

**Supporting Statement for  
Financial Statements filed by Bank Holding Companies  
(FR Y-9C, FR Y-9LP, FR Y-9SP and FR Y-9CS; OMB No. 7100-0128)**

**Summary**

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to revise, without extension, the following family of mandatory reports (OMB No. 7100-0128), effective with the December 2002 reporting date:

- (1) the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C),
- (2) the Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP),
- (3) the Parent Company Only Financial Statements for Small Bank Holding Companies (FR Y-9SP), and
- (4) the Supplement to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9CS).

The major revision is implementation of a new annual report, the Financial Statements for Employee Stock Ownership Plan Bank Holding Companies (FR Y-9ES).

Pursuant to the Bank Holding Company Act of 1956, as amended, the Federal Reserve requires bank holding companies (BHCs) to provide standardized financial statements to fulfill the Federal Reserve's statutory obligation to supervise these organizations. Bank holding companies file the FR Y-9C and FR Y-9LP quarterly or the FR Y-9SP semiannually (FR Y-9 series).

The Federal Reserve proposes to implement the FR Y-9ES for BHCs that are Employee Stock Ownership Plans (ESOPs) that currently submit either the FR Y-9LP or the FR Y-9SP. The proposed FR Y-9ES form, because it is more consistent with the ESOP's current reporting requirements for other purposes, would significantly lower burden for those ESOPs that currently file the FR Y-9LP or FR Y-9SP. Additionally, instead of forcing ESOP data into the traditional BHC financial statements, data collected on the FR Y-9ES would more accurately reflect the ESOP's financial condition and therefore complement the data collected on the consolidated statements (FR Y-9C).

A copy of the proposed FR Y-9ES reporting form and instructions is provided as Attachment 1. The estimated annual burden for the revised set of reports is 321,581 hours, which includes an estimated net reduction of 1,062 hours from these changes.

**Background and Justification**

The FR Y-9 series of reports are standardized financial statements for the consolidated BHC and its parent. The Federal Reserve also has the authority to collect the FR Y-9CS, a free form supplement that may be utilized to collect any additional

information deemed to be critical and needed in an expedited manner. The FR Y-9 reports historically have been, and continue to be, the primary source of financial information on bank holding companies 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.

In addition to providing information used in the supervision of bank holding companies, the FR Y-9 series of reports provide essential information to assist the Federal Reserve in the formulation of regulations and supervisory policies. The reports are also used by the Federal Reserve to respond to requests from Congress and the public for information on bank holding companies and their nonbank subsidiaries.

### **Proposed FR Y-9ES**

ESOPs are considered BHCs for Federal Reserve regulatory purposes if such plans hold a controlling interest in the shares of a bank or parent company stock for the benefit of bank or parent company employees. Currently, an ESOP BHC files either the *Parent Company Only Financial Statements for Large Bank Holding Companies* (FR Y-9LP) or the *Parent Company Only Financial Statements for Small Bank Holding Companies* (FR Y-9SP). However, over the years Reserve Banks and respondents have indicated that these current reporting requirements for ESOP BHCs do not conform very well to the current accounting and disclosure practices of these entities. Moreover, the information provided to the Federal Reserve by ESOP BHCs may be more meaningful if a reporting approach was adopted that was aligned more closely with these accounting and disclosure practices. The proposed new reporting form is intended to give a clearer picture of the function and operation of an ESOP as an employee benefit plan. This new reporting form has been field-tested and overall received positive comments from potential respondents and their consultants.

The proposed new report draws upon aspects of (1) the IRS Form 5500 *Annual Return/Report of Employee Benefit Plan* filed by ESOPs, (2) requirements found in the AICPA's *Audit Guide for Employee Benefits Plans*, (3) Statement of Position No. 76-3 *Accounting Practices for Certain Employee Stock Ownership Plans*, (4) Statement of Position No. 93-6 *Employers' Accounting for Employee Stock Ownership Plans*, and (5) other publications relating to ESOPs.

