

FEDERAL RESERVE SYSTEM

Proposed Agency Information Collection Activities; Comment Request

AGENCY: Board of Governors of the Federal Reserve System

SUMMARY: Background. On June 15, 1984, the Office of Management and Budget (OMB) delegated to the Board of Governors of the Federal Reserve System (Board) its approval authority under the Paperwork Reduction Act (PRA), as per 5 CFR 1320.16, to approve of and assign OMB control numbers to collection of information requests and requirements conducted or sponsored by the Board under conditions set forth in 5 CFR 1320 Appendix A.1. Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information. Copies of the Paperwork Reduction Act Submission, supporting statements and approved collection of information instruments are placed into OMB's public docket files. The Federal Reserve may not conduct or sponsor, and the respondent is not required to respond to, an information collection that has been extended, revised, or implemented on or after October 1, 1995, unless it displays a currently valid OMB control number.

Request for comment on information collection proposals

The following information collections, which are being handled under this delegated authority, have received initial Board approval and are hereby published for comment. At the end of the comment period, the proposed information collections, along with an analysis of comments and recommendations received, will be submitted to the Board for final approval under OMB delegated authority. Comments are invited on the following:

a. Whether the proposed collection of information is necessary for the proper performance of the Federal Reserve's functions; including whether the information has practical utility;

b. The accuracy of the Federal Reserve's estimate of the burden of the proposed information collection, including the validity of the methodology and assumptions used;

c. Ways to enhance the quality, utility, and clarity of the information to be collected; and

d. Ways to minimize the burden of information collection on respondents, including through the use of automated collection techniques or other forms of information technology.

DATES: Comments must be submitted on or before January 8, 2008.

ADDRESSES: You may submit comments, identified by *FR Y-9*, *FR Y-11*, *FR 2314*, *FR Y-7N*, or *FR 2886b* by any of the following methods:

- Agency Web Site: <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.
- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.
- E-mail: regs.comments@federalreserve.gov. Include docket number in the subject line of the message.
- FAX: 202/452-3819 or 202/452-3102.
- Mail: Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, DC 20551.

All public comments are available from the Board's web site at www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm as submitted, unless modified for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper form in Room MP-500 of the Board's Martin Building (20th and C Streets, N.W.) between 9:00 a.m. and 5:00 p.m. on weekdays.

Additionally, commenters should send a copy of their comments to the OMB Desk Officer by mail to the Office of Information and Regulatory Affairs, U.S. Office of Management and Budget, New Executive Office Building, Room 10235, 725 17th Street, NW., Washington, DC 20503 or by fax to 202-395-6974.

FOR FURTHER INFORMATION CONTACT: A copy of the PRA OMB submission including, the proposed reporting form and instructions, supporting statement, and other documentation will be placed into OMB's public docket files, once approved. These documents will also be made available on the Federal Reserve Board's public website at: <http://www.federalreserve.gov/boarddocs/reportforms/review.cfm> or may be requested from the agency clearance officer, whose name appears below.

Michelle Shore, Federal Reserve Board Clearance Officer (202-452-3829), Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, DC 20551. Telecommunications Device for the Deaf (TDD) users may contact (202-263-4869), Board of Governors of the Federal Reserve System, Washington, DC 20551.

Proposal to approve under OMB delegated authority the extension for three years, with revision, of the following reports:

1. *Report title:* Financial Statements for Bank Holding Companies.

Agency form number: FR Y-9C, FR Y-9LP, and FR Y-9SP

OMB control number: 7100-0128

Frequency: Quarterly and semiannually.

Reporters: Bank holding companies.

Annual reporting hours: FR Y-9C: 160,056; FR Y-9LP: 25,662; FR Y-9SP: 47,135.

Estimated average hours per response: FR Y-9C: 40.50; FR Y-9LP: 5.25; FR Y-9SP: 5.25.

Number of respondents: FR Y-9C: 988; FR Y-9LP: 1,222; FR Y-9SP: 4,489.

General description of report: This information collection is mandatory (12 U.S.C. 1844(c)). Confidential treatment is not routinely given to the data in these reports.

However, confidential treatment for the reporting information, in whole or in part, can be requested in accordance with the instructions to the form, pursuant to sections (b)(4), (b)(6) and (b)(8) of the Freedom of Information Act (5 U.S.C. §§522(b)(4), (b)(6) and (b)(8)).

Abstract: The FR Y-9C, FR Y-9LP, and FR Y-9SP are standardized financial statements for the consolidated bank holding company (BHC) and its parent. The FR Y-9 family of reports historically has been, and continues to be, the primary source of financial information on BHCs between on-site inspections. Financial information from these reports is used to detect emerging financial problems, to review performance and conduct pre-inspection analysis, to monitor and evaluate capital adequacy, to evaluate BHC mergers and acquisitions, and to analyze a BHC's overall financial condition to ensure safe and sound operations.

The FR Y-9C consists of standardized financial statements similar to the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 & 041; OMB No. 7100-0036) filed by commercial banks. The FR Y-9C collects consolidated data from BHCs. The FR Y-9C is filed by top-tier BHCs with total consolidated assets of \$500 million or more. (Under certain circumstances defined in the General Instructions, BHCs under \$500 million may be required to file the FR Y-9C.)

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

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

Current actions: The Federal Reserve proposes to modify information collected on the FR Y-9C to: report interest and fee income on and the quarterly average for 1-4 family residential mortgages and income on and the quarterly average for all other real estate loans separately from income on and the quarterly average for all other loans; add new data items for restructured troubled mortgages and mortgage loans in process of foreclosure; expand the schedule for closed-end 1-4 family residential mortgage banking activity to include originations, purchases, and sales of open-end mortgages as well as

closed-end and open-end mortgage loan repurchases and indemnifications during the quarter; modify the trading account definition and enhance information available on instruments accounted for under the fair value option on the loan schedule and the fair value measurements schedule; revise the schedule on trading assets and liabilities; clarify the instructions for reporting credit derivative data in the risk-based capital schedule and make a corresponding change to the schedule itself; modify the threshold for reporting significant items of other noninterest income and expense in the income statement; and revise the instructions for reporting fully insured brokered deposits in the deposit liabilities schedule to conform to the instructions for reporting time deposits in this schedule. The proposed changes would be effective as of March 31, 2008.

The Federal Reserve proposes to modify the FR Y-9LP to: collect certain data from all institutions that choose, under generally accepted accounting principles (GAAP), to apply a fair value option to one or more financial instruments and one or more classes of servicing assets and liabilities; add two data items on cash flows related to business acquisitions and divestitures; and combine two cash flow statement items into a single net item. The proposed changes would be effective as of March 31, 2008.

The Federal Reserve proposes to modify the FR Y-9SP to also collect certain data from all institutions that choose, under GAAP, to apply a fair value option to one or more financial instruments and one or more classes of servicing assets and liabilities. The proposed changes would be effective as of June 30, 2008.

Proposed Revisions Related to Call Report Revisions

The Federal Reserve proposes to make the following revisions to the FR Y-9C to parallel proposed changes to the Call Report. BHCs have commented that changes

should be made to the FR Y-9C in a manner consistent with changes to the Call Report to reduce reporting burden.

Revisions Related to 1-4 Family Residential Mortgage Loans

Since year-end 2000, FR Y-9C respondent holdings of 1-4 family residential mortgage loans in domestic offices have increased nearly 118 percent to more than \$2.1 trillion. Nearly all of FR Y-9C respondents hold such mortgages. 1-4 family residential mortgages continue to represent the single largest category of loans held by FR Y-9C respondents. As a percentage of total loans and leases, 1-4 family residential mortgages have grown from 26 percent at year-end 2000 to 35 percent at year-end 2006. Similarly, 1-4 family residential mortgages have increased from less than 15 percent of total assets to over 17 percent of total assets during this period. In addition, there has been a growing use of nontraditional residential mortgage products and an increasing number of BHC subsidiaries offering such products. The volume of 1-4 family residential mortgage loans extended to subprime borrowers has increased. At the same time, home prices have stagnated or declined in many areas of the country.

