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 extend for three years, with revision, the following mandatory financial statements for bank holding companies (OMB No. 7100-0128), for implementation in March 2011:

(1) the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) and
(2) the Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP).

The Federal Reserve also proposes to extend for three years, without revision, the following mandatory reports:

(1) the Parent Company Only Financial Statements for Small Bank Holding Companies (FR Y-9SP),
(2) the Financial Statements for Employee Stock Ownership Plan Bank Holding Companies (FR Y-9ES), and
(3) the Supplement to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9CS).

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 the following revisions and clarifications to the FR Y-9C effective March 31, 2011: (1) break out by loan category of other loans and leases that are troubled debt restructurings for those that (a) are past due 30 days or more or in nonaccrual status or (b) are in compliance with their modified terms and clarify reporting of restructured troubled debt consumer loans, (2) break out other consumer loans into automobile loans and all other consumer loans in several schedules, (3) break out commercial mortgage-backed securities issued or guaranteed by U.S. Government agencies and sponsored agencies, (4) create a new Schedule HC-V, Variable Interest Entities, for reporting major categories of assets and liabilities of consolidated variable interest entities (VIEs), (5) break out loans and other real estate owned (OREO) information covered by FDIC loss-sharing agreements by loan and OREO category, (6) break out life insurance assets into data items for general account, separate account, and hybrid account life insurance assets (7) add new data items for the total assets of captive insurance and reinsurance subsidiaries, (8) add new income statement items for credit valuation adjustments and debit valuation adjustments included in trading revenues (for BHCs with total assets of $100 billion or more), (9) revise reporting instructions in the areas of construction lending and 1-4 family residential mortgage banking activities, and (10) collect expanded information on the quarterly-averages schedule.

The Federal Reserve also proposes to revise the FR Y-9LP effective for March 31, 2011, to modify a data item collecting loans and leases of the parent restructured in compliance with modified terms. This data item would be redefined to exclude leases and to explicitly refer to restructured loans in this data item as troubled debt restructurings.

A copy of selected pages of the proposed reporting form, marked to show the revisions, is provided in the attachment. The total current annual burden for the FR Y-9 family of reports is estimated to be 250,129 hours and is estimated to increase by 11,539 hours for a proposed annual burden of to 261,668 hours.

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 Board 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 Consolidated Reports of Condition and Income (Call Report) (FFIEC 031 & 041; OMB No. 7100-0036) filed by commercial banks. The FR Y-9C collects consolidated data from BHCs. The FR Y-9C is filed by top-tier BHCs with total consolidated assets of $500 million or more.[1] The Federal Reserve proposes several changes to the FR Y-9C reporting requirements to better understand BHCs' risk exposures, primarily with respect to lending and securitizations, to better support macroeconomic analysis and monetary policy purposes, and to collect certain information prescribed by changes in accounting standards.

A. 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. In the past, BHCs have commented that changes should be made to the FR Y-9C in a manner consistent with changes to the Call Report to reduce reporting burden.

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

A.1 Troubled Debt Restructurings

The Federal Reserve proposes that BHCs report additional detail on loans that have undergone troubled debt restructurings in Schedule HC-C, Loans and Lease Financing Receivables, and Schedule HC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets. More specifically, Schedule HC-C, Memorandum item 1.b, Other loans and all leases, restructured and in compliance with modified terms, and Schedule HC-N, Memorandum item 1.b, restructured, Other loans and all leases, included in Schedule HC-N, would be broken out to provide information on restructured troubled loans for many of the loan categories reported in the bodies of Schedule HC-C and Schedule HC-N. The breakout would also include Loans to individuals for household, family, and other personal expenditures, whose terms have been modified in troubled debt restructurings, which are currently excluded from the reporting of troubled debt restructurings.

In the aggregate, troubled debt restructurings for all FR Y-9C respondents have grown from $11.4 billion at year-end 2007 to $106.2 billion as of March 31, 2010. The proposed additional detail on troubled debt restructurings in Schedules HC-C and HC-N would enable the Federal Reserve to better understand the level of restructuring activity at BHCs, the categories of loans involved in this activity, and whether BHCs are working with their borrowers to modify and restructure loans. In particular, to encourage banking organizations to work constructively with their commercial borrowers, the Board, FDIC, and OCC (the banking agencies) recently[2] issued guidance on commercial real estate loan workouts and small business lending. While this guidance has explained the agencies' expectations for prudent workouts, the Federal Reserve and the industry would benefit from additional reliable data outside of the examination process to assess restructuring activity at BHCs for commercial real estate loans and commercial and industrial loans. Further, it is important to separately identify commercial real estate loan restructurings from commercial and industrial loan restructurings given that the value of the real estate collateral is a consideration in a BHC's decision to modify the terms of a commercial real estate loan in a troubled debt restructuring, but such collateral protection would normally be absent from commercial and industrial loans for which a loan modification is being explored because of borrowers' financial difficulties.

It is also anticipated that other loan categories will experience continued workout activity in the coming months given that most asset classes have been adversely affected by the recent recession. This effect is evidenced by the increase in past due and nonaccrual assets across virtually all asset classes over the past two to three years.

