

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