The higher concentration of 1-4 family residential mortgages across the industry and the changing risk profile of the loans with which BHCs are associated in some capacity has led the Federal Reserve to evaluate the information they collect about such loans in the FR Y-9C. As a result, the Federal Reserve proposes several reporting changes that are intended to enhance its ability to monitor the nature and extent of BHCs' involvement with 1-4 family residential mortgage loans as originators, holders, sellers, and servicers of such loans.

Interest and Fee Income and Quarterly Average

At present, BHCs include the total amount of interest and fee income on their loans secured by real estate (in domestic offices) in the income statement (Schedule HI, data item 1.a.(1), Interest and fee income on loans: in domestic offices) and include the quarterly average for these loans (in domestic offices) in the quarterly averages schedule (Schedule HC-K, data item 3, Loans and leases). The Federal Reserve proposes to split these existing income statement and quarterly average items into separate data items for the interest and fee income on and the quarterly averages of, Loans secured by 1-4 family residential properties, All other loans secured by real estate, and All other loans in domestic offices.

Restructured Mortgages

BHCs currently report information on the amount of loans whose terms have been modified, because of deterioration in the financial condition of the borrower, to provide for a reduction of either interest or principal. When such restructured loans are past due thirty days or more or are in nonaccrual status in relation to their modified terms as of the report date, they are reported in Schedule HC-N, Memorandum item 1. In contrast, when such restructured loans are less than thirty days past due and are not otherwise in nonaccrual status, that is, when they are deemed to be in compliance with their modified terms as discussed in the FR Y-9C reporting instructions, BHCs report the amount of these loans in the loan schedule (Schedule HC-C, Memorandum item 1). However, the instructions advise respondents to exclude restructured loans secured by 1-4 family residential properties from these memoranda items.

This exclusion was incorporated into the reporting instructions because the original disclosure requirements for troubled debt restructurings under GAAP provided that creditors need not disclose information on restructured real estate loans secured by 1-4 family residential properties.¹ However, this exemption from disclosure under GAAP has since been eliminated.² Accordingly, the Federal Reserve proposes to add a new memorandum item to Schedule HC-C, for Loans secured by 1-4 family residential properties, that have been restructured and are in compliance with their modified terms and a new memorandum item to Schedule HC-N, for restructured Loans secured by 1-4 family residential properties, that are past due 30 days or more or in nonaccrual status.

Mortgages in Foreclosure

BHCs currently report data on the amount of loans secured by 1-4 family residential properties that are past due thirty days or more or are in nonaccrual status (Schedule HC-N, data item 1.c) with the amount of foreclosed 1-4 family residential properties held by the BHC included in real estate acquired in satisfaction of debts previously contracted (Schedule HC-M, data item 13.a). However, regardless of whether the BHC owns the loans or services the loans for others, BHCs do not report the volume of 1-4 family residential mortgage loans that are in process of foreclosure. These data are an important indicator of potential additions to the BHC's other real estate owned in the near term. The Federal Reserve proposes to add two new memoranda items for the amount of 1-4 family residential mortgage loans owned by the BHC and serviced by the

¹ See Financial Accounting Standards Board Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*, footnote 25.

² See Financial Accounting Standards Board Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, paragraph 22(f).

BHC that are in foreclosure as of the quarter-end report date. Mortgage loans in foreclosure would be defined as those for which the legal process of foreclosure has been initiated, but for which the foreclosure process has not yet been resolved at quarter-end.³ These memoranda items would be added to the loan schedule (Schedule HC-C) and the servicing, securitization, and asset sale activities schedule (Schedule HC-S), with the carrying amount (before any applicable allowance for loan and leases losses) reported in the former memorandum item and the principal amount reported in the latter memorandum item. Reporting mortgage loans as being in process of foreclosure will not exempt those loans owned by the BHC from being reported as past due or nonaccrual, as appropriate, in Schedule HC-N, and will not exempt those loans serviced by the BHC that are reported in Schedule HC-S, data item 1, from being reported as past due, as appropriate, in that schedule.

Open-end 1-4 Family Residential Mortgage Banking Activities

BHCs with \$1 billion or more in total assets and smaller BHCs that meet certain criteria currently provide data on originations, purchases, and sales of closed-end 1-4 family residential mortgage loans during the quarter arising from their mortgage banking activities in Schedule HC-P. These BHCs also report the amount of closed-end 1-4 family residential mortgage loans held for sale at quarter-end as well as the noninterest income for the quarter from the sale, securitization, and servicing of these mortgage loans. Data (other than for noninterest income) are provided separately for first lien and

³ For BHCs with banks that participate in the Mortgage Bankers Association's (MBA) National Delinquency Survey, the time at which mortgage loans would become reportable as being in process of foreclosure for FR Y-9C reporting purposes would be the same time at which mortgage loans become reportable as being in "foreclosure inventory" for MBA survey purposes (although the dollar amount of such loans would be reported in the FR Y-9C while the number of such loans are reported for MBA survey purposes).

junior lien mortgages in Schedule HC-P. About 450 BHCs complete Schedule HC-P, 110 of which have total assets of less than \$1 billion. However, this information does not provide a complete picture of BHCs' mortgage banking activities since it excludes open-end 1-4 family residential mortgages extended under lines of credit. From year-end 2001 to year-end 2006, FR Y-9C respondent holdings of 1-4 family residential mortgage loans extended under lines of credit nearly tripled to about \$470 billion. Accordingly, the Federal Reserve proposes to expand the scope of Schedule HC-P to include separate data items for originations, purchases, and sales of open-end 1-4 family residential mortgages during the quarter; the amount of such mortgages held for sale at quarter-end; and noninterest income for the quarter from the sale, securitization, and servicing of open-end residential mortgages. When reporting the originations, purchases, sales, and mortgages held for sale, BHCs would report both the total commitment under the line of credit and the principal amount funded under the line. For BHCs with less than \$1 billion in total assets, the criteria used to determine whether Schedule HC-P must be completed would be modified to include both closed-end and open-end 1-4 family residential mortgage bank activities.

Mortgage Repurchases and Indemnifications

As a result of their 1-4 family residential mortgage banking activities, BHCs may be obligated to repurchase mortgage loans that they have sold or otherwise indemnify the loan purchaser against loss because of borrower defaults, loan defects, other breaches of representations and warranties, or for other reasons, thereby exposing BHCs to additional risk. Such information is not currently captured in Schedule HC-P. Therefore, the Federal Reserve proposes to add four new data items to Schedule HC-P to collect data on

mortgage loan repurchases and indemnifications during the quarter. For both closed-end first lien and closed-end junior lien 1-4 family residential mortgages, BHCs would report the principal amount of mortgages repurchased or indemnified. For open-end 1-4 family residential mortgages, BHCs would report both the total commitment under the line of credit and the principal amount funded under the line for mortgages repurchased or indemnified.

Trading Assets and Liabilities and Other Assets and Liabilities

Accounted for Under a Fair Value Option

Reporting of Assets and Liabilities under the Fair Value Option as Trading

On February 15, 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), which is effective for fiscal years beginning after November 15, 2007.

Earlier adoption of FAS 159 was permitted as of the beginning of an earlier fiscal year, provided the BHC (i) also adopts all of the requirements of FASB Statement No. 157, *Fair Value Measurements* (FAS 157) at the early adoption date of FAS 159; (ii) has not yet issued a financial statement or submitted FR Y-9C data for any period of that fiscal year; and (iii) satisfies certain other conditions. Thus, a BHC with a calendar-year fiscal year may have voluntarily adopted FAS 159 as of January 1, 2007. Changes in the fair value of financial assets and liabilities to which the fair value option is applied are reported in current earnings as is currently the case for trading assets and liabilities. The Federal Reserve understands that some institutions would like to reclassify certain loans elected to be accounted for under the fair value option as trading assets. The FR Y-9C

reporting instructions currently do not specifically allow loans to be reported as trading assets.

