



**Mario Hernandez**  
Director  
Regulatory Reports

FEDERAL RESERVE BANK  
OF DALLAS

2200 N. PEARL ST.  
DALLAS, TX 75201-2272

**October 1, 2008**

**To the Officers in Charge of Respondent U.S. Branches and Agencies of Foreign Banks:**

The reporting forms and instructions for the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002) and the Report of Assets and Liabilities of a Non-U.S. Branch that is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank (FFIEC 002S) that are to be used for the September 30, 2008, report date are now available. There are revisions to the FFIEC 002 reporting form and instructions for the September 30, 2008, report date; however, there are no changes to the FFIEC 002S. The revisions to the FFIEC 002 are summarized in Attachment 1.

For more information on the June 2008, September 2008, or March 2009 changes, please refer to the *Federal Register* notice published on April 4, 2008 (73 FR 18531). Copies of this notice and the FFIEC 002 and FFIEC 002S reporting forms and instructions are available on the FFIEC web site at [http://www.ffiec.gov/ffiec\\_report\\_forms.htm](http://www.ffiec.gov/ffiec_report_forms.htm). Your cooperation is greatly appreciated. Questions regarding these reports may be directed to Maria DeSantiago at (214) 922-6312, Kedra Lilly at (214) 922-6321, or Claudia Martinez at (214) 922-6313.

Sincerely,

*Mario Hernandez*

Statistics Department

## **ATTACHMENT 1**

### **Officer Signature Requirements and Contact Information**

Considering the importance of data quality, the agencies believe that it is most appropriate for the branch or agency's chief financial officer (or the individual performing an equivalent function) to ensure that the FFIEC 002 and FFIEC 002S are reported accurately. The agencies are revising the existing officer signature requirement so that the FFIEC 002 and FFIEC 002S must be signed by the branch or agency's chief financial officer rather than by any authorized officer of the branch or agency. In signing the FFIEC 002 and FFIEC 002S, the chief financial officer attests that the reporting forms have been prepared in conformance with the instructions issued by the FFIEC and are true and correct to the best of the officer's knowledge and belief. The agencies are also retaining the existing requirement for the branch or agency's senior executive officer to sign the report.

The agencies are also adding contact information (name, title, e-mail address, telephone number, and fax number) for the chief financial officer and another person to whom questions about the reports should be directed to facilitate communication between the agencies and the branch or agency concerning the FFIEC 002 and FFIEC 002S.

## **Bankers Acceptances**

The FFIEC 002 balance sheet (Schedule RAL) requires branches and agencies to separately disclose the amount of their Customers' liability to this branch or agency on acceptances outstanding (data items 1.g.(1) and 1.g.(2)) and their Branch or agency liability on acceptances executed and outstanding (data item 4.d). On the loan schedule (Schedule C) branches and agencies disclose Holdings of own acceptances included in Schedule C, part I, item 4 (data item M.2). On the derivatives and off-balance-sheet items schedule (Schedule L) branches and agencies disclose Participations in acceptances conveyed to others by the reporting branch or agency (data item 5). On the confidential due from/due to related institutions in the U.S. and in Foreign Countries schedule (Schedule M, Part V) branches and agencies disclose Participations in acceptances conveyed to related depository institutions by the reporting branch or agency (data item 5). Over time, the volume of acceptance assets and liabilities as a percentage of industry assets and liabilities has declined substantially to a nominal amount, with only a small number of branches and agencies submitting these data items. The agencies are deleting these six data items and branches and agencies are instructed to include any acceptance assets and liabilities (other than holdings of the reporting branch or agency's own acceptances) in Other assets and Other liabilities, respectively, on the FFIEC 002 balance sheet.

## **Scope of Securitizations to Be Included in Schedule S**

In column G of Schedule S, Servicing, Securitization, and Asset Sale Activities, branches and agencies submit information on securitizations and on asset sales with recourse or other seller-provided credit enhancements involving loans and leases other than those covered in columns A through F. Although the scope of Schedule S was intended to cover all of a branch's or agency's securitizations and credit-enhanced asset sales, as currently structured column G does not capture transactions involving assets other than loans and leases. As a result, securitization transactions involving such assets as securities, for example, have not been submitted in Schedule S. Therefore, the agencies are revising the scope of column G to encompass All Other Loans, All Leases, and All Other Assets to ensure that they can identify and monitor the full range of branches' and agencies' involvement in and credit exposure to

securitizations and asset sales. As a result, column G begins to reflect securitization transactions involving such assets as securities.