Currently, BHCs report loans and leases restructured and in compliance with their modified terms (Schedule HC-C, Memorandum item 1) with separate disclosure of (a) loans secured by 1-4 family residential properties (in domestic offices) and (b) other loans and all leases (excluding loans to individuals for household, family, and other personal expenditures). This same breakout is reflected in Schedule HC-N, Memorandum item 1, for past due and nonaccrual restructured troubled loans. The broad category of other loans in Schedule HC-C, Memorandum item 1.b, and Schedule HC-N, Memorandum item 1.b, does not permit an adequate analysis of troubled debt restructurings. In

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2 Interagency Statement on Meeting the Credit Needs of Creditworthy Small Business Borrowers, issued February 12, 2010, and Policy Statement on Prudent Commercial Real Estate Loan Workouts, issued October 30, 2009.

addition, the disclosure requirements for troubled debt restructurings under generally accepted accounting principles (GAAP) do not exempt restructurings of loans to individuals for household, family, and other personal expenditures. Therefore, if more detail were to be added to match the reporting of loans in Schedule HC-C and Schedule HC-N, the new data would provide the Federal Reserve with the level of information necessary to assess BHCs' troubled debt restructurings to the same extent that other loan quality and performance indicators can be assessed. However, the Federal Reserve notes that, under GAAP, troubled debt restructurings do not include changes in lease agreements[3] and therefore propose to exclude leases from Schedule HC-C, Memorandum item 1, and from Schedule HC-N, Memorandum item 1, and strike the phrase "and all other leases" from the caption of these data items.

Thus, the proposed breakdowns of existing Memorandum item 1.b in both Schedule HC-C and Schedule HC-N would create new Memorandum items in both schedules covering troubled debt restructurings of 1-4 family residential construction loans, Other construction loans and all land development and other land loans, Loans secured by multifamily (5 or more) residential properties, Loans secured by owner-occupied nonfarm nonresidential properties, Loans secured by other nonfarm nonresidential properties, Commercial and industrial loans, and All other loans and all leases (including loans to individuals for household, family, and other personal expenditures).[4] If restructured loans in any category of loans, as defined in Schedule HC-C, included in restructured, All other loans, exceeds 10 percent of the amount of restructured, All other loans, the amount of restructured loans in this category or categories would be itemized and described.

Finally, Schedule HC-C, Memorandum item 1, and Schedule HC-N, Memorandum item 1, are intended to capture data on loans that have undergone troubled debt restructurings as that term is defined in GAAP. However, the captions of these two Memorandum items include only the term "restructured" rather than explicitly mentioning troubled debt restructurings, which has led to questions about the scope of these Memorandum items. Accordingly, the Federal Reserve proposes to revise the captions so that they clearly indicate that the loans to be reported in Schedule HC-C, Memorandum item 1, and Schedule HC-N, Memorandum item 1, are troubled debt restructurings.

A.2 Auto Loans

The Federal Reserve proposes to add a breakdown of the other consumer loans or all other loans loan categories contained in four separate schedules in order to separately collect information on auto loans. The affected schedules would be Schedule HC-C, Loans and Lease Financing Receivables; Schedule HC-D, Trading Assets and Liabilities; Schedule HC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets; and Schedule HI-B, Part I, Charge-offs and Recoveries on Loans and Leases. Auto loans would include loans arising from retail sales of passenger cars and other vehicles such as minivans, vans, sport-utility vehicles, pickup trucks, and similar light trucks for personal use. This new loan category would exclude loans to finance fleet sales, personal cash loans secured by automobiles

3 Accounting Standards Codification paragraph 470-60-15-11.

4 For BHCs with foreign offices, the Memorandum items for restructured real estate loans would cover such loans in domestic offices. In addition, BHCs would also provide a breakdown of restructured commercial and industrial loans between U.S. and non-U.S. addressees.

already paid for, loans to finance the purchase of commercial vehicles and farm equipment, and lease financing.

Automobile loans are a significant consumer business for many large BHCs. Because of the limited disclosure of auto lending on existing regulatory reports, supervisory oversight of auto lending is presently diminished by the need to rely on the examination process and public information sources that provide overall market information but not data on idiosyncratic risks.

Roughly 65 percent of new vehicle sales and 40 percent of used vehicle sales are funded with auto loans. According to household surveys and data on loan originations, commercial banks are an important source of auto loans. In 2008, this sector originated approximately one-third of all auto loans. Finance companies, both independent and those affiliated with auto manufacturers, originated a bit more than one-third, while credit unions originated a bit less than one-quarter. In addition to originating auto loans, some banks purchase auto loans originated by other entities, which suggests that commercial banks could be the largest holder of auto loans.

Despite the importance of BHCs to the auto loan market, the Federal Reserve knows less about BHCs' holdings of auto loans than is known about finance company, credit union, and savings association holdings of these loans. All nonbank depository institutions are required to report auto loans on their respective regulatory reports, including savings associations, which originate less than 5 percent of auto loans. On their regulatory reports, credit unions must provide not only the outstanding amount of new and used auto loans, but also the average interest rate and the number of loans. In a monthly survey, the Federal Reserve collects information on the amount of auto loans held by finance companies. As a consequence, during the financial crisis when funds were scarce for finance companies in general and the finance companies affiliated with automakers in particular, a lack of data on auto loans at banks hindered the Federal Reserve's ability to estimate the extent to which BHCs were filling in the gap in auto lending left by the finance companies.

Additional disclosure regarding consolidated auto loans on the FR Y-9C is especially important with the implementation of the amendments to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topics 860, Transfers and Servicing, and 810, Consolidations, resulting from Accounting Standards Update (ASU) No. 2009-16[5], and ASU No. 2009-17[6], respectively. Until 2010, Schedule HC-S, Servicing, Securitization, and Asset Sale Activities, had provided the best supervisory information on auto lending because it included a separate breakout of securitized auto loans outstanding as well as securitized auto loan delinquencies and charge-offs. The accounting changes brought about by the amendments to ASC Topics 860 and 810, however, mean that if the auto loan securitization vehicle is now required to be consolidated, securitized auto lending previously reported on Schedule HC-S will be grouped as part of other consumer loans or all other loans on Schedules HC-C, HC-D, HC-N, and HI-B, Part I, which diminishes supervisors' ability to assess auto loan exposures and performance.