Under FAS 159, all securities within the scope of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115), that a BHC has elected to report at fair value under a fair value option should be classified as trading securities. Recognizing the provisions of FAS 159, the Federal Reserve proposes the following clarification to the reporting instructions, including the Glossary entry for Trading Account.

BHCs may classify assets (other than securities within the scope of FAS 115 for which a fair value option is elected) and liabilities as trading if the BHC applies fair value accounting, with changes in fair value reported in current earnings, and manages these assets and liabilities as trading positions, subject to the controls and applicable regulatory guidance related to trading activities. For example, a BHC would generally not classify a loan to which it has applied the fair value option as a trading asset unless the BHC holds the loan, which it manages as a trading position, for one of the following purposes: (1) for market making activities, including such activities as accumulating loans for sale or securitization, (2) to benefit from actual or expected price movements, or (3) to lock in arbitrage profits.

Revision of Certain Fair Value Measurement and Fair Value Option Information

Effective for the March 31, 2007, reporting date, the Federal Reserve started collecting information on certain assets and liabilities measured at fair value on Schedule

HC-Q, Financial Assets and Liabilities Measured at Fair Value. Schedule HC-Q was intended to be consistent with the disclosure and other requirements contained in FAS 157 and FAS 159. Based on the Federal Reserve's review of initial industry practice and inquiries from BHCs, the Federal Reserve has determined that industry practice for preparing and reporting FAS 157 disclosures has evolved differently than the process for the information collected on Schedule HC-Q. This divergence has resulted in unnecessary burden and less transparency for the affected BHCs in two material respects.

First, Schedule HC-Q does not allow BHCs to separately identify each of the three levels of fair value measurements prescribed by FAS 157. The Federal Reserve included Level 1 fair value measurements in the total fair value amount in column A of Schedule HC-Q as a means of minimizing reporting burden. However, the omission of a separate column on Schedule HC-Q for Level 1 fair value measurements has increased the time BHC management spends preparing and reviewing Schedule HC-Q because the fair value disclosures on Schedule HC-Q differ from those in the BHCs' other financial statements. Second, Schedule HC-Q does not allow BHCs to separately identify any amounts by which the gross fair values of assets and liabilities reported for Level 2 and 3 fair value measurements included in columns B and C have been offset (netted) in the determination of the total fair value reported on the balance sheet (Schedule HC), which is disclosed in column A of Schedule HC-Q. Based on a review of industry practice, these disclosures are commonly made in the BHCs' other financial statements.

To reduce confusion related to the differences in industry practice and the FR Y-9C, the Federal Reserve proposes to add two columns to Schedule HC-Q to allow BHCs to report any netting adjustments and Level 1 fair value measurements separately in a

manner consistent with industry practice. The new columns would be captioned column B, Amounts Netted in the Determination of Total Fair Value Reported on Schedule HC, and column C, Level 1 Fair Value Measurements. Existing column B, Level 2 Fair Value Measurements, and column C, Level 3 Fair Value Measurements, of Schedule HC-Q would be recaptioned as columns D and E, respectively. Column A would remain unchanged.

The Federal Reserve has also given further consideration to the information that will be necessary to effectively assess the safety and soundness of BHCs that utilize the fair value option pursuant to FAS 159. Based on this assessment, the Federal Reserve proposes to amend certain other FR Y-9C schedules to improve the Federal Reserve's ability to make comparisons between entities that elect a fair value option and those that do not. The primary focus of these proposed changes is to enhance the information provided by BHCs that elect the fair value option for loans. The proposed changes are based on the principal objectives for disclosures and the required disclosures in FAS 159, which were intended to provide "information to enable users to understand the differences between fair value and contractual cash flows" and to provide information "that would have been disclosed if the fair value option had not been elected."

Specifically, the Federal Reserve proposes to add data items to Schedule HC-C, Loans and Leases, to collect data on the loans reported in this schedule that are measured at fair value under a fair value option: (1) the fair value of such loans measured by major loan category, (2) the unpaid principal balance of such loans by major loan category, and (3) the aggregate amount of the difference between the fair value and the unpaid principal balance of such loans that is attributable (a) to changes in the credit risk of the loan since

its origination and (b) to all other factors. The Federal Reserve seeks public comment on: (1) the availability of information necessary to separately report the aggregate difference between fair value and the unpaid principal that is attributable to changes in credit risk since origination, (2) the reliability of estimating the amount attributable to changes in credit risk since origination, and (3) ways to minimize the burden of collecting information regarding the effect of changes in credit risk on the carrying amount of loans measured at fair value.

Because Schedule HC-C provides data on loans held for investment and for sale, the Federal Reserve proposes to add the same data items to Schedule HC-D, Trading Assets and Liabilities, for loans measured at fair value under a fair value option that are designated as held for trading. The Federal Reserve also proposes to add a new data item to Schedule HC-D, Other trading liabilities, in recognition of a BHC's ability to elect to measure certain liabilities at fair value (for example, repurchase agreements) in accordance with FAS 159 and designate them as held for trading.

The Federal Reserve proposes to add two data items to Schedule HC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, to collect data on the fair value and unpaid principal balance of loans measured at fair value under a fair value option that are past due or in nonaccrual status. The data items would follow the existing three column breakdown on Schedule HC-N that BHCs utilize to report all other past due and nonaccrual loans. Since trading assets are not currently reported on Schedule HC-N, the Federal Reserve proposes to add similar data items to Schedule HC-D to collect the total fair value and unpaid principal balance of loans ninety days or more past due that are classified as trading based on the loan's contractual maturity. Finally, the Federal

Reserve proposes to add memoranda items to Schedule HI, Income Statement, to collect information on: (1) net gains (losses) recognized in earnings on assets that are reported at fair value under a fair value option, (2) estimated net gains (losses) on loans attributable to changes in instrument-specific credit risk, (3) net gains (losses) recognized in earnings on liabilities that are reported at fair value under a fair value option, and (4) estimated net gains (losses) on liabilities attributable to changes in the instrument-specific credit risk.

The Federal Reserve seeks public comment on the reliability of estimating the amount of net gains (losses) on loans or liabilities attributable to changes in the instrument-specific credit risk.

Other Revisions to Information Collected on Trading Assets and Liabilities

Since 2000, the total trading assets reported by FR Y-9C respondents has increased approximately 156 percent to over \$1.4 trillion or nearly 11 percent of total industry assets as of March 31, 2007. In terms of concentrations, approximately 41 percent of total trading assets now are either reported in the category of Trading assets held in foreign offices (approximately 27 percent of total trading assets) or Other trading assets in domestic offices (approximately 14 percent of total trading assets). Schedule HC-D, Trading Assets and Liabilities, currently does not provide any specific detail on the trading assets held in foreign offices or other trading assets in domestic offices. This lack of detail limits the Federal Reserve's ability to assess BHC exposures to market, liquidity, credit, operational, and other risks posed by these assets. To appropriately assess the safety and soundness of BHCs with these exposures and BHCs with significant concentrations in trading assets, the Federal Reserve proposes three revisions to Schedule HC-D.

First, the Federal Reserve proposes to eliminate the single data item for trading assets in foreign offices and revise the schedule to include separate columns for the consolidated BHC and for domestic offices. This will provide detail on the assets in foreign offices in a manner consistent with disclosures about trading assets throughout the BHC.

Second, the Federal Reserve proposes to change the reporting threshold for Schedule HC-D. At present, a BHC must complete Schedule HC-D each quarter during a calendar year if the BHC reported a quarterly average for trading assets of \$2 million or more in Schedule HC-K, data item 4.a, for any quarter of the preceding calendar year. As proposed, Schedule HC-D would be completed in any quarter when the quarterly average for trading assets was \$2 million or more in Schedule HC-K, data item 4.a, in any of the four preceding quarters. This change will enable the Federal Reserve to more quickly and readily monitor the composition and risk exposures of the trading accounts of BHCs that become more significantly involved in trading activities. During 2006, eighty-nine BHCs reported average trading assets of \$2 million or more in any quarter of the year.

