

FEDERAL RESERVE SYSTEM**Agency Information Collection
Activities: Announcement of Board
Approval Under Delegated Authority
and Submission to OMB**

AGENCY: Board of Governors of the
Federal Reserve System

ACTION: Notice

SUMMARY: Background.

Notice is hereby given of the final approval of proposed information collections by the Board of Governors of the Federal Reserve System (Board) under OMB delegated authority, as per 5 CFR 1320.16 (OMB Regulations on Controlling Paperwork Burdens on the Public). Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information. Copies of the OMB 83-I's and supporting statements and approved collection of information instrument(s) 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.

FOR FURTHER INFORMATION CONTACT:

Wanda Dreslin, Supervisory Financial Analyst (202-452-3515) or Tina Robertson, Supervisory Financial Analyst (202-452-2949) for information concerning the specific bank holding company reporting requirements. The following may also be contacted regarding the information collection:

Federal Reserve Board Clearance Officer – Cindy Ayouch – Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, DC 20551 (202-452-3829).

OMB Desk Officer—Joseph Lackey—Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 10235, Washington, DC 20503.

SUPPLEMENTARY INFORMATION:**Final approval under OMB delegated
authority the revision, without
extension, of the following reports:**

Report title: Financial Statements for Bank Holding Companies

Agency form numbers: FR Y-9C, FR Y-9LP, FR Y-9SP, FR Y-9CS, and FR Y-9ES

OMB control number: 7100-0128.

Frequency: Quarterly, semiannually, and annually

Reporters: Bank holding companies (BHCs).

Annual reporting hours: 346,439.

Estimated average hours per response:

FR Y-9C: 34.73 hours, FR Y-9LP: 4.75 hours, FR Y-9SP: 4.09 hours, FR Y-9CS: 30 minutes, FR Y-9ES: 30 minutes

Number of respondents: FR Y-9C:

1,959, FR Y-9LP: 2,320, FR Y-9SP: 3,541, FR Y-9CS: 600; FR Y-9ES: 100 Small businesses are affected.

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.

Abstract: The FR Y-9C consists of standardized consolidated 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). The FR Y-9C is filed quarterly by top-tier BHCs that have total assets of \$150 million or more and by 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.

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 semiannually by 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 report, an abbreviated version of the more extensive FR Y-9LP, is designed to obtain basic balance sheet and income statement information for the parent company, information on intangible assets, and information on intercompany transactions.

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 FR Y-9ES is filed annually by BHCs that are Employee Stock Ownership Plans (ESOPs).

Current Actions: Many of the proposed reporting revisions that

pertain to the FR Y-9 reports are being requested to parallel revisions to the Federal Financial Institutions Examination Council (FFIEC) Commercial bank Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 & 041; OMB No.7100-0036). However, there are other revisions not directly related to the Call Report.

Also addressed in this notice is the requirement that BHCs electronically submit all FR Y-9 reports effective with the June 30, 2003, report date for FR Y-9C and FR Y-9 LP filers and December 31, 2003, report date for FR Y-9SP and FR Y-9ES filers. The Federal Reserve will no longer accept paper copy reports from BHCs as of these reporting dates.

March 2003 revisions

On December 24, 2002, the Board issued for public comment proposed revisions to bank holding company reports (67 FR 78467). The comment period expired on February 24, 2003. The Federal Reserve received comment letters from one bank holding company (BHC) trade association and four large BHCs. The comments received are addressed in detail below.

Accelerated Filing Deadline

The Federal Reserve originally proposed to require the filing of FR Y-9C, FR Y-9LP and FR Y-9SP reports within 35 days after the period end, consistent with the Securities and Exchange Commission's (SEC's) final rule to accelerate the filing of SEC quarterly reports to 35 days. However, the Federal Reserve proposed to implement the 35-day deadline in June 2004 whereas the SEC's phased-in rule accelerates the filing deadline to 40 days in March 2004 and 35 days in March 2005. All five commenters expressed concerns about their ability to meet the accelerated deadline as well as the burden of imposing the accelerated deadline on all FR Y-9 reporters, not just those filers with market exposure.

