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 (Board), under delegated authority from the Office of Management and Budget (OMB), proposes to revise, without extension, the mandatory Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) (OMB No. 7100-0128). 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),
(2) the Parent Company Only Financial Statements for Small Bank Holding Companies (FR Y-9SP),
(3) the Financial Statements for Employee Stock Ownership Plan Bank Holding Companies (FR Y-9ES), and
(4) 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 instructional revisions to the FR Y-9C effective March 31, 2012: (1) modify the reporting instructions to clarify the reporting and accounting treatment of specific valuation allowances and (2) add a new Glossary entry for capital contributions of cash and notes receivable.

The Federal Reserve also proposes the following revisions to the FR Y-9C effective June 30, 2012: (1) add data items to Schedule HC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, to collect the total outstanding balance and related carrying amount of purchased credit impaired loans by past due and nonaccrual status and (2) add two data items to Schedule HC-P, 1-4 Family Residential Mortgage Banking Activities, to collect the amount of representation and warranty reserves for 1-4 family residential mortgage loans sold. For the June 30, 2012, report date, institutions may report reasonable estimates for any new or revised data items in their FR Y-9C report if the information is not readily available.

The total current annual paperwork burden for the FR Y-9 family of reports is estimated to be 256,628 hours and is estimated to increase by 408 hours for a proposed annual paperwork burden of 257,036 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 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 Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (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, 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.

The following revisions would be effective June 30, 2012.

A.1 Past Due and Nonaccrual Purchased Credit Impaired Loans

The FR Y-9C report currently collects information regarding the past due and nonaccrual status of loans, leases, and other assets in Schedule HC-N. To determine whether an asset is past due for purposes of completing this schedule, an institution must look to the borrower's performance in relation to the contractual terms of the asset. Over the past few years, there has been a substantial increase in the amount of assets reported in Schedule HC-N as past due 90 days or more and still accruing. At some institutions, a large portion of this increase is related to loans subject to the accounting requirements set forth in ASC Subtopic 310-30, Receivables –

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

Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly American Institute of Certified Public Accountants Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer"), i.e., purchased credit-impaired loans, that were acquired in business combinations, including acquisitions of failed institutions, and other transactions. Loans accounted for under ASC Subtopic 310-30 are initially recorded at their purchase price (in a business combination, fair value). To the extent that the cash flows expected to be collected exceed the purchase price of the loans acquired and the acquiring institution has sufficient information to reasonably estimate the amount and timing of these cash flows, the institution recognizes interest income using the interest method. Otherwise, the loans should be placed in nonaccrual status.

Because loans accounted for under ASC Subtopic 310-30 are impaired at the time of purchase, it is possible for institutions to hold on-balance sheet assets purchased at a deep discount that are contractually 90 days or more past due, but on which interest is being accrued because the amount and timing of the expected cash flows on the assets can be reasonably estimated. Currently, insufficient information is collected in Schedule HC-N to determine the volume of purchased credit-impaired loans included in the loan amounts reported as "past due 90 days or more and still accruing" (or reported in the other past due and nonaccrual categories in the schedule). As the volume of assets reported in the three past due and nonaccrual columns in Schedule HC-N has increased at many institutions that also report holdings of loans accounted for under ASC Subtopic 310-30, the Federal Reserve cannot determine whether this growth is due to purchased credit-impaired loans or whether the source of the increase has been deterioration in the credit quality and performance among the assets the institution originated (or purchased without evidence of credit problems at acquisition). Better understanding the source of these increases would assist the Federal Reserve in determining the need to adjust supervisory strategies for individual institutions.

Because of the significant number of acquisitions by depository institutions of loans accounted for under ASC 310-30 over the past few years and the expected number of future acquisitions, the Federal Reserve proposes to collect additional information in Schedule HC-N beginning June 30, 2012, to segregate the amount of purchased credit-impaired loans that are included in the past due and nonaccrual loans reported in this schedule. New memorandum items would be added to Schedule HC-N to separately collect from all institutions the total outstanding balance of purchased credit-impaired loans accounted for under ASC 310-30 that are past due 30 through 89 days and still accruing, past due 90 days or more and still accruing, and in nonaccrual status. The related carrying amount of these loans (before any post-acquisition loan loss allowances) would also be reported by past due and nonaccrual status. This information would mirror the data reported in Memorandum item 5, "Purchased impaired loans held for investment accounted for in accordance with AICPA Statement of Position 03-3," in Schedule HC-C. Based on the information reported in Memorandum item 5, approximately 300 institutions hold purchased credit-impaired loans and would be affected by the proposed new Schedule HC-N Memorandum items.