Third, the Federal Reserve proposes to require BHCs with average trading assets of \$1 billion or more in any of the four preceding quarters to provide additional detail on trading assets and liabilities included in the currently collected trading asset and liability categories. These BHCs would provide additional breakouts for asset-backed securities by major category, collateralized debt obligations (both synthetic and non-synthetic), retained interests in securitizations, equity securities (both with and without readily determinable fair values), and loans held pending securitization. In addition, these BHCs

would be required to provide a description of and the fair value of any type of trading asset or liability in the Other trading assets and Other trading liabilities categories that is greater than \$25,000 and exceeds 25 percent of the amount reported in that trading category.

Reporting Credit Derivative Data for Risk-based Capital Purposes

For credit derivative contracts that are covered by the Federal Reserve's risk-based capital standards, the FR Y-9C reporting instructions require BHCs to report these credit derivatives in data item 52, All other off-balance sheet liabilities, of Schedule HC-R, Regulatory Capital, unless the credit derivatives represent recourse arrangements or direct credit substitutes and are reported in one of the preceding data items in the Derivatives and Off-Balance Sheet Items section of the schedule. This reporting approach was developed to enable BHCs that sold credit protection and held the credit derivative to apply a 100 percent risk weight to the notional amount consistent with the risk-based capital treatment of standby letters of credit and guarantees. At present, Schedule HC-R, data item 54, Derivative contracts, specifically excludes credit derivatives and does not include a 100 percent risk weight column because the maximum risk weight on the counterparty credit risk charge for other types of derivatives is 50 percent.

However, this reporting approach does not consider that some credit derivative positions are subject to a counterparty credit risk charge, which is calculated for other derivative positions in data item 54, even if the credit derivatives are held by a BHC that is subject to the market risk capital rules. The Federal Reserve also understands that credit derivatives often are included in bilateral netting arrangements. When derivatives

are subject to such an arrangement, the instructions to Schedule HC-R, data item 54, permit a BHC to report a net amount representing its exposure to a counterparty for all derivative transactions under the bilateral netting arrangement with that counterparty. However, by instructing a BHC not to report its counterparty credit risk exposure for credit derivatives in Schedule HC-R, data item 54, the Federal Reserve is, in effect, requiring the BHC to separate its exposures resulting from credit derivatives from its net exposure to a counterparty. As a consequence, the BHC is unable to recognize the netting benefit in its risk-based capital calculation.

The Federal Reserve proposes to modify the reporting instructions for Schedule HC-R to allow the reporting of the credit equivalent amount of credit derivatives subject to the counterparty credit risk charge in data item 54 of the schedule. In addition, the Federal Reserve proposes to extend the existing 100 percent risk weight column in Schedule RC-R to data item 54.

Revision of Reporting Threshold for Other Noninterest Income and Other Noninterest Expense

In 2001, the Federal Reserve changed the threshold for reporting detail on the components of Other noninterest income, included in Schedule HI, data item 5.1, and Other noninterest expense, reported in Schedule HI, data item 7.d, to require BHCs to separately disclose on Schedule HI, Memoranda items 6 and 7, the description and amount of any component included in other noninterest income and other noninterest expense that exceeded 1 percent of the sum of interest income and noninterest income. Since that time, the Federal Reserve has monitored BHC disclosures of the types of noninterest income and noninterest expenses in excess of this threshold to assess the

safety and soundness considerations associated with the changing sources of these income and expense streams. Based on this review, the Federal Reserve has determined that the current threshold does not provide sufficient information on the sources of BHC noninterest income and noninterest expenses to adequately address their safety and soundness concerns. As a result, the Federal Reserve proposes to change the threshold for reporting detail information on the components of other noninterest income and other noninterest expense.

Prior to 2001, BHCs were required to separately disclose the description and amount of any data item included in other noninterest income that exceeded 10 percent of other noninterest income and any data item included in other noninterest expense that exceeded 10 percent of other noninterest expense. The Federal Reserve has determined that thresholds based on a percentage of other noninterest income and other noninterest expense are more relevant criteria for determining when a BHC should provide more detail on the components of other noninterest income or other noninterest expense, respectively. The Federal Reserve proposes to change the threshold to require BHCs to separately disclose the description and amount of any data item included in other noninterest income that exceeds 3 percent of other noninterest income and any data item included in other noninterest expense that exceeds 3 percent of other noninterest expense. This percentage is intended to initially result in a level of disclosure detail that is comparable to the current 1 percent of interest income plus noninterest income threshold. It is also expected to provide more relevant disclosures than the current threshold as the amounts reported in noninterest income and noninterest expense change over time.

In addition, based on a review of recent BHC disclosures of components of other noninterest income and other noninterest expense reported in Schedule HI, Memoranda items 6 and 7, the Federal Reserve proposes to add one new preprinted caption for other noninterest income and four new preprinted captions for other noninterest expense to help BHCs comply with the disclosure requirements. As with the existing preprinted captions for other noninterest income and other noninterest expense, BHCs are only required to use these descriptions and provide the amounts for these components when the amounts included in other noninterest income or other noninterest expense exceed the reporting threshold. The new preprinted other noninterest income caption is bank card and credit card interchange fees. The new preprinted noninterest expense captions are accounting and auditing expenses, consulting and advisory expenses, automated teller machine (ATM) and interchange expenses, and telecommunications expenses.

Reporting Brokered Time Deposits Participated Out by the Broker

The Federal Reserve revised the instructions for Schedule HC-E, data items 1.d, Time deposits of less than \$100,000, 1.e, Total time deposits of \$100,000 or more, held in domestic offices of commercial bank subsidiaries, 2.d, Time deposits of less than \$100,000 and 2.e., Time deposits of \$100,000 or more, held in domestic offices of subsidiary depository institutions other than commercial banks, in March 2007, so that brokered time deposits issued in denominations of \$100,000 or more that are participated out by the broker in shares of less than \$100,000 would be reported in data items 1.d and 2.d rather than in data items 1.e and 2.e. However, the conforming instructional revision to Schedule HC-E, Memoranda items 1, 2, and 3, was not made to the FR Y-9C for collecting information on maturity breakdowns of brokered deposits and time deposits,

which means that these participated brokered time deposits continue to be reported as brokered deposits of greater than \$100,000 rather than brokered deposits of less than \$100,000. Consistent reporting of these brokered time deposits across these Schedule HC-E memoranda items is needed for purposes of measuring a BHC's non-core liabilities. Therefore, the Federal Reserve proposes to revise Schedule HC-E, Memoranda items 1, 2, and 3, so that brokered time deposits issued in denominations of \$100,000 or more that are participated out by the broker in shares of less than \$100,000 are reported in Memoranda items 1 and 2 and not reported in Memorandum item 3.

FR Y-9LP

The Federal Reserve proposes to make the following revisions to the FR Y-9LP effective as of March 31, 2008. These proposed revisions are not related to the revisions proposed to the Call Report.

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

On September 15, 2006, FASB issued FAS 157, which is effective for BHCs and other entities for fiscal years beginning after November 15, 2007. The fair value measurements standard provides guidance on how to measure fair value and describes the type of inputs used to measure fair value based on a three-level hierarchy for all assets and liabilities that are re-measured at fair value on a recurring basis.⁴

As previously mentioned, on February 15, 2007, FASB issued FAS 159, which is effective for fiscal years beginning after November 15, 2007. The FASB's Fair Value

⁴ The FASB's three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting BHC has the ability to access at the measurement date (e.g., the FR Y-9LP or FR Y-9SP reporting date). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

Option standard allows BHCs and other entities to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings.

FAS 159 can be applied on a contract by contract basis. Currently there is no means to determine to what extent the reporting entity is applying this standard and the basis used to value assets and liabilities. Therefore, the Federal Reserve proposes to add two new memoranda items to Schedule PC, Parent Company Only Balance Sheet, and one new memorandum item to Schedule PI, Income Statement, that would be completed by BHCs that have adopted FAS 157 and have elected to account for financial instruments or servicing assets and liabilities on the books of the parent BHC at fair value under a fair value option. The Federal Reserve proposes to add to Schedule PC, Memorandum item 1, Financial assets and liabilities measured at fair value, collecting data in Memoranda items 1.a, Total assets and 1.b, Total liabilities. The Federal Reserve proposes to add to Schedule PI, Memorandum item 5, Net change in fair values of financial instruments accounted for under a fair value option.

