Board of Governors of the Federal Reserve System

Instructions for Preparation of the

Financial Statements for a Bank Holding Company Subsidiary Engaged in Bank-Ineligible Securities Underwriting and Dealing

Reporting Form FR Y-20

Reissued September 1999

Read carefully and save for future use.

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INSTRUCTIONS FOR THE PREPARATION OF FINANCIAL STATEMENTS FOR A BANK HOLDING COMPANY SUBSIDIARY ENGAGED IN BANK-INELIGIBLE SECURITIES UNDERWRITING AND DEALING (FR Y-20)

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General Instructions

Who Must Report

All bank holding companies that applied and received Federal Reserve Board approval under section 4(c)(8) of the BHC Act and section 225.23 of the Federal Reserve Board's Regulation Y (12 C.F.R. 225.23) for its designated subsidiary to engage, and are engaging, in underwriting and dealing in bank-ineligible securities to a limited extent, must submit the FR Y-20 financial statements to the appropriate Federal Reserve Bank. Bank holding companies are the parent company for Section 20 nonbanking subsidiaries. The parent company includes a foreign bank that is treated as a bank holding company under the International Banking Act of 1978 and the BHC Act of 1956.

"Financial Statements for a Bank Holding Company Subsidiary Engaged in Bank-Ineligible Securities Underwriting and Dealing (FR Y-20)'' must be filed quarterly, as of the last calendar day of March, June, September, and December. This report should generally reflect only the nonbanking subsidiary of the bank holding company authorized to engage in bank-ineligible securities.

This report consists of a cover page (signature page), a Balance Sheet (Schedule SUD) and its supporting schedule, ''Securities Owned, Including Money Market Obligations'' (Schedule SUD-A), and a Statement of Income (Schedule SUD-I) and its supporting schedule, ''Statement of Changes in Stockholders' Equity'' (Schedule SUD-SE).

The items reported in the Statement of Income and supporting schedule, ''Statement of Changes in Stockholders' Equity,'' represent the results of the current calendar quarter only. Except for line items M(5)(a) through M(5)(c), *year-to-date income and expense items are not included in this report.*

Frequency of Reporting

Bank holding companies that have a Section 20 nonbank subsidiary must submit the Financial Statements for a Bank Holding Company Subsidiary Engaged in Bank-Ineligible Securities Underwriting and Dealing (FR Y-20) quarterly, as of the last calendar day of March, June, September, and December. The required submission date is discussed later in the General Instructions.

Organization of the Instructions

The instructions are divided into the following sections:

(1) The General Instructions which describe the overall reporting requirements;

(2) The Line Item Instructions for the Balance Sheet (Schedule SUD), and the Schedule of Securities Owned, Including Money Market Obligations (Schedule SUD-A);

(3) The Line Item Instructions for the Statement of Income (Schedule SUD-I); and

(4) The Line Item Instructions for the Statement of Changes in Stockholders' Equity (Schedule SUD-SE).

Additional copies of these instructions may be obtained from the Federal Reserve Bank in the District where the reporting bank holding company submits its FR Y-9C and FR Y-20 reports. They are also available on the Board of Governor's public web site at: http://www.federalreserve.gov/boarddocs/reportforms/.

Preparation of the Report

Bank holding companies and their Section 20 subsidiaries are required to prepare and file the FR Y-20 report in accordance with generally accepted accounting principles (GAAP) and these instructions. All reports shall be prepared in a consistent manner.

The bank holding company's financial records shall be maintained in such a manner and scope so as to ensure that the FR Y-20 report can be prepared and filed in accordance with these instructions and reflect a fair presentation of the Section 20 company's financial condition and results of operations. Questions and requests for interpretations of these instructions should be addressed to the appropriate Federal Reserve Bank where the report is to be submitted.

Accounting Basis and Definitions To Be Used for Reporting

Consolidation Basis for Reporting on the FR Y-9C. The amounts reported on the FR Y-20 should be reported in a manner consistent with the accounting and the consolidation methods used in consolidating the Section 20 subsidiary into the FR Y-9C, ''Consolidated Financial Statements for Bank Holding Companies.''

Section 20 Companies that have Majority Ownership of Other Subsidiaries. The reporting requirements for Section 20 companies that have majority ownership of other subsidiaries vary depending on the nature of the subsidiary company. When a Section 20 company owns another Section 20 company, the following reports are required:

(1) A complete FR Y-20 report filed on a fully consolidated basis of accounting;

(2) A complete stand-alone FR Y-20 report for the bottom tier Section 20 company; and

(3) A stand-alone parent-only Statement of Income (Schedule SUD-I).

When a Section 20 company owns a nonbank subsidiary that is *not* a Section 20 subsidiary (e.g., a futures commission merchant), the following reports are required:

(1) A complete FR Y-20 report filed on a fully consolidated basis; and

(2) A stand-alone parent-only Statement of Income (Schedule SUD-I).

The cover page of this report includes a box in which a number is to be inserted to indicate the basis of accounting upon which the report has been prepared. Report in that box a:

1—to indicate that the report has been prepared on a fully consolidated basis of accounting; or

2—to indicate the report has been prepared on an unconsolidated basis of accounting (the section 20 company is reporting its financial position, results of operations, and other schedules and memorandum items as a single operating entity).

The Statement of Income (Schedule SUD-I) also includes a similar box. See the instructions for that schedule. For the *parent only* Statement of Income: respondents should complete the revenue portion of the schedule (line items 1 through 11) and memorandum items 3 and 4, and *they should not report* the expenses section (line items 12 through 27) and memorandum items 1, 2, and 5.

The FR Y-9C report instructions include general consolidation accounting instructions that can be used when reporting on a consolidated basis.

Applicability of Generally Accepted Accounting Principles to Bank Holding Company Reporting Requirements. The presentation by bank holding companies of Section 20 company assets, liabilities, and stockholders' equity and the recognition of income and expenses should be reported in accordance with *Generally Accepted Accounting Principles.* Bank holding companies may be required to report certain other accounts and types of, or the nature of, certain transactions on the report's schedules. In addition, these instructions designate where and how a particular asset or liability should be reported. (For example, if GAAP classifies a transaction as U.S. Treasury securities and these instructions classify the transaction as obligations of U.S. Government-sponsored agencies, the transaction should be reported as obligations of U.S. Government-sponsored agencies).

Netting. Trading securities should be reported on a gross basis *(netting of short sales of securities is not permitted)*, unless the conditions for offsetting transactions, specified in FASB Interpretation No. 39, ''Offsetting of Amounts Related to Certain Contracts, '' (FIN No. 39) are met. Refer to the glossary definition of ''offsetting'' in the FR Y-9C report's instructions. Repurchase and reverse repurchase transactions may be netted on Schedule SUD-Balance Sheet to the extent allowable under Generally Accepted Accounting Principles. See FASB Interpretation No. 41, ‘‘Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements.’’

Exception from Accounting Standards. Broker/dealer entities are exempt from certain accounting standards under Generally Accepted Accounting Principles. For example, the Financial Accounting Standards Board’s Statement of Financial Accounting Standards No. 115, ‘‘Accounting for Certain Investments in Debt and Equity Securities,’’ specifically excludes enterprises in certain industries (i.e. brokers and dealers) (see paragraphs nos. 4 and 108). That standard, however, does apply to the consolidated financial statements of bank holding companies.

Bank-Eligible Securities. Bank-eligible securities are securities that member banks may underwrite and deal in as authorized by section 16 of the Glass–Steagall Act (12 U.S.C. 24 Seventh).[1] Member banks may underwrite and deal in obligations of the United States, general obligations of states and political subdivisions, municipal revenue bonds for housing, university or dormitory purposes, and certain securities issued or guaranteed by government agencies.[2]

The United States–Canada Free-Trade Agreement authorized member banks to underwrite and deal in Canadian governmental securities. The Board determined, in consideration of the trade agreement and the nature of the Canadian government securities market, that a Section 20 nonbank subsidiary may engage in transactions involving Canadian government securities with a U.S. bank or thrift affiliate to the same extent it is permitted to do so with respect to U.S. and other government securities. A purchase of Canadian government securities by a Section 20 subsidiary from a U.S. bank or thrift affiliate is considered as a purchase of bank-eligible securities. The authority is extended to all Section 20 subsidiaries, whether owned by foreign or U.S. bank holding companies.