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5 Formerly Statement of Financial Accounting Standards (SFAS) No. 166, *Accounting for Transfers of Financial Assets* (FAS 166).

6 Formerly SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167).

Finally, separating auto lending from other consumer loans will assist the Federal Reserve in understanding consumer lending activities at individual institutions. When an institution holds both auto loans and other types of consumer loans (other than credit cards, which are currently reported separately), the current combined reporting of these loans in the FR Y-9C tends to mask any significant differences that may exist in the performance of these portfolios. For example, a BHC could have a sizeable auto loan portfolio with low loan losses, but its other consumer lending, which could consist primarily of unsecured loans, could exhibit very high loss rates. The current blending of these divergent portfolios into a single loan category makes it difficult to adequately monitor consumer loan performance.

A.3 Commercial Mortgage Backed Securities Issued or Guaranteed by U.S. Government Agencies and Sponsored Agencies

The Federal Reserve proposes to split the existing data items on commercial mortgage-backed securities (CMBS) in Schedule HC-B, Securities, and Schedule HC-D, Trading Assets and Liabilities, to distinguish between CMBS issued or guaranteed by U.S. Government agencies and sponsored agencies (collectively, U.S. Government agencies) and those issued by others. Until June 2009, information reported in the FR Y-9C on mortgage-backed securities (MBS) issued or guaranteed by U.S. Government agencies included both residential MBS and CMBS. However, in June 2009 when BHCs began to report information on CMBS separately from residential MBS, data was collected only for commercial mortgage pass-through securities and for other CMBS without regard to issuer or guarantor. Thus, the Federal Reserve was no longer able to identify all MBS issued or guaranteed by U.S. Government agencies.

U.S. Government agencies issue or guarantee a significant volume of CMBS that are backed by multifamily residential properties. In the fourth quarter of 2009, out of a total of $854 billion in commercial and multifamily loans that were securitized, loan pools issued or guaranteed by U.S. Government agencies accounted for 19 percent or $164 billion. These pools present a substantially different risk profile than privately issued CMBS, but current reporting does not allow for the identification of bank holdings of CMBS issued or guaranteed by U.S. Government agencies. In addition, because CMBS issued or guaranteed by U.S. Government agencies are accorded lower risk weights than CMBS issued by others, banks generally should have the information necessary to separately report these two categories of CMBS in the proposed new data items in Schedules HC-B and HC-D.

Thus, in Schedule HC-B, the Federal Reserve proposes to split both data item 4.c.(1), Commercial mortgage pass-through securities, and data item 4.c.(2), Other commercial MBS, into separate data items for those issued or guaranteed by U.S. Government agencies (new data items 4.c.(1)(a) and 4.c.(2)(a)) and all other CMBS (new data items 4.c.(1)(b) and 4.c.(2)(b)). Similarly, in Schedule HC-D, existing data item 4.d, Commercial MBS, would be split into separate data items for CMBS issued or guaranteed by U.S. Government agencies (data item 4.d.(1)) and all other CMBS (data item 4.d.(2)).

A.4 Variable Interest Entities

In June 2009, the FASB issued accounting standards that have changed the way entities account for securitizations and special purpose entities. ASU No. 2009-16 (formerly FAS 166) revised ASC Topic 860, Transfers and Servicing, by eliminating the concept of a qualifying special-purpose entity (QSPE) and changing the requirements for derecognizing financial assets. ASU No. 2009-17 (formerly FAS 167) revised ASC Topic 810, Consolidations, by changing how a banking organization or other company determines when an entity that is insufficiently capitalized or is not controlled through voting or similar rights, for example a VIE, should be consolidated. For most banking organizations, ASU Nos. 2009-16 and 2009-17 took effect January 1, 2010.

Under ASC Topic 810, as amended, determining whether a BHC is required to consolidate a VIE depends on a qualitative analysis of whether that BHC has a "controlling financial interest" in the VIE and is therefore the primary beneficiary of the VIE. The analysis focuses on the BHC's power over and interest in the VIE. With the removal of the QSPE concept from GAAP that was brought about in amended ASC Topic 860, a BHC that transferred financial assets to an SPE that met the definition of a QSPE before the effective date of these amended accounting standards was required to evaluate whether, pursuant to amended ASC Topic 810, it must begin to consolidate the assets, liabilities, and equity of the SPE as of that effective date. Thus, when implementing amended ASC Topics 860 and 810 at the beginning of 2010, BHCs began to consolidate certain previously off-balance-sheet securitization vehicles, asset-backed commercial paper conduits, and other structures. Going forward, BHCs with variable interests in new VIEs must evaluate whether they have a controlling financial interest in these entities and, if so, consolidate them. In addition, BHCs must continually reassess whether they are the primary beneficiary of VIEs in which they have variable interests.

