REVISIONS TO THE REPORTS OF CONDITION AND INCOME (CALL REPORTS) FOR 1995

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REVISIONS TO THE REPORTS OF CONDITION AND INCOME CALL REPORTS) FOR 1995

The revisions to the Reports of Condition and Income (Call Report) that take effect as of March 31, 1995, are presented below. Unless otherwise indicated, each of the revisions applies to all four versions of the report forms (FFIEC 031, 032, 033, and 034). Samples of the revised schedules, or portions thereof, generally from the FFIEC 034 set of forms, are shown to illustrate the specific changes in reporting requirements and are followed by the relevant instructions. For the March 31, 1995, report date, a reasonable estimate may be provided for any new or revised item for which the requested information is not readily available. Also presented below are certain other revisions to the Call Report instructions.

DELETIONS AND REDUCTIONS IN DETAIL

The following deletions and reductions in detail will be made to the Call Report in 1995.

Schedule RC-C, "Loans and Lease Financing Receivables," Part I

The level of detail with which restructured loans and leases that are in compliance with modified terms are reported in the memoranda section of Schedule RC-C will be reduced. For all banks, the current item or items for real estate loans will be retained, but the various other items for loan categories other than real estate will be combined into a single item for "All other loans and all lease financing receivables." In addition, banks with foreign offices or with $300 million or more in total assets that file the FFIEC 031 and 032 report forms will also report a single total for their restructured commercial loans to and their restructured leases of non-U.S. addressees.

The revised memorandum items are shown below.

FFIEC 031 and 032: (NOTE: This illustration is from the FFIEC 031 set of forms. Column B does not appear on the FFIEC 032 set of forms.)

FFIEC 033 and 034: (NOTE: Restructured loan and lease data are reported in Memorandum item 1 on the FFIEC 034 and in Memorandum item 2 on the FFIEC 033.)

Other Deletions and Reductions in Detail

Call Report items in the seven following areas would be deleted:

(1) Schedule RC-R, item 3, "Total qualifying capital allowable under the risk-based capital guidelines." While total risk-based capital would no longer be reported, banks with assets of less than $1 billion would still use their total capital figure in the calculation in Schedule RC-R, item 1, which determines the extent to which the schedule must be completed. The amount of a bank's Tier 1 and total risk-based capital, as calculated by the banking agencies, will continue to be disclosed on the Uniform Bank Performance Report.

(2) The quarterly average of "Obligations (other than securities and leases) of states and political subdivisions in the U.S." in Schedule RC-K, item 6.a.(6) on the FFIEC 031, item 6.f on the FFIEC 032, and Memorandum item 1 on the FFIEC 033. This average has not been collected from banks with less than $100 million in assets that file the FFIEC 034 report form.

(3) The four components of mandatory convertible debt, net of common or perpetual preferred stock dedicated to redeem the debt, in Schedule RC-M, items 7.a through 7.d on the FFIEC 031 and

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032, items 6.a through 6.d on the FFIEC 033, and items 8.a through 8.d on the FFIEC 034. The existing item for the total amount of mandatory convertible debt, net of dedicated stock (item 7.e on the FFIEC 031 and 032, item 6.e on the FFIEC 033, and item 8.e on the FFIEC 034), would be retained.

(4) The year-to-date reconcilement of the allocated transfer risk reserve in Schedule RI-B, Part II. This reconcilement has been collected only from banks with foreign offices or with total assets of $300 million or more that file the FFIEC 031 or 032 report forms. The amount of this reserve and any provisions for allocated transfer risk would continue to be reported by all banks on the Call Report balance sheet (Schedule RC) and income statement (Schedule RI), respectively.

(5) The quarterly reconcilement of the agricultural loan loss deferral account in Schedule RC-M, items 10.a through 10.e. This reconcilement has been collected only from banks with total assets of less than $100 million that file the FFIEC 034 report. The balance in the loss deferral account would continue to be reported on the Call Report balance sheet (Schedule RC).

(6) Recoveries of "Special-Category Loans" in Schedule RI-B, Part I, Memorandum item 1 on the FFIEC 031 and 032, Memorandum item 3 on the FFIEC 033, and Memorandum item 2 on the FFIEC 034. This item has been collected from national banks only.

(7) The yes-no question on "Personnel changes among the three senior officers of the bank during the quarter" in Schedule RC-M, item 6 on the FFIEC 034. This item has been completed only by banks with total assets of less than $100 million that file the FFIEC 034 report form.

NEW ITEMS

New items will be added to the Call Report forms beginning March 31, 1995, to disclose additional information about off-balance sheet derivative financial instruments (e.g., futures, forwards, options, and swaps). More specifically, in Schedule RC-L, "Off-Balance Sheet Items," the information currently collected from all banks on the notional amounts or par values of derivatives will be expanded. Banks that file the FFIEC 031, 032, and 033 report forms will begin to disclose the fair values of their derivative contracts in Schedule RC-L. These banks will also provide a breakdown of their trading revenues and disclose the impact on income of off-balance sheet derivatives held for purposes other than trading in new memorandum items in Schedule RI, "Income Statement." The reporting of data related to the current credit exposure and potential future credit exposure of derivatives in the memorandum section of Schedule RC-R, "Risk-Based Capital," has also been revised.

Other new items will provide data on investments in "high-risk mortgage securities" and "structured notes," sales of proprietary mutual funds and annuities, certain reciprocal demand balances needed for deposit insurance assessment purposes, and the date as of which the reporting bank was acquired in a transaction in which push down accounting has been applied. In addition, the reporting of mortgage-backed securities in Schedule RC-B, "Securities," and certain other schedules has been revised.

For a further explanation of these upcoming changes, please refer to Financial Institutions Letter FIL-69-94, dated November 1, 1994.

Additional Disclosures About Off-Balance Sheet Derivative Financial Instruments

Schedule RC-L, "Off-Balance Sheet Items"

At present, all banks report the notional amount or par value of their interest rate, foreign exchange rate, and other commodity and equity contracts in items 11, 12, and 13 of Schedule RC-L, respectively. The

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existing items will be expanded to separate exchange-traded contracts from over-the-counter contracts and to separate equity derivative contracts from commodity and other contracts. These data will be reported in a four-column matrix format in new items 14.a through 14.e. Spot foreign exchange contracts, which have been included with foreign exchange derivative contracts, will now be reported separately in a new item 11. Existing Schedule RC-L items 14 and 15 for "All other off-balance sheet liabilities" and "All other off-balance sheet assets," respectively, will be renumbered as items 12 and 13.

In addition, for each of the four types of underlying risk exposure (i.e., interest rate, foreign exchange, equity derivative, and commodity and other), all banks will separately report the total notional amount or par value of contracts held for trading and held for purposes other than trading in new Schedule RC-L items 15 and 16, respectively, with the latter further divided between contracts that are marked to market for Call Report purposes and those that are not.

For banks that file the FFIEC 031, 032, or 033 report forms, Schedule RC-L will also be expanded to include gross fair value data for derivatives by underlying risk exposure in new item 17. This fair value information will not be collected from small banks that file the FFIEC 034 report forms.

The sample of Schedule RC-L, items 11 through 16, shown below is from the FFIEC 034 report forms. The sample of Schedule RC-L, item 17, shown below is from the FFIEC 031 report forms. Item 17 is not applicable to banks that file the FFIEC 034 report forms.

NOTE: Schedule RC-L, item 17, below, is not applicable to banks that file the FFIEC 034 report forms.

Instructions for Schedule RC-L, items 11 and 14 through 17:

Item 11, Spot foreign exchange contracts. Report the gross amount (stated in U.S. dollars) of all spot contracts committing the reporting bank to purchase foreign (non-U.S.) currencies and U.S. dollar exchange that are outstanding as of the report date. All transactions within the consolidated bank should be reported on a net basis.

A spot contract is an agreement for the immediate delivery, usually within two business days, of a foreign currency at the prevailing cash market rate. Spot contracts are considered outstanding (i.e., open) until they have been cancelled by acquisition or delivery of the underlying currencies.

Only one side of a spot foreign exchange contract is to be reported. In those transactions where foreign (non-U.S.) currencies are bought or sold against U.S. dollars, report only that side of the transaction that involves the foreign (non-U.S.) currency. For example, if the reporting bank enters into a spot contract which obligates the bank to purchase U.S. dollar exchange against which it sells deutsche marks, then the bank would report (in U.S. dollar equivalent values) the amount of deutsche marks sold in this item. In cross-currency spot foreign exchange transactions, which involve the purchase and sale of two non-U.S. currencies, only the purchase side is to be reported (in U.S. dollar equivalent values).

Item 14, Gross amounts (e.g., notional amounts) of off-balance sheet derivatives. Report in the appropriate column and subitem the gross par value (stated in U.S. dollars) (e.g., for futures, forwards, and option contracts) or the notional amount (stated in U.S. dollars) (e.g., for forward rate agreements and swaps), as appropriate, of all off-balance sheet contracts that are related to the following four types of underlying risk exposures: interest rate, foreign exchange, equity, and commodity and other. Contracts with multiple risk characteristics should be classified based upon the predominant risk characteristics at the origination of the derivative.

The notional amount or par value to be reported for an off-balance-sheet derivative contract with a multiplier component is the contract's effective notional amount or par value. For example, a swap contract with a stated notional amount of $1,000,000 whose terms called for quarterly settlement of the difference between 5% and LIBOR multiplied by 10 has an effective notional amount of $10,000,000.

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All transactions within the consolidated bank should be reported on a net basis. No other netting of contracts is permitted for purposes of this item. Therefore, do not net: (1) obligations of the reporting bank to purchase from third parties against the bank's obligations to sell to third parties, (2) written options against purchased options, or (3) contracts subject to bilateral netting agreements.

For each column, the sum of items 14.a through 14.e must equal the sum of items 15, 16.a, and 16.b.

Column Instructions

Column A, Interest Rate Contracts: Interest rate contracts are contracts related to an interest-bearing financial instrument or whose cash flows are determined by referencing interest rates or another interest rate contract (e.g., an option on a futures contract to purchase a Treasury bill). These contracts are generally used to adjust the bank's interest rate exposure or, if the bank is an intermediary, the interest rate exposure of others. Interest rate contracts include single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate options, including caps, floors, collars, and corridors.

Exclude contracts involving the exchange of one or more foreign currencies (e.g., cross-currency swaps and currency options) and other contracts whose predominant risk characteristic is foreign exchange risk, which are to be reported in column B as foreign exchange contracts. Also exclude commitments to purchase and sell when-issued securities which are to be reported in Schedule RC-L, item 10.

Do not report transactions involving regular way settlements, that is, cash market transactions that are settled in one business day for U.S. Treasury and Government agency and corporation securities (other than Government-guaranteed mortgage pass-through certificates), five business days for municipal and corporate securities, and up to 60 days for mortgage-backed securities. Cash market transactions with settlement periods that exceed regular way settlement time limits must be reported as forward contracts in Schedule RC-L, item 14.b.

Column B, Foreign Exchange Contracts: Foreign exchange contracts are contracts to purchase foreign (non-U.S.) currencies and U.S. dollar exchange in the forward market, i.e., on an organized exchange or in an over-the-counter market. A purchase of U.S. dollar exchange is equivalent to a sale of foreign currency. Foreign exchange contracts include cross-currency interest rate swaps where there is an exchange of principal, forward foreign exchange contracts (usually settling three or more business days from trade date), and currency futures and currency options. Exclude spot foreign exchange contracts which are to be reported in Schedule RC-L, item 11.

Only one side of a foreign currency transaction is to be reported. In those transactions where foreign (non-U.S.) currencies are bought or sold against U.S. dollars, report only that side of the transaction that involves the foreign (non-U.S.) currency. For example, if the reporting bank enters into a futures contract which obligates the bank to purchase U.S. dollar exchange against which it sells deutsche marks, then the bank would report (in U.S. dollar equivalent values) the amount of deutsche marks sold in Schedule RC-L, item 14.a. In cross-currency transactions, which involve the purchase and sale of two non-U.S. currencies, only the purchase side is to be reported.

All amounts in column B are to be reported in U.S. dollar equivalent values.

Column C, Equity Derivative Contracts: Equity derivative contracts are contracts that have a return, or a portion of their return, linked to the price of a particular equity or to an index of equity prices, such as the Standard and Poor's 500.