To further clarify, a Section 20 nonbanking subsidiary may deal in, underwrite, and purchase for its own account qualified Canadian government obligations to the same extent that it may deal in, underwrite, and purchase for its own account obligations of the United States or general obligations of any state or any political subdivision thereof. ‘‘Qualified Canadian government obligations’’ refers to any debt obligation which is backed by Canada, any province of Canada, or any political subdivision of any such province to a degree which is comparable to the liability of the United States, any state, or any political subdivision thereof for any obligation which is backed by the full faith and credit of the United States, such state, or such political subdivision. The term ‘‘province of Canada’’ refers to any province of Canada and includes the Yukon Territory and the Northwest Territories and their successors.

Bank-Ineligible Securities. Bank-ineligible securities represent securities in which member banks may not underwrite and deal. Member banks may not underwrite or deal in:

(1) Municipal revenue bonds, including so-called ‘‘public ownership’’ and industrial development bonds;[3]

(2) 1–4 family mortgage-related securities (obligations secured by or representing an interest in residential real estate);[4]

(3) Consumer-receivable-related securities (obligations secured by or representing an interest in loans or receivables of a type generally made to or due from consumers);

(4) Commercial paper in which the reporting company was an underwriter or dealer;

(5) Debt securities, including sovereign debt securities, corporate debt, debt securities convertible into equity securities, and securities issued by a trust or other vehicle secured by or representing interests in debt obligations;

1. See Schedule SUD-I, Appendix A, for a brief outline that denotes further what is considered bank-eligible versus bank-ineligible Section 20 subsidiary nonbanking activities.

2. For purposes of complying with the Board’s Section 20 revenue test, revenue earned from dealing in or holding certain custodial receipts, known as proprietary strips of U.S. Treasury bonds and notes, may be treated as bank-eligible revenue. (To create proprietary strips, certain investment banking firms have stripped coupons from U.S. Treasury bonds and notes and sold separately the principal and individual coupons at a present value discount of their face value.)

3. Industrial development bonds consist of only those tax-exempt bonds in which the governmental issuer, or the governmental unit on behalf of which the bonds are issued, is the owner of the financed facility (such as airports, mass commuting facilities, and water pollution control facilities) for federal income tax purposes.

4. For loans originated or purchased by a Section 20 subsidiary’s affiliated bank, see the instructions below.

(6) Equity securities; and

(7) Any other bank-ineligible securities.

Underwriting and Dealing in Securities Originated by Bank Affiliates. Obligations that represent interests in loans originated or purchased by a Section 20 subsidiary's affiliated bank are considered securities. However, according to opinions of the Office of the Comptroller of the Currency, a national bank may issue and sell to the public obligations representing interests in certain types of loans. Accordingly, a Section 20 subsidiary may report as neutral revenue (i.e., as neither bank-eligible nor bank-ineligible), the revenue derived from underwriting and dealing in obligations that represents interests in a pool of bank loans, such as mortgage loans, retail loans to finance the purchase of motor vehicles, or loans generated from revolving credit card accounts, where the loans comprising the pool were originated or purchased by an affiliated bank.

Interest Derived from Investment Grade Corporate Debt and Certain Municipal Revenue Securities. Member banks are permitted to purchase and sell for their own account certain securities, including securities such as investment grade corporate debt and certain municipal revenue securities, that the banks may not underwrite or deal in (collectively, ''investment securities''). The interest earned by a Section 20 subsidiary on investment securities, as opposed to the profit or loss obtained from the purchase and resale of such securities, can be viewed as representing the revenue earned from engaging in portfolio investment functions that a bank may conduct with regard to these securities. Accordingly, the interest earned by a Section 20 subsidiary on investment securities that it holds is deemed to be bank-eligible revenue.[5] See Schedule SUD-I, line items 3 and 5.

Interest Derived from Securities NOT Rated as Investment Grade. Member banks are permitted to purchase and sell for their own accounts certain unrated or non-investment grade debt securities (e.g., a high yield security) as an ''investment security'' that the banks may not underwrite or deal in. To qualify for this treatment, a member bank is required to conclude, on the basis of estimates that the bank reasonably believes are reliable, that:

(1) The obligor will be able to satisfy its obligations under that security; and

(2) The security may be sold with reasonable promptness at a price that corresponds reasonably to its fair value.

The aggregate *par value* of securities that may receive this specialized treatment *may not exceed 5 percent* of the bank's capital and surplus (i.e., Tier 1 and Tier 2 capital plus loan loss reserves that are not included in Tier 2 capital).

Interest on these types of investment securities may be treated as bank-eligible revenue, provided the bonds satisfy all of the criteria contained in the preceding paragraph. For purposes of calculating the 5 percent of capital limitation under, and consistent with past Board precedent, Section 20 subsidiaries may rely upon the capital and surplus of their affiliated lead bank—rather than the Section 20 subsidiary's capital. Interest derived from holding such securities in excess of the 5 percent par value limitation, or that do not otherwise satisfy all of the above criteria, would be treated as ''bank-ineligible'' revenue.

Revenue Limit. Effective March 6, 1997, the Federal Reserve Board of Governors set the revenue limit for the amount of revenue that a Section 20 subsidiary may derive from underwriting and dealing in bank-ineligible securities to 25 percent of the subsidiary's total revenue less neutral revenue *(cumulative revenue over the last eight calendar quarters).*

Signatures

The report must be signed by an authorized officer of the bank holding company or by an officer of the subsidiary as agent for the bank holding company. All copies shall bear the same signatures as on the originals, but these signatures may be facsimiles or photocopies.

Submission of the Reports

The reports are to be submitted for each report date to the Federal Reserve Bank in the District where the bank

5. This paragraph is consistent with the Board's action of September 11, 1996, amending its section 20 orders to reflect a new interpretation of the revenue test regarding the treatment of interest earned on debt securities that a member bank may hold for its own account.

holding company (top tier) is located or has traditionally reported. No caption on the report form shall be changed in any way. No item is to be left blank. An entry must be made for each item (i.e., an amount or zero). A zero should be entered whenever the subsidiary can participate in an activity, but does not have any outstanding balances on the report date.

All reports shall be completed clearly and legibly by typewriter or in ink. Bank holding companies may submit computer printouts in a format identical to that of the report form, including all item and column captions and other identifying numbers.

Submission Date

The term ''submission date'' is defined as the date by which a bank holding company's completed original FR Y-20 report must be received by the appropriate district Federal Reserve Bank. Reports must be received no more than 45 calendar days after the end of the calendar quarter (subject to the timely filing provisions set forth in the following paragraph). For example, the March 31 report must be received by May 15 and the June 30 report by August 14. Earlier submission would aid the Federal Reserve in reviewing and processing the reports and is encouraged. No extensions of time for submitting reports are granted.

The filing of a bank holding company's completed FR Y-20 financial statements will be considered timely, regardless of when the reports are received by the appropriate Federal Reserve Bank, if these reports are mailed first class and postmarked no later than the third calendar day preceding the submission deadline. In the absence of a postmark, a bank holding company whose completed FR Y-20 is received late may be called upon to provide proof of timely mailing. A ''Certificate of Mailing'' (U.S. Postal Service Form 3817) may be used to provide such proof. If an overnight delivery service is used, entry of the completed original reports into the delivery system on the day before the submission deadline will constitute timely submission. In addition, the hand delivery of the completed original reports on or before the submission deadline to the location to which the reports would otherwise be mailed is an acceptable alternative to mailing such reports. Bank holding companies that are unable to obtain the required officer's signature on their completed original reports in sufficient time to file these reports so that they are received by the submission deadline may contact the district Federal Reserve Bank to which they mail their original reports to arrange for the timely submission of their report data and the subsequent filing of their signed reports.

If the submission deadline falls on a weekend or holiday, the report must be received by 5:00 P.M. on the first business day after the Saturday, Sunday, or holiday. Any report received after 5:00 P.M. on the first business day after the Saturday, Sunday, or holiday deadline will be considered late unless it has been postmarked at least three calendar days prior to the original Saturday, Sunday, or holiday submission deadline (original deadline), or the institution has a record of sending the report by overnight service one day prior to the original deadline.