A.2 Representation and Warranty Reserves

When institutions sell or securitize mortgage loans, they typically make certain representations and warranties to the investors or other purchasers of the loans at the time of the sale and to financial guarantors of the loans sold. The specific representations and warranties may relate to the ownership of the loan, the validity of the lien securing the loan, and the loan's compliance with specified underwriting standards. Under ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, "Accounting for Contingencies"), institutions are required to accrue loss contingencies relating to the representations and warranties made in connection with their mortgage securitization activities and mortgage loan sales when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. In October 2010, the Division of Corporation Finance of the Securities and Exchange Commission (SEC) sent a letter to certain public companies reminding them of the need to "provide clear and transparent disclosure regarding your obligations relating to the[se] various representations and warranties."[2] A review of a sample of disclosures about mortgage loan representations and warranties by public banking organizations in their SEC filings since October 2010 reveals that these disclosures tend to distinguish between obligations to U.S. government-sponsored entities and other parties.

At present, BHCs with $1 billion or more in total assets and smaller BHCs with significant 1-4 family residential mortgage banking activities are required to complete Schedule HC-P, 1-4 Family Residential Mortgage Banking Activities. These BHCs report the amount of 1-4 family residential mortgage loans previously sold subject to an obligation to repurchase or indemnify that have been repurchased or indemnified during the quarter. However, the amount of representation and warranty reserves attributable to residential mortgages as of quarter-end included in other liabilities on these institutions' balance sheets is not separately reported in Schedule HC-P.

Accordingly, building on the SEC's guidance concerning transparent disclosure in this area, the Federal Reserve proposes to add two data items to Schedule HC-P beginning June 30, 2012, in which institutions required to complete this schedule would report the quarter-end amount of representation and warranty reserves for 1-4 family residential mortgage loans sold (in domestic offices), including in those mortgage loans transferred in securitizations accounted for as sales. The amount of reserves for representations and warranties made to U.S. government-sponsored entities (the Federal National Mortgage Association or Fannie Mae, the Federal Home Loan Mortgage Corporation or Freddie Mac, and the Government National Mortgage Association or Ginnie Mae) (Schedule HC-P, data item 7.a) would be reported separately from the amount of reserves for representations and warranties made to other parties (Schedule HC-P, data item 7.b).

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2 The Division of Corporation Finance's "Sample Letter Sent to Public Companies on Accounting and Disclosure Issues Related to Potential Risks and Costs Associated with Mortgage and Foreclosure-Related Activities or Exposures" can be accessed at http://www.sec.gov/divisions/corpfin/guidance/cfoforeclosure1010.htm.

The following instructional changes would be effective March 31, 2012.

A.3 Instructional Revisions

A.3. (1) Specific Valuation Allowances

Savings associations that currently file a TFR may create a "Specific Valuation Allowance" (SVA) in lieu of taking a charge-off to record the loss associated with a loan when the institution determines that it is likely that the amount of the loss classification will change due to market conditions. The use of an SVA allows a savings association to reduce or increase the amount of the SVA as market conditions change. When a charge-off is taken, however, the only way an institution can recover the loss is through an actual cash recovery. A savings association is not permitted to use an SVA in lieu of a charge-off when it classifies certain credits as losses such as unsecured loans, consumer loans, and credit cards, and in instances where the collateral underlying a secured loan will likely be acquired through foreclosure or repossession. In those cases, only a charge-off is appropriate.

As announced in initial *Federal Register* notice that was published on August 25, 2011,[3], many savings and loan holding companies (SLHCs) will be required to file the FR Y-9C report, which would consolidate the SLHC savings association subsidiary, beginning with the March 31, 2012, reporting period (unless the institution elects to begin filing the FR Y-9C before that time). Once SLHCs begin to file the FR Y-9C and savings associations begin to file the Call Report, they will be required to follow FR Y-9C and Call Report reporting instructions and the banking agencies' policies regarding loss classifications, which require a charge-off for all confirmed losses and do not allow the creation or use of a SVA as described above. Therefore, the use of SVAs will not be permitted for any SLHC after December 31, 2011. Existing reporting instructions will be modified to clarify this point. Also the Federal Reserve will issue additional supplemental guidance to explain how any existing SVAs should be treated when an institution no longer files the TFR.