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The contract amount to be reported for equity derivative contracts is the quantity, e.g., number of units, of the equity instrument or equity index contracted for purchase or sale multiplied by the contract price of a unit.

Column D, Commodity and Other Contracts: Commodity contracts are contracts that have a return, or a portion of their return, linked to the price of or to an index of precious metals, petroleum, lumber, agricultural products, etc. Commodity and other contracts also include any other contracts that are not reportable as interest rate, foreign exchange, or equity derivative contracts.

The contract amount to be reported for commodity and other contracts is the quantity, e.g., number of units, of the commodity or product contracted for purchase or sale multiplied by the contract price of a unit.

The notional amount to be reported for commodity contracts with multiple exchanges of principal is the contractual amount multiplied by the number of remaining payments (i.e.,exchanges of principal) in the contract.

Item 14.a, Futures contracts. Futures contracts represent agreements for delayed delivery of financial instruments or commodities in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument at a specified price or yield. Futures contracts are standardized and are traded on organized exchanges that act as the counterparty to each contract.

Report, in the appropriate column, the aggregate par value of futures contracts that have been entered into by the reporting bank and are outstanding (i.e., open contracts) as of the report date. Do not report the par value of financial instruments intended to be delivered under such contracts if this par value differs from the par value of the contracts themselves.

Contracts are outstanding (i.e., open) until they have been cancelled by acquisition or delivery of the underlying financial instruments or by offset. Offset is the liquidating of a purchase of futures through the sale of an equal number of contracts of the same delivery month on the same underlying instrument, or the covering of a short sale of futures through the purchase of an equal number of contracts of the same delivery month on the same underlying instrument.

Column A, Interest Rate Futures: Report futures contracts committing the reporting bank to purchase or sell financial instruments and whose predominant risk characteristic is interest rate risk. Some of the more common interest rate futures include futures on 90-day U.S. Treasury bills; 12-year GNMA pass-through securities; and 2-, 4-, 6-, and 10-year U.S. Treasury notes.

Column B, Foreign Exchange Futures: Report the gross amount (stated in U.S. dollars) of all futures contracts committing the reporting bank to purchase foreign (non-U.S.) currencies and U.S. dollar exchange and whose predominant risk characteristic is foreign exchange risk.

A currency futures contract is a standardized agreement for delayed delivery of a foreign (non-U.S.) currency or U.S. dollar exchange in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified amount at a specified exchange rate.

Column C, Equity Derivative Futures: Report futures contracts committing the reporting bank to purchase or sell equity securities or instruments based on equity indexes such as the Standard and Poor's 500 or the Nikkei.

Column D, Commodity and Other Futures: Report the contract amount for all futures contracts committing the reporting bank to purchase or sell commodities such as agricultural products (e.g., wheat, coffee), precious metals (e.g., gold, platinum), and non-ferrous metals (e.g., copper, zinc). Include any other futures contract that is not reportable as an interest rate, foreign exchange, or equity derivative contract in column A, B, or C.

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Item 14.b, Forward contracts. Forward contracts represent agreements for delayed delivery of financial instruments or commodities in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument or commodity at a specified price or yield. Forward contracts are not traded on organized exchanges and their contractual terms are not standardized.

Report the aggregate par value of forward contracts that have been entered into by the reporting bank and are outstanding (i.e., open contracts) as of the report date. Do not report the par value of financial instruments intended to be delivered under such contracts if this par value differs from the par value of the contracts themselves.

Contracts are outstanding (i.e., open) until they have been cancelled by acquisition or delivery of the underlying financial instruments or settled in cash. Such contracts can only be terminated, other than by receipt of the underlying asset, by agreement of both buyer and seller.

> Column A, Interest Rate Forwards: Report forward contracts committing the reporting bank to purchase or sell financial instruments and whose predominant risk characteristic is interest rate risk.
>
> Column B, Foreign Exchange Forwards: Report the gross amount (stated in U.S. dollars) of all forward contracts committing the reporting bank to purchase foreign (non-U.S.) currencies and U.S. dollar exchange and whose predominant risk characteristic is foreign exchange risk.
>
> A forward foreign exchange contract is an agreement for delayed delivery of a foreign (non-U.S.) currency or U.S. dollar exchange in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified amount at a specified exchange rate.
>
> Column C, Equity Derivative Forwards: Report forward contracts committing the reporting bank to purchase or sell equity instruments.
>
> Column D, Commodity and Other Forwards: Report the contract amount for all forward contracts committing the reporting bank to purchase or sell commodities such as agricultural products (e.g., wheat, coffee), precious metals (e.g., gold, platinum), and non-ferrous metals (e.g., copper, zinc). Include any other forward contract that is not reportable as an interest rate, foreign exchange, or equity derivative contract in column A, B, or C.

Item 14.c, Exchange-traded option contracts. Option contracts convey either the right or the obligation, depending upon whether the reporting bank is the purchaser or the writer, respectively, to buy or sell a financial instrument or commodity at a specified price by a specified future date. Some options are traded on organized exchanges.

The buyer of an option contract has, for compensation (such as a fee or premium), acquired the right (or option) to sell to, or purchase from, another party some financial instrument or commodity at a stated price on a specified future date. The seller of the contract has, for such compensation, become obligated to purchase or sell the financial instrument or commodity at the option of the buyer of the contract. A put option contract obligates the seller of the contract to purchase some financial instrument or commodity at the option of the buyer of the contract. A call option contract obligates the seller of the contract to sell some financial instrument or commodity at the option of the buyer of the contract.

Item 14.c.(1), Written options. Report in this item the aggregate par value of the financial instruments or commodities that the reporting bank has, for compensation (such as a fee or premium), obligated itself to either purchase or sell under exchange-traded option contracts that are outstanding as of the report date.

> Column A, Written Exchange-Traded Interest Rate Options: For exchange-traded option contracts obligating the reporting bank to either purchase or sell an interest rate futures contract and whose predominant risk characteristic is interest rate risk, report the par value of the financial

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instrument underlying the futures contract. An example of such a contract is a Chicago Board Options Exchange option on the 13-week Treasury bill rate.

Column B, Written Exchange-Traded Foreign Exchange Options: Report in this item the gross amount (stated in U.S. dollars) of foreign (non-U.S.) currency and U.S. dollar exchange that the reporting bank has, for compensation, obligated itself to either purchase or sell under exchange-traded option contracts whose predominant risk characteristic is foreign exchange risk. In the case of option contracts obligating the reporting bank to either purchase or sell a foreign exchange futures contract, report the gross amount (stated in U.S. dollars) of the foreign (non-U.S.) currency underlying the futures contract. Exchange-traded options on major currencies such as the Japanese Yen, British Pound Sterling and French Franc and options on futures contracts of major currencies are examples of such contracts.

. Column C, Written Exchange-Traded Equity Derivative Options: Report the contract amount for those exchange-traded option contracts where the reporting bank has obligated itself, for compensation, to purchase or sell an equity instrument or equity index.

Column D, Written Commodity and Other Exchange-Traded Options: Report the contract amount for those exchange-traded option contracts where the reporting bank has obligated itself, for compensation, to purchase or sell a commodity or product. Include any other written, exchange-traded option that is not reportable as an interest rate, foreign exchange, or equity derivative contract in column A, B, or C.

Item 14.c.(2), Purchased options. Report in this item the aggregate par value of the financial instruments or commodities that the reporting bank has, for a fee or premium, purchased the right to either purchase or sell under exchange-traded option contracts that are outstanding as of the report date.

Column A, Purchased Exchange-Traded Interest Rate Options: For exchange-traded option contracts giving the reporting bank the right to either purchase or sell an interest rate futures contract and whose predominant risk characteristic is interest rate risk, report the par value of the financial instrument underlying the futures contract. An example of such a contract is a Chicago Board Options Exchange option on the 13-week Treasury bill rate.

Column B, Purchased Exchange-Traded Foreign Exchange Options: Report in this item the gross amount (stated in U.S. dollars) of foreign (non-U.S.) currency and U.S. dollar exchange that the reporting bank has, for a fee, purchased the right to either purchase or sell under exchange-traded option contracts whose predominant risk characteristic is foreign exchange risk. In the case of option contracts giving the reporting bank the right to either purchase or sell a currency futures contract, report the gross amount (stated in U.S. dollars) of the foreign (non-U.S.) currency underlying the futures contract. Exchange-traded options on major currencies such as the Japanese Yen, British Pound Sterling and French Franc and options on futures contracts of major currencies are examples of such contracts.

Column C, Purchased Exchange-Traded Equity Derivative Options: Report the contract amount of those exchange-traded option contracts where the reporting bank has, for a fee, purchased the right to purchase or sell an equity instrumentor equity index.

Column D, Purchased Commodity and Other Exchange-Traded Options: Report the contract amount for those exchange-traded option contracts where the reporting bank has, for a fee, purchased the right to purchase or sell a commodity or product. Include any other purchased, exchange-traded option that is not reportable as an interest rate, foreign exchange, or equity derivative contract in column A, B, or C.

Item 14.d, Over-the-counter option contracts. Option contracts convey either the right or the obligation, depending upon whether the reporting bank is the purchaser or the writer, respectively,

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to buy or sell a financial instrument or commodity at a specified price by a specified future date. Options can be written to meet the specialized needs of the counterparties to the transaction. These customized option contracts are known as over-the-counter (OTC) options. Thus, over-the-counter option contracts include all option contracts not traded on an organized exchange.

The buyer of an option contract has, for compensation (such as a fee or premium), acquired the right (or option) to sell to, or purchase from, another party some financial instrument or commodity at a stated price on a specified future date. The seller of the contract has, for such compensation, become obligated to purchase or sell the financial instrument or commodity at the option of the buyer of the contract. A put option contract obligates the seller of the contract to purchase some financial instrument or commodity at the option of the buyer of the contract. A call option contract obligates the seller of the contract to sell some financial instrument or commodity at the option of the buyer of the contract.

In addition, swaptions, i.e., options to enter into a swap contract, and contracts known as caps, floors, collars, and corridors should be reported as options.

Options such as a call feature that are embedded in loans, securities, and other on-balance sheet assets are not to be reported in Schedule RC-L. Commitments to lend are not considered options for purposes of Schedule RC-L, item 14, but should be reported in Schedule RC-L, item 1.

Item 14.d.(1), Written options. Report in this item the aggregate par value of the financial instruments or commodities that the reporting bank has, for compensation (such as a fee or premium), obligated itself to either purchase or sell under OTC option contracts that are outstanding as of the report date. Also report an aggregate notional amount for written caps, floors, and swaptions and for the written portion of collars and corridors.

> Column A, Written OTC Interest Rate Options: Interest rate options include options to purchase and sell interest-bearing financial instruments and whose predominant risk characteristic is interest rate risk as well as contracts known as caps, floors, collars, corridors, and swaptions. Include in this item the notional principal amount for interest rate caps and floors that the reporting bank sells. For interest rate collars and corridors, report a notional amount for the written portion of the contract in Schedule RC-L, item 14.d.(1), column A, and for the purchased portion of the contract in Schedule RC-L, item 14.d.(2), column A.
>
> Column B, Written OTC Foreign Exchange Options: A written currency option contract conveys the obligation to exchange two different currencies at a specified exchange rate. Report in this item the gross amount (stated in U.S. dollars) of foreign (non-U.S.) currency and U.S. dollar exchange that the reporting bank has, for compensation, obligated itself to either purchase or sell under OTC option contracts whose predominant risk characteristic is foreign exchange risk.
>
> Column C, Written OTC Equity Derivative Options: Report the contract amount for those OTC option contracts where the reporting bank has obligated itself, for compensation, to purchase or sell an equity instrument or equity index.
>
> Column D, Written Commodity and Other OTC Options: Report the contract amount for those OTC option contracts where the reporting bank has obligated itself, for compensation, to purchase or sell a commodity or product. Include any other written, OTC option that is not reportable as an interest rate, foreign exchange, or equity derivative contract in column A, B, or C.

Item 14.d.(2), Purchased options. Report in this item the aggregate par value of the financial instruments or commodities that the reporting bank has, for a fee or premium, purchased the right to either purchase or sell under OTC option contracts that are outstanding as of the report date. Also report an aggregate notional amount for purchased caps, floors, and swaptions and for the purchased portion of collars and corridors.