Commenters suggested several alternatives to the original proposal: (1) a phased-in approach consistent with the SEC's implementation of a 40-day deadline for 2004 and 35-day deadline for 2005; (2) a 40-day deadline; (3) an accelerated 35-day deadline for top-tier BHCs only, with lower-tier holding companies' deadline remaining at the current 45 days; (4) parent company only reports' (FR Y-9LP and FR Y-9SP) deadline remaining at the current 45 days; (5) a 35-day deadline for balance sheet and income statements with a 45-day deadline for all other supporting schedules; and (6) an extended 45-day deadline for year-end FR Y-9 reports. In addition, two commenters suggested

extending other regulatory filings if the Federal Reserve implemented the accelerated deadline as proposed.

In order to provide sufficient time for the BHCs to make changes to their software and internal programs, the Federal Reserve will follow the SEC's phased-in approach by delaying implementation until June 2004 for the 40-day deadline and June 2005 for the 35-day deadline. Also, the new filing deadlines will only apply to top-tier FR Y-9C filers for March, June, and September report dates. The December filing deadline for top-tier FR Y-9C filers will remain at 45 days after the report date. In addition, the filing deadline for FR Y-9LP, FR Y-9SP and all lower-tier BHCs that file the FR Y-9C will remain at 45 days after the report date.

The Federal Reserve also proposes that the 35-day deadline be defined as "5 business days after the 30th day after the report date" to allow time for integration of bank data in the event that the 30th day falls on a weekend. The Federal Reserve believes that the primary purpose of the accelerated deadline, market discipline, will be fulfilled by restricting the accelerated deadlines to top-tier BHCs since these entities are generally of more interest to users of financial information. The Federal Reserve will assess reporting under this definition of 35 days after implementation and may revise the deadline dates to conform precisely to the SEC deadline. Any modification would be addressed in a separate proposal.

Allocated Transfer Risk Reserves

The Federal Reserve proposed modifying the reporting instructions to the FR Y-9C regarding allocated transfer risk reserves (ATRR) to parallel March 2003 Call Report changes. As proposed, these provisions would be included in the provision for loan and lease losses rather than in other noninterest expense, with the amount of any provision for allocated transfer risk included in the provision for loan and lease losses separately disclosed. Two commenters supported this change as being more consistent with generally accepted accounting principles (GAAP), but recommended that the Federal Reserve also make a comparable change to the way in which the ATRR is reported on the FR Y-9C balance sheet.

The Federal Reserve agrees with these comments and will revise the FR Y-9C instructions to include any ATRR related to loans and leases in the allowance for loan and lease losses. With this change, instructions for reporting loan charge-offs and

recoveries, the reconciliation of the loan loss allowance, and Tier 2 risk-based capital treatment will also be changed to reflect this revised method for treating ATRR.

In addition, one commenter suggested adding a memorandum item to collect the ATRR balance related to loans and leases included in the allowance for loan and lease losses, consistent with the March 2003 Call Report. The Federal Reserve decided to add this item to the FR Y-9C Schedule HI-B, part II.

Instructional Clarification for Use of Trading Account Designation for Loans

Because of questions concerning the categorization of certain loans as trading assets and to parallel the March 2003 Call Report changes, the Federal Reserve originally proposed to revise the Glossary definition of "Trading Account" and establish a rebuttable presumption that loans should not be reported as trading assets. Three commenters addressed this proposed instructional change and recommended that the Federal Reserve avoid creating a "rebuttable presumption" that does not exist in the accounting literature. They believe that it is appropriate to classify loans as trading assets under GAAP when they have been acquired as part of trading functions. Two commenters disagreed with including loans acquired from third parties and held for securitization in the held-for-sale category.