The information contained in this proposed report will allow the Federal Reserve to better assess an ESOP's financial condition and to monitor when an employer may be at risk for large cash flow exposures. Some employers with ESOPs currently have large liabilities for payments to vested participants that are not recorded on the employer's financial statements, such as the FR Y-9LP or FR Y-9SP. The memoranda items on the FR Y-9ES will provide information about these off-balance-sheet liabilities and therefore supplement the information collected on the consolidated statements. In addition, ESOPs may expose banking organizations to a number of legal and transaction risks by the nature of their function. This proposed report has been designed to capture information about such

potential risks. Bank holding companies that are subsidiaries of ESOP BHCs (i.e., a tiered BHC) will continue to submit the FR Y-9C, the FR Y-9LP, or the FR Y-9SP in accordance with the appropriate reporting requirements.

The FR Y-9ES form, because it is more consistent with the ESOP's current reporting requirements for other purposes, significantly lowers burden for those BHCs that currently file the FR Y-9LP or FR Y-9SP. Additionally, instead of forcing ESOP data into the traditional BHC financial statements, data collected on the FR Y-9ES will accurately reflect the ESOP's financial condition and therefore complement the data collected on the consolidated statements (FR Y-9C) by providing information on an activity within the organization with potential risk.

## **Description of the Information Collection**

### **FR Y-9C**

The FR Y-9C consists of standardized financial statements similar to the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 & 041; OMB No.7100-0036) filed by commercial banks. The FR Y-9C includes consolidated data for the BHC. The FR Y-9C is currently filed by top-tier BHCs with total consolidated assets of \$150 million or more and lower-tier BHCs that have total consolidated assets of \$1 billion or more. In addition, multibank holding companies with total consolidated assets of less than \$150 million with debt outstanding to the general public or engaged in certain nonbank activities must file the FR Y-9C.

### **FR Y-9LP**

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

### **FR Y-9SP**

The FR Y-9SP is a parent company only financial statement filed by smaller bank holding companies. Respondents include one bank holding companies with total consolidated assets of less than \$150 million, and multibank holding companies with total consolidated assets of less than \$150 million that meet certain other criteria. This form is a simplified or abbreviated version of the more extensive parent company only financial statement for large bank holding companies (FR Y-9LP). This report is designed to obtain basic balance sheet and income information for the parent company, information on intangible assets, and information on intercompany transactions.

## **FR Y-9CS**

The FR Y-9CS is a free form supplement that may be utilized to collect any additional information deemed to be critical and needed in an expedited manner. It is intended to supplement the FR Y-9C and FR Y-9SP reports. The most current version of this report was used during 1999 – 2001 to collect certain information from BHCs about their activities authorized by the Gramm-Leach-Bliley Act of 1999. As of March 2002, the current version of this free form supplement was no longer in use because most of the items have been moved to other reporting forms. However, if other emerging issues arise that require its use, the Federal Reserve may use the FR Y-9CS to collect other supplementary information.

## **Proposed FR Y-9ES**

This report would be filed annually by approximately 100 Employee Stock Ownership Plans (ESOPs) that are considered bank holding companies. Bank holding companies that are subsidiaries of ESOP BHCs will continue to submit the FR Y-9C, FR Y-9LP, or FR Y-9SP in accordance with the appropriate reporting requirements.

The proposed FR Y-9ES would be a three-page form that would collect valuable information on the benefit plan activities made by ESOP BHCs. There are four schedules on the FR Y-9ES: Statement of Changes in Net Assets Available for Benefits, Statement of Net Assets Available for Benefits, Memoranda, and Notes to the Financial Statements. The data to be collected in each schedule are discussed below.

### **Schedule 1, Statement of Changes in Net Assets Available for Benefits:**

Schedule 1 of the reporting form would collect the effects of changes in net assets available for benefits during the year. The schedule would collect the change in fair value of investments, interest and dividend income, contributions made to the plan, and various expenses including distributions paid. No significant comments on this schedule were received during the interviews with institutions.

**Schedule 2, Statement of Net Assets Available for Benefits:** Schedule 2 would collect balance sheet information including items such as cash and cash equivalents, securities owned by the ESOP, amount of contribution receivables, dividends and interest receivable, cash surrender value of life insurance, other assets, loans payable, interest payable, and other liabilities. No significant comments on this schedule were received during the interviews with institutions.

**Schedule 3, Memoranda:** Schedule 3 would collect information including items such as the number of shares held by the ESOP, the number of plan participants, liability for plan distributions, and the amount of plan assets subject to diversification. A few institutions interviewed requested clarification on a couple of items that were subsequently revised to address their concerns.