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Column A, Purchased OTC Interest Rate Options: Interest rate options include options to purchase and sell interest-bearing financial instruments and whose predominant risk characteristic is interest rate risk as well as contracts known as caps, floors, collars, corridors, and swaptions. Include in this item the notional principal amount for interest rate caps and floors that the reporting bank purchases. For interest rate collars and corridors, report a notional amount for the written portion of the contract in Schedule RC-L, item 14.d.(1), column A, and for the purchased portion of the contract in Schedule RC-L, item 14.d.(2), column A.

Column B, Purchased OTC Foreign Exchange Options: Report in this item the gross amount (stated in U.S. dollars) of foreign (non-U.S.) currency and U.S. dollar exchange that the reporting bank has, for a fee, purchased the right to either purchase or sell under option contracts whose predominant risk characteristic is foreign exchange risk.

Column C, Purchased OTC Equity Derivative Options: Report the contract amount of those OTC option contracts where the reporting bank has, for a fee, purchased the right to purchase or sell an equity instrument or equity index.

Column D, Purchased Commodity and Other OTC Options: Report the contract amount for those option contracts where the reporting bank has, for a fee, purchased the right to purchase or sell a commodity or product. Include any other purchased OTC option that is not reportable as an interest rate, foreign exchange or equity derivative contract in column A, B, or C.

Item 14.e, Swaps. Swaps are transactions in which two parties agree to exchange payment streams based on a specified notional amount for a specified period. Forward starting swap contracts should be reported as swaps. The notional amount of a swap is the underlying principal amount upon which the exchange of interest, foreign exchange or other income or expense is based. The notional amount to be reported for a swap contract with a multiplier component is the contract's effective notional amount. In those cases where the reporting bank is acting as an intermediary, both sides of the transaction are to be reported.

Column A, Interest Rate Swaps: Report the notional amount of all outstanding interest rate and basis swaps whose predominant risk characteristic is interest rate risk. Such swaps may be undertaken by the reporting bank to hedge its own interest rate risk, in an intermediary capacity, or to hold in inventory.

Column B, Foreign Exchange Swaps: Report the notional principal amount (stated in U.S. dollars) of all outstanding cross-currency interest rate swaps, whether the swap is undertaken by the reporting bank to hedge its own exchange rate risk, in an intermediary capacity, or to hold in inventory.

A cross-currency interest rate swap is a transaction in which two parties agree to exchange principal amounts of different currencies, usually at the prevailing spot rate, at the inception of an agreement which lasts for a certain number of years. At defined intervals over the life of the swap, the counterparties exchange payments in the different currencies based on specified rates of interest. When the agreement matures, the principal amounts will be re-exchanged at the same spot rate. The notional amount of a cross-currency interest rate swap is generally the underlying principal amount upon which the exchange is based.

Column C, Equity Swaps: Report the notional amount of all outstanding equity or equity index swaps, whether the swap is undertaken by the reporting bank to hedge its own equity--based risk, in an intermediary capacity, or to hold in inventory.

Column D, Commodity and Other Swaps: Report the notional principal amount of all other swap agreements that are not reportable as either interest rate, foreign exchange, or equity derivative contracts in column A, B, or C. The notional amount to be reported for commodity contracts with

multiple exchanges of principal is the contractual amount multiplied by the number of remaining payments (or exchanges of principal) in the contract.

Item 15, Total gross notional amount of derivative contracts held for trading. Report, in the appropriate column, the total notional amount or par value of those off-balance-sheet derivative contracts in Schedule RC-L, item 14 above that are held for trading purposes. Contracts held for trading purposes include those used in dealing and other trading activities accounted for at market value (or at lower of cost or market value) with gains and losses recognized in earnings. Derivative instruments used to hedge trading activities should also be reported in this item.

Derivative trading activities include (a) regularly dealing in interest rate contracts, foreign exchange contracts, equity derivative contracts, and other off-balance sheet commodity contracts, (b) acquiring or taking positions in such items principally for the purpose of selling in the near term or otherwise with the intent to resell (or repurchase) in order to profit from short-term price movements, or (c) acquiring or taking positions in such items as an accommodation to customers.

The reporting bank's trading department may have entered into a derivative contract with another department or business unit within the consolidated bank (and which has been reported on a net basis in accordance with the instructions to Schedule RC-L, item 14 above). If the trading department has also entered into a matching contract with a counterparty outside the consolidated bank, the contract with the outside counterparty should be designated as held for trading or as held for purposes other than trading consistent with the contract's designation for other financial reporting purposes.

Item 16, Total gross notional amount of derivative contracts held for purposes other than trading.

Item 16.a, Contracts marked to market. Report, in the appropriate column, the total notional amount or par value of those contracts in Schedule RC-L, item 14 above that are held for purposes other than trading and that, for purposes of these reports, are accounted for at market value or lower of cost or market value with gains and losses recognized either in earnings or in equity capital.

Include in this item (a) off-balance-sheet contracts used to hedge debt and equity securities classified as available-for-sale, (b) foreign exchange contracts that are designated as, and are effective as, economic hedges of a net investment in a foreign office, (c) intercompany foreign exchange contracts of a long-term investment nature when the parties to the contract are consolidated, combined or accounted for by the equity method, and (d) off-balance-sheet contracts used to hedge other assets or liabilities not held for trading purposes that are accounted for at market value.

Item 16.b, Contracts not marked to market. Report, in the appropriate column, the total notional amount or par value of all contracts in Schedule RC-L, item 14 above that are not accounted for at market value or lower of cost or market value. Include in this item the notional amount or par value of contracts such as swap contracts intended to hedge interest rate risk on commercial loans that are accounted for on the accrual basis.

Item 17, Gross fair values of derivative contracts. (Item 17 is to be completed only by banks with foreign offices or with $100 million or more in total assets that file the FFIEC 031, 032, or 033 report forms.) Report in the appropriate column and subitem below the fair (or market) value of all off-balance-sheet derivative contracts reported in Schedule RC-L, items 15, 16.a, and 16.b above. For each of the four types of underlying risk exposure in columns A through D, the gross positive and gross negative fair values will be reported separately for (i) contracts held for trading purposes (in item 17.a), (ii) contracts held for purposes other than trading that are marked to market for Call Report purposes (in item 17.b), and (iii) contracts held for purposes other than trading that are not marked to market (in item 17.c). Guidance for reporting by type of underlying risk exposure is provided in the instructions for Schedule RC-L, item 14 above. Guidance for reporting by purpose and accounting methodology is provided in the instructions for Schedule RC-L, items 15, 16.a, and 16.b above.

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All transactions within the consolidated bank should be reported on a net basis. No other netting of contracts is permitted for purposes of this item. Therefore, do not net (1) obligations of the reporting bank to buy against the bank's obligations to sell, (2) written options against purchased options, (3) positive fair values against negative fair values, or (4) contracts subject to bilateral netting agreements.

Report as fair value the amount at which a contract could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for a contract, the fair value to be reported for that contract is the product of the number of trading units of the contract multiplied by that market price. If a quoted market price is not available, report the bank's best estimate of fair value based on the quoted market price of a similar contract or on valuation techniques such as discounted cash flows. For purposes of item 17, the reporting bank should determine the fair value of its off-balance sheet derivative contracts in the same manner that it determines the fair value of these contracts for other financial reporting purposes. For example, for interest rate swaps, fair value may include accrued net settlement amounts which have not been paid or received. Otherwise, do not combine, aggregate, or net the reported fair value with the fair or book value of any other derivative or asset or liability.

Item 17.a, Contracts held for trading. Report in the appropriate column and subitem the gross positive and gross negative fair values of those contracts held for trading reported in Schedule RC-L, item 15 above.

Item 17.a.(1), Gross positive fair value. Report in the appropriate column the total fair value of those contracts in Schedule RC-L, item 15 above with positive fair values.

Item 17.a.(2), Gross negative fair value. Report in the appropriate column the total fair value of those contracts in Schedule RC-L, item 15 above with negative fair values. Report the total fair value as an absolute value, do not enclose the total fair value in parentheses or use a minus (-) sign.

Item 17.b, Contracts held for purposes other than trading that are marked to market. Report in the appropriate column and subitem the gross positive and gross negative fair values of those contracts held for purposes other than trading that are reported in Schedule RC-L, item 16.a above.

Item 17.b.(1), Gross positive fair value. Report in the appropriate column the total fair value of those contracts in Schedule RC-L, item 16.a above with positive fair values.

Item 17.b.(2), Gross negative fair value. Report in the appropriate column the total fair value of those contracts in Schedule RC-L, item 16.a above with negative fair values. Report the total fair value as an absolute value, do not enclose the total fair value in parentheses or use a minus (-) sign.

Item 17.c, Contracts held for purposes other than trading that are not marked to market. Report in the appropriate column and subitem the gross positive and negative fair values of those contracts held for purposes other than trading that are reported in Schedule RC-L, item 16.b above.

Item 17.c.(1), Gross positive fair value. Report in the appropriate column the total fair value of those contracts in Schedule RC-L, item 16.b above with positive fair values.

Item 17.c.(2), Gross negative fair value. Report in the appropriate column the total fair value of those contracts in Schedule RC-L, item 16.b above with negative fair values. Report the total fair value as an absolute value, do not enclose the total fair value in parentheses or use a minus (-) sign.

Schedule RI, "Income Statement"

Banks that file the FFIEC 031, 032, or 033 report forms will see the addition of memorandum items 8 and 9 to Schedule RI. These items will not be added to the FFIEC 034 report forms filed by small banks.

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The sample of Schedule RI, Memorandum items 8 and 9, shown below is from the FFIEC 031 report forms. Memorandum items 8 and 9 are not applicable to banks that file the FFIEC 034 report forms.

Memorandum Item 8, Trading revenue (from cash instruments and off-balance sheet derivative instruments). Report, in the appropriate item below, a breakdown of trading revenue that has been included in the body of the income statement in Schedule RI, items 5.c and 5.e. For each of the four types of underlying risk exposure, report the combined revenue (net gains and losses) from trading cash instruments and off-balance sheet derivative instruments. For purposes of Memorandum item 8, the reporting bank should determine the underlying risk exposure category in which to report the trading revenue from cash instruments and off-balance sheet derivative instruments in the same manner that the bank makes this determination for other financial reporting purposes.

Memorandum Item 8.a, Interest rate exposures. Report in this item net gains (losses) from trading cash instruments and off-balance sheet derivative contracts that the reporting bank manages as interest rate exposures. Interest rate exposures may arise from cash debt instruments (e.g., U.S. Treasury securities) and interest rate contracts. Interest rate contracts are those contracts related to an interest-bearing financial instrument or whose cash flows are determined by referencing interest rates or another interest rate contract (e.g., an option on a futures contract to purchase a Treasury bill). Interest rate contracts include single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate options, including caps, floors, collars, and corridors.

Exclude trading revenue on contracts involving the exchange of foreign currencies (e.g., cross-currency swaps and currency options) that the reporting bank manages as foreign exchange exposures. Report such trading revenue in Memorandum item 8.b.

Memorandum Item 8.b, Foreign exchange exposures. Report in this item net gains (losses) from trading cash instruments and off-balance sheet derivative contracts that the reporting bank manages as foreign exchange exposures. Foreign exchange exposures may arise from cash instruments (e.g., debt securities) denominated in non-U.S. currencies and foreign exchange rate contracts. Foreign exchange rate contracts are those contracts to purchase foreign (non-U.S.) currencies and U.S. dollar exchange in the forward market, i.e., on an organized exchange or in an over-the-countermarket. A purchase of U.S. dollar exchange is equivalent to a sale of foreign currency. Foreign exchange rate contracts include cross-currency interest rate swaps where there is an exchange of principal, forward and spot foreign exchange contracts, and currency futures and currency options.

Memorandum Item 8.c, Equity security or index exposures. Report in this item net gains (losses) from trading cash instruments and off-balance sheet derivative contracts that the reporting bank manages as equity security or index exposures. Equity security or index exposures may arise from equity securities and equity security or index (i.e., equity derivative) contracts. Equity derivative contracts are contracts that have a return, or a portion of their return, linked to the price of a particular equity or to an index of equity prices, such as the Standard and Poor's 500.