For those VIEs that banks must consolidate, the Federal Reserve's FR Y-9C instructional guidance advises institutions to report the assets and liabilities of these VIEs on the balance sheet (Schedule HC) in the category appropriate to the asset or liability. However, ASC paragraph 810-10-45-25[7] requires a reporting entity to present "separately on the face of the statement of financial position: a. Assets of a consolidated variable interest entity (VIE) that can be used only to settle obligations of the consolidated VIE [and] b. Liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of the primary beneficiary." This requirement has been interpreted to mean that "each line item of the consolidated balance sheet should differentiate which portion of those amounts meet the separate presentation conditions."[8] In requiring separate presentation for these assets and liabilities, the FASB agreed with commenters on its proposed accounting standard on consolidation that "separate presentation . . . would provide transparent and useful information about an enterprise's involvement and associated risks in a variable interest entity."[9] The Federal Reserve concurs that separate presentation would provide similar benefits to them and other

7 Formerly paragraph 22A of FIN 46(R), as amended by FAS 167.

8 Deloitte & Touche LLP, "Back on-balance sheet: Observations from the adoption of FAS 167," May 2010, page 4 (http://www.deloitte.com/view/en_US/us/Services/audit-enterprise-risk-services/Financial-Accounting-Reporting/f3a70ca28d9f8210VgnVCM200000bb42f00aRCRD.htm).

9 See paragraphs A80 and A81 of FAS 167.

FR Y-9C users, particularly since data on securitized assets that are reconsolidated is no longer reported on Schedule HC-S, Servicing, Securitization, and Asset Sale Activities.

Consistent with the presentation requirements discussed above, the Federal Reserve proposes to add a new Schedule HC-V, Variable Interest Entities, to the FR Y-9C in which BHCs would report a breakdown of the assets of consolidated VIEs that can be used only to settle obligations of the consolidated VIEs and liabilities of consolidated VIEs for which creditors do not have recourse to the general credit of the reporting BHC. The following proposed categories for these assets and liabilities would include some of the same categories presented on the balance sheet (Schedule HC): (1) Cash and balances due from depository institutions, (2) Held-to-maturity securities, (3) Available-for-sale securities, (4) Securities purchased under agreements to resell, (5) Loans and leases held for sale, (6) Loans and leases, net of unearned income, (7) Less: Allowance for loan and lease losses, (8) Trading assets (other than derivatives), (9) Derivative assets, (10) Other real estate owned, (11) Other assets, (12) Securities sold under agreements to repurchase, (13) Derivative liabilities, (14) Other borrowed money (other than commercial paper), (15) Commercial paper, and (16) Other liabilities. These assets and liabilities would be presented separately for securitization trusts, asset-backed commercial paper conduits, and other VIEs.

In addition, the Federal Reserve proposes to include two separate data items in new Schedule HC-V in which BHCs would report the total amounts of all other assets and all other liabilities of consolidated VIEs (i.e., all assets of consolidated VIEs that are not dedicated solely to settling obligations of the VIE and all liabilities of consolidated VIEs for which creditors have recourse to the general credit of the reporting BHC). The collection of this information would help the Federal Reserve understand the total magnitude of consolidated VIEs. These assets and liabilities would also be reported separately for securitization trusts, asset-backed commercial paper conduits, and other VIEs. The asset and liability information collected in Schedule HC-V would represent amounts included in the reporting BHC's consolidated assets and liabilities reported on Schedule HC, Balance Sheet, i.e., after eliminating intercompany transactions.

A.5 Assets Covered by FDIC Loss-Sharing Agreements

In March 2010, the banking agencies added a four-way breakdown of assets covered by loss-sharing agreements with the FDIC to Call Report Schedule RC-M, Memoranda (and a comparable four-way breakdown was added to FR Y-9C Schedule HC-M, Memoranda). FR Y-9C data items 6.a through 6.d collect data on covered loans and leases, other real estate owned, debt securities, and other assets. In a January 22, 2010, comment letter to the banking agencies on the agencies' submission for OMB review of proposed Call Report revisions for implementation in 2010, the American Bankers Association (ABA) stated that while the addition of the covered asset data items to Schedule RC-M was:

> A step in the right direction, ABA believes it would be beneficial to regulators, reporting banks, investors, and the public to have additional, more granular information about the various categories of assets subject to the FDIC loss-sharing agreements. While we recognize that this would result in additional reporting burden on banks, on balance our members feel strongly that the benefit of additional disclosure of loss-sharing data would outweigh the burden of providing these detailed data. Thus, we urge the Agencies and the FFIEC to further revise the collection of data from banks on assets covered by FDIC loss-sharing agreements on the Call Report to

> include the several changes suggested below. . . . We believe these changes would provide a more precise and accurate picture of a bank's asset quality.

The changes suggested by the ABA included revising Call Report Schedule RC-M by replacing the two data items for covered loans and leases and covered other real estate owned with separate breakdowns of these assets by loan category and real estate category. The ABA also suggested revising existing data items 10 and 10.a in Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, which collect data on past due and nonaccrual loans and leases that are wholly or partially guaranteed by the U.S. Government, including the FDIC. The ABA recommended that the reporting of these past due and nonaccrual loans and leases be segregated into separate data items for loans and leases covered by FDIC loss-sharing agreements and loans and leases with other U.S. Government guarantees.

After reviewing the ABA's recommendations, the Federal Reserve proposes to make substantively similar revisions to the FR Y-9C. Thus, the Federal Reserve proposes to create a breakdown of Schedule HC-M, data item 6.a, covered Loans and leases, that would include each category of Loans secured by real estate (in domestic offices) from Schedule HC-C, Loans to finance agricultural production and other loans to farmers, Commercial and industrial loans, Credit cards, Other consumer loans, and All other loans and all leases. If any category of loans or leases, as defined in Schedule HC-C, included in covered All other loans and all leases exceeds 10 percent of total covered loans and leases, the amount of covered loans or leases in that category or categories must be itemized and described. Similarly, the Federal Reserve proposes to create a breakdown of Schedule HC-M, data item 6.b, covered Other real estate owned, into the following categories: Construction, land development, and other land, Farmland, 1-4 family residential properties, Multifamily (5 or more) residential properties, and Nonfarm nonresidential properties. BHCs would also report the guaranteed portion of the total amount of covered other real estate owned. In Schedule HC-N, as suggested by the ABA for the Call Report, the Federal Reserve proposes to remove loans and leases covered by FDIC loss-sharing agreements from the scope of existing data items 11 and 11.a on past due and nonaccrual loans wholly or partially guaranteed by the U.S. Government. Past due and nonaccrual covered loans and leases would then be collected in new data item 12, which would include a breakdown of these loans and leases using the same categories as in proposed revised data item 6.a of Schedule HC-M.