A.3. (2) Capital Contributions in the Form of Cash or Notes Receivable

The Federal Reserve often encounters or receives questions about capital contributions in the form of a note receivable. The capital contribution may involve a sale of capital stock or a contribution to additional paid-in capital (surplus) that often takes place, or is expected to take place, at or shortly before a quarter-end report date. In other cases, capital contributions are in the form of cash, with some occurring before quarter-end and others occurring after quarter-end. The regulatory reporting issue that arises with respect to these capital contributions is when and under what circumstances can they be reflected as an increase in the amount of equity capital reported on the balance sheet and thereby be included in regulatory capital.

Although the accounting for capital contributions is not currently addressed in the FR Y-9C reporting instructions, institutions are expected to report capital contributions in their FR Y-9C report in accordance with generally accepted accounting principles (GAAP). In summary, capital contributions in the form of cash are appropriately recognized in equity capital on the

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balance sheet when received. Capital contributions in the form of a note receivable, executed prior to quarter-end, increase an institution's equity capital at quarter-end only when the note is collected prior to issuance of the institution's financial statements (including its FR Y-9C) for that quarter. To provide guidance to institutions and examiners on the appropriate reporting of these capital contributions, the Federal Reserve proposes to add a new Glossary entry to the FR Y-9C instructions.

<u>Capital Contributions of Cash and Notes Receivable:</u> An institution may receive cash or a note receivable as a contribution to its equity capital. The transaction may be a sale of capital stock or a contribution to paid-in capital (surplus), both of which are referred to hereafter as capital contributions. The accounting for capital contributions in the form of notes receivable is set forth in ASC Subtopic 505-10, Equity – Overall (formerly EITF Issue No. 85-1, "Classifying Notes Received for Capital Stock") and SEC Staff Accounting Bulletin No. 107 (Topic 4.E., Receivables from Sale of Stock, in the Codification of Staff Accounting Bulletins). This Glossary entry does not address other forms of capital contributions, for example, nonmonetary contributions to equity capital such as a building.

A capital contribution of cash should be recorded in an institution's balance sheet and income statement when received. Therefore, a capital contribution of cash prior to a quarter-end report date should be reported as an increase in equity capital in the institution's reports for that quarter (in Schedule HI-A, item 5 or 6, as appropriate). A contribution of cash after quarter-end should not be reflected as an increase in the equity capital of an earlier reporting period.

When an institution receives a note receivable, rather than cash, as a capital contribution, ASC Subtopic 505-10 states that it is generally not appropriate to report the note as an asset. As a consequence, the predominant practice is to offset the note and the capital contribution in the equity capital section of the balance sheet, i.e., the note receivable is reported as a reduction of equity capital. In this situation, the capital stock issued or the contribution to paid-in capital should be reported in Schedule HC, item 23, 24, or 25, as appropriate, and the note receivable should be reported as a deduction from equity capital in Schedule HC, item 26.c, "Other equity capital components." No net increase in equity capital should be reported in Schedule HI-A, Changes in Bank Holding Company Equity Capital. In addition, when a note receivable is offset in the equity capital section of the balance sheet, accrued interest receivable on the note also should be offset in equity (and reported as a deduction from equity capital in Schedule HC, item 26.c), consistent with the guidance in ASC Subtopic 505-10. Because a nonreciprocal transfer from an owner or another party to an institution does not typically result in the recognition of income or expense, the accrual of interest on a note receivable that has been reported as a deduction from equity capital should be reported as additional paid-in capital rather than interest income.

However, ASC Subtopic 505-10 provides that an institution may record a note received as a capital contribution as an asset, rather than a reduction of equity capital, only if the note is collected in cash "before the financial statements are issued." The note receivable must also satisfy the existence criteria described below. When these conditions are met, the note receivable should be reported separately from an institution's other loans and receivables in Schedule HC-F, item 6, "Other [assets]."

For purposes of these reports, the financial statements are considered issued at the earliest of the following dates:

(1) The submission deadline for the FR Y-9C (40 calendar days after the quarter-end report date, except for year-end reporting, for which the deadline is 45 calendar days after quarter-end);
(2) Any other public financial statement filing deadline to which the institution is subject; or
(3) The actual filing date of the institution's public financial reports, including the filing of its FR Y-9C report or a public securities filing by the institution.