Amended Reports

During subsequent periods following the submission of the FR Y-20 report, it may be necessary to amend or restate financial statements for previous quarters. The Federal Reserve may require the bank holding company to file an amended FR Y-20 report if the restatement results in material or significant changes to previously submitted FR Y-20 reports. A bank holding company should file an amended report when internal or external auditors have made audit adjustments that result in a restatement of financial statements previously submitted to the Federal Reserve. Bank holding companies should contact the appropriate Reserve Bank for information on submitting revised reports. Amendment of the financial statement should be done in a manner consistent with the amendment instructions of the consolidated FR Y-9C Report. Amendments to the FR Y-20 report may necessitate amendments to the FR Y-9C Report.

Confidentiality

The Board of Governors of the Federal Reserve System considers the information provided by each respondent on the financial statements and schedules included in the FR Y-20 as confidential pursuant to the Freedom of Information Act [5 U.S.C. §552(b)(4)]. If it should be determined subsequently that any information collected on this form must be released, the respondent(s) will be notified.

Miscellaneous General Instructions

Rounding. All dollar amounts must be reported in thousands, with the figures rounded to the nearest thousand. Items less than $500 will be reported as zero. Rounding could result in details not adding to their stated totals. However, in order to ensure consistent reporting, the rounded detail items should be adjusted so that the totals and the sums of their components are identical. In other words, the total should be equal to the sum of its rounded components.

Negative Entries. Asset and liability items listed on Schedule SUD—Balance Sheet should generally not have negative balances. Non-contra assets with credit balances must be reported in liability items and liabilities with debit balances must be reported in asset items. When negative entries must be reported, they should be recorded in parentheses rather than with a (–) sign.

Verification. All addition and subtraction should be double-checked before reports are submitted. Totals and subtotals in supporting items should be cross-checked to corresponding items elsewhere in the reports.

Bank holding companies should retain the work papers and other supporting records used in the preparation of these reports for review by Federal Reserve System examiners and staff. The supporting records, schedules, and documentation should accurately reflect the items reported on the FR Y-20 report, including their composition and description.

LINE ITEM INSTRUCTIONS FOR THE

Balance Sheet

Schedule SUD

The line item instructions should be read in conjunction with the other sections of these instructions and the numbered line items listed on the FR Y-20 reporting form. Please refer to the discussion of the Organization of the Instructions found in the General Instructions.

Assets

Third-Party Assets:

For the purposes of this report, third-party assets represent assets acquired in arm's length business dealings with third parties. They do not include intercompany transactions. Intercompany balances are to be reported in item 13. The following items are to be reported on a third-party basis.

Line Item 1 Cash (including cash segregated in compliance with federal and other regulations).

Report all cash and balances due from unrelated depository institutions including cash balances that are required to be segregated as stated above. Include cash subject to withdrawal restrictions, restricted deposits held as compensating balances, or cash segregated under the Commodity Futures Trading Commission Act, cash and U.S. Treasury Bills (at market value) segregated under SEC Rule 15c3-3—Special Reserve Bank Account for the Exclusive Benefit of Customers representing funds deposited by customers and funds accruing for the benefit of customers as the result of trades or contracts, or any other funds that are required to be segregated by regulations of any federal agency of the federal government, any state or national securities exchange, or national securities association.

Line Item 2 Receivables from brokers, dealers, and clearing organizations.

Report the amounts receivable from brokers or dealers for securities failed-to-deliver at their selling price including accrued interest, amounts deposited for securities borrowed, and amounts receivable from clearing organizations relating to open transactions, transaction (good-faith) and margin deposits, and commissions and floor brokerage receivables.

A securities broker/dealer that does not deliver the securities sold on the settlement date is considered as having failed to deliver the securities to the purchasing broker. When a broker/dealer borrows a security, it usually advances cash to the lending broker/dealer equal to the market value of the securities borrowed. The amount advanced is recorded as a receivable from the lending broker.

Line Item 3 Receivables from customers.

Report receivables resulting from securities transactions with customers (usually securities purchases) who are not brokers, dealers, or persons whose securities or funds comprise part of the net capital of the broker or dealer, or are subordinated to the claims of general creditors. Exclude loans and leases held for trading (line item 11), representing other acquired or extended credit to non-intercompany third parties and its allowance for losses (line item 11(a)).

A customer is defined as any person from whom, or on whose behalf, a broker or dealer has received, acquired or holds funds or securities. Except as stated below, this definition *does not* include a broker/dealer, or a general, special or limited partner or director or officer of the broker. A broker or dealer can be considered as a customer, if the account is carried with commingled undisclosed customers' accounts carried with another broker or dealer in compliance with Regulation T. The definition also does not include any person having a claim for property or funds that is part of the capital of the broker or dealer or is subordinated to the claims of creditors of the broker or dealer.

Line Item 3(a) Cash and secured accounts.

Report those portions of partially secured accounts, fully secured accounts, or those secured by cash or other collateral.

Line Item 3(b) Unsecured accounts.

Report receivables from customers that are not secured.

Line Item 3(c) Less: Allowance for doubtful accounts.

Report the amount of current and prior period earnings reserved for losses on receivables from customers.

Line Item 3(d) Net receivables from customers.

Report the sum of items 3(a) plus 3(b) minus item 3(c).

Line Item 4 Securities purchased under agreements to resell.

The balances reported represent ''reverse repurchase agreements'' for securities transactions that are secured receivables. Report the cost of securities that have been purchased as principal under an agreement to resell the securities to the seller. These transactions result in the securities broker or dealer having a secured receivable from the borrower of funds. These receivables are carried at cost (purchase price) and are resold at the amount specified in the resale agreement. Securities purchased under agreements to resell may be netted against securities sold under agreements to repurchase if the conditions of FASB Interpretation No. 41, ''Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements,'' are met. Exclude such ''reverse repurchase agreements'' where the borrower is the related bank holding company or a subsidiary of the bank holding company. Such intercompany transactions should be reported in item 13.

Line Item 5 Securities owned, including money market obligations.

Includes securities purchased for trading or investment purposes. It includes marketable securities and option contracts recorded at current market value, or fair value, or items that are purchased by a broker or dealer in the ordinary course of business for the purpose of maintaining them in inventory for sale to customers. Exclude commodities, foreign exchange, and all other non-securities options, which should be reported as other assets or other liabilities as appropriate.

Market value of securities means the value of securities owned based on the timely reference to the best available source of market quotations or other data on relative values. Securities traded on national, regional, or foreign exchanges or on organized over-the-counter markets should be valued at the most recently available quotation in the most active market.

Fair value is the price at which a willing buyer and a willing seller would enter into an exchange. Fair value is determined by management in accordance with minimum guidance set forth in GAAP. Refer to the accounting standards found in the 1997 AICPA Audit and Accounting Guide, Brokers and Dealers in Securities, paragraphs 7.02 -7.14.

Except for the guidance provided herein, trade date accounting should be used as the basis for recording securities owned. Trade date accounting is preferred since GAAP normally requires that financial effect (when the risks, benefits and economic potentials are created and conveyed) be given to transactions at the time an event takes place—that is, the time an entity acquires a resource from or incurs an obligation to others. The amount reported on the FR Y-20 should be reported in a manner consistent with the accounting methods used in the preparation of the FR Y-9C, ''Consolidated Financial Statements for Bank Holding Companies,'' as stated in the General Instructions. The glossary item in the FR Y-9C, subtitled, ''Trade Date and Settlement Date Accounting,'' states that if the reported amounts are not materially different (under settlement date accounting) from those used under trade date accounting, settlement date accounting is acceptable. The method selected is to be used consistently, unless settlement date accounting has been used and management decides to change to trade date accounting on a continuing basis.

Line Item 6 Secured demand notes collateralized by marketable securities.

Report the amount of secured demand notes that are generally collateralized by marketable securities. A secured demand note evidences an obligation that is fully secured by a pledge of securities *and/or cash* to secure payment. It is an interest-bearing promissory note and is payable on demand.

Line Item 7 Membership in exchanges.

Report prepaid amounts for membership in exchanges at cost or, if other than a temporary impairment in value has occurred, a lesser estimated value that is determined by management. Exchange memberships that would be subordinated to the claims of general creditors should be reported at market value with an offsetting amount shown under liabilities subordinated to claims of general creditors. Special exchange memberships with a fixed life should be amortized over the period of expected life.

Line Item 8 Investments in unconsolidated subsidiaries and associated companies.