### **Breakdown of Real Estate Loans by Category**

FFIEC 002 reporters have become increasingly involved in real estate lending and the agencies are breaking out Loans secured by real estate (Schedule C, data item 1) by category in order to better track this activity. This change also makes the FFIEC 002 more consistent with the Call Report. Specifically, the agencies are adding the following categories of loans secured by real estate:

- Construction, land development, and other land loans;
- Loans secured by farmland (including farm residential and other improvements);
- Revolving, open-ended loans secured by 1-4 family residential properties and extended under lines of credit;
- Closed-end loans secured by 1-4 family residential properties;
- Loans secured by multi-family (5 or more) residential properties; and
- Loans secured by nonfarm nonresidential properties.

### **Reporting of Certain 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 generally is effective for banks and other entities for fiscal years beginning after November 15, 2007. On February 15, 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159), which is effective for banks and other entities for fiscal years beginning after November 15, 2007. Earlier adoption of FAS 157 is permitted as of the beginning of an earlier fiscal year, provided the entity has not yet issued a financial statement or filed an FFIEC 002 for any period of that fiscal year. Early adoption of FAS 159 was also permitted provided the entity also elected to apply FAS 157 at the same date or earlier. In addition, the FASB also issued Statement No. 155, Accounting for Certain Hybrid Financial

Instruments (FAS 155), and Statement No. 156, Accounting for Servicing of Financial Assets (FAS 156), in 2006.

The fair value measurements standard provides guidance on how to measure fair value and requires entities to disclose the inputs used to measure fair value based on a three-level hierarchy for all assets and liabilities that are remeasured at fair value on a recurring basis.<sup>1</sup> FAS 155, FAS 156, and FAS 159 allow entities to irrevocably elect to report certain financial and servicing assets and liabilities at fair value with the changes in fair value included in earnings. This accounting election is referred to as a fair value option.

The agencies are adding a new Schedule Q to the FFIEC 002 to collect data, by major asset and liability category, on the total fair value of those assets and liabilities within the category to which a fair value option has been applied along with separate disclosure of the amount of such assets and liabilities within the category whose fair values were estimated under Levels 1, 2, and 3 of the FASB's fair value hierarchy. The schedule also includes a data item for each asset and liability category that allows branches and agencies to report any amounts netted in the determination of total fair value reported for that category on Schedule RAL. The categories are:

- Securities held for purposes other than trading with changes in fair value reported in current earnings;
- Loans and leases;
- All other financial assets and servicing assets;
- Deposit liabilities;
- All other financial liabilities and servicing liabilities; and
- Loan commitments (not accounted for as derivatives).

In addition, the agencies are collecting fair value data on trading assets and trading liabilities in new Schedule Q from those branches and agencies that reported trading assets (the sum of Schedule RAL, data items 1.f.1 and 1.f.2, column A) of \$2 million or more for any of

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<sup>1</sup> 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 entity has the ability to access at the measurement date (e.g., the FFIEC 002 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.

the four preceding quarters.<sup>2</sup> In the new schedule, such entities report the total fair value carrying amount of trading assets and trading liabilities as well as a breakdown of these assets and liabilities into the three fair value levels under FASB's fair value hierarchy and any netted amounts. Trading assets and trading liabilities are required to be reported at fair value and, thus, are not covered under the fair value option. The change also makes the FFIEC 002 more consistent with the Call Report.

The agencies are also adding memorandum items to capture the fair value and unpaid principal balance of loans measured at fair value under a fair value option. One set of memorandum items applies to such loans that are reported in Other trading assets (data item 1.f.2) on Schedule RAL and another set applies to such loans that are reported on Schedule C. These memorandum items collect data for the following categories of loans:

- Construction, land development, and other land loans;
- Loans secured by farmland (including farm residential and other improvements);
- Revolving, open-ended loans secured by 1-4 family residential properties and extended under lines of credit;
- Closed-end loans secured by 1-4 family residential properties;
- Loans secured by multi-family (5 or more) residential properties;
- Loans secured by nonfarm nonresidential properties;
- Commercial and industrial loans; and
- Other loans.

These additional data items are necessary to enable the agencies to understand the differences between fair value and contractual cash flows for loans to which the fair value option is applied and to improve the agencies' ability to make comparisons among entities that elect a fair value option and those that do not, consistent with Call Report changes.