A.6 Life Insurance Assets

BHCs purchase and hold bank-owned life insurance (BOLI) policies as assets, the premiums for which may be used to acquire general account, separate account, or hybrid account life insurance policies. BHCs currently report the aggregate amount of their life insurance assets in data item 5 of Schedule HC-F, Other Assets, without regard to the type of policies they hold.

Many BHCs have BOLI assets, and the distinction between those life insurance policies that represent general account products and those that represent separate account products or hybrid account products has meaning with respect to the degree of credit risk involved as well as performance measures for the life insurance assets in a volatile market environment. In a general account policy, the general assets of the insurance company issuing the policy support the policy's cash surrender value. In a separate account policy, the policy's cash surrender value is supported by assets segregated from the general assets of the insurance carrier. Under such an arrangement, the policyholder neither owns the underlying separate account created by the insurance carrier on its behalf nor controls investment decisions in the account. Nevertheless, the policyholder assumes all investment and price risk. In a hybrid account policy, features of general and separate account products are combined providing the additional asset protection offered by separate accounts while also providing a guaranteed minimum interest-crediting rate, which is common to general accounts.

A number of BHCs holding separate account life insurance policies have recorded significant losses in recent years due to the volatility in the markets and the vulnerability to market fluctuations of the instruments that are investment options in separate account life insurance policies. Information distinguishing between the cash surrender values of general account, separate account, and hybrid account life insurance policies would allow the Federal Reserve to track BHCs' holdings of these types of life insurance policies with their differing risk characteristics and changes in their carrying amounts resulting from their performance over time. Accordingly, the Federal Reserve proposes to split data item 5 of Schedule HC-F into three data items: data item 5.a, General account life insurance assets, data item 5.b, Separate account life insurance assets, and data item 5.c, Hybrid account life insurance assets.

A.7 Captive Insurance and Reinsurance Subsidiaries

Captive insurance companies are utilized by banking organizations to "self insure" or reinsure their own risks pursuant to incidental activities authority. A captive insurance company is a limited purpose insurer that may be licensed as a direct writer of insurance or as a reinsurer. Insurance premiums paid by a BHC to its captive insurer, and claims paid back to the BHC by the captive, are transacted on an intercompany basis, so there is no evidence of this type of self-insurance activity when a BHC prepares consolidated financial statements, including its FR Y-9C. The cash flows for a captive reinsurer's transactions also are not transparent in a BHC's consolidated financial statements.

A number of BHCs own captive insurers or reinsurers, several of which were authorized to operate more than 10 years ago. Some of the most common lines of business underwritten by BHC captive insurers are credit life, accident and health, and disability insurance and employee benefits coverage. Additionally, BHC captive reinsurance subsidiaries may underwrite private mortgage guaranty reinsurance or terrorism risk reinsurance.

As part of their supervisory processes, the Federal Reserve has been following the proliferation of BHC captive insurers and reinsurers and the performance trends of these captives for the past several years. Collection of financial information regarding the total assets of captive insurance and reinsurance subsidiaries would assist the agencies in monitoring the insurance activities of banking organizations as well as any safety and soundness risks posed to the parent BHC from the activities of these subsidiaries.

The Federal Reserve proposes to collect two new data items in Schedule HC-M, Memoranda, for captive insurance subsidiaries operated by BHCs: data item 7.a, Total assets of captive insurance subsidiaries, and data item 7.b, Total assets of captive reinsurance subsidiaries. These new data items are not expected to be applicable to the vast majority of BHCs. When reporting the total assets of these captive subsidiaries in the proposed new data items, BHCs should measure the subsidiaries' total assets before eliminating intercompany transactions between the consolidated subsidiary and other offices or subsidiaries of the consolidated BHC.

A.8 Credit and Debit Valuation Adjustments Included in Trading Revenues

BHCs that reported average trading assets of $2 million or more for any quarter of the preceding calendar year provide a breakdown of trading revenue by type of exposure in Memorandum items 9.a through 9.e of Schedule HI, Income Statement. These revenue data items are reported net of credit adjustments made to the fair value of BHCs' derivative assets and liabilities that are reported as trading assets and liabilities.

There are two forms of credit adjustments that affect the valuation of derivatives held for trading and trading revenue. The first is the credit valuation adjustment (CVA), which is the discounted value of expected losses on a BHC's derivative assets due to changes in the creditworthiness of the BHC's derivative counterparties and future exposures to those counterparties. In contrast, the debit valuation adjustment (DVA) reflects the effect of changes in the BHC's own creditworthiness on its derivative liabilities. During the financial crisis, the recognition of both the CVA and the DVA had a material effect on overall trading revenues. Because of their potential materiality, information on these two adjustments is needed in order for the Federal Reserve to better understand the level and trend of BHCs' trading revenues.

