

Guidelines for Resolving Edits

Background

The Federal Reserve System is enhancing the process for collecting and accelerating the public release of bank holding company (BHC) data.

These enhancements are intended to improve the timeliness and quality of FR Y-9 data (information contained in financial statements for bank holding companies¹) and enhance market discipline through faster access by the public, while using technological advances in a cost-efficient manner.

Beginning with the September 2004 filing,² all BHCs will be required to transmit their FR Y-9 data to the Federal Reserve via Internet Electronic Submission of Statistical Reports (IESUB). Federal Reserve edit criteria will be used to validate FR Y-9 data, and BHCs must correct reporting errors identified by these criteria before submitting data.

The Federal Reserve will provide all edit criteria and make them publicly available to BHCs and to vendors that market software used to prepare FR Y-9 data³. The enhanced submission process will require BHCs to correct or explain all edit exceptions before their data are accepted.

There are four types of edit criteria: validity (V), quality (Q), intraseries (I), and interseries (R) edits. Validity edits flag FR Y-9 data that have mathematical errors and discrepancies or factual inconsistencies. Quality edits flag conditions within a current reporting period for a specific report that may indicate reporting errors or data exceptions. Intraseries edits flag unusual conditions between report periods that may indicate a possible error or an unexpected relationship. Interseries edits compare FR Y-9LP and FR Y-9C data to check the consistency of the BHC data reported on its parent only and consolidated reports. The Federal Reserve requires BHCs to correct all validity edits and to either correct or explain all conditions identified

¹ The FR Y-9C, FR Y-9LP, FR Y-9SP and FR Y-9ES.

² This change will be implemented as of September 30, 2004, for the FR Y-9C and FR Y-9LP reports and December 31, 2004, for the FR Y-9ES and FR Y-9SP reports.

³ The Federal Reserve edit criteria for each FR Y-9 report is listed at the end of the report instructions and is available at www.federalreserve.gov/boarddocs/reportforms/default.cfm.

by quality, intraseries, and interseries edits. Explanations to these edits will remain confidential. Should BHCs have questions about the edits, they are encouraged to contact a Report Analyst at the appropriate Reserve Bank before submitting their FR Y-9 data.

BHCs must submit acceptable FR Y-9 data by the submission deadline date.⁴ Acceptable data are free of any validity edit failures and include explanations for all remaining edit failures. The Federal Reserve will release FR Y-9 data to the public once the data are reviewed. Federal Reserve Report Analysts may contact BHCs if clarifications or data resubmissions are necessary.

The Federal Reserve expects timely responses to any resubmission requests, regardless of whether the requests are for changes in the written explanations or for amendments to quantitative values.

⁴ For a definition of the submission deadline date, see section “When to Submit the Report” of the general instructions for the appropriate FR Y-9 report at www.federalreserve.gov/boarddocs/reportforms/default.cfm.

Purpose

These guidelines explain the various types of edits. They explain how to prepare the required explanations for reporting conditions flagged by quality, intraseries, and interseries edits that are not reporting errors, describe the types of information the Federal Reserve expects in written explanations, and discuss how to handle corrections to prior-period data.

BHCs are expected to explain edit exceptions in a clear, complete, and accurate manner so that Report Analysts can understand the reason(s) for the edit exception. The edit explanation should provide enough detail so that the Report Analysts will not need to have follow-up discussions on the edit explanations with the preparer of the report.

Note: All line item references and edit references in this document relate to the FR Y-9C as of March 31, 2004.

Validity Edits (V)

Validity edits flag mathematical discrepancies or factual inconsistencies within or between reporting schedules. For example, a mathematical discrepancy occurs when the sum of interest expense components on the FR Y-9C [Income Statement, items 2a through 2e] does not equal total interest expense [Income Statement, item 2f]. The Federal Reserve's data collection and processing system (IESUB) will require BHCs to correct all outstanding validity edits before it will accept the FR Y-9 data. No provisions exist for supplying written explanations for validity edits. Rather, BHCs should make appropriate corrections before transmitting the data.

If the BHC does not understand a validity edit or is unable to resolve it, the BHC should contact a Report Analyst at the appropriate Reserve Bank.

Quality Edits (Q)

Quality edits flag unusual conditions in the current reporting period for a specific report that may indicate a possible error or an unexpected or unanticipated relationship. For example, BHCs that report one hundred thousand dollars or more in assets under management in proprietary mutual funds and annuities on the FR Y-9C (Schedule HC-M, item 16) are also likely to report income from the sale and servicing of mutual funds and annuities (Schedule HI, Memoranda item 12.a). If a BHC does not report income in Schedule HI, Memoranda item 12.a, a quality edit will alert the preparer to the possible error.

When a quality edit identifies an error, the information must be corrected before the FR Y-9 data are accepted. If, however, the data flagged are correct, then an explanation must be given of why the condition does not require a change in the reported amount(s). (See the section "Acceptable Narrative Comments".)