Memorandum Item 8.d, Commodity and other exposures. Report in this item net gains (losses) from trading cash instruments and off-balance sheet derivative contracts that the reporting bank manages as commodity or other exposures. Commodity or other exposures may arise from commodities and off-balance sheet commodity and other contracts not reported as interest rate, foreign exchange, or equity derivative contracts. Commodity and other contracts are contracts that have a return, or a portion of their return, linked to the price or to an index of precious metals, petroleum, lumber, agricultural products, etc. Commodity and other contracts also include any other contracts that are not reportable as interest rate, foreign exchange, or equity derivative contracts.

Memorandum Item 9, Impact on income of off-balance sheet derivatives held for purposes other than trading. For derivatives held for purposes other than trading, report the impact that these contracts had on the bank's income as reported in Schedule RI. The amounts to be reported include amounts recognized in Schedule RI in the period in which the transactions occur as well as the

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amortization in the year-to-date period of amounts previously deferred. Under current practice, many banks report periodic net settlements for many swaps and other amounts related to off-- balance-sheet instruments accounted for on the hedge or accrual basis as components of the interest income, interest expense, and other noninterest income Call Report income statement (Schedule RI) items to which they relate.

For example, if a swap is intended to hedge interest rate risk on commercial loans, the bank may report the income or expense associated with net settlement accruals on that swap in the income statement items for "interest and fee income on commercial loans" in Schedule RI of the Call Report. There is no change to this existing reporting practice. In such a situation, the bank would also report these net settlement accruals in Memorandum item 9.a for the net increase (decrease) to interest income.

As another example, if a swap is intended to hedge interest rate risk on money market deposit accounts, the bank may report the income or expense associated with net settlement accruals on that swap in the income statement items for "interest expense on money market deposit accounts" in Schedule RI of the Call Report. There is no change to this existing reporting practice. In such a situation, the bank would also report these net settlement accruals in Memorandum item 9.b for the net (increase) decrease to interest expense.

Memorandum Item 9.a, Net increase (decrease) to interest income. Report the net sum of all amounts reported in Schedule RI interest income items (items 1.a through 1.f) which were recognized from off-balance-sheet derivative transactions used to hedge or adjust interest income from assets. If the net sum is a net decrease to interest income, enclose this amount in parentheses.

Memorandum Item 9.b, Net (increase) decrease to interest expense. Report the net sum of all amounts reported in Schedule RI interest expense items (items 2.a through 2.e) which were recognized from off-balance-sheet derivative transactions used to hedge or adjust interest expense from liabilities. If the net sum is a net increase to interest expense, enclose this amount in parentheses.

Memorandum Item 9.c, Other (noninterest) allocations. Report the net sum of all amounts reported in Schedule RI, but not reported in Memorandum items 9.a or 9.b above, which were recognized from off-balance-sheet derivative transactions for purposes other than trading. For example, include all amounts recognized from off-balance-sheet derivative transactions reported in other noninterest income (Schedule RI, item 5.f.(2)) and other noninterest expense (Schedule RI, item 7.c). Include the impact of futures, forwards, and option contracts that are reported in other noninterest income (expense) in accordance with the Glossary entry for those instruments. If the net sum is a net expense or loss, enclose this amount in parentheses.

A bank may use off-balance-sheet derivative contracts to hedge assets carried at the lower of cost or market value (LOCOM) such as mortgages held for sale. If, in accordance with the instructions for the Reports of Condition and Income, the gains and losses on the derivatives are used to adjust the cost basis of these assets (rather than being recognized through earnings), include in this item the difference between (1) the actual calendar year-to-date change in the LOCOM valuation allowance, if any, that the reporting bank has included in the year-to-date earnings reported in Schedule RI, "Income Statement," and (2) the amount that the calendar year-to-date change in the LOCOM valuation allowance would have been if the gains and losses on these derivatives had been recognized through earnings and not deferred.

NOTE: In a related change to Schedule RI, the caption for item 5.e on the FFIEC 031, 032, and 033 report forms will be modified to read "Other gains (losses) and fees from trading assets and liabilities." The instructions to this item would be revised as follows:

Item 5.e, Other gains (losses) and fees from trading assets and liabilities. Report the net gain or loss from the sale of assets and other trading financial instruments and commodity contracts reportable in Schedule RC, item 5, "Trading assets," and from short positions reportable in Schedule RC, item 15.b,

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"Trading liabilities," other than those trading gains (losses) and fees related to foreign exchange transactions that are reported in Schedule RI, item 5.c above.

Include:

(1) Revaluation adjustments to the carrying value of assets and liabilities reportable in Schedule RC, item 5, "Trading assets," and Schedule RC, item 15.b, "Trading liabilities," resulting from the periodic marking to market (or the lower of cost or market) of such assets and liabilities.

(2) Revaluation adjustments from the periodic marking to market (or the lower of cost or market) of interest rate, foreign exchange, equity derivative, and commodity and other contracts held for trading purposes.

(3) Incidental income and expense related to the purchase and sale of assets and other trading financial instruments and commodity contracts reportable in Schedule RC, item 5, "Trading assets," and Schedule RC, item 15.b, "Trading liabilities."

If the amount to be reported in this item is a loss, enclose it in parentheses.

NOTE: The existing language in the Glossary entry for "futures, forward, and standby contracts" identifying the "Income Statement" items in which banks should report gains and losses on contracts held for trading also will be changed to conform to the revised instruction for Schedule RI, item 5.e.

Schedule RC-R, "Risk-Based Capital"

For those banks that complete the entire risk-based capital schedule, the data that is now reported on the current credit exposure (replacement cost) and remaining maturity of interest rate and foreign exchange contracts covered will be expanded and collected in new Memorandum items 1 and 2.

Memorandum Item 1, Current credit exposure across all off-balance-sheet derivative contracts covered by the risk-based capital standards. Report a single current credit exposure amount for off-balance-sheet derivative contracts covered by the risk-based capital standards after considering applicable legally enforceable bilateral netting agreements. For purposes of this item, include the current credit exposure for off-balance sheet interest rate, foreign exchange, equity derivative, and commodity and other contracts. (Note: At the present time, under the banking agencies' risk-based capital standards and for purposes of this item, the existence of a legally enforceable bilateral netting agreement between the reporting bank and a counterparty may only be taken into consideration when determining the current credit exposure of off-balance sheet interest rate and foreign exchange contracts.) For descriptions of these contracts, refer to the instructions for Schedule RC-L, item 14.

Current credit exposure (sometimes referred to as the replacement cost) is the fair value of a contract when that fair value is positive. The current credit exposure is zero when the fair value is negative or zero. Current credit exposure should be derived as follows: Determine whether a legally enforceable bilateral netting agreement is in place between the reporting bank and a counterparty. If such an agreement is in place, the fair values of all applicable interest rate and foreign exchange contracts with that counterparty that are included in the netting agreement are netted to a single amount. Next, for all other contracts covered by the risk-based capital standards that have positive fair values, the total of the positive fair values is determined. Then, report in this item the sum of (i) the net positive fair values of applicable interest rate and foreign exchange contracts subject to legally enforceable bilateral netting agreements and (ii) the total positive fair values of all other contracts covered by the risk-based capital standards.

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Consistent with newly adopted amendments to the risk-based capital guidelines, if a bilateral netting agreement covers off-balance sheet interest rate and foreign exchange contracts that are normally not covered by the risk-based capital standards (i.e., foreign exchange contracts with an original maturity of 14 calendar days or less and contracts traded on exchanges that require daily payment of variation margin), the reporting bank may elect to consistently either include or exclude the fair values of all such derivative contracts when determining the net current credit exposure for that agreement.

The definition of a legally enforceable bilateral netting agreement for purposes of this item is the same as that set forth in the risk-based capital rules. These rules require a written bilateral netting contract that creates a single legal obligation covering all included individual contracts and that does not contain a walkaway clause. The bilateral netting agreement must be supported by a written and reasoned legal opinion representing that an organization's claim or obligation, in the event of a legal challenge, including one resulting from default, insolvency, bankruptcy, or similar circumstances, would be found by the court and administrative authorities of all relevant jurisdictions to be the net sum of all positive and negative fair values of contracts included in the bilateral netting contract.

Memorandum Item 2, Notional principal amounts of off-balance-sheet derivative contracts. Report in the appropriate subitem and column below the notional amount or par value of off-balance-sheet contracts included in Schedule RC-L, item 14, that are subject to risk-based capital requirements. Such contracts include swaps, forwards, and purchased options. Report notional amounts and par values in the column corresponding to the contract's remaining term to maturity from the report date. Remaining maturities are to be reported as (1) one year or less in column A, (2) over one year through five years in column B, or (3) over five years in column C.

Do not report the notional amount for single currency interest rate swaps in which payments are made based upon two floating rate indices, so-called floating/floating or basis swaps; foreign exchange contracts with an original maturity of 14 days or less; and futures contracts.

The notional amount or par value to be reported for an off-balance-sheet derivative contract with a multiplier component is the contract's effective notional amount or par value. (For example, a swap contract with a stated notional amount of $1,000,000 whose terms called for quarterly settlement of the difference between 5% and LIBOR multiplied by 10 has an effective notional amount of $10,000,000.)

The notional amount to be reported for an amortizing off-balance-sheet derivative contract is the contract's current (or, if appropriate, effective) notional amount. This notional amount should be reported in the column corresponding to the contract's remaining term to final maturity.

For descriptions of "interest rate contracts," "foreign exchange contracts," "commodity and other contracts," and "equity derivative contracts," refer to the instructions for Schedule RC-L, item 14.

Memorandum Item 2.a, Interest rate contracts.

Memorandum Item 2.b, Foreign exchange contracts.

Memorandum Item 2.c, Gold contracts.

Memorandum Item 2.d, Other precious metals contracts. Report all silver, platinum, and palladium contracts.

Memorandum Item 2.e, Other commodity contracts. For contracts with multiple exchanges of principal, notional amount is determined by multiplying the contractual amount by the number of remaining payments (i.e., exchanges of principal) in the derivative contract.

Memorandum Item 2.f, Equity derivative contracts.

Other New Items

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Schedule RC-B, "Securities"

New Memorandum items 8 and 9 for investments in "high-risk mortgage securities" and "structured notes" will be added to Schedule RC-B. In addition, the types of mortgage-backed securities to be included in item 4 of Schedule RC-B have been expanded and the captions for some of its subitems have been revised accordingly.

More specifically, item 4.b of Schedule RC-B, which currently collects data only on CMOs and REMICs, is being revised to cover all mortgage-backed securities other than pass-through securities. This affects the reporting of stripped mortgage-backed securities (i.e., interest-only (IO) and principal-only (PO) strips), CMO residuals, and mortgage-backed securities issued by state and local housing authorities. IOs and POs (which have been reported based on their issuer in either Schedule RC-B, item 2, as U.S. Government agency securities or Schedule RC-B, item 5, as "Other debt securities") and CMO residuals (which have been reported as "Other assets" on the Call Report balance sheet) will now be reported in the appropriate subitem of item 4.b. Mortgage-backedsecurities issued by state and local housing authorities, which generally have been reported as municipal securities in item 3 of Schedule RC-B, will now be reported as pass-through securities in item 4.a or as other mortgage-backed securities in item 4.b, as appropriate. Because of these changes to the coverage of Schedule RC-B, item 4, the instructions to Schedule RC-B, items 2, 3, and 5 will be adjusted accordingly.

Conforming changes will also be made to the instructions for mortgage-backed securities in Schedule RC-D, "Trading Assets and Liabilities," and Schedule RC-H, "Selected Balance Sheet Items for Domestic Offices." Schedule RC-D is completed by banks with $1 billion or more in total assets or $2 billion or more in notional amount/par value of off-balance sheet derivative contracts that submit the FFIEC 031 or 032 version of the Call Report. Schedule RC-H is completed by banks with foreign offices that file the FFIEC 031 report form. The change in the categorization of mortgage-backed securities issued by state and local housing authorities and CMO residuals for purposes of Schedule RC-B will also affect the reporting of the quarterly averages for securities and securities income in Schedules RC-K and RI, respectively.

Item 4, Mortgage-backed securities. Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all mortgage-backed securities, including mortgage pass-through securities, collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments).

Exclude from mortgage-backed securities:

(1) Bonds issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) that are collateralized by mortgages, i.e., mortgage-backed bonds, (report in Schedule RC-B, item 2(b), Obligations "Issued by U.S. Government-sponsored agencies") and mortgage-backed bonds issued by non-U.S. Government issuers (report in Schedule RC-B, item 5, "Other debt securities," below).