The Federal Reserve therefore proposes to add two new Memorandum items to the existing Schedule HI Memorandum items for trading revenue. In new Memorandum item 9.f, BHCs would report the Impact on trading revenue of changes in the creditworthiness of the bank holding company's derivatives counterparties on the bank holding company's derivative assets (included in Memorandum items 9.a through 9.e above). In new Memorandum item 9.g., BHCs would report the Impact on trading revenue of changes in the creditworthiness of the bank holding company on the bank holding company's derivative liabilities (included in Memorandum items 9.a through 9.e above). Because derivatives held for trading are heavily concentrated in the very largest BHCs, these new data items would be reported only by BHCs with $100 billion or more in total assets.

A.9 Instructional Revisions

1. Construction Loans.

BHCs report the amount of their Construction, land development, and other land loans in the appropriate loan subcategory of Schedule HC-C, data item 1.a. Questions have arisen about the reporting treatment for a Construction, land development, and other land loan that was not originated as a "combination construction-permanent loan," but was originated with the expectation that repayment would come from the sale of the real estate, when the BHC changes the loan's terms so that principal amortization is required. This may occur after completion of construction when the BHC renews or refinances the existing loan or enters into a new real estate loan with the original borrower. The Federal Reserve believes that as long as the repayment of a loan that was originally categorized as a Construction, land development, and other land loan remains dependent on the sale of the real property, the loan should continue to be reported in the appropriate subcategory of data item 1.a of Schedule HC-C because it continues to exhibit the risk characteristics of a construction loan.

The instructions for Schedule HC-C, data item 1.a, state that:

> Loans written as combination construction-permanent loans secured by real estate should be reported in this item until construction is completed or principal amortization payments begin, whichever comes first. When the first of these events occurs, the loans should begin to be reported in the real estate loan category in Schedule HC-C, data item 1, appropriate to the real estate collateral. All other construction loans secured by real estate should continue to be reported in this item after construction is completed unless and until (1) the loan is refinanced into a new permanent loan by the reporting bank holding company or is otherwise repaid, (2) the bank holding company acquires or otherwise obtains physical possession of the underlying collateral in full satisfaction of the debt, or (3) the loan is charged off.

A combination construction-permanent loan results when the lender enters into a contractual agreement with the original borrower at the time the construction loan is originated to also provide the original borrower with permanent financing that amortizes principal after construction is completed and a certificate of occupancy is obtained (if applicable). This construction-permanent loan structure is intended to apply to situations where, at the time the construction loan is originated, the original borrower:

- is expected to be the owner-occupant of the property upon completion of construction and in receipt of a certificate of occupancy (if applicable), for example, where the financing is being provided to the original borrower for the construction and permanent financing of the borrower's residence or place of business or
- is not expected to be the owner-occupant of the property, but repayment of the permanent loan will be derived from rental income associated with the property being constructed after receipt of a certificate of occupancy (if applicable) rather than from the sale of the property being constructed.

For a loan not written as a combination construction-permanent loan at the time the construction loan was originated, the Federal Reserve proposes to clarify the instructional language quoted above stating that "[a]ll other construction loans secured by real estate should continue to be reported in this item after construction is completed unless and until . . . the loan is refinanced into a new permanent loan by the reporting bank holding company." This clarification is intended to ensure the appropriate categorization of such a loan in Schedule HC-C. Thus, the Federal Reserve proposes to revise the instructions for Schedule HC-C, data item 1.a, to explain that the phrase "the loan is refinanced into a new permanent loan" refers to:

- an amortizing permanent loan to a new borrower (unrelated to the original borrower) who has purchased the real property or
- a prudently underwritten new amortizing permanent loan at market terms to the original borrower – including an appropriate interest rate, maturity, and loan-to-value ratio – that is no longer dependent on the sale of the property for repayment. The loan should have a clearly identified ongoing source of repayment sufficient to service the required principal and interest payments over a reasonable and customary period relative to the type of property securing the new loan. A new loan to the original borrower not meeting these criteria (including a new loan on interest-only terms or a new loan with a short-term balloon maturity that is inconsistent with the ongoing source of repayment criterion) should continue to be reported as a "Construction, land development, and other land loan" in the appropriate subcategory of Schedule HC-C, data item 1.a.

2. Reporting of 1-4 Family Residential Mortgages Held for Trading in Schedule HC-P

The Federal Reserve began collecting information in Schedule HC-P, 1-4 Family Residential Mortgage Banking Activities in Domestic Offices, in September 2006. At that time, the instructions for Schedule HC-C, Loans and Lease Financing Receivables, were written to indicate that loans generally could not be classified as held for trading. Therefore, all 1-4 family residential mortgage loans designated as held for sale were reportable in Schedule HC-P. In March 2008, the Federal Reserve provided instructional guidance establishing conditions under which BHCs were permitted to classify certain assets (e.g., loans) as trading and specified that loans classified as trading assets should be excluded from Schedule HC-C, Loans and Lease Financing Receivables, and reported instead in Schedule HC-D, Trading Assets and Liabilities (if the reporting threshold for this schedule were met). However, the Federal Reserve neglected to address the reporting treatment on Schedule HC-P of 1-4 family residential loans that met the conditions for classification as trading assets. Therefore, the Federal Reserve proposes to correct this by providing explicit instructional guidance that all 1-4 family residential mortgage banking activities, whether held for sale or trading purposes, are reportable on Schedule HC-P.

B. Proposed Revision Not Related to Call Report Revisions

The Federal Reserve proposes to make the following revision to the FR Y-9C effective as of March 31, 2011, which is unrelated to the revisions proposed to the Call Report.