Intraseries Edits (I) and Prior Period Data Correction

Intraseries edits flag unusual conditions between report periods that may indicate a possible error or an unexpected relationship. For example, if a BHC reported it had a Subchapter S election (Schedule HI-Memoranda, item HI-Mem13) in effect for the prior period, then it is likely the election would be in effect for the current period. If the BHC is no longer reporting a

Subchapter S election, then an intraseries edit will alert the preparer of the unexpected situation.

When an intraseries edit identifies an error where current data need to be corrected, the information must be corrected before the FR Y-9 data are accepted.

When an intraseries edit identifies an error where prior period data need to be corrected, the BHC should attempt to correct the prior period data before submitting the current period data. (That is, the data reported in the current period are correct, but a revision to prior period data is needed to resolve the intraseries edit.) If the prior period's data cannot be revised before the submission deadline date, the BHC should clearly state in the written explanation that a revision to the prior period is pending and provide a projected timeframe of when it plans to transmit the revision. When errors are historical in nature, i.e. affect more than one prior period, the BHC should contact a Report Analyst at the appropriate Reserve Bank.

If, however, the flagged current and prior period data are correct, then an explanation must be given of why the condition does not require a change in the reported amount(s). (See the section "Acceptable Narrative Comments".)

Interseries Edits (R) (Comparison of FR Y-9LP to FR Y-9C)

Interseries edits for FR Y-9LP data check the consistency of the BHC data reported on its parent only (FR Y-9LP) and consolidated reports (FR Y-9C). For example, if a BHC reported a higher balance in cash and balances due from depository institutions (Schedule PC, items PC-1a and PC-1b) on the parent only balance sheet than on the consolidated balance sheet (Schedule HC, items HC-1a, HC-1b1, and HC-1b2), then an interseries edit will notify the reporter of the possible error.

When an interseries edit identifies an error where the FR Y-9C data need to be corrected, the BHC must correct this data and re-submit before the FR Y-9LP data will be accepted. If the BHC's FR Y-9C data cannot be revised before the submission deadline date, the BHC should clearly state in the written explanation that a revision to the FR Y-9C is pending and provide a projected timeframe of when it plans to transmit the revision.

When an interseries edit identifies an error where the FR Y-9LP data need to be corrected, the BHC must correct the data and re-submit before the FR Y-9LP data will be accepted. If, however, the flagged FR Y-9C and FR Y-9LP data are correct, then an explanation must be given of why the condition does not require a change in the reported amount(s). (See the section "Acceptable Narrative Comments".)

Prior-Period Data Submissions

All revisions to reported data for September 30, 2004, and thereafter must be transmitted via IESUB. BHCs should contact a Report Analyst to discuss transmission of or questions on revisions to periods prior to September 30, 2004⁵.

Narrative Explanations

The Federal Reserve requires BHCs to correct all validity edits and to either correct or provide written explanations for all conditions identified by quality, intraseries, and interseries edits. Once IESUB receives FR Y-9 data with no outstanding validity edits and written explanations for all other outstanding edit exceptions, the data are accepted and the reports will be made available to the public after review by the Report Analysts.

The narrative explanations are not disclosed to the public. They represent confidential communications with the Federal Reserve.

Report Analysts will review explanations to see that each one is accurate and complete. Report Analysts may contact BHCs should additional clarifications become necessary. The Report Analyst will have discretion in determining whether an explanation is acceptable. If explanations are inaccurate, incomplete, or otherwise unacceptable, Report Analysts will require BHCs to revise the explanation and resubmit their data. The Federal Reserve expects a timely response to resubmission requests, including requests for changes in written explanations and changes to the data values. If BHCs have questions about validity, quality, intraseries, or interseries edits, they should contact a Report Analyst at the appropriate Reserve Bank.

⁵ Revisions to periods prior to September 30, 2004, should generally be transmitted in the same file format as the data were originally submitted.

Acceptable Narrative Comments

The BHC should explain *why* the condition identified by the quality, intraseries, or interseries edit exists. The explanation should include dates, amounts, and reference to Report Instructions or other accounting guidelines, where relevant.

- A. Strive to answer the question *why*: Explain *why* the condition exists that prompted the edit, *why* an unusual fluctuation has occurred, *what condition* (such as market pressures or strategic decisions) triggered the edit, or *why* the reporting treatment is consistent with the Report Instructions.

The written comment that follows explains *why* the rate on repurchase agreements is below 0.5% on the FR Y-9C report.

