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THE CLEARING HOUSE
Advancing Payment Solutions Worldwide

December 23, 2008

Jennifer J. Johnson
Secretary
Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Attention: 7100-0128

Re: Consolidated Financial Statements for Bank Holding Companies - Request for Comment - FR Y-9C Report

Ladies and Gentlemen:

The Clearing House Association L.L.C. ("The Clearing House"), an association of major commercial banks,[1] appreciates the opportunity to comment on the proposed revisions (the "Proposal") to the Consolidated Financial Statements for Bank Holding Companies (the "FR Y-9C Report") by the Board of Governors of the Federal Reserve System (the "Board"). In particular, we are concerned about the proposed revisions to the reporting of loans and leases acquired in business combinations, to the instructions for unused commitments, to the disclosure requirements for trading securities, and to the information collected on credit derivatives. In addition, we believe that the effective date of the Proposal should be delayed. Our comments on the Proposal are presented in detail below.

[1] The members of The Clearing House are: ABN AMRO Bank N.V.; Bank of America, National Association; The Bank of New York Mellon; Citibank, N.A.; Deutsche Bank Trust Company Americas; HSBC Bank USA, National Association; JPMorgan Chase Bank, National Association; UBS AG; U.S. Bank National Association; Wachovia Bank, National Association; and Wells Fargo Bank, National Association.

Loans and Leases Acquired in Business Combinations

The Clearing House concurs with the Board's proposal to require additional disclosures for loans (not subject to SOP 03-3) and leases that were acquired in each business combination that occurred during the reporting period. We also agree that these additional disclosures will assist users of financial statements in understanding the credit quality and collectability of acquired loans and leases at the time of their acquisition.

However, The Clearing House is concerned about the Board's consideration to require additional information in the FR Y-9C Report about acquired held-for-investment loans (not subject to SOP 03-3) and leases and the loss allowances established for them in periods after their acquisition. The Board proposes to require bank holding companies to report the outstanding balance of these acquired loans and leases, their carrying amount, and the amount of the allowance for post-acquisition losses on these loans and leases. Post-acquisition data related to acquired loans and leases, not subject to SOP 03-3, will be difficult for many constituents to monitor as the acquired performing loans and leases are often merged with the outstanding performing loans and leases. Allowance calculations are typically performed at a pool level and often include both originated and acquired loans. Given the above, The Clearing House believes much of the required data is often not segregated post acquisition at a level of granularity that would facilitate the suggested disclosure. Notwithstanding our concerns, if the Board decides to require that this additional information be disclosed, we believe the required reporting period should be limited to through the end of the calendar year of the acquisition.

Clarification of Instructions for Unused Commitments

The Clearing House agrees that clarification of the instructions for unused commitments is necessary. However, we believe that commitments to issue a commitment at some point in the future, including commitments that have been entered into even though the related loan agreement has not yet been signed should be removed from the definition of a commitment. When a financial institution signs a commitment letter to a client, these letters usually have a material adverse change clause that states that the financial institution does not have to fund the commitment if anything adversely changes in the potential borrower's financial outlook or, in certain instances, in the market generally. In addition, final documentation must be negotiated and agreed to by both the financial institution and the potential borrower. Moreover, many commitment letters are issued in circumstances where the entire transaction is also conditioned on events, such as receipt of regulatory sign-off. Therefore, many of our members have taken the position that these commitment letters should not be included in the FR Y-9C Report. Nevertheless, if the Board decides that this item is necessary, then The Clearing House at a minimum believes that further clarification on this item is necessary.

Further, the Proposal specifically references syndicated loans whereby a bank holding company would report only its proportional share of the commitment. The Clearing House recommends that this reference be expanded to include all amounts conveyed/participated to others when not obligated to fund under the commitment.