Revisions Related to the Reporting of Cash Flows

The Federal Reserve proposes to add two new data items to Schedule PI-A, Cash Flow Statement, Part II, Cash Flows from Investing Activities for Outlays for business acquisitions and Proceeds from business divestitures. Collection of this information is important for the analysis of the consolidation of the banking industry. Specifically, this information would provide the Federal Reserve a better understanding not only of the effects of mergers of whole entities, but also of acquisitions or disposals of major business operations as part of BHCs' corporate strategies. In addition, BHCs typically provide similar information in public financial statements filed with the Securities and

Exchange Commission (SEC). However, such information provided by BHCs in their SEC filings is not standardized across filers, is not necessarily provided by all BHCs involved in acquisitions and divestitures, and is not available from non-public BHCs.

Based on industry comment on ways to reduce reporting burden, the Federal Reserve also proposes to combine the reporting of two data items on Schedule PI-A, Part III, Cash Flows from Financing Activities. Data item 1, Proceeds from purchased funds and other short-term borrowings, and data item 2, Repayments of purchased funds and other short-term borrowings, would be combined into a single data item for Net change in purchased funds and other short-term borrowings. The Federal Reserve has determined that collection of these data items on a gross basis is no longer needed.

FR Y-9SP

The Federal Reserve proposes to make the following revisions to the FR Y-9SP effective as of June 30, 2008. These proposed revisions are not related to the revisions proposed to the Call Report.

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

The Federal Reserve proposes to add two new memoranda items to Schedule SC, Balance Sheet, and one new memorandum item to Schedule SI, Income Statement, that would be completed by BHCs that have adopted FAS 157 and have elected to account for financial instruments or servicing assets and liabilities on the books of the parent BHC at fair value under a fair value option. The Federal Reserve proposes to add to Schedule SC, Memorandum item 3, Financial assets and liabilities measured at fair value, collecting data in Memoranda items 3.a, Total assets, and 3.b, Total liabilities. The

Federal Reserve proposes to add to Schedule SI, Memorandum item 4, Net change in fair values of financial instruments accounted for under a fair value option.

2. *Report title:* Financial Statements for Nonbank Subsidiaries of U.S. Bank Holding Companies.

Agency form number: FR Y-11 and FR Y-11S

OMB control number: 7100-0244

Frequency: Quarterly and annually.

Reporters: Bank holding companies.

Annual reporting hours: FR Y-11 (quarterly): 10,752; FR Y-11 (annual): 1,402; FR Y-11S (annual): 471

Estimated average hours per response: FR Y-11 (quarterly): 6.40; FR Y-11 (annual): 6.40; FR Y-11S (annual): 1.0

Number of respondents: FR Y-11 (quarterly): 420; FR Y-11 (annual): 219; FR Y-11S (annual): 471

General description of report: This information collection is mandatory (12 U.S.C. §§1844(c)). Confidential treatment is not routinely given to the data in these reports. However, confidential treatment for the reporting information, in whole or in part, can be requested in accordance with the instructions to the form, pursuant to sections (b)(4), (b)(6) and (b)(8) of the Freedom of Information Act [5 U.S.C. §§522(b)(4), (b)(6) and (b)(8)].

Abstract: The FR Y-11 reports collect financial information for individual non-functionally regulated U.S. nonbank subsidiaries of domestic bank holding companies (BHCs). BHCs file the FR Y-11 on a quarterly or annual basis according to filing criteria

or file the FR Y-11S annually. The FR Y-11 data are used with other BHC data to assess the condition of BHCs that are heavily engaged in nonbanking activities and to monitor the volume, nature, and condition of their nonbanking operations.

Current Actions: The Federal Reserve proposes to eliminate reporting by subsidiaries that were created for the purposes of issuing trust preferred securities (trust preferred securities subsidiaries) to substantially reduce burden on the industry and, in this regard, make the report consistent with the proposed revision to the other nonbank subsidiary reports, the Financial and Abbreviated Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314/S; OMB No. 7100-0073) and the Financial and Abbreviated Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7N/NS; OMB No. 7100-0125). The Federal Reserve also proposes to collect: (1) certain data on the FR Y-11 from all institutions that choose, under generally accepted accounting principles, to apply a fair value option to one or more financial instruments and one or more classes of servicing assets and liabilities and (2) a new data item on the income statement to collect fees and commissions from annuity sales. On the FR Y-11S, the Federal Reserve proposes to add a question to determine whether the subsidiary has adopted a fair value option. The Federal Reserve also requests latitude to modify proposed revisions to the FR Y-11/S to be consistent with any proposed revisions and instructional changes to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128) for implementation in 2008. Lastly, the Federal Reserve proposes to add clarifying language to the instructions for the reporting of trading revenue and noninterest income from related organizations.

Revisions to the Reporting Panel

The Federal Reserve proposes eliminating reporting by BHCs for their trust preferred securities subsidiaries to reduce burden on the industry. As of December 2006, BHCs filed approximately 2,100 nonbank subsidiary reports for their trust preferred securities subsidiaries quarterly and annually with the Federal Reserve, 2,046 of which were FR 11/S filers.⁵ Of the FR Y-11/S submissions, over half file the detailed FR Y-11 on an annual or quarterly basis. If reporting for trust preferred securities subsidiaries is eliminated, the number of subsidiaries for which BHCs report the FR Y-11/S quarterly and annually would be reduced by approximately 65 percent, from 3,156 to 1,110 subsidiaries. The remaining panel would still represent more than 96 percent of total nonbank assets currently reported on the FR Y-11/S.

Eliminating reporting for trust preferred securities subsidiaries will not compromise essential information. The essential information for analysts can be obtained from the parent company-only financial statements. Information reported for trust preferred securities subsidiaries in these nonbank reports pertains primarily to the establishment of the trust and the issuance of trust preferred securities. As expected, the largest asset reported on the quarterly reports was the “balances due from the parent,” which represented the loan from the nonbank to the parent BHC in the trust preferred securities arrangement.

Minimal information other than information related to the trust preferred securities is provided on the nonbank reports filed for trust preferred securities subsidiaries. If warranted for supervisory purposes, the Federal Reserve could request

⁵ As of December 2006, foreign banking organizations filed fifty-four FR Y-7N/NS reports for their trust preferred securities subsidiaries. No parent organizations filed the FR 2314 for their trust preferred securities subsidiaries.

individual financial statements and other information from BHCs for their trust preferred securities subsidiaries.

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

On September 15, 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, *Fair Value Measurements* (FAS 157), which is effective for BHCs and other entities for fiscal years beginning after November 15, 2007. The fair value measurements standard provides guidance on how to measure fair value and describes the type of inputs used to measure fair value based on a three-level hierarchy for all assets and liabilities that are re-measured at fair value on a recurring basis.⁶

The FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), on February 15, 2007, which is effective for fiscal years beginning after November 15, 2007. This standard allows BHCs and other entities to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings.

FAS 159 can be applied on a contract by contract basis. Currently there is no means to determine to what extent the reporting entity is applying this standard and the basis used to value assets and liabilities. Therefore, the Federal Reserve proposes to add two new memoranda items to Schedule BS, Balance Sheet, and one new memorandum item to Schedule IS, Income Statement, that would be completed by BHCs that have

⁶ The FASB's three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting subsidiary has the ability to access at the measurement date (e.g., the FR Y-11 reporting date). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

elected to account for financial instruments or servicing assets and liabilities on the books of the subsidiary at fair value under a fair value option. The Federal Reserve proposes to add to Schedule BS, Memoranda item 1, Financial assets and liabilities measured at fair value under a fair value option, collecting data in Memoranda items 1.a., Total assets and 1.b, Total liabilities. The Federal Reserve proposes to add to Schedule IS, Income Statement, Memoranda item 2, Net change in fair values of financial instruments accounted for under a fair value option. The Federal Reserve also proposes to add to the FR Y-11S the question, “Has the nonbank subsidiary elected to account for certain assets and liabilities under a fair value option with changes in fair value recognized in earnings?” to determine whether the subsidiary has adopted a fair value option.