(2) Participation certificates issued by the Export-Import Bank and the General Services Administration (report in Schedule RC-B, item 2.a, Obligations "Issued by U.S. Government agencies").

(3) Participation certificates issued by a Federal Intermediate Credit Bank (report in Schedule RC-B, item 6.c, "All other equity securities").

(4) Notes insured by the Farmers Home Administration (FmHA) and instruments (certificates of beneficial ownership and insured note insurance contracts) representing an interest in FmHA-insured notes (report in Schedule RC-B, item 2.a).

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Item 4.a, Pass-through securities. Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all holdings of mortgage pass-through securities. In general, a mortgage pass-through security represents an undivided interest in a pool that provides the holder with a pro rata share of all principal and interest payments on the residential mortgages in the pool, and includes certificates of participation in pools of residential mortgages.

Include certificates of participation in pools of residential mortgages even though the reporting bank was the original holder of the mortgages underlying the pool and holds the instruments covering that pool, as may be the case with GNMA certificates issued by the bank and swaps with FNMA and FHLMC. Also include U.S. Government-issued participation certificates (PCs) that represent a pro rata share of all principal and interest payments on a pool of resecuritized participation certificates that, in turn, are backed by residential mortgages, e.g., FHLMC Giant PCs.

Exclude all collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities (such a interest-only strips (IOs), principal-only strips (POs), and similar instruments) (report in Schedule RC-B, item 4.b, below).

Item 4.a.(1), Guaranteed by GNMA. Report in the appropriate columns the amortized cost and fair value of all holdings of mortgage pass-through securities guaranteed by the Government National Mortgage Association (GNMA) that are not held for trading. Exclude mortgage pass-through securities issued by FNMA and FHLMC (report in Schedule RC-B, item 4.a.(2) below).

Item 4.a.(2), Issued by FNMA and FHLMC. Report in the appropriate columns the amortized cost and fair value of all holdings of mortgage pass-through securities issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) that are not held for trading. Exclude mortgage pass-through securities that are guaranteed by the Government National Mortgage Association (GNMA) (report in
Schedule RC-B, item 4.a.(1) above).

Item 4.a.(3), Other pass-through securities. Report in the appropriate columns the amortized cost and fair value of all holdings of mortgage pass-through insurance issued by others (e.g., other depository institutions, insurance companies, state and local housing authorities in the U.S.) that are not guaranteed by the U.S. Government and are not held for trading.

If the reporting bank has issued private certificates of participation in a pool of its own residential mortgages in a transaction that is not required to be reported as a financing in accordance with the Glossary entry for "participations in pools of residential mortgages," any unsold private certificates of participation are to be reported in this item.

Item 4.b, Other mortgage-backed securities. Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all mortgage-backed securities other than pass-through securities that are not held for trading.

Other mortgage-backed securities include:

(1) All classes of collateralized mortgage obligations (CMOs) and real estate mortgage investments conduits (REMICs).

(2) CMO and REMIC residuals and similar interests.

(3) Stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments).

Item 4.b.(1), Issued or guaranteed by FNMA, FHLMC, or GNMA. Report in the appropriate columns the amortized cost and fair value of all classes of CMOs and REMICs, CMO and REMIC residuals, and

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stripped mortgage-backed securities issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) or guaranteed by the Government National Mortgage Association (GNMA). For purposes of these reports, also include REMICs issued by the U.S. Department of Veterans Affairs (VA) in this item.

Item 4.b.(2), Other mortgage-backed securities collateralized by MBS issued or guaranteed by FNMA, FHLMC, or GNMA. Report in the appropriate columns the amortized cost and fair value of all classes of CMOs, REMICs, CMO and REMIC residuals, and stripped mortgage-backed securities issued by non-U.S. Government issuers (e.g., other depository institutions, insurance companies, state and local housing authorities in the U.S.) for which the collateral consists of GNMA (Ginnie Mae) pass-throughs, FNMA (Fannie Mae) pass-throughs, FHLMC (Freddie Mac) participation certificates, or other mortgage-backed securities (i.e., classes of CMOs or REMICs, CMO or REMIC residuals, and stripped mortgage-backed securities) issued or guaranteed by FNMA, FHLMC, GNMA, or VA.

Item 4.b.(3), All other mortgage-backed securities. Report in the appropriate columns the amortized cost and fair value of all CMOs, REMICs, CMO and REMIC residuals, and stripped mortgage-backed securities issued by non-U.S. Government issuers (e.g., other depository institutions, insurance companies, state and local housing authorities in the U.S.) for which the collateral does not consist of GNMA (Ginnie Mae) pass-throughs, FNMA (Fannie Mae) pass-throughs, FHLMC (Freddie Mac) participation certificates, or other mortgage-backed securities (i.e., classes of CMOs or REMICs, CMO or REMIC residuals, and stripped mortgage-backed securities) issued or guaranteed by FNMA, FHLMC, GNMA, or VA.

Schedule RC-B, Memorandum items 8 and 9, are shown below.

Memorandum Item 8, High-risk mortgage securities. Report in this item all high-risk mortgage securities included in the held-to-maturity and available-for-sale accounts and reported in Schedule RC-B, item 4.b. Report those securities which are deemed to be high-risk under the FFIEC's Supervisory Policy Statement on Securities Activities as of their most recent testing date. Under that policy statement, a "high-risk mortgage security" is defined as any mortgage derivative product (i.e., stripped mortgage-backed securities, collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), and CMO and REMIC residuals) that at the time of purchase, or at a subsequent testing date, meets any of the following tests. In general, a mortgage derivative product that does not meet any of the following three tests will be considered a "nonhigh-risk mortgage security."

(1) Average Life Test: The mortgage derivative product has an expected weighted average life greater than 10.0 years.

(2) Average Life Sensitivity Test: The expected weighted average life of the mortgage derivative product:

    (a) Extends by more than 4.0 years, assuming an immediate and sustained parallel shift in the yield curve of plus 300 basis points, or

    (b) Shortens by more than 6.0 years, assuming an immediate and sustained parallel shift in the yield curve of minus 300 basis points.

(3) Price Sensitivity Test: The estimated change in the price of the mortgage derivative product is more than 17 percent, due to an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.

Generally, a CMO floating-rate debt class will not be subject to the average life and average life sensitivity tests if it bears a rate that, at the time of purchase or at a subsequent testing date, is below the contractual cap on the instrument. A CMO floating-rate debt class is a debt class whose rate adjusts at least annually on a one-for-one basis with the debt class's index. The index must be a conventional,

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widely-used market interest rate index such as LIBOR. Inverse floating rate debt classes are not included in the definition of a floating rate debt class.

For purposes of this Memorandum item, mortgage derivative products should be tested to determine whether they are "high-risk" or "nonhigh-risk" with the frequency set forth in the Supervisory Policy Statement. Thus, institutions must ascertain and document prior to purchase and no less frequently than annually thereafter, that nonhigh-risk mortgage securities remain outside the high-risk category.

Memorandum Item 8.a, Amortized cost of high-risk mortgage securities. Report the amortized cost of all high-risk mortgage securities included in the held-to-maturity and available for sale accounts. The amortized cost of these securities will have beenreported in columns A and C of the body of Schedule RC-B.

Memorandum Item 8.b, Fair value of high-risk mortgage securities. Report the fair (market) value of the high-risk mortgage securities reported in Memorandum item 8.a above. The fair value of these securities will have been reported in columns B and D of the body of Schedule RC-B. Do not combine or otherwise net the fair value of any high-risk mortgage securities with the fair or book value of any related asset, liability, or off-balance sheet derivative instrument.

Memorandum Item 9, Structured notes. Report in this item all structured notes included in the held-to-maturity and available-for-sale accounts and reported in Schedule RC-B, items 2, 3, and 5. In general, structured notes are debt securities whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options or are otherwise commonly known as "structured notes." Include as structured notes any asset-backed securities (other than mortgage-backed securities) which possess the aforementioned characteristics.

Exclude from structured notes floating rate debt securities denominated in U.S. dollars whose payment of interest is based upon a single index of a Treasury bill rate, the prime rate, or LIBOR and which do not contain caps, floors, leverage, or variable principal redemption. Furthermore, debt securities that do not possess the aforementioned characteristics of a structured note need not be reported as structured notes solely because they are callable as of a specified date at a specified price. In addition, debt securities that in the past possessed the characteristics of a structured note, but which have "fallen through" their structures (e.g., all of the issuer's call options have expired and there are no more adjustments to the interest rate on the security), need not be reported as structured notes.

Structured notes include, but are not limited to, the following common structures:

(1) Step-up Bonds. Step-up securities initially pay the investor an above-market yield for a short noncall period and then, if not called, "step up" to a higher coupon rate (which will be below current market rates). The investor initially receives a higher yield because of having implicitly sold one or more call options. A step-up bond may continue to contain call options even after the bond has stepped up to the higher coupon rate. A multistep bond has a series of fixed and successively higher coupons over its life. At each call date, if the bond is not called, the coupon rate increases.

(2) Index Amortizing Notes (IANs). IANs repay principal according to a predetermined amortization schedule that is linked to the level of a specific index (usually the London Interbank Offered Rate - LIBOR - or a specified prepayment rate). As market interest rates increase (or prepayment rates decrease), the maturity of an IAN extends, similar to that of a collateralized mortgage obligation.

(3) Dual Index Notes. These bonds have coupon rates that are determined by the difference between two market indices, typically the Constant Maturity Treasury (CMT) rate and LIBOR. These bonds often have a fixed coupon rate for a brief period, followed by a longer period of variable rates, e.g., 8 percent fixed for two years, then the 10-year CMT rate plus 300 basis points minus three-month LIBOR.

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(4) De-leveraged Bonds. These bonds pay investors according to a formula that is based upon a fraction of the increase or decrease in a specified index, such as the CMT rate or the prime rate. For example, the coupon might be the 10-year CMT rate multiplied by 0.5, plus 150 basis points. The de-leveraging multiplier (0.5) causes the coupon to lag overall movements in market yields. A leveraged bond would involve a multiplier greater than 1.

(5) Range Bonds. Range bonds (or accrual bonds) pay the investor an above-market coupon rate as long as the reference rate is between levels established at issue. For each day that the reference rate is outside this range, the bonds earn no interest. For example, if LIBOR is the reference rate, a bond might pay LIBOR plus 75 basis points for each day that LIBOR is between 3.5 and 5.0 percent. When LIBOR is less than 3.5 percent or more than 5 percent, the bond would accrue no interest.

(6) Inverse Floaters. These bonds have coupons that increase as rates decline and decrease as rates rise. The coupon is based upon a formula, such as 12 percent minus three-month LIBOR.

Memorandum Item 9.a, Amortized cost of structured notes. Report the amortized cost of all structured notes included in the held-to-maturity and available for sale accounts. The amortized cost of these securities will have been reported in columns A and C of the body of Schedule RC-B.

Memorandum Item 9.b, Fair value of structured notes. Report the fair (market) value of structured notes reported in item 9.a above. The fair value of these securities will have been reportedin columns B and D of the body of Schedule RC-B. Do not combine or otherwise net the fair value of any structured note with the fair or book value of any related asset, liability, or off-balance sheet derivative instrument.

Schedule RC-M, "Memoranda"

Because a variety of existing items in Schedule RC-M are being deleted, the numbering of the remaining items is being revised to a certain extent to produce a common numbering sequence for Schedule RC-M on all four versions of the Call Report forms. Thus, the existing items for sales during the quarter of annuities and four categories of mutual funds will become items 10.a through 10.e of Schedule RC-M for all banks. In addition, a new item 10.f will be added for the total sales during the quarter of proprietary mutual funds and annuities. In response to questions that have been raised about the reporting of mutual fund and annuity sales since this information began to be collected in the first quarter 1994 Call Report, the instructions for these items have been revised and are presented below. (Please refer to page 38 for the revised instructions for Schedule RI, Memorandum item 2, "Income from the sale and servicing of mutual funds and annuities.")

Item 10, Mutual fund and annuity sales (in domestic offices) during the quarter. Report in the appropriate subitem the amount of mutual fund and annuity sales activity (in domestic offices) during the quarter ending with the report date. These sales may be made by the reporting bank, through a bank subsidiary, or by affiliated and unaffiliated entities. For purposes of this item, sales should generally be measured in terms of gross sales dollars, not sales revenue.