B.1 Expanding Information Collected on Schedule HC-K, Quarterly Averages

The Federal Reserve proposes to expand the information collected on Schedule HC-K, Quarterly Averages, to collect more detailed breakdowns on securities and loan portfolios, consistent with information currently reported by commercial banks on Call Report Schedule RC-K, Quarterly Averages. Specifically, Schedule HC-K, data item 2, Securities, would be broken out to provide information on (1) U.S. Treasury securities and U.S. Government agency obligations (excluding mortgage-backed securities), (2) Mortgage-backed securities, and (3) All other securities. Also, new loan categories would be added to Schedule HC-K, data item 6, Loans, to provide information on (1) Loans to finance agricultural production and other loans to farmers, (2) Commercial and industrial loans, and (3) Loans to individuals for household, family, and other personal expenditures, with a breakdown of (a) Credit cards and (b) Other.

A more granular breakdown on securities and loan portfolios would 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. Disclosure of this information would also be consistent with firms' public Securities and Exchange Commission (SEC) filings, where net charge-off rates by product type are calculated using quarterly average balances.

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. The Federal Reserve proposes the following revision to the FR Y-9LP effective as of March 31, 2011.

Troubled Debt Restructurings

To be consistent with revisions proposed for the FR Y-9C, the Federal Reserve proposes to modify the instructions for Schedule PC-B - Memoranda item 8, Loans and leases of the parent restructured in compliance with modified terms, to clearly indicate that the loans to be reported in this data item should be troubled debt restructurings and to exclude leases. Also the phrase “and leases” would be stricken from the caption of this data item. Under GAAP, troubled debt restructurings do not include changes in lease agreements. Also consistent with the proposed change to the FR Y-9C, the Federal Reserve proposes to revise the instructions for this data item to include (currently excluded) 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 troubled debt restructurings.

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 form is a simplified or abbreviated version of the more extensive parent company only financial statement for large BHCs (FR Y-9LP). This report 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-9CS

The FR Y-9CS is a supplemental report that may be utilized to collect additional information deemed to be critical and needed in an expedited manner from BHCs. The information is used to assess and monitor emerging issues related to BHCs. It is intended to supplement the FR Y-9 reports, which are used to monitor BHCs between on-site inspections. The data items of information included on the supplement may change as needed.

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

The Federal Reserve recommends no changes 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 40 calendar days after the March 31, June 30, and September 30 as-of dates and 45 calendar days after the December 31 as-of date. The filing deadline for the FR Y-9LP is 45 calendar days after the quarter-end as-of date. The FR Y-9SP is filed semiannually as of the end of June and December. The filing deadline for the FR Y-9SP is 45 calendar days after the as-of date. The annual FR Y-9ES is collected as of December 31 and the filing deadline is 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/nicpubweb/nicweb/nichome.aspx) and through the National Technical Information Service.

Legal Status

The Board's Legal Division has determined that the FR Y-9 family of reports is authorized by Section 5(c) of the Bank Holding Company Act (12 U.S.C. §1844(c)). Overall, the Federal Reserve 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 and Discussion of Public Comments

On November 3, 2010, the Federal Reserve published a notice for comment in the *Federal Register* (75 FR 67721) and received two comment letters from bankers' organizations on proposed revisions to the FR Y-9C and FR Y-9LP. In addition, the banking agencies received comment letters from nine organizations: three banks, three bankers' organizations, two bank insurance consultants, and an insurance company on proposed changes to the Call Report, which parallel proposed changes to the FR Y-9C and are taken into consideration for this proposal. The comment period for this notice expired on January 3, 2011. On March 2, 2011, the Federal Reserve published a final notice in the *Federal Register* (76 FR 11474) on the FR Y-9C and LP, including a more detailed discussion of the comments received.

Public Comments: The banking agencies received comments from three bankers' associations on the proposed additional detail in the Call Report on loans that have undergone troubled debt restructurings, comparable to the proposed changes to the FR Y-9C. Two of the commenters recommended the banking agencies defer the proposed troubled debt restructuring revisions, including the new breakdowns by loan category, until the FASB finalizes proposed clarifications to the accounting for troubled debt restructurings by creditors. In addition, two of the bankers' associations recommended retaining the term "restructured" in the caption titles instead of changing to the term "troubled debt restructurings," stating that changing this term would result in the collection of only a subset of total restructurings and would misrepresent banks' efforts to work with their customers.

The banking agencies received three comments from banks and one comment from a bankers' association addressing the proposed revision to separately collect information on automobile loans in the Call Report schedules containing loan category data, comparable to the proposed changes to the FR Y-9C. The three banks requested an exemption from the proposed reporting requirements for smaller banks, with one of the banks seeking the exemption only for reporting auto loan interest income and quarterly averages. The bankers' association stated that this revision should not create a significant burden for future loans because core data processors generally have the ability to break out loan types, but it also asked for clarification on the reporting for situations in which auto loans are extended for multiple purposes. In addition, the bankers' association observed that some community banks do not have data readily available on the types or purposes of existing consumer loans, which would prevent them from determining the purpose of loans collateralized by autos, i.e., for the purchase of the auto or for some other purpose, without searching paper loan files.

The banking agencies received one comment from a bankers' association that addressed proposed Call Report Schedule RC-V, which is comparable to proposed FR Y-9C Schedule HC-V. The bankers' association recommended a delayed effective date to allow sufficient time for systems modifications.