Schedule IS-Income Statement

The Federal Reserve proposes to add a new data item 5.a.(9), Fees and commissions from annuity sales. Currently, subsidiaries report income from sales of annuities in data item 5.a.(4), Investment banking, advisory, brokerage, and underwriting fees and commissions. Since fixed annuities are considered insurance products and variable annuities may be considered both insurance and securities products, a separate data item is deemed warranted to specifically capture revenues from annuities.

Moreover, the above data item commingles income from the sale of annuities with noninterest income from a variety of activities and a separate item will assist the Federal Reserve in more clearly distinguishing the subsidiaries’ sources of noninterest income.

3. Report title: Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations.

Agency form number: FR 2314 and FR 2314S

OMB control number: 7100-0073.

Frequency: Quarterly and annually.

Reporters: Foreign subsidiaries of U.S. state member banks, bank holding companies, and Edge or agreement corporations.

Annual reporting hours: FR 2314 (quarterly): 5,581; FR 2314 (annual): 1,075; FR 2314S (annual): 272

Estimated average hours per response: FR 2314 (quarterly): 6.40; FR 2314 (annual): 6.40; FR 2314S (annual): 1.0

Number of respondents: FR 2314 (quarterly): 218; FR 2314 (annual): 168; FR 2314S (annual): 272

General description of report: This information collection is mandatory (12 U.S.C. §§324, 602, 625, and 1844(c)). Confidential treatment is not routinely given to the data in these reports. However, confidential treatment for the reporting information, in whole or in part, can be requested in accordance with the instructions to the form, pursuant to sections (b)(4), (b)(6) and (b)(8) of the Freedom of Information Act [5 U.S.C. §§522(b)(4) (b)(6) and (b)(8)].

Abstract: The FR 2314 reports collect financial information for non-functionally regulated direct or indirect foreign subsidiaries of U.S. state member banks (SMBs), Edge and agreement corporations, and BHCs. Parent organizations (SMBs, Edge and agreement corporations, or BHCs) file the FR 2314 on a quarterly or annual basis according to filing criteria or file the FR 2314S annually. The FR 2314 data are used to identify current and potential problems at the foreign subsidiaries of U.S. parent companies, to monitor the activities of U.S. banking organizations in specific countries,

and to develop a better understanding of activities within the industry, in general, and of individual institutions, in particular.

Current actions: The Federal Reserve proposes to eliminate reporting by subsidiaries that were created for the purposes of issuing trust preferred securities (trust preferred securities subsidiaries) to substantially reduce burden on the industry and, in this regard, make the report consistent with the proposed revision to the other nonbank subsidiary reports, the Financial and Abbreviated Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11/S; OMB No. 7100-0244) and the Financial and Abbreviated Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7N/NS; OMB No. 7100-0125). The Federal Reserve also proposes to collect: (1) certain data on the FR 2314 from all institutions that choose, under generally accepted accounting principles, to apply a fair value option to one or more financial instruments and one or more classes of servicing assets and liabilities and (2) a new data item on the income statement to collect fees and commissions from annuity sales. On the FR 2314S, the Federal Reserve proposes to add a question to determine whether the subsidiary has adopted a fair value option. The Federal Reserve also requests latitude to modify proposed revisions to the FR 2314/S to be consistent with any proposed revisions and instructional changes to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128) for implementation in 2008. Lastly, the Federal Reserve proposes to add clarifying language to the instructions for the reporting of trading revenue and noninterest income from related organizations.

Revisions to the Reporting Panel

The Federal Reserve proposes eliminating reporting by BHCs for their trust preferred securities subsidiaries to reduce burden on the industry. As of December 2006, BHCs filed approximately 2,100 nonbank subsidiary reports for their trust preferred securities subsidiaries quarterly and annually with the Federal Reserve.⁷ Eliminating reporting for trust preferred securities subsidiaries will not compromise essential information. The essential information for analysts can be obtained from the parent company-only financial statements. Information reported for trust preferred securities subsidiaries in these nonbank reports pertains primarily to the establishment of the trust and the issuance of trust preferred securities. As expected, the largest asset reported on the quarterly reports was the “balances due from the parent,” which represented the loan from the nonbank to the parent BHC in the trust preferred securities arrangement.

Minimal information other than information related to the trust preferred securities is provided on the nonbank reports filed for trust preferred securities subsidiaries. If warranted for supervisory purposes, the Federal Reserve could request individual financial statements and other information from BHCs for their trust preferred securities subsidiaries.

Reporting on Fair Value Measurements and the Use of the

Fair Value Option

On September 15, 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, *Fair Value Measurements* (FAS 157), which is effective for BHCs and other entities for fiscal years beginning after November 15, 2007. The fair value measurements standard provides guidance on how to measure fair value and

⁷ No parent organizations filed the FR 2314 for their trust preferred securities subsidiaries.

describes the type of inputs used to measure fair value based on a three-level hierarchy for all assets and liabilities that are re-measured at fair value on a recurring basis.⁸

The FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), on February 15, 2007, which is effective for fiscal years beginning after November 15, 2007. This standard allows BHCs and other entities to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings.

FAS 159 can be applied on a contract by contract basis. Currently there is no means to determine to what extent the reporting entity is applying this standard and the basis used to value assets and liabilities. Therefore, the Federal Reserve proposes to add two new memoranda items to Schedule BS, Balance Sheet, and one new memorandum item to Schedule IS, Income Statement, that would be completed by BHCs that have elected to account for financial instruments or servicing assets and liabilities on the books of the subsidiary at fair value under a fair value option. The Federal Reserve proposes to add to Schedule BS, Memoranda item 1, Financial assets and liabilities measured at fair value under a fair value option, collecting data in Memoranda items 1.a., Total assets and 1.b, Total liabilities. The Federal Reserve proposes to add to Schedule IS, Income Statement, Memoranda item 2, Net change in fair values of financial instruments accounted for under a fair value option. The Federal Reserve also proposes to add to the FR 2314S the question, “Has the nonbank subsidiary elected to account for certain assets

⁸ The FASB’s three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting subsidiary has the ability to access at the measurement date (e.g., the FR 2314 reporting date). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

and liabilities under a fair value option with changes in fair value recognized in earnings?” to determine whether the subsidiary has adopted a fair value option.

Schedule IS-Income Statement

The Federal Reserve proposes to add a new data item 5.a.(9), Fees and commissions from annuity sales. Currently, subsidiaries report income from sales of annuities in data item 5.a.(4), Investment banking, advisory, brokerage, and underwriting fees and commissions. Since fixed annuities are considered insurance products and variable annuities may be considered both insurance and securities products, a separate data item is deemed warranted to specifically capture revenues from annuities. Moreover, the above data item commingles income from the sale of annuities with noninterest income from a variety of activities and a separate item would assist the Federal Reserve in more clearly distinguishing the subsidiaries’ sources of noninterest income.

4. *Report title:* Financial Reports of Foreign Banking Organizations.

Agency form number: FR Y-7N and FR Y-7NS

OMB control number: 7100-0125

Frequency: Quarterly and annually.

Reporters: Foreign banking organizations (FBOs).

Annual reporting hours: FR Y-7N (quarterly): 4,889; FR Y-7N (annual): 1,065; FR Y-7NS: 229.

Estimated average hours per response: FR Y-7N (quarterly): 6.3; FR Y-7N (annual): 6.3; FR Y-7NS.

Number of respondents: FR Y-7N (quarterly): 194; FR Y-7N (annual): 169; FR Y-7NS: 229.

General description of report: This information collection is mandatory (12 U.S.C. 1844(c), 3106(c), and 3108). Confidential treatment is not routinely given to the data in these reports. However, confidential treatment for information, in whole or in part, on any of the reporting forms can be requested in accordance with the instructions to the form, pursuant to sections (b)(4) and (b)(6) of the Freedom of Information Act [5 U.S.C. §§522(b)(4) and (b)(6)].

