1/12/09
Via email: regs.comments@federalreserve.gov

Attn:
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"BHC Report Modernization Initiative" proposal to separate and included data currently not specifically tracked in the following reports: FR Y-9C, FR Y-9SP, FR Y-9ES, the FDIC's Report of Condition and Income FFIEC 031 and 041, and the Office of Thrift Supervision's TFR form 1313

Dear Ms. Johnson and To Whom It May Concern In Regulatory Comments:

Thank you for availing the analyst community and public to participate in the due process effort of the regulatory framework. I appreciate the opportunity to comment on matters of concern related to data collection for the Bank Holding Company Report with associated reporting numbers referenced above.

Although the FR Y-9 family of reports historically has been the primary source of financial information on BHCs between on-site inspections, and with that decision makers of all sorts use the financial information from these reports 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, I appreciate that the Fed and our other regulators have made the effort to collect all necessary and pertinent data for themselves and the users of these financial reports and data to understand the health as well as performance of the individual financial institutions as well as the health performance of peers and other members of the financial depository sector.

Recently while interested to review the current release of Bank Holding Company Performance Report ("BHCPR") as well as understand a particular bank holding company's condition, I downloaded a Y-9C from the website, as well as BHCPR along with definitions for these reports and analytical tools.

I found distressing the aggregation of interest revenue with fee revenue that apparently could be include in fee income, however for US GAAP reasons, is included in these line items summing to data field 4107 on the for form

FR Y-9C. I suggest a separate memo field for fees and another field – a separate field - for Fair Value changes to interest revenue at the present time captured in BHC for FR Y-9C data field 4107.

I am interested to understand the banks/bank holding companies' pure interest revenues (see Note **a**) (and in the Interest Expense Line datafields) for lending rather than an amalgamated Interest revenue number fuddled with fee income amortized into the Interest revenue numbers one finds on the BHC FR Y-9C and related reports as well as the other reports I mentioned above.

For illustrative purposes, here I have copied material from the - **Report of Income for Bank Holding Companies, Schedule HI—Consolidated Income Statement**

Interest income
a. Interest and fee income on loans:
(1) In domestic offi ces:
(a) **Loans secured by 1–4 family residential properties** .... 4435 1.a.(1)(a)
(b) **All other loans secured by real estate** .... 4436 1.a.(1)(b)
(c) **All other loans** .... F821 1.a.(1)(c)
(2) In foreign offi ces, Edge and Agreement subsidiaries, and IBFs ....4059 1.a.(2)
b. Income from lease fi nancing receivables ....4065. 1.b.
h. Total interest income (sum of items 1.a through 1.g) ....4107 1.h.

With the BHC Report data gathered on FR Y-9C tracking US GAAP, the banking regulators have adopted and incorporated into the reports Financial Accounting Standard ("FAS") 91 (see Note **b**) which permits including in the measurement of interest revenue, a mixed reporting in this line item by including various fees as well as when taking the "Fair Value Option" on loan and lease assets' interest and probably associated fee income that are also then amortized in data field 4107, or where ever it is amortized over the life of the associated loans and leases.

In general now we see reported in this series of :4435, 4436,F821, and the Total Interest Income in 4107 a misrepresentation of the pure price to lend, while confusing the number with other management decisions that determine associated fees that the banking associations while FAS 91 was being promulgated and during the due process period, probably heckled the FASB to include in the Interest income so as to make the number appear larger when the actual price summing to the revenues from loans extended to customers, clients and counterparties, perhaps would be much less.

Not to mention, as well as when management for one reason or another decides that it is going to revalue a tangible asset, which then dumps the associated interest and fee revenue number into this series of data fields, giving us a 'polluted' number in datafield 4107.

If we wanted to understand pure interest revenues for a pure yield measure of all loans and leases portfolio'd, we're not going to find it while it is obfuscated with fees and Fair value option revaluations. For these later items such as fees associated close enough to be amortized in this line (see Note **c**)

Loan pricing strategies not to mention pricing based on the cost management incurs for the loans it makes, again are based on different economic decisions and differently enough on the other related product provided here. Although there are services rendered in the lending process that FAS 91 permits attached to the loan as measured here aggregating in data field 4107.

Also given of late, the Federal Reserve proposes to implement a number of changes to the FR Y-9C and FR Y-9SP reporting requirements to better support the surveillance and supervision of individual BHCs and enhance the monitoring of the industry's condition and performance, my suggestions for better transparency and improved disclosure on interest revenue quality rather than mix of items all of which have been based on different economic decisions and for internal reporting purposes I conjecture are used for management performance measurement. Thus, my suggestions should gain traction.

Meanwhile, as the Fed believes its current proposed revisions reflect a thorough and careful review of data needs in a variety of areas as BHCs encounter the most turbulent environment in more than a decade, and that the revisions now will include new data items focusing on areas in which the banking industry is facing heightened risk due to market turmoil and illiquidity and weakening economic and credit conditions. Also, the Federal Reserve proposes certain revisions due to changes in accounting standards and amendments to regulatory capital requirements. To minimize reporting burden, where possible, the Federal Reserve has sought to establish reporting thresholds for proposed new data items" (from the Instructions for the FR Y-9C).