To be reported as an asset, rather than a reduction of equity capital, as of a quarter-end report date, a note received as a capital contribution (that is collected in cash as described above) meet the definition of an asset under generally accepted accounting principles (GAAP) by satisfying all of the following existence criteria:

(1) There must be written documentation providing evidence that the note was contributed to the institution prior to the quarter-end report date by those with authority to make such a capital contribution on behalf of the issuer of the note;
(2) The note must be a legally binding obligation of the issuer to fund a fixed and determinable amount by a specified date; and
(3) The note must be executed and enforceable before quarter-end.

If a note receivable for a capital contribution obligates the note issuer to pay a variable amount, the institution must offset the note and equity capital. Similarly, an obligor's issuance of several notes having fixed face amounts, taken together, would be considered a single note receivable having a variable payment amount, which would require all the notes to be offset in equity capital as of the quarter-end report date.

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 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

On November 21, 2011, the Federal Reserve published a notice in the *Federal Register* (76 FR 71968) requesting public comment for 60 days on the revision, without extension, of the FR Y-9C. The comment period for this notice expired on January 20, 2012. On March 16, 2012, the Federal Reserve published a final notice in the *Federal Register* (77 FR 15755) on the FR Y-9C, including a more detailed discussion of the comments received.

Public Comments:

The Federal Reserve received comment letters from six entities on proposed revisions to the FR Y-9C: two banking organizations, two bankers' associations, a commercial lending software company, and a news organization. The banking agencies received these six comment letters and two additional comment letters from banking organizations on proposed changes to the Call Report.

All eight of the commenters addressed one or both of the two new schedules proposed to be added to the FR Y-9C as of June 30, 2012: Schedule HI-C, Disaggregated Data on the Allowance for Loan and Lease Losses (ALLL), and Schedule HC-U, Loan Origination Activity (in Domestic Offices). As proposed on new Schedule HI-C, institutions with total assets of $1 billion or more would report a breakdown by key loan category of the end-of-period ALLL disaggregated on the basis of impairment method and the end-of-period recorded investment in held-for-investment loans and leases related to each ALLL balance. As proposed on the new Schedule HC-U, institutions with total assets of $500 million or more would report, separately for six loan categories, the quarter-end amount of loans (in domestic offices) reported in Schedule HC-C, Loans and Lease Financing Receivables, that was originated during the quarter. Institutions with total assets of $1 billion or more would also report for these loan categories the portions of the quarter-end amount of loans originated during the quarter that were (a) originated under a newly established loan commitment and (b) not originated under a loan commitment.

After considering the comments received, the Federal Reserve is proceeding with the proposed new items for past due and nonaccrual purchased credit-impaired loans and representation and warranty reserves for 1-4 family residential mortgages effective as of the June 30, 2012, report date as well as the instructional revisions proposed for implementation as of the March 31, 2012, report date

However, the Federal Reserve's proposals to add new Schedules HI-C and HC-U will not be implemented as of June 30, 2012. The Federal Reserve is continuing to evaluate these two proposed schedules in light of the comments received and will publish a separate *Federal Register* notice once a decision has been made with regard to these two proposed schedules.

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 256,628 hours and would increase to 257,036 hours as shown in the following table. The average estimated hours per response for FR Y-9C filers would increase from 45.00 hours to 45.10 hours resulting from an increase of 0.10 hours for proposed new data items. The Federal Reserve estimates that about one-quarter of the respondents would be required to provide new information on representation and warranty reserves and estimates that less than one-fifth of respondents would be required to report information on past due and nonaccrual purchased credit impaired loans. The revised annual burden for the FR Y-9 family of reports would represent less than 3 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	1,021	4	45.00	183,780
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				256,628
Proposed				
FR Y-9C	1,021	4	45.10	184,188
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				257,036

Change	+408

With the proposed revisions the total cost to the public is estimated to increase from the current level of $11,137,655 to $11,155,362 for the revised BHC reports.[4]

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 $2,550,201 per year. With the revisions the estimated costs will increase to $2,644,909 per year. The one-time costs to implement the revised reports are estimated to be $139,374.

4 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 @ $50, 15% Legal Counsel @ $54, and 10% Chief Executives @ $80). Hourly rate for each occupational group are the median hourly wages (rounded up) from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2010, www.bls.gov/news.release/ocwage.nr0.htm.