Report investments in the common and preferred stock of all unconsolidated subsidiaries, associated companies, and joint ventures over which the reporting broker/dealer has significant influence. Include non-equity investments such as loans and advances to subsidiaries and associated companies and holdings of their bonds, notes, and debentures.

Investments in the common stock of investees are to be reported using the equity method of accounting. Also included are subsidiaries that do not meet the significance standards for required consolidation.

Line Item 9 Premises and fixed assets, including capitalized leases.

Report the cost of real estate, furniture, and fixtures (cost less accumulated depreciation and amortization). Premises and fixed assets are depreciated and charged to operating expenses over the estimated useful lives of the related assets. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is less.

Line Item 10 Accrued interest receivable.

Report interest receivable from all sources, except those amounts that are attributable to intercompany transactions.

Line Item 11 Loan and leases held for trading.

Report loans and leases held for trading that may be acquired or extended pursuant to section 4(c)(8) of the Bank Holding Company Act and the lending authority for permissible nonbanking activities, Regulation Y, section 225.28(b)(1)—extending credit and servicing loans. Do not include receivables from brokers, dealers, clearing organizations, and customers resulting from securities transactions that are to be reported in line items 2 and 3. The amount reported should also be reported net of unearned income. The line item excludes the respective allowance for doubtful accounts associated with trading transactions and customer accounts (line item 3(c)).

Line item 11(a) Less: Allowance for losses from loans and leases held for trading.

Report the amount of current and prior period earnings that have been reserved for losses on loans and leases held for trading. Exclude the amounts reported for the allowance for doubtful accounts reported in line item 3(c). Refer to the FR Y-9C Glossary for ‘‘Allowance for Loan and Lease Losses’’ to the extent applicable to brokers/dealers.

Line Item 12 Other assets.

Report the amount of all other assets not included above, except those amounts that are attributable to intercompany transactions. A few examples of items that may be included:

(1) Any dividends not included in any of the other listed assets. Dividends are not to be netted against their respective payable accounts.

(2) Other prepaid expenses.

(3) The cash surrender value of life insurance policies if the cash surrender value and face value of the policies are payable to the Section 20 company.

Exclude negative goodwill arising from business combinations. Negative goodwill is reported in Other Liabilities, line item 24.

Intercompany Assets

Intercompany assets represent assets obtained as the result of transactions with affiliates. When reporting on a consolidated basis, no intercompany assets should be reported for transactions with subsidiaries of the reporting Section 20 company. For purposes of this report, these intercompany assets should be eliminated in the accounting process of consolidation. For the purposes of this report, intercompany assets are the following:

Line Item 13 Balances due from related institutions:

Report intercompany transaction balances due from the parent company, subsidiary banks and their subsidiaries, and nonbank subsidiaries of the parent bank holding company. This may include cash, receivables and all other amounts due from operating the underwriting subsidiary. All amounts are reported gross.

Line Item 13(a) Due from bank holding company (parent company only), gross.

Report intercompany transaction balances due from the parent company. The parent company includes a foreign bank that is treated as a bank holding company under the International Banking Act of 1978 and the BHC Act of 1956. All amounts are reported gross. This may include receivables and amounts owed from operating the subsidiary or providing services to the parent company.

Line Item 13(b) Due from subsidiary banks of the bank holding company, gross.

Report intercompany transaction balances due from subsidiary banks and their subsidiaries of the bank holding company. This may include cash due from subsidiary banks or amounts owed for services provided.

Line Item 13(c) Due from nonbank subsidiaries of the bank holding company, gross.

Report intercompany transaction balances due from nonbank subsidiaries of the bank holding company.

Line Item 14 Total Assets.

Sum items 1 through 13(c).

Memoranda

Line Item M1 Intangible assets:

Line Item M1(a) Goodwill.

Report the amount that represents the excess of the purchase price over the fair market value of net identifiable assets acquired in acquisitions accounted for under the purchase method of accounting.

The amount of goodwill in this line item or line item 12, Other Assets, should *not* be reduced by any negative goodwill. Any negative goodwill arising from a business combination accounted for as a purchase, must be reported in line item 24, Other Liabilities.

Line Item M1(b) Other identifiable intangible assets.

Report the unamortized balances associated with trademarks and trade names (amortized over a short period of time), franchises, mortgage servicing assets, and any other identifiable intangibles. Include organization costs that are amortized over a period of 60 months or more.

Line Item M2 Securities held:

Line Item M2(a) In trading account.

Report the amount of securities in ''Securities Owned'' that are held for resale—trading accounts. A securities broker/dealer uses a trading account to deal in securities. The term dealing refers to the business activity of holding oneself out to the public as being willing to buy and sell securities as principal in the secondary market. A trading account consists of securities and other assets acquired with the intent to resell in order to profit from short-term price movements, including, but not limited to, assets acquired with the intent to resell to customers. Trading account securities are valued at current market value or fair value.

Line Item M2(b) In investment account.

Report securities held for investment purposes that are not held for routine resale to other broker/dealers or customers. Value the securities at market value or fair value if securities are not readily marketable.

Liabilities and Equity

Third-Party Liabilities:

Third-party liabilities represent obligations incurred in arm's length transactions with third parties. The following liabilities are to be reported on a third-party basis. Intercompany liability balances are reported in line item 25.

Line Item 15 Short-term notes payable.

Report the amount of short-term (1 year or less in maturity) loans that are obtained to meet operating needs. In addition, report the amount of bank short-term borrowings representing obligations of the broker to:

(1) Finance securities purchases on margin by customers;

(2) Satisfy amounts owed as the result of the securities settlement process;

(3) Finance the firm's securities inventories; and

(4) Satisfy general corporate needs.

Line Item 16 Payable to brokers, dealers and clearing organizations.

This line item is used to record amounts payable for securities failed-to-deliver, deposits received for securities loaned, and amounts payable to clearing organizations. Also included are payables for commodities futures accounts liquidating to equity in the broker's or dealer's accounts, floor brokerage, commissions, etc. If the broker or dealer clears through correspondents, the credit balances of the open accounts cleared by another broker or dealer, comprising undisclosed customers on a commingled basis, may be included.

A purchasing securities broker/dealer fails to receive a security, if on settlement date the securities purchased are not received. The purchase price of the security, including any accrued interest, is recorded as a liability to the selling broker/dealer until the security is actually delivered.

Securities loaned are financing transactions whereby securities are lent and interest is charged on the amount of funds held as collateral. The lending broker/dealer receives as collateral, cash equal to the market value of the securities loaned, which is recorded in this item.

Line Item 17 Payable to customers.

Report the amount owed to customers resulting from securities, commodities or other transactions (generally sale transactions). All net customer credit balances are included in the ''payable to customers'' category on the balance sheet. Do not report amounts payable to brokers or dealers; material amounts payable to principal officers, directors, or closely associated persons; or amounts payable to persons whose securities or funds are either a part of the net capital of the broker or dealer or are subordinated to the claims of general creditors.

Line Item 18 Securities sold but not yet purchased.

Report the amount of securities sold but not yet purchased at market value or fair value. The liability represents the amount of securities sold short by the broker/dealer (borrowing equivalent securities to make delivery to a purchaser).

Line Item 19 Securities sold under agreements to repurchase.

Report the amount of securities that are sold by the broker or dealer under repurchase agreements involving the same or substantially the same securities to the same counterparty or counterparties at a fixed or determinable price (i.e., the original price plus accrued interest) within a fixed or variable time period. Such transactions are treated as financing (borrowing) transactions and are recorded at the amount at which the securities will be reacquired as specified under the repurchase agreement. Refer to FASB Statement No. 125, and the glossary entry for ''Repurchase/Resale Agreements'' within the instructions for the FR Y-9C report, to determine whether a transaction should be reported as a sale or as a secured borrowing. The amounts may be netted against securities purchased under agreements to resell if the conditions of FASB Interpretation No. 41, Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements, are satisfied. Exclude all securities sold under agreements to repurchase where the customer is the related bank holding company or one of its subsidiaries. Such intercompany transactions would be reported in line item 25.

Line Item 20 Long-term notes payable.

Report all long-term liabilities that are either unsecured or secured by equipment or other available assets. Include long-term liabilities resulting from obligations under capitalized leases. Exclude long-term liabilities incurred in transactions with the related bank holding company or any of its subsidiaries.

Line Item 21 Mortgages payable.

Report the amount of long-term liabilities that are secured by land and buildings. Exclude long-term liabilities incurred in transactions with the related bank holding company or one of its subsidiaries.