The banking agencies received comments from two insurance consultants and an insurance company supporting the proposed revision to provide a breakdown of life insurance assets by type of policy on the Call Report, comparable to the proposed changes to the FR Y-9C described above. However, all three commenters noted that the evolution of life insurance products in recent years has led to a third type of policy becoming more prevalent in the banking industry: hybrid accounts. Such accounts combine features of general and separate account products by providing the additional asset protection offered by separate accounts while also providing a guaranteed minimum interest-crediting rate, which is common to general accounts. They recommended that the proposal be revised from a two-way to a three-way breakdown of life insurance assets or, although not the preferable approach, advise banking institutions with hybrid account life insurance assets to report them together with general account life insurance assets because they have more general account characteristics.

The banking agencies received one comment from a bankers' association on the proposed guidance on the reporting of 1-4 family residential mortgages held for trading in Call Report Schedule RC-P, comparable to the proposed guidance to the FR Y-9C described above. The commenter supported the proposed clarification and requested further clarification on the reporting of repurchases and indemnifications in this schedule. The commenter suggested separate reporting of loan repurchases from indemnifications for all subitems of Call Report Schedule RC-P, item 6, "Repurchases and indemnifications of 1-4 family residential mortgage loans during the quarter."

The banking agencies received comments from two bankers' associations on the proposed FR Y-9C instructional revision for reporting maturity and repricing data in Schedule HC-B, Securities. One bankers' association recommended the banking agencies adopt their proposed approach only for floating rate loans reported in Schedule RC-C, part I. This bankers' association opposed extending the same proposed approach to the other three Call Report schedules in which repricing data are reported for certain other floating rate instruments because its "members believe that not enough research has been completed" to understand the effect of the proposed instructional change on how these other instruments would be reported. The other bankers' association recommended against proceeding with the proposed instructional change because of the implementation burden associated with the multiple systems that would need to be revised. This association also observed that the revised information for floating rate instruments at contractual ceilings and floors would be commingled with the maturity and repricing information for all of the other instruments in the same asset or liability category.

Like their comments to proposed revisions to the FR Y-9C, two bankers' associations commented that the Federal Reserve should defer proposed FR Y-9LP instructional modifications until the FASB finalizes proposed clarifications to the accounting for troubled debt restructurings by creditors.

In summary, after considering the comments received on the proposed FR Y-9C and FR Y-9LP and revisions, the Federal Reserve plans to move forward as of the March 31, 2011, report date with most, but not all, of the proposed reporting changes after making certain modifications in response to the comments. The Federal Reserve will not implement the items for interest income and quarterly averages for automobile loans as had been proposed, but will add items for automobile loans to the other FR Y-9C schedules for which this revision had been proposed. After evaluating the automobile loan data that banks report, the Federal Reserve may propose in the future to collect interest income and quarterly averages for such loans. The Federal Reserve also is not proceeding with a proposed instructional change that would have revised the treatment of assets and liabilities whose interest rates have reached contractual ceilings or floors when reporting repricing data. The proposed breakdown of life insurance assets into general and separate account assets will be modified to also include a category for hybrid account assets.

The Federal Reserve recognizes institutions' need for lead time to prepare for reporting changes. Thus, consistent with longstanding practice, for the March 31, 2011, report date, banks may provide reasonable estimates for any new or revised FR Y-9C item initially required to be reported as of that date for which the requested information is not readily available. Furthermore, the specific wording of the captions for the new or revised FR Y-9C data items and the numbering of these data items discussed in this notice should be regarded as preliminary.

For a more detailed discussion of the changes proposed, the comments received, and the Federal Reserve's response, please refer to the "Current Actions" section of the final *Federal Register* notice for this submission.

Sensitive Questions

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

Estimates of Respondent Burden

The current annual reporting burden for the FR Y-9 family of reports is estimated to be 250,129 hours and would increase to 261,668 hours as shown in the following table. The average estimated hours per response for FR Y-9C filers would increase from 42.25 hours to 45.00 hours resulting from an increase of 2.75 hours for proposed new data items. The Federal Reserve anticipates that nearly all respondents would be required to report the proposed breakdown of auto loans. The Federal Reserve estimates that about three-quarters of the respondents would be required to provide new breakdowns of restructured "other" loans and of life insurance assets, and estimates that less than one-fifth of respondents would be required to report all other proposed new or revised data items. The Federal Reserve believes that the increase to the burden for the FR Y-9LP report would be negligible based on the proposed revision and, therefore, the average ongoing annual burden for the FR Y-9LP would remain unchanged from current estimates. The revised annual burden for the FR Y-9 family of reports would represent less than 4 percent of total Federal Reserve System paperwork burden.

	Number of respondents	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
Current				
FR Y-9C	1,049	4	42.25	177,281
FR Y-9LP	1,295	4	5.25	27,195
FR Y-9SP	4,186	2	5.40	45,209
FR Y-9ES	87	1	0.50	44
FR Y-9CS	200	4	0.50	400
Total				250,129
Proposed				
FR Y-9C	1,049	4	45.00	188,820
FR Y-9LP	1,295	4	5.25	27,195
FR Y-9SP	4,186	2	5.40	45,209
FR Y-9ES	87	1	0.50	44
FR Y-9CS	200	4	0.50	400
Total				261,668
Change				+11,539

The total cost to the public is estimated to increase from the current level of $10,530,431 to $11,160,140 for the revised BHC reports.[10]

10 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% Office & Administrative Support @ $16, 45% Financial Managers @ $49, 15% Legal Counsel @ $54, and 10% Chief Executives @ $77). Hourly rate for each occupational group

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 $1,938,567 per year. With the revisions the estimated costs will increase to $1,961,549 per year. The one-time costs to implement the revised reports are estimated to be $89,297.

are the median hourly wages (rounded up) from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2008, www.bls.gov/news.release/ocwage.nr0.htm Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/