From:	Storch, Robert
To:	Sviatlana Phelan
Cc:	Wanda Dreslin; Douglas Carpenter; Andrew Willis; Thomas Boemio; Jeremy Kress; Constance Horsley; Sean Healey; Juan Climent; Justyna Milewski; Vanessa Davis; Rachel Sienkiewicz; Robert Maahs
Subject:	FW: Error in proposed Y-9C instructions
Date:	Monday, November 18, 2013 9:59:05 AM

Sviatlana,

As requested by Alison Touhey of the ABA, I am forwarding the e-mail below that she sent me that pertains to the proposed regulatory capital reporting changes for the FR Y-9C. As you can see, Alison's e-mail raises the same instructional error pertaining to financial subsidiaries that the Fed has already addressed in response to First Horizon National Corp.'s comment letter.

Bob

From: Alison Touhey [mailto:atouhey@aba.com]
Sent: Monday, November 18, 2013 9:13 AM
To: Storch, Robert
Subject: Error in proposed Y-9C instructions

Hi Bob –

One of our members has brought to my attention an error in the Y-9C instructions in line item 10(b)(5) of the prosed FR Y-9C, regarding the deduction of equity investments in financial subsidiaries. As per the Basel III rules, this deduction should only apply to DIs, not BHCs, as required by the revised Y-9C instructions.

If you could pass this on to your Fed task force members, I would be grateful. This issue is detailed below:

> (5) Equity investments in financial subsidiaries:
> "**A holding company** must deduct the aggregate amount of its outstanding equity investment, including retained earnings, in its financial subsidiaries (as defined in 12 CFR 208.77)."

Under the final Basel III regulatory capital rules Preamble (78 Fed. Reg. 62057, (Oct. 11, 2013)):

> "a depository institution must deduct the aggregate amount of its outstanding equity investment in a financial subsidiary, including the retained earnings of a subsidiary from common equity tier 1 capital elements, and the assets and liabilities of the subsidiary may not be consolidated with those of the parent bank."

See §22(a)(7):

> With respect to a financial subsidiary, the aggregate amount of the [BANK]'s outstanding equity investment, including retained earnings, in its financial subsidiaries (as defined in [12 CFR 5.39 (OCC); 12 CFR 208.77 (Board))].

12 CFR 208.73:

(a) Capital deduction required. A **state member bank** that controls or holds an interest in a financial subsidiary must comply with the following rules in determining its compliance with applicable regulatory capital standards

12 CFR 208.77:

(e) *Financial Subsidiary*—(1) *In general.* The term "financial subsidiary" means any company that is controlled by one or more insured depository institutions *other than:*

(i) A subsidiary that engages only in activities that the state member bank is permitted to engage in directly and that are conducted on the same terms and conditions that govern the conduct of the activities by the state member bank; or

(ii) A subsidiary that the state member bank is specifically authorized by the express terms of a Federal statute (other than section 9 of the Federal Reserve Act (12 U.S.C. 335)), and not by implication or interpretation, to control, such as by section 25 or 25A of the Federal Reserve Act (12 U.S.C. 601-604a, 611-631) or the Bank Service Company Act (12 U.S.C. 1861 *et seq.*).

Alison Touhey
Senior Regulatory Advisor
Office of Regulatory Policy
American Bankers Association
1120 Connecticut Avenue, NW, Washington, DC 20036
E-mail: atouhey@aba.com | Phone: 202-663-5182 | Web: www.aba.com

****

We are sending you this e-mail primarily for your information, to meet your needs and further our valued relationship. If you prefer not to receive any further messages from us, just reply to this e-mail and let us know. Thanks.

American Bankers Association 1120 Conn. Ave NW Wash DC 20036

****