Line Item 22 Liabilities subordinated to claims of general creditors.

Report the amount of third-party satisfactory subordination agreements that are considered as SEC regulatory net capital. Included are loans secured by cash, a customer's margin account securities, secured by marketable securities and spot commodities held pursuant to subordination agreements, or other securities held pursuant to secured demand note collateral agreements approved by the broker/dealer's designated self-regulatory organization.

Line Item 23 Minority interest in consolidated subsidiaries.

Report the proportionate share of ownership in subsidiaries based on its historical costs. The minority interest owner will bear the share of losses only to the extent of its share of net assets. A deficit balance should not be reported, unless the minority owner(s) have guaranteed the subsidiary's debt or have provided a commitment to furnish additional capital.

Line Item 24 Other liabilities.

Report all other non-intercompany liabilities not reported above.

Intercompany Liabilities:

Intercompany liabilities represent obligations incurred from transactions with affiliates. When reporting on a consolidated basis, no intercompany liabilities should be reported for transactions with subsidiaries of the reporting Section 20 company. These intercompany liabilities should be eliminated in the accounting process of consolidation. For the purposes of this report, intercompany liabilities are the following:

Line Item 25 Balances due to related institutions.

These line items (25(a) through 25(c)) include intercompany liabilities that are owed to affiliates or are derived from subordinated debt agreement(s) with affiliates that are considered capital under the SEC's net capital rule (Rule 15c3-1). The aggregate amount of that subordinated debt is reported in line item M(1).

Line Item 25(a) Due to bank holding company (parent company, only), gross.

Report the amount of all intercompany liabilities that are owed to the parent bank holding company. The parent company includes a foreign bank that is treated as a bank holding company under the International Banking Act of 1978 and the BHC Act of 1956. Such liabilities may consist of administrative service agreements, utilized lines of credit, management fees, advances or any other amounts due to the bank holding company parent.

Line Item 25(b) Due to subsidiary banks of the bank holding company, gross.

Report the amount of all intercompany liabilities owed to the subsidiary banks and their subsidiaries of the bank holding company. Such liabilities may consist of short-term loans and transaction processing fees.

Line Item 25(c) Due to the nonbank subsidiaries of the bank holding company, gross.

Report the amount of all intercompany liabilities owed to the nonbank subsidiaries of the bank holding company.

Line Item 26 Total liabilities.

Report the sum of items 15 through 25(c).

Line Item 27 Equity capital:

Line Item 27(a) Perpetual preferred stock (including related surplus).

Report the amount of preferred stock (including related surplus) that does not have a maturity date, that cannot be redeemed at the option of the holder of the instrument, and that has no other provisions that will require future redemption of the issue.

Line Item 27(b) Common stock (par value).

Report at par the amount of common stock denoting ownership in the corporation that is issued and outstanding.

Line Item 27(c) Capital surplus.

Report the amount paid for common stock in excess of par value. This is often referred to as additional paid-in capital or capital contributed in excess of par.

Line Item 27(d) Retained earnings.

Report the amount of cumulative net earnings retained and not distributed in the form of dividends.

Line Item 27(e) Less: Treasury stock.

Report at cost the amount of the company's own preferred or common stock that was reacquired.

Line Item 27(f) Total equity capital.

Report the sum of items 27(a) through 27(d) minus 27(e).

Line Item 28 Total liabilities and equity capital.

Report the sum of items 26 and 27(f)

Memoranda

Line Item M1 Amount of intercompany liabilities reported in items 25(a), 25(b), and 25(c) that qualify as liabilities subordinated to claims of general creditors.

Report the amount of intercompany liabilities that are derived from subordinated debt agreement(s) that are considered capital under SEC net capital rules (Rule 15c3-1).

Line Item M2 Open underwriting commitments.

Report the amount of open underwriting commitments that represent outstanding obligations to underwrite securities on a future date. Do not include when-issued or to-be-announced (TBA) securities in this line item. For example, if the Section 20 company is a lead manager in an underwriting, the amount reported should equal the total amount of the issue less the firm commitments from other syndicate members. If the Section 20 company is a syndicate member, report its firm underwriting commitments.

Line Item M3 Options (on securities and interest rates).

An option contract conveys either the right or the obligation, depending upon whether the reporting broker/dealer is the purchaser or writer, respectively, to buy or sell a financial instrument at a specified price by a specified future date. Options can be traded on organized exchanges. In addition, options can be written to meet the specialized needs of the counterparties to the transaction. Option contracts may relate to the purchases or sales of securities, money market instruments, or futures contracts. In reporting for items 3(a) or 3(b), report only those options written by the company. Do not net such obligations of the dealer to buy against such obligations of the dealer to sell.

Include as interest rate options those contracts known as caps, floors, and collars. For interest rate collars, report a notional amount for the written portion of the contract. Exclude foreign exchange and commodity options.

Line Item M3(a) Options to purchase underlying obligations.

Report the aggregate par value of the financial instruments that the dealer has, for compensation, obligated itself to purchase under option contracts that are outstanding as of the report date. As for option contracts that create an obligation to purchase a futures contract, report the par value of the financial instrument underlying the futures contract. Do not net contracts to sell against this item.

Line Item M3(b) Options to sell underlying obligations.

Include in this item the aggregate par value of the financial instruments the reporting dealer has, for compensation, obligated itself to sell under option contracts that are outstanding as of the report date. In the case of option contracts obligating the firm to sell a futures contract, report the par value of the financial instrument underlying the futures contract. Do not net contracts to purchase against this item.

Line Item M4 Futures and forward contracts.

Report the amount of futures and forward contracts for delayed delivery of financial instruments in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument at a specified price or yield. Exclude swap transactions.

Line Item M4(a) Commitments to purchase.

Report the aggregate par value of futures and forward contracts (including interest rate futures and forward contracts) committing the reporting broker/dealer to purchase securities or money market instruments that are outstanding (i.e., open contracts) as of the report date.

Line Item M4(b) Commitments to sell.

Report the aggregate par value of futures and forward contracts (including interest rate futures and forward contracts) committing the reporting broker/dealer to sell securities or money market instruments that are outstanding (i.e., open contracts) as of the report date.

Line Item M5 When-issued securities.

Report in the appropriate sub item commitments to purchase and sell securities that have not yet been issued. Purchases and sales of the identical security with the same party may be netted, but all other purchases and sales must be reported on a gross basis.

Line Item M5(a) Commitments to purchase.

Report the par value of securities purchased on a when-issued basis for which the settlement date has not occurred as of the report date.

Line Item M5(b) Commitments to sell.

Report the par value of securities sold on a when-issued basis for which the settlement date has not occurred as of the report date.

LINE ITEM INSTRUCTIONS FOR

Securities Owned, Including Money Market Obligations

Schedule SUD-A

Line Item 1 U.S. Treasury securities and U.S. Government agency and corporation obligations.

Report the current market value or fair value of U.S. Treasury bills, bonds and notes, and direct obligations of U.S. Government agencies held for trading or investment purposes.

Line Item 2 Obligations of U.S. Government-sponsored agencies.

Report the amount of these securities held for trading or investment purposes at the current market price or fair value. Report the amount of indirect obligations that are conditionally guaranteed by U.S. Government agencies and claims on U.S. Government-sponsored agencies. These include collateralized mortgage obligations, and instruments of the Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Land Banks, Federal Home Loan Banks, FHLB securities, and Government National Mortgage Association securities.

Line Item 3 Securities issued by states and political subdivisions in the U.S.

Report all securities issued by states and political subdivisions in the United States held for trading or investment purposes. States and political subdivisions in the United States, for the purposes of this report, include:

(1) The fifty states of the United States and the District of Columbia, their counties, municipalities, school districts, irrigation districts, and drainage and sewer districts; and

(2) The governments of Puerto Rico and of the U.S. territories and possessions and their political subdivisions.

Included are rated and non-rated general obligations, municipal revenue bonds issued for housing, university or dormitory purposes, investment quality bonds, including ''public ownership'' industrial development bonds in which the broker/dealer was an underwriter or dealer. Obligations such as notes, bonds, and debentures are included as well as obligations that are guaranteed by the U.S. Government, detached state and political subdivision coupons and ex-coupons, and state and political subdivision securities held as the result of either their purchase or the broker/dealer's stripping of such securities. Also included are certain certificates of participation in leases that qualify as municipal securities.