Abstract: The FR Y-7N and FR Y-7NS collect financial information for non-functionally regulated U.S. nonbank subsidiaries held by FBOs other than through a U.S. bank holding company (BHC), U.S. financial holding company (FHC) or U.S. bank. FBOs file the FR Y-7N on a quarterly or annual basis or the FR Y-7NS annually based on size thresholds.

Current actions: The Federal Reserve proposes to eliminate reporting by subsidiaries that were created for the purposes of issuing trust preferred securities (trust preferred securities subsidiaries) on the FR Y-7N/NS to substantially reduce burden on the industry and, in this regard, make the report consistent with the proposed revision to the other nonbank subsidiary reports, the Financial and Abbreviated Financial Statements of U.S. Nonbank Subsidiaries of U.S. Bank Holding Companies (FR Y-11/S; OMB No. 7100-0244) and the Financial and Abbreviated Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314/S; OMB No. 7100-0073).

On the FR Y-7N, the Federal Reserve also proposes to collect: (1) certain data from all institutions that choose, under generally accounting principles, to apply a fair

value option to one or more financial instruments and one or more classes of servicing assets and liabilities and (2) a new data item on the income statement to collect fees and commissions from annuity sales. On the FR Y-7NS, the Federal Reserve proposes to add a question to determine whether the nonbank subsidiary has adopted a fair value option.

The Federal Reserve also proposes the following changes to make the FR Y-7N consistent with changes made previously to other nonbank subsidiary reports: (1) add one new equity capital component on the balance sheet for reporting partnership interests and (2) add a new section, Notes to the Financial Statements. The Federal Reserve also proposes to add clarifying language to the instructions for the reporting of trading revenue and noninterest income from related organizations.

Lastly, the Federal Reserve requests latitude to modify proposed revisions to the FR Y-7N/NS to be consistent with any proposed revisions and instructional changes to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128) for implementation in 2008.

Proposed Revisions Related to Other Nonbank Subsidiary Reports

The Federal Reserve proposes to make the following revisions to the FR Y-7N/NS to parallel proposed changes to other nonbank subsidiary reports.

Revisions to the Reporting Panel

The Federal Reserve proposes eliminating reporting by FBOs for their trust preferred securities subsidiaries on the FR Y-7N/NS to be consistent with proposed reporting panel revisions for other nonbank reports. Eliminating reporting by FBOs for their trust preferred securities subsidiaries on the FR Y-7N/NS would reduce burden on the industry. As of December 2006, BHCs and FBOs filed approximately 2,100 nonbank

subsidiary reports for their trust preferred securities subsidiaries quarterly and annually with the Federal Reserve, fifty-two of which were FR Y-7N/NS filers.⁹ If reporting for trust preferred securities subsidiaries is eliminated, the number of subsidiaries for which FBOs report the FR Y-7N/NS quarterly and annually would be reduced by approximately 8 percent, from 644 to 592 subsidiaries. The remaining panel would still represent more than 96 percent of total nonbank assets currently reported on the FR Y-7N/NS.

Eliminating reporting for trust preferred securities subsidiaries will not compromise essential information. Information reported for trust preferred securities subsidiaries in this nonbank report pertains primarily to the establishment of the trust and the issuance of trust preferred securities. As expected, the largest asset reported on the quarterly reports was the “balances due from the parent,” which represented the loan from the nonbank to the parent organization in the trust preferred securities arrangement. Minimal information other than information related to the trust preferred securities is provided on the nonbank reports filed for trust preferred securities subsidiaries. If warranted for supervisory purposes, the Federal Reserve could request individual financial statements and other information from FBOs for their trust preferred securities subsidiaries.

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

On September 15, 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, *Fair Value Measurements* (FAS 157), which is effective for BHCs and other entities for fiscal years beginning after November 15, 2007. The fair value measurements standard provides guidance on how to measure fair value and

⁹ FBOs file the detailed FR Y-7N for thirty-seven of their subsidiaries on a quarterly or annual basis.

describes the type of inputs used to measure fair value based on a three-level hierarchy for all assets and liabilities that are re-measured at fair value on a recurring basis.¹⁰

The FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), on February 15, 2007, which is effective for fiscal years beginning after November 15, 2007. This standard allows bank holding companies and other entities to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings.

FAS 159 can be applied on a contract by contract basis. Currently there is no means to determine to what extent the reporting entity is applying this standard and the basis used to value assets and liabilities. Therefore, the Federal Reserve proposes to add two new memoranda items to Schedule BS, Balance Sheet, and one new memorandum item to Schedule IS, Income Statement, that would be completed by FBOs that have elected to account for financial instruments or servicing assets and liabilities on the books of the nonbank subsidiary at fair value under a fair value option. The Federal Reserve proposes to add to Schedule BS, Memoranda item 1, Financial assets and liabilities measured at fair value under a fair value option, collecting data in Memoranda items 1.a., Total assets and 1.b, Total liabilities. The Federal Reserve proposes to add to Schedule IS, Income Statement, Memoranda item 1, Net change in fair values of financial instruments accounted for under a fair value option. The Federal Reserve also proposes to add to the FR Y-7NS the question, “Has the nonbank subsidiary elected to account for

¹⁰ The FASB’s three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting nonbank subsidiary has the ability to access at the measurement date (e.g., the FR 7-N reporting date). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

certain assets and liabilities under a fair value option with changes in fair value recognized in earnings?” to determine whether the nonbank subsidiary has adopted a fair value option.

Schedule IS—Income Statement

The Federal Reserve proposes to add a new data item 5.a.(9), Fees and commissions from annuity sales. Currently, nonbank subsidiaries report income from sales of annuities in data items 5.a.(4), Investment banking, advisory, brokerage, and underwriting fees and commissions and 5.a.(8), Insurance commissions and fees. Since fixed annuities are considered insurance products and variable annuities may be considered both insurance and securities products, a separate data item is deemed warranted to specifically capture revenues from annuities. Moreover, the above data items commingle income from the sale of annuities with noninterest income from a variety of activities and a separate data item would assist the Federal Reserve in more clearly distinguishing the subsidiaries’ sources of noninterest income.

Other Proposed Revisions That Parallel Prior Revisions to Other Nonbank Subsidiary Reports

The Federal Reserve proposes the following revisions to maintain consistency with other nonbank subsidiary reports. These revisions parallel revisions made to other nonbank subsidiary reports previously.

Schedule BS—Balance Sheet

The Federal Reserve proposes to add a new data item, 18.e, General and limited partnership shares and interests, renumber current data item, 18.e, Other equity capital components, as data item 18.f., and renumber current data item 18.f, Total equity capital,

as data item 18.g. Currently, the instructions for data item 18, Equity capital, directs subsidiaries that are not corporate in form (that is, those that do not have capital structures consisting of capital stock and the other components of equity capital currently listed under data item 18) to report their entire net worth in data item 18.f, Total equity. The reporting form and the instructions for data item 18.f, Total equity capital, state that data item 18.f must equal the sum of the components of data item 18. However, equity capital of those entities not in corporate form cannot appropriately be reported in any of the components of data item 18. The proposed data item and clarifications to the instructions for data item 18 would remove this inconsistency and improve the accuracy of the information reported. In addition, the Federal Reserve proposes to clarify that Schedule IS-A, Changes in Equity Capital, data item 6, Other adjustments to equity capital, should include contributions and distributions to and from partners or limited liability company (LLC) shareholders when the company is a partnership or a LLC. Schedule IS-A, data item 6 is a component of Schedule IS-A, data item 7, Total equity at end of current period. Schedule IS-A, data item 7 must equal Schedule BS, data item 18.g, Total equity.

Notes to the Financial Statements

The Federal Reserve proposes to add the section, Notes to the Financial Statements, to allow respondents the opportunity to provide, at their option, any material information included in specific data items on the financial statements that the parent organization wishes to explain. The addition of this section would enable the Federal Reserve to automate information that respondents may want to report as footnotes to

various reported data items and provide for release of this information to the public. This section is currently included on the FR Y-11 and FR 2314.