Trading Assets that are Past Due or in Nonaccrual Status as Reported on Schedule HC-N

The Clearing House believes that disclosure requirements regarding the delinquency and non-accrual status of trading securities is not particularly meaningful, and is contrary to the concept and treatment of trading securities. Generally, delinquency information is intended to inform users regarding the presence of credit risk or impairment of assets, and the use of non-accrual status is used to reduce the risk of future credit impairments, by applying any cash received directly as a principal reduction (by ceasing income recognition). However, neither of these issues exists with respect to trading securities, which are already marked to market through earnings.

U.S. GAAP draws a distinction between securities that are marked to market through earnings and other assets, as it relates to impairment issues. FASB Statement 115 (which applies to securities), describes an impairment model in paragraph 16. This impairment model applies only to available-for-sale (AFS) and held-to-maturity (HTM) securities, because it identifies situations where the security must be marked down to current fair value, with any change from amortized cost recognized in earnings. This impairment model does not apply to trading securities, because those securities are already marked down to current fair value in the normal course. Similarly, loans that are marked to market through the use of the fair value option under Statement 159 are not subject to a loan loss reserve (either Statement 5 or Statement 114) for the same reason as they are already marked to market, which already incorporates any credit risk in the asset. Delinquency information may be useful for accrual instruments such as loans, HTM securities, or AFS securities because it helps to identify situations where an unrecognized impairment exists (and where a write-down should be taken). However, for trading securities, a write-down to market value is taken in the normal course, and there is no judgment to be applied by management in identifying credit risk; it is already incorporated in the current market price.

In addition, non-accrual status is used in practice under U.S. GAAP, recognizing situations where future impairment may be likely, and to avoid situations where current income is recognized (accrual of interest), only to take an impairment loss at a later date. Again, while this concept is useful for accrual instruments such as loans, HTM securities, and AFS securities, it has no practical effect on a trading security.

For example, consider a security with a par value/purchase price of $100, a periodic coupon rate of 5%, and where the current fair value is $75. If that security is an HTM security, then placing the security on non-accrual would mean that the receipt of the $5 coupon would reduce the carrying amount of the security from the $100 purchase price down to $95. Therefore, if a future impairment is recognized, the remaining mark down would only be $20 (rather than recognizing $5 of income today, with a $25 loss upon impairment).

In contrast, if that security were classified in trading, the current carrying value would already be $75. If the $5 of cash coupon were recognized as a principal reduction (bringing the carrying value down to $70), the security would be immediately marked right back to its market value of $75. Regardless of whether the trading security is accrual or non-accrual, the receipt of the $5 will be recognized in income. For this reason, the concept of non-accrual assets historically, and appropriately, has not been applied to trading securities.

Because the concept of non-accrual status has not been applied historically to trading securities, this proposal would be costly and difficult to implement from a process and data capture perspective without providing any real benefit. Therefore, The Clearing House believes that the proposed disclosure requirements regarding the delinquency and non-accrual status of trading securities should not be included in the final revisions to the FR Y-9C Report.

Enhanced Information on Credit Derivatives

The Board proposes to collect on HC-R (risk-based capital) information relating to the present value of unpaid premiums on sold credit protection. The Clearing House requests that the Board clarify the impact of the proposed disclosure on risk-based capital.

Effective Date

Because of the considerable number of proposed FR Y-9C Report revisions, significant programming changes will be required. Therefore, we recommend that financial institutions be given at a minimum three months from the time the final FR Y-9C Report revisions are published in the Federal Register to implement these changes. For example, if the final Federal Register notice of changes is not published until January or later, the first set of changes should be reported in the June FR Y-9C Report (not March). We also recommend that the proposed changes for June would similarly be postponed by one quarter to allow a reasonable phase-in of changes.

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Thank you for considering the concerns expressed in this letter. If you have any questions or are in need of any further information, please contact me at (212) 612-9205.

Sincerely yours,

Norman R. Nelson

cc: Mr. Kenneth P. Lamar
Federal Reserve Bank of New York