Line Item 4 Domestic securities:

Report the amount of domestic securities held for trading or investment purposes. Domestic securities consist of securities issued by U.S. chartered corporations.

Line Item 4(a) Corporate debt securities:

Line Item 4(a)(1) Asset-backed securities.

Report at current market value or fair value the amount of privately issued mortgage-backed securities (mortgage pass-throughs, collateralized mortgage obligations, mortgage bonds, and stripped mortgage-backed securities), securities backed by consumer-related-receivables, credit card receivables, and any other asset-backed securities.

Line Item 4(a)(2) Other securities.

Include the amount of other debt securities, nonasset-backed corporate debt securities, securities issued by a trust or other vehicle secured or representing interests in debt obligations, and debt securities convertible into equity securities. Debt securities include those that are convertible into equity securities if, on the date the convertible securities are issued, the conversion price is greater than 115 percent of the market price of the equity security into which the debt security is convertible.

Schedule SUD-A—Securities Owned, Including Money Market Obligations

Line Item 4(b) Corporate equity securities.

Report the amount of common stock, preferred stock, and other direct or indirect equity ownership interests in corporations and other entities.

Line Item 5 Foreign securities:

Report the appropriate value of all debt securities held that were issued by non-U.S.-chartered corporations, foreign governments, or special international organizations.

Line Item 5(a) Debt securities.

Report holdings of all bonds, notes, debentures, debt securities issued by non-U.S.-chartered corporations, foreign governmental units, and debt securities issued by special international organizations such as the International Bank for Reconstruction and Development (World Bank), Inter-American Development Bank, and Asian Development Bank. Debt securities include those that are convertible into equity securities if, on the date the convertible securities are issued, the conversion price is greater than 115 percent of the market price of the equity security into which the debt security is convertible.

Line Item 5(b) Equity securities.

Report the appropriate value of all common stock, preferred stock, and other direct or indirect equity ownership interests in non-U.S. chartered corporations and other entities.

Line Item 6 Money market obligations:

Report the amount held for trading or investment representing certificates of deposit, commercial paper, bankers acceptances and other money market instruments. If funds are invested in mutual fund shares (i.e., an equity security under securities law) and the mutual fund invests in money market instruments, the market or fair value of the investment should be reported under the securities owned category that best reflects the predominant instruments held by the fund (e.g., commercial paper).

Line Item 6(a) Certificates of deposit.

Report the amount of certificates of deposit held for trading or investment.

Line Item 6(b) Commercial paper.

Report the amount of commercial paper held for trading or investment.

Line Item 6(c) Bankers acceptances.

Report the amount of bankers acceptances held for trading or investment.

Line Item 7 Options.

Report the amount of all long options positions based on their current marked-to-market value or fair value.

Line Item 8 Total.

Report the sum of items 1 through 7. The total reported here must be the same as the amount reported on the balance sheet (Schedule SUD) in item 5.

Memoranda

Line Item M1 Amount of bank-ineligible securities included in item 8 above.

Report the amount of bank-ineligible securities included in item 8 above. ‘‘Bank-ineligible securities’’ are defined in the General Instructions.

Line Item M2 Gross amount of bank-eligible securities underwritten.

Report the total amount of bank-eligible securities that have been underwritten during the quarter. With respect to U.S. Government securities, include notes and bonds purchased at Treasury auctions for resale to others. Also include securities of government-sponsored enterprises where the securities are allocated for sale among a selling group and the subsidiary is a selling group member. A government-sponsored enterprise (GSE) is a federally chartered entity or group of entities that is authorized to issue debt securities in its own name. GSEs are financial intermediaries established pursuant to federal law to facilitate lending for purposes the federal government has deemed socially important, such as education, agriculture, and housing. They are not federal government agencies. Such GSEs consist of such entities as FannieMae, the Federal Home Loan Mortgage Corporation, the Farm Credit System, the Federal Agricultural Mortgage Corporation (Farmer Mac), the Federal Home Loan Bank System and the Student Loan Marketing Association.

Schedule SUD-A—Securities Owned, Including Money Market Obligations

Line Item M3 Gross amount of bank-ineligible securities underwritten.

Report the total amount of ''bank-ineligible securities'' that have been underwritten during the quarter. The amount reported should exclude all commercial paper. Also exclude obligations representing interests in a pool of bank loans, such as mortgage loans, retail loans to finance the purchase of motor vehicles, or loans generated from revolving credit card accounts, where the loans comprising the pool were originated or purchased by an affiliated bank. The latter obligations are afforded ''neutral'' revenue treatment and thus are considered as revenues that are derived from neither bank-eligible nor bank-ineligible securities. Refer to the General Instructions and to the instructions for Schedule SUD-I—Statement of Income, line items 11, M3 and M4.

LINE ITEM INSTRUCTIONS FOR THE

Statement of Income

Schedule SUD-I

The line item instructions should be read in conjunction with the other sections of these instructions and the numbered line items listed on the FR Y-20 reporting form. Please refer to the discussion of the Organization of the Instructions found in the General Instructions and Appendix A of Schedule SUD-I.

The Accounting Basis for Preparing Schedule SUD-I

The box preceding the reporting of revenues indicates the accounting basis upon which this schedule is prepared. Enter in the box a:

1—to indicate that this schedule is prepared on a consolidated basis, or

2—to indicate that this schedule is prepared on an unconsolidated basis (the section 20 company is reporting on its results of operations and memorandum items as a single operating entity), or

3—to indicate that this schedule is prepared to report the results of operations for the parent company only.

(When the parent company only statement of income is required it must be attached to and submitted with the consolidated statement of income).

Bank-Eligible Revenues—Column (a): Report in column (a) the amount of bank-eligible revenues earned from underwriting, dealing, brokerage, and other activities whose revenues are designated as bank-eligible revenues by the Board (e.g., private placement activities and riskless principal transactions).

Bank-Ineligible Revenues—Column (b): Report in column (b) the amount of bank-ineligible revenues earned from underwriting or dealing (or activities incidental thereto).

Structuring Bank-Eligible and Bank-Ineligible Transactions.

Financial transactions should be structured so that the revenue derived from transactions can be clearly identified as being revenue derived from bank-eligible or bank-ineligible securities underwriting and dealing activities. This principal applies unless the Board has determined that the derived revenues from a particular transaction should be treated as neutral, revenue that cannot be identified as being either bank-eligible or bank-ineligible revenues.

Hedging Transactions.

Revenue derived from hedging transactions should be reported in a manner that reflects, and is consistent with, the Section 20 subsidiary's risk management strategies. Some subsidiaries engage in hedging transactions using securities or derivative instruments to hedge against the general financial position or portfolio risk of the subsidiary. Other subsidiaries engage in hedging the price movement of a specific on-or off-balance sheet security (or securities) or other position by coupling other securities or derivatives with the specific position, thus linking the two items.

In instances where a firm hedges general portfolio risk, the revenues derived from hedging instruments should be reported as *bank-eligible* or *bank-ineligible* based on the nature of the hedging instrument (e.g., T-bonds or U.S. Treasury futures would generate *bank-eligible* revenue while stock index securities options would generate *bank-ineligible* revenue). In contrast, a subsidiary that hedges the price movement of a specific position with other securities or derivatives transactions should report the net gain or loss from the linked instruments, based on the nature of the specific position being hedged (e.g., a corporate bond hedged by a short U.S. Treasury security position would be reported as a combined *bank-ineligible* net gain or loss).

Revenue

Line Item 1 Commissions on securities transactions.

Report the amount of commissions earned on equity, debt, and commodity transactions for customers. Report the amount of commissions earned on accounts carried by other brokers. Include commissions earned on option transactions.

Line Item 2 Gains or (losses) on securities owned account (dealing).

Report the amount of gains or losses on securities owned and sold in the secondary market.

For securities recorded in a trading account, include realized and unrealized gains and losses from securities held for sale in the ordinary course of business. The amounts reported shall not be reduced by any allocation of income taxes. *Interest expense incurred to carry trading positions is not netted against this item.*

Include realized and unrealized gains and losses from sales of securities and futures and spot commodities recorded in the firm's investment accounts.

Line Item 3 Profit or (losses) from securities underwriting.