In general, banks should include all sales of proprietary, private label, and other (i.e., third party) mutual funds and annuities that take place on bank premises and all other sales for which the bank receives income at the time of the sale or over the duration of the account (e.g., annual fees, Rule 12b-1 fees or "trailer fees," and redemption fees). Include sales conducted through the reporting bank's trust department that are not executed in a fiduciary capacity (e.g., trustee, executor, administrator, conservator), but exclude sales conducted by the trust department that are executed in a fiduciary capacity. When reporting sales by affiliated and unaffiliated entities, banks may rely on the sales information provided by these entities when completing this item.

The following are some examples of the types of transactions to be reported as sales (when the above conditions are met): initial and subsequent mutual fund and annuity sales, exchanges within a family of

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funds, reinvestment of income (dividends and capital gains), and sweep account activity. Other examples (when the above conditions are met) include sales made on bank premises in space that is leased to or otherwise occupied by another entity, sales made by an entity that is not located on bank premises to customers referred to that entity by the bank, sales to retail customers and institutional investors, and sales of load and no-load products. Sales should be reported gross and not net of redemptions. However, with respect to sweep accounts, the bank should report the average amount of funds swept into the money market fund each day during the quarter and not the aggregate total amount of funds swept into the money market fund during the quarter. The average may be computed from the amount of funds swept into the money market fund for each day for the calendar quarter or from the amount of funds swept into the money market fund on each Wednesday during the calendar quarter.

Mutual fund is the common name for an open-end investment company whose shares are sold to the investing public. An annuity is an investment product, typically underwritten by an insurance company, that pays either a fixed or variable payment stream over a specified period of time. Both proprietary and private label mutual funds and annuities are established in order to be marketed primarily to a bank's or banking organization's customers. A proprietary product is a product for which the reporting bank or a subsidiary or other affiliate of the reporting bank acts as investment adviser and may perform additional support services. In a private label product, an unaffiliated entity acts as the investment adviser. The identity of the investment adviser is normally disclosed in the prospectus for a mutual fund or annuity. Mutual funds and annuities that are not proprietary or private label products are considered third party products. For example, third party mutual funds and annuities include products that are widely marketed by numerous parties to the investing public and have investment advisers that are not affiliated with the reporting bank.

In a situation where Banks A, B, C, and D are subsidiaries of a holding company and Bank A advises a family of mutual funds sold by all four banks in the holding company and Bank A receives an advisory fee for mutual funds sold by all four banks, Bank A should not include the amount of mutual funds sold during the quarter (and reported) by Banks B, C, and D in the amount of mutual fund sales it reports during the quarter. Bank A should report only the mutual funds it has sold during the quarter. In addition, for all four banks, this family of mutual funds would be considered proprietary funds.

Item 10.a, Money market funds. Report the amount of sales (in domestic offices) during the quarter ending with the report date of mutual funds that, based on their investment objectives, can best be characterized as money market mutual funds. Money market mutual funds are mutual funds which invest exclusively in short-term debt securities with the objective of providing liquidity and preserving capital while also earning income.

Item 10.b, Equity securities funds. Report the amount of sales (in domestic offices) during the quarter ending with the report date of mutual funds that, based on their investment objectives, can best be characterized as equity securities funds. Equity securities funds are mutual funds that invest primarily in equity securities (e.g., common stock).

Item 10.c, Debt securities funds. Report the amount of sales (in domestic offices) during the quarter ending with the report date of mutual funds that, based on their investment objectives, can best be characterized as debt securities funds. Debt securities funds are mutual funds that invest primarily in debt securities (e.g., corporate bonds, U.S. Government securities, municipal securities, mortgage-backed securities).

Item 10.d, Other mutual funds. Report the amount of sales (in domestic offices) during the quarter ending with the report date of mutual funds that, based on their investment objectives, cannot properly be reported in one of the three preceding items. Other funds may include mutual funds that invest in a mix of debt and equity securities.

Item 10.e, Annuities. Report the amount of sales (in domestic offices) during the quarter ending with the report date of annuities, including variable annuities.

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Item 10.f, Sales of proprietary mutual funds and annuities. Report the total sales (in domestic offices) during the quarter ending with the report date of proprietary mutual funds and annuities. These sales will also have been included in items 10.a through 10.e above.A general description of a proprietary product is included in the instruction to item 10 above. Proprietary mutual funds and annuities are typically created by large banking organizations and offered to customers of the banking organization's subsidiary banks. Therefore, small, independent banks are not normally involved in the sale of proprietary mutual funds and annuities.

Banks that do not sell proprietary mutual funds and annuities should report a zero or the word "none" in this item.

Schedule RC-O, "Other Data for Deposit Insurance Assessments"

New items 11.a through 11.c have been added to Schedule RC-O.

Item 11, Adjustments to demand deposits (in domestic offices) reported in Schedule RC-E for certain reciprocal demand balances. Reciprocal balances arise when two depository institutions maintain deposit accounts with each other; that is, when a depository institution has both a due to and a due from balance with another depository institution. When reporting deposit liabilities in Schedule RC-E, reciprocal balances are to be reported in accordance with the Glossary entry for "reciprocal balances." In contrast, the treatment of reciprocal balances for deposit insurance assessment purposes under the Federal Deposit Insurance Act (FDI Act) differs in some respects from the treatment specified in the "reciprocal balances" Glossary entry. The following three items capture these differences.

Item 11.a, Amount by which demand deposits would be reduced if reciprocal demand balances between the reporting bank and savings associations were reported on a net basis rather than a gross basis in Schedule RC-E. When reporting deposit liabilities in Schedule RC-E, reciprocal demand balances between the reporting bank and savings associations are reported on a gross basis. However, for deposit insurance assessment purposes under the FDI Act, these reciprocal demand balances are to be reported on a net basis.

Report in this item the amount by which demand deposits would be reduced if reciprocal demand balances between the reporting bank and the domestic offices of U.S. savings associations were reported on a net basis rather than a gross basis in Schedule RC-E, item 5, column B, Demand deposits of "Other depository institutions in the U.S." For each savings association with which the reporting bank has reciprocal demand balances, the amount of this reduction is equal to the lesser of the demand balances "due from" or "due to" that savings association. Overdrawn balances cannot be included in this calculation.

Item 11.b, Amount by which demand deposits would be increased if reciprocal demand balances between the reporting bank and U.S. branches and agencies of foreign banks were reported on a gross basis rather than a net basis in Schedule RC-E. When reporting deposit liabilities in Schedule RC-E, reciprocal demand balances between the reporting bank and U.S. branches and agencies of foreign banks are reported on a net basis. However, for deposit insurance assessment purposes under the FDI Act, these reciprocal demand balances are to be reported on a gross basis.

Report in this item the amount by which demand deposits would be increased if reciprocal demand balances between the reporting bank and U.S. branches and agencies of foreign banks were reported on a gross basis rather than a net basis in Schedule RC-E, item 4, column B, Demand deposits of "Commercial banks in the U.S." For each U.S. branch or agency of a foreign bank with which the reporting bank has reciprocal demand balances, the amount of this increase is equal to the amount by which the gross "due to" demand balance for that U.S. branch or agency was reduced before it was reported on Schedule RC-E, item 4, column B, i.e., the lesser of the demand balances "due from" or "due to" that U.S. branch or agency.

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Item 11.c, Amount by which demand deposits would be reduced if cash items in process of collection were included in the calculation of net reciprocal demand balances between the reporting bank and U.S. banks and savings associations in Schedule RC-E. For purposes of the Report of Condition, balances due from other depository institutions reflect only those funds on deposit for which the reporting bank has already received credit and which are subject to immediate withdrawal. Therefore, "due from" balances and calculations of net reciprocal demand balances for purposes of Schedule RC-E exclude cash items in process of collection. However, for deposit insurance assessment purposes under the FDI Act, cash items in process of collection should be included in the net reciprocal calculation.

Report in this item the amount by which demand deposits would be reduced if cash items in process of collection were included in the calculation of net reciprocal demand balances between the reporting bank and the domestic offices of U.S. banks and savings associations in Schedule RC-E, items 4 and 5, column B, Demand deposits of "Commercial banks in the U.S." and "Other depository institutions in the U.S.," respectively.

Schedule RI, "Income Statement"

A new Memorandum item 7 has been added to Schedule RI.

Memorandum item 7, If the reporting bank has restated its balance sheet as a result of applying push down accounting this calendar year, report the date of the bank's acquisition. If the reporting bank was acquired during the calendar year-to-date reporting period and applied push down accounting to its balance sheet in accordance with the "push down accounting" section of the Glossary entry for "business combinations," report the date (month, day, and year) as of which the acquisition took place. For example, a bank that was acquired as of the close of business July 1, 1995, and applied push down accounting to its balance sheet would report 070195 in this Memorandum item in the Reports of Condition and Income for September 30 and December 31, 1995.

Push down accounting is the establishment of a new accounting basis for a bank in its separate financial statements (including its Call Report) as a result of a substantive change in control. When push down accounting is used to account for the acquisition of a bank that retains its separate corporate existence, the acquired bank's assets and liabilities (Schedule RC) are restated to their fair values as of the acquisition date. The bank's post-acquisition income statements (Schedule RI) only include amounts from the date of its acquisition through the end of the calendar year-to-date reporting period.

If the reporting bank has not been acquired during this calendar year or if the reporting bank has been acquired during this calendar year but push down accounting was not applied, the bank should report zeros (i.e., 000000) in the month, day, and year columns of this item.

OTHER INSTRUCTIONAL CHANGES

FASB Statement No. 114 on Loan Impairment

FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan," as amended, is effective for fiscal years beginning after December 15, 1994. Subject to the additional regulatory reporting guidance presented below, this new accounting standard must be adopted for Call Report purposes after its effective date based on each bank's fiscal year. Early application in the Call Report is also permitted.

Statement No. 114 defines impairment and sets forth measurement methods for estimating the portion of the total allowance for loan and lease losses attributable to impaired loans. Statement No. 114 does not address the overall adequacy of the allowance for loan and lease losses, but focuses instead on the allowance for estimated credit losses on impaired loans. Therefore, bank management is responsible for ensuring that the overall allowance for loan and lease losses is adequate to cover all estimated credit losses in the loan portfolio as described in the December 1993 "Interagency Policy Statement on the Allowance for Loan and Lease Losses."

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In connection with the Federal Financial Institutions Examination Council's review of implementation issues arising from Statement No. 114, the Council has decided that, for risk-based capital purposes, the portion of an institution's allowance established pursuant to Statement No. 114 is considered general in nature and should be reported as part of the allowance for loan and lease losses, which is included in Tier 2 capital subject to existing limits. The Council has also decided to retain the existing regulatory nonaccrual policies that are discussed in the Glossary entry for "nonaccrual status" in the Call Report instructions.

A new Glossary entry for "loan impairment" has been prepared to provide a summary of the new accounting standard along with related regulatory reporting guidance. The existing Glossary entries for the "allowance for loan and lease losses" and "troubled debt restructurings" have also been revised to incorporate the provisions of Statement No. 114 and a new Glossary entry for "foreclosed assets" has been created in order to present the Call Report instructions' previously scattered reporting guidance on this subject in a single location. These Glossary entries appear below.

Loan Impairment: The accounting standard for impaired loans is FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan." For further information, refer to FASB Statement No. 114.

Each institution is responsible for maintaining an allowance for loan and lease losses (allowance) adequate to absorb estimated credit losses in its entire loan and lease portfolio. As indicated in the Interagency Policy Statement on the Allowance for Loan and Lease Losses dated December 21, 1993, a bank should rely non several methods when analyzing its loan and lease portfolio and determining the appropriate level for its allowance. FASB Statement No. 114 sets forth measurement methods for estimating the portion of the overall allowance for loan and lease losses attributable to impaired loans. For comprehensive guidance on the maintenance of an adequate allowance, banks should refer to the Interagency Policy Statement and the Glossary entry for "allowance for loan and lease losses." National banks should also refer to the Office of the Comptroller of the Currency's Banking Circular 201 (BC-201) and the section of the Comptroller's Handbook for National Bank Examiners discussing the allowance for loan and lease losses.

