

Federal Financial Institutions Examination Council



1776 G Street, NW, Suite 701 • Washington, DC 20006

October 28, 1985

TO: THE CHIEF EXECUTIVE OFFICER OF THE BANK ADDRESSED

SUBJECT: Reports of Condition and Income -- Revision of the instruction for the treatment of sales of assets

The treatment of sales of assets for purposes of reporting on the Reports of Condition and Income (the Call Reports) has recently been reviewed by the Examination Council's Reports Task Force and the bank supervisory agencies -- the Federal Reserve Board, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation. As a result of that review, the agencies have made some revisions in the reporting requirement and instructions for sales of assets, taking into account some of the specific problems raised by the industry. This revised reporting standard is applicable to all insured U.S. commercial banks and is effective with the December 31, 1985 Call Reports.

A copy of the revised Glossary entry in the Call Report instructions reflecting the change in treatment for sales of assets is attached, as is a Glossary entry on "Syndications". The revised entry applies to sales of all types of assets other than the following: federal funds transactions, sales of securities subject to repurchase agreements or through pool arrangements, and sales of participations in pools of residential mortgages, all of which are the subject of separate Call Report Glossary entries in the instructions. These separate entries have not been revised but the treatment of sales of residential mortgage pools is under review.

Previously, the Call Report instructions used two criteria to differentiate between transactions to be reported as sales and transactions to be reported as borrowings -- (1) whether or not the seller retained any risk in connection with the asset sold, and (2) whether or not the terms of the instrument being sold were identical to the terms of the underlying asset. If any risk was retained, or if the terms were not identical, the transaction had to be treated as a borrowing in the Call Report.

FFIEC #4-85

The revised Call Report instructions basically retain the first criterion (that retention of risk by the seller requires that the transaction be reported as a borrowing) but eliminate the second criterion concerning identical terms. However, there are some circumstances in which a lack of identity of terms in itself entails retention of risk by the seller and therefore requires that the transaction be reported as a borrowing. The dropping of the identity-of-terms criterion was advocated by the industry.

The Glossary entry addresses the conditions under which transfers of assets are to be reported as "sales" (with the assets removed from the "selling" institution's books and recorded on the books of the "purchasing" institution), and the conditions under which transfers of assets are to be reported as financing transactions, i.e., as borrowings by the "selling" institution and as loans by the "purchasing" institution (with the assets retained on the books of the "selling" institution and treated as collateral by the "borrowing" institution).

The review of the Call Report instructions that led to the enclosed revised reporting instruction was undertaken in light of: (1) the December 1983 issuance of Statement No. 77, "Reporting by Transferors for Transfers of Receivables with Recourse" by the Financial Accounting Standards Board (FASB 77); (2) the resulting request by some banks and banking groups that the Call Report instructions for sales of assets be reviewed; (3) recognition by the banking agencies that the Call Report instructions needed to be reexamined in view of changing financial market practices; and (4) the adoption by the federal bank supervisory agencies of formal capital adequacy guidelines. However, as explained in the appendix to this transmittal letter, please note that FASB 77 has not been adopted as the Call Report standard for reporting sales of assets.



Robert J. Lawrence
Executive Secretary