This line item includes gross profit (loss) from the management of, or participation in, underwriting transactions. It represents the difference between the proceeds from the sale of securities (price paid by the public) and their purchase price (contract price) adjusted for discounts, commissions, and allowances received from or given to other brokers, less related direct expenses. Any fees or direct expenses that can be associated with a specific underwriting should be considered in determining the amount of gross profit (loss). Include profit or losses derived from serving as a selling group member.

Interest may be earned from short-term holdings of ''investment securities'' (see the General Instructions) acquired in connection with securities underwriting. The underwriter(s) may settle with the issuer prior to all bonds being sold to investors; accordingly, the underwriter(s) owns the bonds and accrues interest during this interim period. Such interest earnings may be excluded from line item 3 and be reported as bank-eligible interest income on line item 5, ''interest income and dividends.'' Interest earnings from securities underwritten and held by the Section 20 company, securities which are not permitted to be purchased and sold by member banks for their own account, may be reported as bank-ineligible interest on line item 5, or continue to be reported on line item 3 as authorized in the Board's September 11, 1996 press release.

Employee compensation and employment costs of those persons working for the underwriting group or department, or other related expenses of the department, are treated as indirect expenses and are not deducted in determining gross profit (loss). They are operating costs of the entity and should be treated as such.

Include fees earned from mergers and acquisitions and any other underwriting activity.

Line Item 4 Fees on private placements.

Report fees earned for the placement (initial issuance or a resale of previously issued securities) of debt or equity securities. Such fees are received for the private placements of securities not registered under the Securities Act of 1933. Fees earned as agent from the private placement of bank-ineligible securities in accordance with the Securities Act of 1933 and the Rules of the Securities and Exchange Commission, and the Board's Regulation Y should be reported as bank-eligible revenue.

Private placement or secondary market trading revenue derived from SEC Rule 144A securities that involve taking a position should be classified as bank-ineligible revenue. In the case of an initial private placement, the proceeds of the entire issue should be classified as bank-ineligible revenue if any of the securities placed are taken into inventory. The fees derived from other Rule 144A transactions, that are effected solely as agent, should be reported as bank-eligible revenue.

Line Item 5 Interest income and dividends.

Report interest and dividend income earned on trading and investment account securities. Interest income is reported as either bank-eligible revenue or bank-ineligible revenue in accordance with the nature of the respective underlying securities. For example, interest income derived from non-investment grade corporate debt is reported generally as bank-ineligible revenue and interest income derived from all investment-grade debt securities is treated as bank-eligible revenue. See the General Instructions.

Include as bank-eligible revenue interest income received from securities borrowing transactions in which the broker-dealer borrows securities and deposits (pledges) an equivalent amount of cash that earns interest (rebate).

Dividends received on bank-ineligible equity securities should be reported as bank-ineligible revenue. Cash payments (expenses) paid in lieu of dividends owed on short equity positions (equity securities sold but not yet purchased) should be reported as interest expense and should not be netted against dividend revenue.

Line Item 6 Margin interest income.

Report interest earned on debit balances in customers' margin accounts.

Line Item 7 Interest income on securities purchased under agreements to resell.

Report interest earned on securities purchased under agreements to resell. Interest revenue derived from any reverse repurchase agreement secured with collateral that could be taken by a member bank (i.e., that a member bank could hold for its own account) is treated as bank-eligible revenue.

Line Item 8 Fees for investment advisory, financial advice, or other services.

Report fees earned from providing investment advice, research, administrative, asset management, account supervision, or other services for customers.

Line Item 9 Other revenue.

Report all other bank-eligible and bank-ineligible income not included within the above reported items. This includes fees earned from providing Federal Reserve authorized nonbanking services to affiliates that do not comprise securities underwriting and dealing activities. *Do not include neutral revenue* (revenue that is considered as neither bank-eligible nor bank-ineligible revenue). Line item 11 includes neutral revenue.

Line Item 10 Total bank-eligible and bank-ineligible revenue.

Report revenue received from all sources whether related or unrelated to securities activities. Sum the respective amounts for column (a) and column (b) by computing the sum of items 1 through 9.

Line Item 11 Total gross revenue.

Sum the amounts for item 10 reported in columns (a) and (b) and include any neutral revenue (line item M4), revenue that is considered as neither bank-eligible nor bank-ineligible revenue as described in the General Instructions and the line item instructions for Schedule SUD-I, line items M3 and M4.

Expenses

(For the parent only Statement of Income, respondents should omit line items 12 through 27.)

Line Item 12 Interest expense on securities sold under agreements to repurchase.

Report interest expense on securities sold under agreements to repurchase.

Line Item 13 Other interest expense.

Include all interest paid to banks, interest paid on customers' accounts, and interest paid on all other unsubordinated and subordinated borrowings. Subordinated borrowings include: subordinated loan agreements and secured demand notes.

Line Item 14 Salaries and employee benefits.

Report all salaries, employee commissions, bonuses, profit sharing contributions, payroll taxes, and benefits paid to or incurred for employees.

Line Item 15 Commissions paid to brokers and others.

Include security and commodity commissions paid to other brokers, and clearance fees paid to clearing corporations, associations, depositories, and exchanges.

Line Item 16 Floor brokerage, exchange, and clearance fees.

Report floor brokerage, exchange fees, and clearance fees paid to other brokers, on agency and principal business.

Line Item 17 Expense on premises and fixed assets, net of rental income.

Enter the cost of rent, heat, light, maintenance, depreciation and amortization, and general insurance.

Line Item 18 Losses in error account and bad debts.

Report losses resulting from mistakes in trading for customers, losses for uncollectible customer accounts resulting from potential losses on fails, transfers, dividends receivable, and security shortages. Also include loss provisions for bad debt expense associated with loans and leases held for trading. See the balance sheet (Schedule SUD), Line item 11(a).

Line Item 19 Communications and data processing.

Include the cost of telephones and leased wires, tickers, quotation, news, direct computer link services (e.g., with other broker-dealers, branches, clearing organizations, exchanges, analytical service firms, major customers, etc.) equipment depreciation and rental and service bureau charges. Also include costs such as non-depreciated computer equipment and supplies, software costs, postage, stationery, office supplies, forms, and other similar costs relating to communications and data processing.

Line Item 20 Other expense.

Report all other costs incurred that are not reported above.

Line Item 21 Total expense.

Report the total of items 12 through 20.

Line Item 22 Income (loss) before taxes and undistributed income.

Report the sum of items 11 minus item 21.

Line Item 23 Applicable income taxes.

Report the total estimated federal, state and local, and foreign income tax expense applicable to income (loss) before undistributed income (item 22), including the tax effects of gains (losses) on securities not held in trading accounts. Include the current and deferred portions of these income taxes. If the amount is a tax benefit rather than a tax expense, enclose it in parentheses.

Line Item 24 Extraordinary items, net of tax effect.

Report material (in relation to reported earnings or a trend therein) gains or losses that are both unusual in nature and infrequent in occurrence. This may include gains or losses resulting from the extinguishment of the company's own debt, material aggregate gains (losses) on troubled debt restructuring and significant asset disposals. Include also, except for those items that are reported on Schedule SUD-SE, item 4, the ‘‘Cumulative effect of changes in accounting principles and correction of material accounting errors of prior years.’’ Also include any material aggregate gains or losses from disposals of segments of the firm's business.

Line Item 25 Income (loss) before undistributed income of subsidiaries and associated companies.

Sum items 22 through 24 minus item 23.

Line Item 26 Equity in undistributed income (losses) of unconsolidated subsidiaries and associated companies.

Report the amount of equity in undistributed income of unconsolidated subsidiaries, less applicable taxes. Include equity in securities gains or losses, extraordinary items, and cumulative effects of changes in accounting principles of the unconsolidated subsidiaries and associated companies, less applicable income taxes.

Line Item 27 Net income (loss).

Sum items 25 and 26.

Memoranda

(For the parent only Statement of Income, respondents should omit memorandum items 1, 2, and 5.)

Line Item M1 Revenue derived from intercompany transactions:

Line Item M1(a) Bank-eligible revenue.

Report the amount of intercompany revenue (losses) derived from bank-eligible securities underwriting and dealing activities conducted with the parent company.

Line Item M1(b) Bank-ineligible revenue.

Report the amount of intercompany revenue (losses) derived from bank-ineligible securities underwriting and dealing activities conducted with the parent company.

Line Item M2 Expenses incurred in intercompany transactions.