In general, certain loans are impaired under FASB Statement No. 114 when, based on current information and events, it is likely that an institution will be unable to collect all amounts due according to the contractual terms of the loan agreement, (i.e., both principal and interest). An institution should apply its normal loan review procedures when determining whether a loan covered by FASB Statement No. 114 is impaired. When a loan is deemed impaired under FASB Statement No. 114, an institution may choose to measure impairment using (1) the present value of expected future cash flows discounted at the loan's effective interest rate (i.e., the contractual interest rate adjusted for any net deferred loan fees or costs, premium, or discount existing at the origination or acquisition of the loan), (2) the loan's observable market price, or (3) the fair value of the collateral, if the loan is collateral dependent. A loan is collateral dependent if repayment of the loan is expected to be provided solely by the underlying collateral and there are no other available and reliable sources of repayment. A creditor should consider estimated costs to sell, on a discounted basis, in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan. If the measure of an impaired loan is less than the recorded investment in the loan, an impairment should be recognized by creating an allowance for estimated credit losses for the impaired loan or by adjusting an existing allowance with a corresponding charge or credit to "Provision for loan and lease losses."

For purposes of the Reports of Condition and Income, impairment of a collateral dependent loan must be measured using the fair value of the collateral. In general, any portion of the recorded investment in a collateral dependent loan (including recorded accrued interest, net deferred loan fees or costs, and unamortized premium or discount) in excess of the fair value of the collateral that can be identified as uncollectible should be promptly charged off against the allowance for loan and lease losses.

An additional allowance for estimated credit losses on an impaired loan over and above what is specified by FASB Statement No. 114 will not be automatically required by the federal banking agencies. However, an additional allowance on certain impaired loans is not precluded and may be necessary based on

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consideration of institution-specific factors, such as historical loss experience compared with estimates of such losses and concerns about the reliability of cash flow estimates, the quality of an institution's loan review function, or controls over its process for estimating its allowance for impaired loans under FASB Statement No. 114.

FASB Statement No. 114 also addresses the accounting by creditors for all loans that are restructured in a troubled debt restructuring involving a modification of terms, except loans that are measured at fair value or the lower of cost or fair value. For guidance on troubled debt restructurings, see the Glossary entry for "troubled debt restructurings."

As with all other loans, all impaired loans should be reported as past due or nonaccrual loans in Schedule RC-N in accordance with the schedule's instructions. Since full collection of principal and interest is not expected for impaired loans, income accrual should normally be discontinued on such loans at the time that they first become impaired. Any cash payments received on impaired loans should be reported in accordance with the criteria for the cash basis recognition of income in the Glossary entry for "nonaccrual status." For further guidance, see that Glossary entry.

Allowance for Loan and Lease Losses: Each bank must maintain an allowance for loan and lease losses (allowance) that is adequate to absorb estimated credit losses associated with its loan and lease portfolio, including all binding commitments to lend. To the extent not provided for in a separate liability account, the allowance should also be sufficient to absorb estimated credit losses associated with off-balance sheet credit instruments such as standby letters of credit. (These instruments are included in the terms "loan(s)," "loans and leases" and "portfolio," as used in this Glossary entry.)

The term "estimated credit losses" means an estimate of the current amount of the loan and lease portfolio (net of unearned income) that is not likely to be collected; that is, net charge-offs that are likely to be realized for a loan or pool of loans given facts and circumstances as of the evaluation date. These estimated credit losses should meet the criteria for accrual of a loss contingency (i.e., a provision to the allowance) set forth in generally accepted accounting principles (GAAP).

As of the end of each quarter, or more frequently if warranted, the management of each bank must evaluate, subject to examiner review, the collectibility of the loan and lease portfolio, including any recorded accrued and unpaid interest (i.e., not already reversed or charged off), and make appropriate entries to maintain the balance of the allowance for loan and lease losses on the balance sheet at a level adequate to absorb estimated credit losses. Management must maintain reasonable records in support of their evaluations and entries.

Additions to, or reductions of, the allowance account resulting from such evaluations are to be made through charges or credits to the "provision for loan and lease losses" (provision) in the Report of Income. When available information confirms that specific loans and leases, or portions thereof, are uncollectible, these amounts should be promptly charged off against the allowance. All charge-offs of loans and leases shall be charged directly to the allowance and any recoveries on loans or leases previously charged off shall be credited to the allowance. Under no circumstances can loan or lease losses be charged directly to "Undivided profits and capital reserves."

The allowance account must never have a debit balance. If losses charged off exceed the amount of the allowance, a provision sufficient to restore the allowance to an adequate level must be charged to expense on the income statement immediately. A bank shall not increase the allowance account by transferring an amount from undivided profits or any segregation thereof to the allowance for loan and lease losses.

To the extent that a bank's reserve for bad debts for tax purposes is greater than or less than its "allowance for loan and lease losses" on the balance sheet of the Report of Condition, the difference is referred to as a temporary difference. See the Glossary entry for "income taxes" for guidance on how to report the tax effect of such a temporary difference.

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Recourse liability accounts that arise from recourse obligations for any transfers of loans that are reported as sales for purposes of these reports should not be included in the allowance for loan and lease losses. These accounts are considered separate and distinct from the allowance account and should be reported as liabilities on Schedule RC, item 20, "Other liabilities."

For comprehensive guidance on the maintenance of an adequate allowance for loan and lease losses, banks should refer to theInteragency Policy Statement on the Allowance for Loan and Lease Losses dated December 21, 1993. National banks should also refer to the Office of the Comptroller of the Currency's Banking Circular 201 (BC-201) and the section of the Comptroller's Handbook for National Bank Examiners discussing the allowance for loan and lease losses. Information on the application of FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan," to the determination of an allowance for credit losses on those loans covered by that accounting standard is provided in the Glossary entry for "loan impairment."

For information on reporting on foreclosed and repossessed assets, see the Glossary entry for "foreclosed assets."

Troubled Debt Restructurings: The accounting standards for troubled debt restructurings are set forth in FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended by FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan." A summary of this amended accounting standard follows. For further information, see FASB Statements No. 15 and No. 114.

A troubled debt restructuring is a restructuring in which a bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. The restructuring may include (1) the transfer from the borrower to the bank of real estate, receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan or other debt instrument (hereafter referred to collectively as a "loan"), (2) a modification of the loan terms, or (3) a combination of the above. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not to be reported as a restructured loan.

The recorded amount of a loan is the loan balance adjusted for any unamortized premium or discount and unamortized loan fees or costs, less any amount previously charged off, plus recorded accrued interest.

A troubled debt restructuring that is in substance a foreclosure or repossession should be accounted for in accordance with paragraph 34 of FASB Statement No. 15. Thus, regardless of whether foreclosure or repossession proceedings have been formally instituted, a secured loan should be treated as if assets have been received in satisfaction of the loan when the bank obtains physical possession of the underlying collateral from the borrower. In such situations, the secured loan should be recategorized on the balance sheet as either other real estateowned or other assets, as appropriate, at the lesser of the fair value of the underlying collateral or the recorded amount of the loan. (For further information, see the Glossary entry for "foreclosed assets.")

In cases where the new terms of the restructured troubled debt provide for a reduction of either interest or principal (referred to as a modification of terms), the institution should measure any loss on the restructuring in accordance with the guidance concerning impaired loans set forth in the Glossary entry for "loan impairment," except that a troubled debt restructuring involving a modification of terms before the effective date ofFASB Statement No. 114 may continue to be accounted for and disclosed in accordance with FASB Statement No. 15 as long as the restructured loan is not impaired based on the terms of the restructuring agreement. See the Glossary entry for "nonac crual status" for a discussion of the conditions under which a nonaccrual asset which has undergone a troubled debt restructuring (including those that involve a multiple note structure) may be returned to accrual status.

Despite the granting of some type of concession by a bank to a borrower, a troubled debt restructuring may still result in the recorded amount of the loan bearing a market yield, i.e., an effective interest rate that at the time of the restructuring is greater than or equal to the rate that the bank is willing to accept for

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a new extension of credit with comparable risk. This may arise as a result of reductions in the recorded amount of the loan prior to the restructuring (e.g., by charge-offs). All loans and held-to-maturity debt securities that have undergone troubled debt restructurings and that are in compliance with their modified terms must be reported as restructured assets in Schedule RC-C, Memorandum item 1 (on the FFIEC 034) or 2 (on the FFIEC 031, 032, and 033), and Schedule RC-B, Memorandum item 4, respectively. However, a restructured asset that is in compliance with its modified terms and yields a market rate need not continue to be reported as a troubled debt restructuring in the appropriate memorandum item in these schedules in calendar years after the year in which the restructuring took place.

A restructuring may include both a modification of terms and the acceptance of property in partial satisfaction of the loan. The accounting for such a restructuring is a two step process. First, the recorded amount of the loan is reduced by the fair value of the property received. Second, the institution should measure any impairment on the remaining recorded balance of the restructured loan in accordance with the guidance concerning impaired loans set forth in FASB Statement No. 114.

A restructuring may involve the substitution or addition of a new debtor for the original borrower. The treatment of these situations depends upon their substance. Restructurings in which the substitute or additional debtor controls, is controlled by, or is under common control with the original borrower, or performs the custodial function of collecting certain of the original borrower's funds, should be accounted for as modifications of terms. Restructurings in which the substitute or additional debtor does not have a control or custodial relationship with the original borrower should be accounted for as a receipt of a 'new' loan in full or partial satisfaction of the original borrower's loan. The "new" loan should be recorded at the lesser of its fair value or the recorded amount of the original borrower's loan.

A credit analysis should be performed for a restructured loan in conjunction with its restructuring to determine its collectability and estimated credit loss. When available information confirms that a specific restructured loan, or a portion thereof, is uncollectible, the uncollectible amount should be charged off against to the allowance for loan and lease losses at the time of the restructuring. As is the case for all loans, the credit quality of restructured loans should be regularly reviewed. The bank should periodically evaluate the collectibility of the restructured loan so as to determine whether any additional amounts should be charged to the allowance for loan and lease losses or, if the restructuring involved an asset other than a loan, to another appropriate account.

For purposes of Schedules RC-B, RC-C, and RC-N, a restructured debt security or loan is an extension of credit to a borrower with financial difficulties that has been restructured by means of a modification of terms. On the other hand, the recorded amount of an asset received by a bank in full or partial satisfaction of a loan is not reportable as a restructured loan. Also, a loan to a purchaser of "other real estate owned" by the reporting bank for the purpose of facilitating the disposal of such real estate is not considered a restructured loan.

Foreclosed Assets: An asset (including a borrower's own equity securities) received in full satisfaction of a loan should be recorded at the lesser of (1) the fair value of the asset or (2) the recorded amount of the loan (plus the amount of any senior debt to which the property is subject) at the time of the foreclosure or repossession. (The recorded amount of a loan is the loan balance adjusted for any unamortized premium or discount and unamortized loan fees or costs, less any amount previously charged off, plus recorded accrued interest.) The lesser of these two amounts becomes the "cost" of the foreclosed asset. The amount by which the recorded amount of the loan exceeds the fair value of the asset is a loss which must be charged to the allowance for loan and lease losses at the time of foreclosure or repossession. If an asset is sold shortly after it was received in a foreclosure or repossession, the value received in the sale shall be substituted for the fair value estimated at the time of foreclosure or repossession and adjustments made to the loss charged against the allowance. In those cases where property is received in full satisfaction of an asset other than a loan (e.g., a debt security), the loss should be reported on the income statement in a manner consistent with the balance sheet classification of the asset satisfied.

An asset received in partial satisfaction of a loan should be recorded at the fair value of the asset at the time of foreclosure and this fair value becomes the "cost" of the foreclosed asset. (For further

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information, see the Glossary entry for "troubled debt restructurings.") The amount of any senior debt to which foreclosed real estate is subject at the time of foreclosure must be reported as a liability in Schedule RC, item 17, "Mortgage indebtedness and obligations under capitalized leases."

After foreclosure, each foreclosed real estate asset (including each "in-substance" foreclosed real estate asset) must be carried at the lower of (1) the fair value of the asset minus the estimated costs to sell the asset or (2) the cost of the asset (as defined in the preceding paragraphs). This determination must be made on an asset-by-asset basis. If the fair value of a foreclosed real estate asset minus the estimated costs to sell the asset is less than the asset's cost, the deficiency must be recognized as a valuation allowance against the asset which is created through a charge to expense. The valuation allowance should thereafter be increased or decreased (but not below zero) through charges or credits to expense for changes in the asset's fair value or estimated selling costs.