### **Time Deposits Data**

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<sup>2</sup> For example, if a branch or agency reported trading assets of \$2 million or more for the first time in its FFIEC 002 for March 31, 2008, it would begin to report the proposed fair value data on trading assets and trading liabilities in Schedule Q in its FFIEC 002 for June 30, 2008. Assuming the branch or agency reported trading assets of less than \$2 million in its FFIEC 002 for June 30, 2008 and subsequent report dates, it would complete the Schedule Q items for trading assets and liabilities in its FFIEC 002 for June 30, 2008, through March 31, 2009, but would discontinue completing these items beginning June 30, 2009.

The Federal Reserve uses data from Schedule E, Deposit Liabilities, to ensure accurate construction of the monetary aggregates for monetary policy purposes. In order to more accurately calculate the monetary aggregates, the agencies are revising Total time deposits of \$100,000 or more (data item M.1.a). Memorandum item 1.a excluding 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 as well as brokered certificates of deposit issued in \$1,000 amounts under a master certificate of deposit (when information on the number of \$1,000 amounts held by each of the broker's customers is not readily available to the branch or agency). A corresponding change is being made to Memorandum item 1.c, Time certificates of deposit of \$100,000 or more with remaining maturity of more than 12 months.

In addition, as a result of the increase in the deposit insurance limit for certain retirement plan deposit accounts from \$100,000 to \$250,000, a new Memorandum item 1.b, Individual Retirement Accounts (IRAs) and Keogh Plan accounts included in Memorandum item 1.a, 'Total time deposits of \$100,000 or more,' above, is being added to Schedule E to separately identify the portion of the total time deposits of \$100,000 or more reported in Memorandum item 1.a that represents IRA and Keogh Plan accounts. This new memorandum item is also necessary to support the accurate calculation of the monetary aggregates.

### **Information on Credit Derivatives**

Branches and agencies currently report the notional amounts of the credit derivatives on which they are the guarantor and on which they are the beneficiary as well as the gross positive and negative fair values of these credit derivatives in Memoranda items 1 and 2 of Schedule L, Derivatives and Off-Balance Sheet Items, and Schedule M, Due from/Due to Related Institutions in the U.S. and in Foreign Countries, Part V. The agencies are revising these existing data items so that branches and agencies with credit derivatives will provide a breakdown of these notional amounts by type of credit derivative: credit default swaps, total return swaps, credit options, and other credit derivatives, with those where the branch or agency is the guarantor reported in column A and those where the branch or agency is the beneficiary in column B. Branches and agencies continue to separately report the gross positive and negative fair values of credit derivatives on which they are the guarantor and the beneficiary without a breakdown by type of credit derivative. The agencies are also moving

credit derivatives from a memoranda item to a data item on Schedule L and Schedule M, Part V.

### **Revising the Reporting of Federal Funds Transactions and Securities Repurchase and Resale Agreements**

On Schedule RAL, the agencies are revising the existing breakdowns of federal funds sold and securities purchased under agreements to resell that are reported in data items 1.d.1 and 1.d.2, respectively. First, the counterparty coverage of the federal funds sold and securities resale agreements reported in data items 1.d.1.a and 1.d.2.a are being changed from depository institutions in the U.S. to commercial banks in the U.S. This revision facilitates the derivation of interbank loans, used for a weekly Federal Reserve release.

Second, the agencies are adding two-way breakdowns of federal funds sold to others, currently reported in data item 1.d.1.b, and securities resale agreements with others, currently reported in data item 1.d.2.b. In the first two-way breakdown, branches and agencies separately report federal funds sold to nonbank brokers and dealers in securities and federal funds sold to others (including depository institutions in the U.S. other than commercial banks). Similarly, branches and agencies separately report securities resale agreements with nonbank brokers and dealers in securities and securities resale agreements with others (including depository institutions in the U.S. other than commercial banks). This revision facilitates the derivation of total security loans, used for a weekly Federal Reserve release.

On the liability side, the agencies are revising the existing breakdowns of federal funds purchased and securities sold under agreements to repurchase that are reported in data items 4.b.1 and 4.b.2, respectively. Thus, the counterparty coverage of the federal funds purchased and securities repurchase agreements reported in data items 4.b.1.a and 4.b.2.a are being changed from depository institutions in the U.S. to commercial banks in the U.S. As a result, federal funds purchased from and securities repurchase agreements with depository institutions in the U.S. other than commercial banks are included in data item 4.b.1.b, Federal funds purchased from others, and data item 4.b.2.b, Securities sold under agreements to repurchase with others, respectively. This facilitates the collection of data on borrowings from commercial banks in the U.S. and borrowings from others that is published weekly in Federal

Reserve releases. A further breakdown of the Other borrowed money reported in data item 4.c of Schedule RAL is not required since data on such borrowings from commercial banks in the U.S. is already available from Schedule P of the FFIEC 002.