Report the amount of all expenses, including applicable income taxes, incurred as the result of intercompany transactions with the parent company.

Schedule SUD-I—Statement of Income

Line Item M3 Revenue Limitation: Report the ratio of revenue derived from bank-ineligible securities underwriting and dealing activities to total gross revenue less neutral revenue.

Revenue Test. Compute and report the last eight-calendar-quarter ratio of revenue derived from bank-ineligible securities underwriting and dealing to total gross revenues, less any reported neutral revenues. This two-year ratio therefore consists of the ratio of bank-ineligible revenue (item 10, column (b)) divided by the total gross revenue (item 11, column (a)) minus neutral revenue (item M(4)), computed using revenues from the last eight calendar quarters. Neutral revenues are revenues derived from obligations that represent interests in a pool of bank loans, such as mortgage loans, retail loans to finance the purchase of motor vehicles, or loans generated from revolving credit card accounts, where the loans comprising the pool were originated or purchased by an affiliated bank.

During the first two year period, in which a Section 20 subsidiary engages in bank-ineligible securities activities, sum the amount of revenues derived from bank-ineligible securities during the initial two year period (the time period may be less than two years from commencement of operations) and divide that amount by the total gross revenues less any neutral revenue during the same period. After the first two years, sum the amount of bank-ineligible revenues derived from securities activities for the last eight calendar quarter-ends and divide that amount by the aggregate gross revenues less any neutral revenues earned during the same time period. Report the percentage as having been extended to two decimal places (e.g., 15.85 percent).

Line Item M4 Current quarter revenue derived from neutral assets.

Report for the current quarter-end the amount of neutral revenue earned. Revenue derived from underwriting and dealing in obligations that represent interests in a pool of bank loans, such as mortgage loans, retail loans to finance the purchase of motor vehicles, or loans generated from revolving credit card accounts, where the loans comprising the pool were originated or purchased by an affiliated bank, is treated as neither bank-eligible nor bank-ineligible revenue.

Line item M5 Year-to-date total gross revenue, total expenses, and net income.

Line item M5(a) Year-to-date total gross revenue.

Report the amount of total gross revenues earned for the current year from January 1 through the most recent quarter-end for which the FR Y-20 report is prepared. This report item represents the calendar quarter's total gross revenues reported for line item 11 of Schedule SUD-I for the current quarter plus the total gross revenues for the previous calendar quarters since January 1. The amount reported includes neutral revenues.

Line item M5(b) Year-to-date total expenses.

Report the amount of total expenses for the current year from January 1 through the most recent quarter-end for which the FR Y-20 report is prepared. This report item represents the calendar quarter's total expenses reported for line item 21 of Schedule SUD-I for the current quarter plus the total expenses for the previous calendar quarters since January 1.

Line item M5(c) Year-to-date net income.

Report the amount of net income for the current year from January 1 through the most recent quarter-end for which the FR Y-20 report is prepared. This report item represents the calendar quarter's net income reported for line item 27 of Schedule SUD-I for the current quarter plus the net income for the previous calendar quarters since January 1.

Appendix A, SUD-I

Revenue Derived from Bank-Eligible Versus Bank-Ineligible Nonbanking Activities

Refer to the General Instructions pertaining to the discussion on ''Bank-eligible Securities'' and' ''Bank-ineligible Securities'' when determining whether revenues should be classified as either bank-eligible or bank-ineligible revenue. In addition to this discussion, the following is a brief outline denoting further what is considered bank-eligible versus bank-ineligible nonbanking activities. Determining the nature of the underwriting and dealing activities affects how revenues are to be classified and reported on Schedule SUD-I for the purposes of the Board's limitation on bank-ineligible revenue of Section 20 companies.

Section 20 Revenue Test

(1) General rule—revenue is considered **bank-eligible** if the underwriting and dealing activity can be conducted by a bank directly.

Bank-eligible securities are securities that member banks may underwrite and deal in, as authorized by Section 16 of the Glass–Steagall Act, 12 U.S.C. 24 Seventh. This statute as interpreted by 12 CFR 1 (Regulations of the OCC[1]) governs bank-eligible securities activities; if a bank is precluded from *underwriting* or *dealing* in a type of security, then the revenues derived from such underwriting and dealing should be classified as **bank-ineligible** revenue.

- Unless transactions are conducted as specifically linked hedge transactions (see ''Hedging Transactions''), revenues derived from hedging transactions are classified based upon the status of the underlying hedging instrument (e.g., T-bond futures are bank-eligible and equity options are bank-ineligible securities). For specifically linked transactions, the total combined net gain or loss should be reported based on the nature of the specific position being hedged (e.g., a corporate bond hedged by a short U.S. Treasury security position would be reported as a combined bank-ineligible net gain or loss).
- Revenues derived from stock index futures contracts and options thereon (i.e., those traded on commodity exchanges) should be classified as bank-eligible revenue.
- Revenues derived from stock index contracts traded on securities exchanges should be classified as bank-ineligible revenue.

(2) *Exception* to the above general rule—all revenue derived from ''incidental'' activities are treated as **bank-ineligible** revenue unless the BHC and its Section 20 company have received specific Board authorization, pursuant to section 4(c)(8) of the BHC Act, to conduct the ''activity'' independently.

Additional Approved Bank-Eligible Activities. The Federal Reserve Board, by Board order or regulation, has indicated that revenue derived from certain bank-eligible activities is **bank-eligible** revenue. These activities include:

- brokerage transactions
  - securities (discount and full-service)
  - loans
  - leases
  - gold and silver
  - currency and interest rate products
- futures commission merchant transactions
- riskless principal transactions
- private placement transactions
- advisory services
  - financial advisory services
  - investment adviser to mutual fund
  - advice to governmental units
  - foreign exchange
  - mergers and acquisitions
  - acting as ''dealer-manager'' in cash tender offers (however, revenue derived from underwriting or distribution of securities, must be treated as bank-ineligible revenue)
- trading bank-eligible derivative instruments

1. State member banks are, under 12 U.S.C. 335, subject to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are national banks. Dealers in securities are prohibited by 12 U.S.C. 378 from engaging in banking business. Section 378 specifically provides, however, that it does not prohibit national banks or state banks or trust companies (whether or not members of the Federal Reserve System) or other financial institutions or private bankers from dealing in, underwriting, purchasing and selling investment securities to the extent permitted to national banking organizations by the provisions of 12 U.S.C. 24.

LINE ITEM INSTRUCTIONS FOR THE

Statement of Changes in Stockholders' Equity

Schedule SUD-SE

Line Item 1 Beginning balance of equity capital.

Report the total equity capital balance as of the end of the previous quarter. Total equity capital includes perpetual preferred stock (including related surplus), common stock (par value), capital surplus, and retained earnings, less treasury stock.

Line Item 2 Net Income (loss).

Report the net income (loss) for the quarter as reported on Schedule SUD-I Statement of Income, item 27.

Line Item 3 Dividends declared.

Report the amount of dividends declared on preferred and common stock during the quarter.

Line Item 4 Cumulative effect of changes in accounting principles and correction of material accounting errors in prior periods.

Report the cumulative effect, net of applicable income taxes, of those changes in accounting principles which are properly accounted for by restating prior years' financial statements. Include, also, corrections of material accounting errors from prior periods and mistakes in applying accounting principles.

Line Item 5 Other changes in stockholders' equity

Changes in stockholders' equity can result from sales of treasury stock, new issues or retirement of common or preferred stock, charges to retained earnings, etc. Report in item 5(a) changes in excess of twenty-five percent of total equity and in item 5(b) any other changes in stockholders' equity.

Line Item 5(a) Changes in excess of twenty-five percent of total equity.

Report the total of changes in stockholder's equity listed in 5(a)(1), 5(a)(2), or 5(a)(3). If there is no amount to report, enter a zero (0).

Line Item 5(a)(1), 5(a)(2), and 5(a)(3).

Report separately on each line the description (in the text portion, which has a maximum character acceptance limit of 132 characters) and the amount (in the amount position) of any change in stockholder's equity in excess of twenty-five percent of total equity.

Line Item 5(b) Other changes in stockholders' equity.

Report changes in stockholders' equity not included in 5(a)(1), 5(a)(2), and 5(a)(3), above.

Line Item 6 Ending balance of equity capital.

Report the sum of items 1, 2, 4 thru 5(b), minus item 3.