If an asset received in a foreclosure or repossession is held for more than a short period of time, any additional losses in value and any gain or loss from the sale or disposition of the asset is not to be reported as a loan or lease loss or recovery and shall not be debited or credited to the allowance for loan and lease losses. Such additional declines in value and the gain or loss from the sale or disposition shall be reported net on the Report of Income as "other noninterest income" or "other noninterest expense," as appropriate.

Offsetting of Amounts Associated With Conditional and Exchange Contracts

The Call Report instructions have to date briefly addressed the topic of offsetting, i.e., netting assets and liabilities, in the General Instructions (page 10b, dated 6-91). The Financial Accounting Standards Board issued Interpretation No. 39 on offsetting in March 1992 and this interpretation took effect in 1994. As a result, a new Glossary entry for "offsetting" is being added to the Call Report instructions.

Offsetting: Offsetting is the presenting of recognized assets and liabilities on a net basis in the balance sheet. Except where specifically required by the instructions for the Reports of Condition and Income, banks shall not offset or otherwise net any assets and liabilities when preparing these reports. However, banks are permitted to offset assets and liabilities recognized in the Report of Condition for forward, interest rate swap, currency swap, option, and other conditional or exchange contracts executed with the same counterparty when a "right of setoff" exists. Under FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts," a right of setoff exists when all of the following conditions are met:

(1) Each of two parties owes the other determinable amounts. Thus, only bilateral netting is permitted.

(2) The reporting party has the right to set off the amount owed with the amount owed by the other party.

(3) The reporting party intends to set off. This condition does not have to be met for fair value amounts recognized for conditional or exchange contracts that have been executed with the same counterparty under a master netting arrangement.

(4) The right of setoff is enforceable at law. Legal constraints should be considered to determine whether the right of setoff is enforceable. Accordingly, the right of setoff should be upheld in bankruptcy (or receivership). Offsetting is appropriate only if the available evidence, both positive and negative, indicates that there is reasonable assurance that the right of setoff would be upheld in bankruptcy (or receivership).

According to Interpretation No. 39, a master netting arrangement exists if the reporting bank has multiple contracts, whether for the same type of conditional or exchange contract or for different types of contracts, with a single counterparty that are subject to a contractual agreement that provides for the net

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settlement of all contracts through a single payment in a single currency in the event of default or termination of any one contract.

Offsetting the assets and liabilities recognized for conditional or exchange contracts outstanding with a single counterparty results in the net position between the two counterparties being reported as an asset or a liability in the Report of Condition. The reporting entity's choice to offset or not to offset assets and liabilities recognized for conditional or exchange contracts must be applied consistently.

Income From the Sale and Servicing of Mutual Funds and Annuities

The instructions for reporting this income in Schedule RI, Memorandum item 2, have been revised in response to questions raised since this information began to be collected in the first quarter 1994 Call Report.

Memorandum item 2, Income from the sale and servicing of mutual funds and annuities (in domestic offices). Report the amount of income earned by the reporting bank during the calendar year to date from the sale and servicing of mutual funds and annuities (in domestic offices).

Include in this item:

(1) Income earned in connection with mutual funds and annuities that are sold on bank premises or are otherwise sold by the reporting bank, through a bank subsidiary, or by affiliated or unaffiliated entities from whom the bank receives income. This income may be in the form of fees or sales commissions at the time of the sale or fees, including a share of another entity's fees, that are earned over the duration of the account (e.g., annual fees, Rule 12b-1 fees or "trailer fees," and redemption fees). Commissions should be reported as income as earned at the time of the sale (i.e., on an accrual basis), but may be reported as income when payment is received if the results would not differ materially from those obtained using an accrual basis.

(2) Income from leasing arrangements with affiliated and unaffiliated entities who lease space in bank offices for use in selling mutual funds and annuities. Income from leasing arrangements should be reported as income as earned (i.e., on an accrual basis), but may be reported as income when payment is received if the results would not differ materially from those obtained using an accrual basis.

(3) Fees for providing investment advisory services for proprietary mutual funds and annuities.

(4) Fees for providing securities custody, transfer agent, and other operational and ancillary services to mutual funds and annuities that are sold on bank premises or are otherwise sold by the reporting bank, through a bank subsidiary, or by affiliated or unaffiliated entities from whom the bank receives income at the time of the sale or over the duration of the account.

Also include income from sales conducted through the reporting bank's trust department that are not executed in a fiduciary capacity (e.g., trustee, executor, administrator, conservator), but exclude income from sales conducted by the trust department that are executed in a fiduciary capacity.

In general, this income will have been included in the amount of "Other fee income" reported in Schedule RI, item 5.b.(1) on the FFIEC 034; item 5.f.(1) on the FFIEC 031, 032, and 033. However, income from leasing arrangements, or the portion thereof, that is fixed in amount and does not vary based on sales volume may have been reported as a deduction from Schedule RI, item 7.b, "Expenses of premises and fixed assets." Thus, the income to be included in this item should be reported gross rather than net of expenses incurred by the reporting bank or a consolidated subsidiary.

Exclude fees earned for providing securities custody, transfer agent, and other operational and ancillary services to third party mutual funds and annuities that are not sold on bank premises and are not

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otherwise sold by the reporting bank, through a bank subsidiary, or by affiliated or unaffiliated entities from whom the bank receives income at the time of the sale or over the duration of the account.

Instructional Changes Affecting Schedule RC-R, "Risk-Based Capital"

With the expansion of the information on the notional amounts of off-balance sheet derivatives in Schedule RC-L, as discussed above, and the banking agencies' decision to use the amortized cost rather than the fair value of available-for-sale debt securities when calculating regulatory capital ratios, the definition of "adjusted total assets" in Schedule RC-R, item 1, is being modified accordingly. Banks with total assets of less than $1 billion determine the ratio of their "total capital" to their "adjusted total assets" each quarter to determine whether they are required to complete the entire risk-based capital schedule or only a portion of the schedule.

In addition, for those banks that complete Schedule RC-R in its entirety, the amortized cost of available-for-sale debt and equity securities should be reported in items 4 through 7 of this schedule. The difference between the fair value and the amortized cost of these securities should be reported in Schedule RC-R, item 8. Furthermore, to the extent that the amount of net deferred tax assets carried on the balance sheet and reported in Schedule RC-F, item 2, includes the deferred tax effects of any unrealized holding gains and losses on available-for-sale debt securities, these deferred tax effects may be excluded from the net deferred tax asset amount reported as a 100 percent risk weight asset in Schedule RC-R, item 7.a. If these deferred tax effects are excluded, they should be reported in Schedule RC-R, item 8, and this treatment must be followed consistently over time.

The portion of the instruction to Schedule RC-R, item 1, addressing "adjusted total assets" has been revised as follows:

"Adjusted total assets" is defined as total assets (after adjusting available-for-sale securities from fair value to amortized cost) LESS cash, U.S. Treasury securities, U.S. Government agency obligations, and 80 percent of U.S. Government-sponsored agency obligations not held for trading PLUS the allowance for loan and lease losses and selected off-balance sheet items. "Adjusted total assets" should be measured by using amounts reported elsewhere in the Report of Condition according to the following formula:

Total assets	Schedule RC, item 12.c, on the FFIEC 034; Schedule RC, item 12, on the FFIEC 031, 032, and 033
Adjustment to Available-for-Sale Securities	- Schedule RC-B, item 7, column D, + Schedule RC-B, item 7, column C
LESS:	
Cash (currency and coin)	- Schedule RC-M, item 3.b, on the FFIEC 034; - Schedule RC-A, item 1.b, on the FFIEC 031, 032, and 033
U.S. Treasuries (not held for trading)	- Schedule RC-B, item 1, sum of columns A and C
U.S. Government agencies (not held for trading)	- Schedule RC-B, item 2.a, sum of columns A and C, plus item 4.a.(1), sum of columns A and C

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80% of U.S. Government-sponsored agencies (not held for trading)	- 0.8 x (Schedule RC-B, item 2.b, sum of columns A and C, plus item 4.a.(2), sum of columns A and C, plus item 4.b.(1), sum of columns A and C)
PLUS:	
Allowance for Loan and Lease Losses	+ Schedule RC, item 4.b
Unused Commitments	+ Schedule RC-L, sum of items 1.a through 1.e
Financial Standby Letters of Credit, Net	+ Schedule RC-L, item 2 minus item 2.a
Performance Standby Letters of Credit, Net	+ Schedule RC-L, item 3 minus item 3.a
Commercial Letters of Credit	+ Schedule RC-L, item 4
Participations Acquired in Acceptances	+ Schedule RC-L, item 6
Securities Lent	+ Schedule RC-L, item 8
Mortgages Transferred with Recourse	+ Schedule RC-L, sum of items 9.a.(1), 9.b.(1), and 9.c.(1)
When-Issued Securities	+ Schedule RC-L, sum of items 10.a and 10.b
Forward Contracts	+ Schedule RC-L, item 14.b, sum of columns A through D
Exchange-Traded Purchased Options	+ Schedule RC-L, item 14.c.(2), sum of columns A through D
Over-the-Counter Purchased Options	+ Schedule RC-L, item 14.d.(2), sum of columns A through D
Swaps	+ Schedule RC-L, item 14.e, sum of columns A through D
Other Off-Balance Sheet Liabilities	+ Schedule RC-L, item 12
EQUALS:	= Adjusted Total Assets

As mentioned above, the banking agencies have decided to use the amortized cost rather than the fair value of available-for-sale debt securities when calculating regulatory capital ratios. Thus,

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unrealized holding gains and losses on available-for-sale debt securities are excluded from the definition of Tier 1 capital. However, net unrealized holding losses on available-for-sale equity securities with readily determinable fair values will be deducted when calculating Tier 1 capital. The instructions for reporting average total assets in Schedule RC-K, "Quarterly Averages," are being revised to be consistent with the regulatory capital treatment of available-for-sale securities.

Item 7 (on the FFIEC 034), item 9 (on the FFIEC 031, 032, and 033), Total assets. Report the quarterly average for the bank's total assets, as defined for "Total assets," on Schedule RC, item 12.a on the FFIEC 034, item 12 on the FFIEC 031, 032, and 033, except that this quarterly average should reflect all debt securities (not held for trading) at amortized cost, available-for-sale equity securities with readily determinable fair values at the lower of cost or fair value, and equity securities without readily determinable fair values at historical cost. In addition, to the extent that net deferred tax assets included in the bank's total assets, if any, include the deferred tax effects of any unrealized holding gains and losses on available-for-sale debt securities, these deferred tax effects may be excluded from the determination of the quarterly average for total assets. If these deferred tax effects are excluded, this treatment must be followed consistently over time.

Other Instructional Clarifications

As previously noted in Financial Institutions Letter FIL-69-94, dated November 1, 1994, the Call Report instructions are being clarified in response to questions about the reporting of lines of credit extended to bank insiders, participations in pools of residential mortgages, refundable loan commitment fees, and stock subscription payments. A more detailed discussion of these instructional matters follows.

"Extensions of credit" to executive officers, directors, principal shareholders, and their related interests -- Banks report information on "extensions of credit" to insiders in Schedule RC-M, item 1. As defined in Federal Reserve Board Regulation O, an "extension of credit" includes the granting of a line of credit. Banks that have granted a line of credit to an insider often ask what they should report as the amount of the extension of credit in this situation. The Call Report instructions for Schedule RC-M, item 1, are being revised to indicate that the amount of the extension of credit is normally the total amount of the line of credit extended to the insider, not just the current balance of the funds that have been advanced to the insider under the line of credit.

Glossary entry for "participations in pools of residential mortgages" -- Questions have been asked periodically about the meaning of the term "residential mortgages" as it is used in this Glossary entry. The term refers to first lien 1-to-4 family residential mortgages and the Glossary entry is being clarified accordingly.

Refundable loan commitment fees -- Prior to loan closing, refundable loan commitment fees that a bank holds meet the definition of a "deposit" in the FDI Act. A reference to these fees is being added to the list of items that are to be reported as deposits in the "Definitions" section of the instructions for Schedule RC-E, "Deposit Liabilities."

Stock subscription payments -- Payments that a bank has received from stock subscribers prior to the issuance of the stock may be either refundable or nonrefundable under the terms of the stock offering. When the payments are refundable, the funds held by the bank meet the definition of a "deposit" in the FDI Act. When they are nonrefundable, the funds would be considered "other liabilities" and not a deposit. This distinction is being explained in the relevant instructions.

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