**Schedule 4, Notes to the Financial Statements:** Schedule 4 would collect additional financial statement disclosures such as significant plan amendments and

investments pledged to secure debt. No significant comments on this schedule were received during the interviews with institutions.

### **Time Schedule for Information Collection**

The FR Y-9C and FR Y-9LP are reported quarterly as of the end of March, June, September, and December. The FR Y-9SP is reported semiannually as of the end of June and December. All of these reports must be submitted to the appropriate Federal Reserve Bank within forty-five days after the date of the report.

The annual FR Y-9ES would be collected as of December 31 and submitted to the Federal Reserve Banks by July 31, unless an extension had been granted for filing the institution's IRS/DOL Form 5500. The IRS allows these institutions to extend their submission until October 15, by submitting Form 5558 on or before July 31. If the IRS has granted an extension, the Federal Reserve may allow an extension until the same date. However, the respondent must send a copy of their Form 5558 to the appropriate Reserve Bank by July 31. Several respondents indicated during the field test that they could not provide the information until they had completed Form 5500. The Federal Reserve plans to solicit comment on this during the public comment period.

The data from the FR Y-9 series of reports are available to the public on the FFIEC website ([www.ffiec.gov/nic](http://www.ffiec.gov/nic)) or through the National Technical Information Service (NTIS).

### **Legal Status**

Section 5(c) of the Bank Holding Company Act authorizes the Federal Reserve to require reports from BHCs to keep the Federal Reserve informed of, among other things, their financial condition and risk management systems. Overall, the Federal Reserve does not consider the data in the FR Y-9 reports to be confidential. However, a BHC may request confidential treatment pursuant to the Freedom of Information Act [5 U.S.C. 552(b)(4)].

### **Consultation Outside the Agency**

The Federal Reserve conducted interviews with eight ESOP BHCs and one consulting firm for ESOPs to obtain feedback on the forms and instructions. Participants ranged from \$1.9 to \$23 million in asset size and three-quarters of them currently file the FR Y-9LP. Each participant was the top-tier of its organization and owned one or more subsidiary BHCs that directly owned one or more banks.

The majority of the comments were overwhelming in favor of implementing the FR Y-9ES stating the similarities between it and Form 5500 and the significant reduction in reporting burden. Minor revisions to the original form and instructions were made based on comments received from field test participants.

## Sensitive Questions

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

## Estimate of Respondent Burden

The estimated annual burden for the current FR Y-9 reports is 322,643 hours, as shown in the following table. The Federal Reserve estimates that 100 ESOP BHCs would file the new FR Y-9ES and that each would need thirty minutes to complete the reporting form, an increase of 50 hours. As a result of implementing this new reporting form, the Federal Reserve estimates that 32 fewer BHCs will submit the FR Y-9LP and 68 fewer BHCs will submit the FR Y-9SP, a decrease of 1,112 hours. The estimated annual burden for the revised family of reports is 321,581 hours, a net reduction of 1,062 hours. This represents approximately 5 percent of total Federal Reserve System annual reporting burden.

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	<i>number of respondents</i>	<i>annual frequency</i>	<i>estimated average hours per response</i>	<i>estimated annual burden hours</i>
<i>Current</i>				
FR Y-9C	1,859	4	33.98	252,675
FR Y-9LP	2,225	4	4.55	40,495
FR Y-9SP	3,634	2	3.89	28,273
FR Y-9CS	600	4	0.50	<u>1,200</u>
<i>total</i>				322,643
<i>Proposed</i>				
FR Y-9C	1,859	4	33.98	252,675
FR Y-9LP	2,193	4	4.55	39,913
FR Y-9SP	3,566	2	3.89	27,743
FR Y-9CS	600	4	0.50	1,200
FR Y-9ES	100	1	0.50	<u>50</u>
<i>total</i>				321,581
<i>change</i>				- 1,062

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Based on an average hourly cost of \$20, the current estimated annual cost to the public is \$6,452,860. With the proposed revisions this cost would decrease to \$6,431,620.

## Estimate of Cost to the Federal Reserve System

Estimates of cost to the Federal Reserve System have not yet been obtained but will be solicited from each of the Federal Reserve Banks.

**ATTACHMENT 1**

**FR Y-9ES REPORTING FORM AND INSTRUCTIONS**