Edit Number: 16283

Edit Test: IF HC-K8 > \$4M, THEN (HI-2B CURR-PREV /HC-K8) S/B > 0.5%

Edit Description: *The annualized expense ratio on federal funds purchased and securities sold under agreements to repurchase (HC-K 8) appears inconsistent with current market rates. The related interest expense is reported in expense on federal funds purchased and securities sold under agreements to repurchase (HI-2b). The annualized expense ratio is calculated by multiplying the expense accrual (HI- 2b current minus previous) by four and dividing by the quarterly average (HC-K 8). Please explain or revise as appropriate.*

BHC's Explanation: The overall rate on repurchase agreements reported in HC-K 8 reflects lower rates offered to corporate customers that sweep excess demand deposits into repurchase agreements. These rates are typically 2% below the normal Fed Funds rate.

- B. Explain how an event has contributed to the condition identified by an edit. The explanation should clearly define the connection between the cause and the condition to which the edit message refers.

In the following FR Y-9C example, the written comment explains the connection between the cause and the relationship to which the edit message refers.

Edit Number: Q6750

Edit Test: IF ABSOLUTE VALUE OF (HC-B8D -B8C) >\$50K, (HC-R2) SHOULD NOT EQUAL ZERO

Edit Description: In general, if there are unrealized gains/losses in available-for-sale securities (HC-B 8, column D minus column C), then an amount should be reported in Net unrealized gains/losses in available-for-sale securities for risk-based capital calculation (HC-R 2). Please explain or revise as appropriate.

BHC's Explanation: The BHC has entered into a futures contract that functions as a fair-value hedge against municipal securities in the available-for-sale portfolio. The unrealized gain or loss on the derivative contract offset the unrealized gains or losses of the available-for-sale securities. In accordance with FASB 133, these unrealized gains and losses flow through the income statement rather than the balance sheet. Therefore, the difference between HC-B, item 8, columns D and C is not reflected in the amounts reported in HC-R, item 2.

- C. Include relevant amounts, dates, and totals in the explanation. If fluctuations are due to recent purchases or divestitures, provide information on when these transactions occurred during the quarter. The following FR Y-9C example provides dates and amounts in the BHC's written explanation.

Edit Number: I5735

Edit Test: IF PREV INTANGIBLE ASSETS (HC-10B) > 0, THEN CURRENT (HC-10B) S/B > 0

Edit Description: An amount was reported for other intangible assets (HC-10b) for the previous quarter-end. Zero is reported for the current quarter-end. Please review and explain or revise as appropriate.

BHC's Explanation: On 10/1/2003, Downsize Bank (a BHC subsidiary) sold all mortgage servicing assets (book value of \$345,000) to Growth Bank. The bank is no longer servicing mortgage loans.

D. Review the Report Instructions relevant to the edit and clearly explain why the reporting treatment is consistent with these instructions.

The explanation that follows provides a reference to the FR Y-9C Report Instructions and tells why the reporting is consistent with the instructions concerning deferred taxes of multiple jurisdictions.

Edit Number: 16145

Edit Test: IF PREV (HC-F2 OR G2) = 0, THEN CURR (HC-F2 OR G2) SHOULD BE
= 0

Edit Description: Deferred tax assets/liabilities from the same tax jurisdiction should be netted and the result should be reported in net deferred tax assets (HC-F 2) or net deferred tax liabilities (HC-G 2) as appropriate. Balances are reported in both HC-F 2 and HC-G 2. Please verify and confirm if the balances are from different tax jurisdictions.

BHC's Explanation: The deferred taxes on HC-F and HC-G reflect net amounts from differing jurisdictions. This is consistent with Report Instructions (page HC-F-1). A BHC may report a net deferred tax asset for one jurisdiction and also report, at the same time, a net deferred tax liability for another jurisdiction.

Unacceptable Narrative Comments

BHCs should avoid incomplete explanations, explanations that reflect only a restatement of the edit, or comments about the edit logic.

A. Avoid providing incomplete explanations. Ensure that the explanations do not require further inquiry. Some examples of incomplete explanations are the following:

1. "Verified."
2. "Confirmed."
3. "Amounts are correct."
4. "Consistent with prior quarter."
5. "Traced to system reports."

6. "See above."
7. "See last quarter."
8. "Immaterial."
9. "Last quarter was incorrect."

B. Avoid expressing comments about edit logic. Limit comments to explaining why the identified condition is consistent with the Report Instructions. The following are examples of comments that BHCs should avoid:

1. "Edit does not apply to our organization."
2. " We do not understand the edit."
3. "Our CPA has found nothing wrong with this report."

BHCs should contact a Report Analyst at the appropriate Reserve Bank if further explanation of an edit is needed. If the edit identifies a reporting error, focus on explaining (1) what the error was and (2) how the discrepancy will be resolved. Avoid unnecessary or irrelevant detail. As mentioned earlier, avoid incomplete explanations, such as "The last quarter was incorrect." For questions regarding revisions to prior-period data, see the section "Intraseries Edits and Prior-Period Data Corrections" or consult a Report Analyst.