In considering these comments, the Federal Reserve will update the General Instructions section of the FR Y-9C loan schedule for situations where loans reported as trading assets should have been reported as held-for-sale or held-for-investment (rather than in the "Trading Account" Glossary entry). In so doing, the rebuttable presumption language will be removed. Furthermore, the Federal Reserve will retain the instructional language that explains that loans acquired (originated or purchased) and held for securitization purposes should be reported as loans held-for-sale.

Schedule HC-N – Past Due and Nonaccrual Loans, Leases, and Other Assets

The Federal Reserve proposed adding two items, additions to nonaccrual assets and the portion of nonaccrual assets that have been sold during the quarter, to collect data on the inflows and outflows of nonaccrual loans to enhance the Federal Reserve System's ability to assess portfolio credit quality, credit cycle trends, and approaches to problem asset resolution. Commenters stated that this information should be

obtained through the examination process, but if the data were required, defer collection until December 31, 2003, to allow time to develop software for capturing the requested information. They further stated that the data would be of limited value and lack comparability across institutions due to differences in portfolio composition.

After reviewing the comments, the Federal Reserve will collect the two items on nonaccrual assets, as proposed. Data provided through the examination or inspection process are collected at staggered, infrequent intervals, are institution-specific with respect to formats, and are therefore unsuitable for comparative analysis. The information to be collected will be sufficient in tracking changes in the general or underlying credit quality trends of BHCs in aggregate and will provide specific information on an increasingly important aspect of risk management – asset sales.

The Federal Reserve acknowledges that the data collection could pose significant burden to large global banking organizations. As a result, the Federal Reserve will postpone the initial collection of nonaccrual information until December 31, 2003, to allow these organizations time to create the necessary data systems.

Selected Information of Large Predecessor or Acquired Companies

The Federal Reserve proposed collecting thirty items on the companies acquired by a BHC during any quarter in which such significant acquisitions were made. The items would only be collected for each firm with consolidated assets of \$150 million or more. These profitability data would not otherwise be included in the consolidated financial statements of the combined entity under the purchase accounting method. Three comment letters addressed this proposed revision.

Commenters stated that seller financial statements submitted by the BHC during the application process are sufficient to satisfy the request for data collection. The Federal Reserve believes the "applications" financial statements often are stale and lack year-to-date information immediately prior to the merger date. Three commenters expressed concern regarding the confidentiality of data solicited on the FR Y-9C. Specifically, these commenters wanted to insure the confidentiality of data not previously disclosed to the public. One commenter suggested all data on individual transactions be treated as confidential; another referred generally to "any proprietary information that may not

have a GAAP disclosure requirement.” The Board recognizes the concern expressed by these commenters but has concluded there is no reason to depart from its current practice of permitting the FR-Y9C filers to request confidential treatment in individual cases, which requests may be granted if properly supported.

Furthermore, commenters suggested a materiality threshold based on a percentage of assets or Tier 1 capital. As a result, the Federal Reserve has reconsidered its position and recommends a significantly higher reporting criterion of \$10 billion in aggregate assets of all acquired entities during the quarter or 5 percent of the respondent’s consolidated assets as of the previous quarter-end, whichever is lower. Another commenter questioned whether separate schedules or a single, combined schedule for each transaction would be required. The Federal Reserve will modify the FR Y-9C instructions to clarify that only a single schedule will need to be completed with aggregated information for all entities acquired during the quarter.

Commenters also stated unique or discreet information may no longer be available, particularly for nonbanking organizations acquired by the respondent, may be misleading, and may reflect institutional differences in areas such as accounting principles. The Federal Reserve believes excluding information that involves a significant acquirer may substantially distort aggregate data for broad segments of the industry. When a BHC acquires a nonbanking organization, the number of items the proposal requires is dramatically reduced. For example, for an insurance company without investment securities gains or losses, the pretax items to be collected would be limited to noninterest income, noninterest expense, and personnel expenses. While the Federal Reserve concurs that institutional differences may exist, they should not detract from the substance of financial statements prepared according to GAAP.