5. Report title: Consolidated Report of Condition and Income for Edge and Agreement Corporations

Agency form number: FR 2886b

OMB control number: 7100-0086

Frequency: Quarterly

Reporters: Edge and agreement corporations

Annual reporting hours: 2,442

Estimated average hours per response: 14.85 banking corporations, 8.65 investment corporations

Number of respondents: 12 banking corporations, 50 investment corporations

General description of report: This information collection is mandatory (12 U.S.C. 602 and 625). Schedules RC-M and RC-V are held as confidential pursuant to section (b)(4) of the Freedom of Information Act (5 U.S.C. 552 (b)(4)).

Abstract: The mandatory FR 2886b comprises a balance sheet, income statement, two schedules reconciling changes in capital and reserve accounts, and ten supporting schedules, and it parallels the Consolidated Reports of Condition and Income (Call Report) (FFIEC 031 and FFIEC 041; OMB No. 7100-0036) that commercial banks file. The Federal Reserve uses the data collected on the FR 2886b to supervise Edge corporations, identify present and potential problems, and monitor and develop a better understanding of activities within the industry.

Current actions: The Federal Reserve proposes to collect certain data from all organizations that choose, under generally accepted accounting principles (GAAP), to apply a fair value option to one or more financial instruments and one or more classes of servicing assets and liabilities. The Federal Reserve also proposes to revise the instructions for information collected on restructured loans and leases consistent with proposed changes to the Call Report. The Federal Reserve proposes to make the revisions to the FR 2886b effective as of March 31, 2008. These proposed revisions are not related to the revisions proposed to the Call Report.

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

On September 15, 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, *Fair Value Measurements* (FAS 157), which is effective for entities for fiscal years beginning after November 15, 2007. The fair value measurements standard provides guidance on how to measure fair value and describes the type of inputs used to measure fair value based on a three-level hierarchy for all assets and liabilities that are re-measured at fair value on a recurring basis.¹¹

On February 15, 2007, FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), which is effective for fiscal years beginning after November 15, 2007. The FASB's Fair Value Option standard allows entities to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings.

¹¹ The FASB's three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting Edge corporation has the ability to access at the measurement date (e.g., the FR 2886b reporting date). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

FAS 159 can be applied on a contract by contract basis. Currently there is no means to determine to what extent the reporting entity is applying this standard and the basis used to value assets and liabilities. Therefore, the Federal Reserve proposes to add two new memoranda items to Schedule RC, Balance Sheet, and one new memorandum item to Schedule RI, Income Statement, that would be completed by Edge corporations that have elected to account for financial instruments or servicing assets and liabilities on the books of the reporting Edge at fair value under a fair value option. The Federal Reserve proposes to add to Schedule RC, Memorandum item 2, Financial assets and liabilities measured at fair value, collecting data in Memorandum items 2.a, Total assets and 2.b, Total liabilities. The Federal Reserve proposes to add to Schedule RI, Memorandum item 1, Net change in fair values of financial instruments accounted for under a fair value option.

Restructured Mortgages

Edge corporations currently report information on the amount of loans in past due or nonaccrual status whose terms have been modified, because of a deterioration in the financial condition of the borrower, to provide for a reduction of either interest or principal, in Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, Memorandum item 1, Restructured loans and leases. However, the instructions advise respondents to exclude restructured loans secured by 1-4 family residential properties from this memorandum item.

This exclusion was incorporated into the reporting instructions because the original disclosure requirements for troubled debt restructurings under GAAP provided that creditors need not disclose information on restructured real estate loans secured by 1-4

family residential properties.¹² However, this exemption from disclosure under GAAP has since been eliminated.¹³ Accordingly, the Federal Reserve proposes to revise the instructions for Schedule RC-N, Memorandum item 1, to include restructured loans secured by 1-4 family residential properties that are past due 30 days or more or in nonaccrual status.

Reduction to the Optional 15-Day Extension for Submission of Completed Reports

Edge corporations file the FR 2886b within thirty days of the quarter-end as-of date of the report. However respondents currently have the option to take up to an additional fifteen calendar days to submit their completed reports. This option is intended to be consistent with the extended filing deadline on the commercial bank Call Report permitted for any bank that has more than one foreign office other than a shell branch or an international banking facility (IBF). Prior to June 30, 2004, such commercial banks could take an additional fifteen days to submit their Call Report. However, this optional filing extension for such banks was reduced to ten days effective with the June 30, 2004, Call Report, and further reduced to five days effective with the June 30, 2006, Call Report.

The Federal Reserve proposes to reduce the optional 15-day extension for the submission of completed FR 2886b reports to an optional 5-day extension, consistent with that afforded to banks filing the Call Report that have more than one foreign office

¹² See Financial Accounting Standards Board Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*, footnote 25.

¹³ See Financial Accounting Standards Board Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, paragraph 22(f).

other than a shell branch or an IBF. This change would not reflect any increase in burden for Edge corporations that are subsidiaries of commercial banks and therefore must already be reflected in the consolidated Call Report within the 35-day deadline.

Furthermore, in practice no FR 2886b respondent has requested an extension in the most recent quarterly filings.

Proposal to approve under OMB delegated authority the extension for three years, without revision, of the following reports:

1. Report title: Financial Statements for Bank Holding Companies

Agency form number: FR Y-9ES and FR Y-9CS

OMB control number: 7100-0128

Frequency: Quarterly and annually

Reporters: Bank holding companies (BHCs)

Annual reporting hours: FR Y-9ES: 48; FR Y-9CS: 400

Estimated average hours per response: FR Y-9ES: 30 minutes; FR Y-9CS: 30 minutes

Number of respondents: FR Y-9ES: 96; FR Y-9CS: 200

General description of report: This information collection is mandatory (12 U.S.C. 1844(c)). Confidential treatment is not routinely given to the data in these reports.

However, confidential treatment for the reporting information, in whole or in part, can be requested in accordance with the instructions to the form, pursuant to sections (b)(4), (b)(6) and (b)(8) of the Freedom of Information Act (5 U.S.C. §§522(b)(4), (b)(6) and (b)(8)).

Abstract: The FR Y-9ES collects financial information from employee stock ownership plans that are also BHCs on their benefit plan activities. It consists of four schedules:

Statement of Changes in Net Assets Available for Benefits, Statement of Net Assets Available for Benefits, Memoranda, and Notes to the Financial Statements. The FR Y-9CS is a supplemental report that may be utilized to collect additional information deemed to be critical and needed in an expedited manner from BHCs. The items of information included on the supplement may change as needed.

2. *Report title:* Financial Reports of Foreign Banking Organizations.

Agency form number: FR Y-7Q

OMB control number: 7100-0125

Frequency: Quarterly and annually.

Reporters: Foreign banking organizations (FBOs).

Annual reporting hours: FR Y-7Q (quarterly): 325; FR Y-7Q (annual): 118

Estimated average hours per response: FR Y-7Q (quarterly): 1.25; FR Y-7Q (annual): 1.0

Number of respondents: FR Y-7Q (quarterly): 65; FR Y-7Q (annual): 118

General description of report: This information collection is mandatory (12 U.S.C. 1844(c), 3106(c), and 3108). Confidential treatment is not routinely given to the data in these reports. However, confidential treatment for information, in whole or in part, on any of the reporting forms can be requested in accordance with the instructions to the form, pursuant to sections (b)(4) and (b)(6) of the Freedom of Information Act [5 U.S.C. §§522(b)(4) and (b)(6)].

Abstract: The FR Y-7Q collects consolidated regulatory capital information from all FBOs either quarterly or annually. FBOs that have effectively elected to become FHCs

file the FR Y-7Q on a quarterly basis. All other FBOs (those that have not elected to become FHCs) file the FR Y-7Q annually.

Board of Governors of the Federal Reserve System, November 5, 2007.

(signed)

Robert deV. Frierson,
Deputy Secretary of the Board.