For all the reasons the Fed is asking for new data, I am urging if not separate fields on Schedule HI (and as well as on other Federal Reserve parallel reports and also associated reports of the FDIC and the OTS) to give a pure interest revenue number in data fields 4435, 4436,F821, and the Total Interest Income in 4107. And because fee income at the present time camped into and I consider is fouling the datafield 4107 should be reported separately or in a memo, at the very least where the use of the memo field method for fees that management claims are associated closely enough to amortize in this line and in turn goose the interest revenue number, as well as another memo field for the increase that management is claiming from tangible assets it chose to revalue under the fair value option need themselves to be reported in an environment urging better disclosure and transparency.

Although not completely arbitrarily, as I'd noted management produces these 2 aforementioned components economically independent enough that analysts and decision makers who are users of this data as well as parallel data on parallel regulatory reports would want the transparency and improved disclosure to distinguish what – fee - revenues are attributable to management decisions rather than the competitive environment and interest rate environment behind the pricing for its lending. The Fair Value Option and FAS 157 revaluations impact on the income statement absolutely warrant separate or memo reporting.

Elsewhere on the Y-9C we find fee income which includes the investment banking reported revenue; what made this fee revenue different enough to report here, while with most bank holding companies and financial holding companies that chose to file the Y-9C, this includes its lending services often a part of 'facilities' of lending and service products provided to customer/clients.

Thank you again for this due process and accepting my contribution to the Bank Holding Company Data collection project and suggestions to improving what data we are provided on the FR Y-9C and all parallel reports that ask for interest revenue.

Respectfully,

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Notes:

a) I also suggest for and on the FDIC reports for small and large banks, as well as OTS chartered thrifts which data is captured and reported on the Thrift Financial Report "TFR", that this memo field separation (2 memo fields) for associated fees that FAS 91 and the financial regulators permit amortized against the life of the associated loan or lease in this line and that reported independently of the Fair Value affects on associated tangible assets at the very present time amortizable into these interest revenue lines as permitted by FAS 91.

b) 1. **Board of Governors of the Federal Reserve System Instructions for Preparation of Consolidated Financial Statements for Bank Holding Companies,** Reporting Form FR Y–9C, Reissued March 2007. Page HI-2, (2) Loan origination fees, direct loan origination costs, and purchase premiums and discounts on loans held for investment, all of which should be deferred and recognized over the life of the related loan as an adjustment of yield under FASB Statement No. 91 as described in the Glossary entry for "loan fees." See exclusion (3) below. (3) Loan commitment fees (net of direct loan origination costs) that must be deferred over the commitment period and recognized over the life of the related loan as an adjustment of yield under FASB Statement No. 91 as described in the Glossary entry for "loan fees." (4)

Investigation and service charges, fees representing a reimbursement of loan processing costs, renewal and past-due charges, prepayment penalties, and fees charged for the execution of mortgages or agreements securing the bank holding company's loans. (5) Charges levied against overdrawn accounts based on the length of time the account has been overdrawn, the magnitude of the overdrawn balance, or which are otherwise equivalent to interest. See exclusion (6) below. (6) The contractual amount of interest income earned on loans that are reported at fair value under a fair value option.

2. Instructions for Y-9C *"Assets and liabilities accounted under the fair value option* — Under U.S. generally accepted accounting principles (GAAP) (i.e., FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (FAS 159); FASB Statement No. 155, "Accounting for Certain Hybrid Financial Instruments" (FAS 155); and FASB Statement No. 156, "Accounting for Servicing of Financial Assets" (FAS 156)), the bank holding company may elect to report certain assets and liabilities at fair value with changes in fair value recognized in earnings. This election is generally referred to as the fair value option. If the bank holding company has elected to apply the fair value option to interest-bearing financial assets and liabilities, it should report the interest income on these financial assets (except any that are in nonaccrual status) and the interest expense on these financial liabilities for the year-to-date in the appropriate interest income and interest expense items on Schedule HI, not as part of the reported change in fair value of these assets and liabilities for the year-to-date. The bank holding company should measure the interest income or interest expense on a financial asset or liability to which the fair value option has been applied using either the contractual interest rate on the asset or liability or the effective yield method based on the amount at which the asset or liability was first recognized on the balance sheet. Although the use of the contractual interest rate is an acceptable method under GAAP, when a financial asset or liability has a significant premium or discount upon initial recognition, the measurement of interest income or interest expense under the effective yield method more accurately portrays the economic substance of the transaction. In addition, in some cases, GAAP requires a particular method of interest income recognition when the fair value option is elected. For example, when the fair value option has been applied to a beneficial interest in securitized financial assets within the scope of Emerging Issues Task Force Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets," interest income should be measured in accordance with the consensus in this Issue"

c)

Noninterest income:

a. Income from fi duciary activities .... 4070 5.a.
b. Service charges on deposit accounts in domestic offi ces ....4483. 5.b.
c. Trading revenue2 .... A220 5.c.
d. (1) Fees and commissions from securities brokerage .... C886.. 5.d.(1)
(2) Investment banking, advisory, and underwriting fees and commissions ....C888.. 5.d.(2)
(3) Fees and commissions from annuity sales ....C887. 5.d.(3)
(4) Underwriting income from insurance and reinsurance activities .... .C386 5.d.(4)