution subsidiaries; and Memorandum item 3, Time deposits of $100,000 or more with a remaining maturity of one year or less, would be revised to exclude such brokered time deposits.

Instructional Clarifications

Servicing of Loan Participations

BHCs report the outstanding principal balance of assets serviced for others in Memorandum item 2 of Schedule HC-S, Servicing, Securitization, and Asset Sale Activities. In Memoranda items 2.a and 2.b, BHCs report the amounts of 1-4 family residential mortgages serviced with recourse and without recourse, respectively. Memorandum item 2.c covers all other loans and financial assets serviced for others, but BHCs are required to report the amount of such servicing only if the servicing volume is more than $10 million. The instructions for Memorandum item 2 do not explicitly state whether a BHC that has sold a participation in a 1-4 family residential mortgage or other loan or financial asset, which it continues to service, should include the servicing in Memorandum item 2.a, 2.b, or 2.c, as appropriate. The absence of clear instructional guidance has resulted in questions from banking institutions and has produced diversity in practice among BHCs.

Subject to the reporting threshold that applies to Memorandum item 2.c, Memorandum item 2 was intended to cover the entire volume of loans and other financial assets for which BHCs perform the servicing function, regardless of whether the servicing involves whole loans and other financial assets or only portions thereof, as is typically the case with loan participations. The risks and responsibilities inherent in servicing are present whether all or part of a loan or financial asset is serviced for the benefit of another party. Accordingly, the Federal Reserve proposes to clarify the instructions to Memorandum item 2 of Schedule HC-S to explicitly state that the amount of loan participations serviced for others should be included in this data item.

FR Y-9LP

The FR Y-9LP includes standardized financial statements filed quarterly on a parent company only basis from each BHC that files the FR Y-9C. In addition, for tiered BHCs, a separate FR Y-9LP must be filed for each lower tier BHC.

FR Y-9SP

The FR Y-9SP is a parent company only financial statement filed by smaller BHCs. Respondents include BHCs with total consolidated assets of less than $500 million. This reporting form is a simplified or abbreviated version of the more extensive parent company only financial statement for large BHCs (FR Y-9LP). This reporting form is designed to obtain basic balance sheet and income information for the parent company, information on intangible assets, and information on intercompany transactions.

FR Y-9ES

The FR Y-9ES collects financial information from ESOPs that are also BHCs on their benefit plan activities. It consists of four schedules: Statement of Changes in Net Assets Available for Benefits, Statement of Net Assets Available for Benefits, Memoranda, and Notes to the Financial Statements.

Frequency

There are no changes proposed to the reporting frequency of the FR Y-9 family of reports. The current reporting frequencies provide adequate timely data to meet the analytical and supervisory needs of the Federal Reserve.

Time Schedule for Information Collection

The FR Y-9C and FR Y-9LP are filed quarterly as of the end of March, June, September, and December. The filing deadline for the FR Y-9C is forty calendar days after the March 31, June 30, and September 30 as-of dates. The filing deadline for the FR Y-9C is forty-five calendar days after the December 31 as-of date. The filing deadline for the FR Y-9LP is forty-five calendar days after the quarter-end as-of date. The FR Y-9SP report must be submitted within forty-five calendar days after the as-of date. The FR Y-9SP is reported semiannually as of the end of June and December. The annual FR Y-9ES is collected as of December 31 and submitted to the Federal Reserve Banks by July 31, unless an extension is granted for filing by October 15. The data from the FR Y-9 family of reports that are not given confidential treatment are available to the public on the FFIEC website (www.ffiec.gov/nic) and through the National Technical Information Service.

Legal Status

The Board's Legal Division has determined that the FR Y-9 family of reports are authorized by Section 5(c) of the Bank Holding Company Act [12 U.S.C. 1844(c)]. Overall, the Board does not consider the financial data in these reports to be confidential. However, a respondent may request confidential treatment pursuant to section (b)(4) of the Freedom of Information Act [5 U.S.C. 552(b)(4)].

Consultation Outside the Agency

On January 11, 2007, the Federal Reserve published a notice in the *Federal Register* (72 FR 1325) requesting public comment for sixty days on the revision, without extension, of the FR Y-9C. The comment period for this notice expired on March 12, 2007. The Board did not receive any comment letters. However, five comments were received by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency (the banking agencies) on proposed revisions to the Call Reports that parallel the proposed revisions to the FR Y-9C. The Federal Reserve modified the proposal in response to several of these comment letters. On March 26, 2007, the Federal Reserve published a final notice in the *Federal Register* (72 FR 14104).

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimates of Respondent Burden

The current estimated annual reporting burden for the FR Y-9 family of reports is 182,741 hours and would increase to 183,966 hours as shown in the following table. The average estimated hours per response for FR Y-9C filers would increase from 37.95 hours to 38.35 hours resulting from an increase of 0.4 hours for the proposed new data items. The Federal Reserve anticipates that proposed new data items related to fair value measurements would be applicable to only a small number of respondents, and estimate that less than half of the respondents would be required to provide information on mortgage loans with negative amortization features. The revised total burden for the FR Y-9 family of reports would represent less than 4 percent of total Federal Reserve System annual burden.

	Number of respondents	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
<u>*Current*</u>				
FR Y-9C	766	4	37.95	116,279
FR Y-9LP	981	4	4.75	18,639
FR Y-9SP	4,645	2	5.10	47,379
FR Y-9ES	87	1	0.50	44
FR Y-9CS	200	4	0.50	400
Total				182,741
<u>*Proposed*</u>				
FR Y-9C	766	4	38.35	117,504
FR Y-9LP	981	4	4.75	18,639
FR Y-9SP	4,645	2	5.10	47,379
FR Y-9ES	87	1	0.50	44
FR Y-9CS	200	4	0.50	400
Total				183,966
Change				+1,225

The total cost to the public is estimated to increase from the current level of $11,265,983 to $11,341,504 for the revised BHC reporting forms.[3]

3 Total cost to the public was estimated using the following formula. Percent of staff time, multiplied by annual burden hours, multiplied by hourly rate: 30% - Clerical @ $25, 45% - Managerial or Technical @ $55, 15% - Senior Management @ $100, and 10% - Legal Counsel @ $144. Hourly rate estimates for each occupational

Estimate of Cost to the Federal Reserve System

Current costs to the Federal Reserve System for collecting and processing these reports are estimated to be $1,837,467 per year. With the revisions the estimated costs will increase by less than 0.5 percent to $1,844,367 per year. The one-time costs to implement the revised reports are estimated to be $97,696.

group are averages using data from the Bureau of Labor and Statistics, *Occupational Employment and Wages*, news release.