The Federal Reserve believes that most firms have accounting systems in place, which are maintained up to the date before a business entity ceases to be a going concern. However, one commenter provided additional information on rare situations that could emerge when only a portion of a firm may be purchased and actual financial statements may not be readily available for the acquirer. As a result, the Federal Reserve will accept estimates in lieu of actual data in these difficult circumstances.

One banking organization cited that merger-related adjustments to data might not be disclosed in the proposed items. In response, the Federal Reserve will modify the instructions to give BHCs the flexibility to provide merger-adjusted data.

Revised Filing Method

On September 16, 2002, the Federal Reserve issued for public comment revision to the filing method for bank holding company reports (67 FR 58425). The comment period expired on November 15, 2002. The comments received are addressed in detail below.

The Federal Reserve received comment letters from two bank holding company (BHC) trade associations, one large BHC, five small BHCs, and two accounting firms. The large BHC and one BHC association expressed support of the proposal to require electronic submission of the FR Y-9 series of reports. However, they expressed some specific concerns regarding the statement that the Federal Reserve anticipates in the future requiring that electronic submission software include data editing capabilities. The Federal Reserve appreciates the comments received regarding potential data editing capabilities of computer software, and will take these comments into consideration when this issue is formally addressed in a separate proposal for public comment at a later date.

Several small BHCs and one BHC association cited the cost to purchase software to submit the FR Y-9SP report electronically as prohibitive, and requested that small BHCs either be exempted from the electronic filing requirement, or that the Federal Reserve provide the means to file the report over the Internet. As referenced in the initial notice, the Federal Reserve provided the option to file the FR Y-9SP via the Internet in 2001 by means of data entry or file submission, referred to as the Internet Electronic Submission (IESUB) application. Bank holding companies interested in learning more about IESUB submission options should contact their district Federal Reserve Bank or go to www.reportingandreserves.org for additional information.

One accounting firm requested that report submission software allow for the attachment of a compilation report for financial statements that they prepare for a third party. Submission of such a compilation report to the Federal Reserve is not a reporting requirement for BHC reports. Accounting firms may choose to have BHC clients maintain a hard copy of their compilation reports in the files of the BHC. Another

accounting firm requested that reporting software allow for submission of Excel spreadsheets for the FR Y-9SP report and possibly other FR-Y series reports. FR Y-9SP and FR Y-9ES filers currently have the ability to submit text files created by Excel spreadsheets through IESUB, and they should contact their district Federal Reserve Bank or go to www.reportingandreserves.org for procedures for submitting such spreadsheets and information on other submission options.

One small BHC requested that the Federal Reserve provide an email notification to remind the institution that the report date is approaching. Reserve Banks will continue to provide notification in the same manner currently provided to respondents of reporting deadlines, changes to reporting requirements, and any pertinent supplemental instructions prior to each report date.

Another small BHC indicated that it does not own a computer and wishes to continue to submit paper reports. As indicated above, the Federal Reserve provides respondents the option to file the FR Y-9SP via the Internet by means of data entry. Information may be submitted through public Internet access, or respondents may choose to make arrangements for data submission through a private software vendor. Also one small BHC asked if software could allow for electronic signatures; however, current Federal Reserve and vendor software do not possess this feature. The BHC is only required to keep a signed copy in its files to meet the signature requirement.

In considering these comments, the Federal Reserve will implement the revised filing method as proposed. BHCs will be required to electronically submit all FR Y-9 reports effective with the June 30, 2003, report date for FR Y-9C and FR Y-9 LP filers and December 31, 2003, report date for FR Y-9SP and FR Y-9ES filers. The Federal Reserve will no longer accept paper copy reports from BHCs as of these reporting dates.

Board of Governors of the Federal Reserve System, March 26, 2003.

Robert deV. Frierson

Deputy Secretary of the Board.

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