

FFIEC
Federal Financial Institutions Examination Council
Washington, D.C. 20037

CALL REPORT DATE: December 31, 1997

FOURTH 1997 CALL, NUMBER 202

SUPPLEMENTAL INSTRUCTIONS

December 1997 Call Report Materials

The set of report forms that is enclosed in your December 31, 1997, Call materials is generally based on whether your bank has any "foreign offices" (including an International Banking Facility) and on the total assets reported by your bank in its June 30, 1996, Report of Condition (see pages 1 through 4 of the General Instructions section of the Call Report instructions).

Based on these criteria, in general:

- Banks of any size that have "foreign offices" must file the FFIEC 031 report;
- Banks without foreign offices and with assets of \$300 million or more must file the FFIEC 032 report;
- Banks without foreign offices and with assets of \$100 million or more but less than \$300 million must file the FFIEC 033 report; and
- Banks without foreign offices and with assets of less than \$100 million must file the FFIEC 034 report.

Please note that your Call Report materials for this quarter contain only one complete set of Call Report forms. Prior to September 30, 1997, the quarterly Call Report materials contained two sets of forms.

Submission of Completed Reports

Beginning this quarter, each bank must file its Call Reports in one of the following two ways:

- By using computer software to prepare its reports in automated form and then filing the reports directly with the banking agencies' electronic collection agent, Electronic Data Systems Corporation (EDS), either by transmitting the Call Report data file electronically by modem or by sending EDS a computer diskette; or
- By completing its reports in hard-copy (paper) form and arranging with EDS, a Call Report software vendor, or another party to convert its paper reports to automated form. If a party other than EDS performs this service, that party must electronically transmit the bank's Call Report data file to EDS.

Banks are no longer permitted to send completed hard-copy (paper) Call Report forms directly to the appropriate federal banking agency, i.e., to the FDIC for national and FDIC-supervised banks and to the appropriate Federal Reserve District Bank for state member banks.

Banks that electronically transmit their Call Reports to EDS or send a computer diskette to EDS should not mail hard copies of the Call Report to any federal bank supervisory agency unless specifically requested to do so. However, banks filing their Call Report data files directly with EDS must maintain in their files a signed and attested printout of the data file submitted to EDS showing at least the title of each Call Report item and the reported amount. The cover page of the agency-supplied printed report forms enclosed in the Call Report materials should be used to fulfill the signature and attestation requirement and this cover should be attached to the printout placed in the bank's files. For assistance in submitting Call Reports to EDS, contact EDS toll free on (800) 255-1571.

Banks that contract with another party to convert their Call Reports to automated form for electronic transmission to EDS should deliver their hard-copy reports to that party in sufficient time for EDS to receive their Call Report data files by the submission deadline.

Currently, Call Report preparation software products marketed by DBI Financial Systems, Inc.; DPSC Software, Inc.; Information Technology, Inc.; Milas LLC; and Sheshunoff Information Services, Inc., have been certified for electronic submission by EDS. Information Technology's software operates on mainframe computers while the other vendors' software products run on personal computers. The addresses and telephone numbers of the vendors with EDS-certified Call Report software are listed at the end of these Supplemental Instructions.

FFIEC Instruction Books

Your bank should now have received a complete revised Call Report instruction book which should be used when preparing your December 31, 1997, report. This book contains the instructions for all four versions of the Call Report forms (FFIEC 031, 032, 033, and 034) in a single volume. It incorporates all instructional updates issued through June 1997 and conforms certain other instructions with generally accepted accounting principles (GAAP) and the other reporting changes implemented in March 1997. The revised instructions also correct cross-references to specific items on the Call Report forms and clarify several instructions.

If your bank has not received its revised instruction book, a copy can be obtained from the FDIC's Call Reports Analysis Section (telephone toll free on 800-688-FDIC) or from your Federal Reserve District Bank. The revised Call Report instruction book is available on both the FFIEC's Web site (<http://www.ffiec.gov>) and the FDIC's Web site ().

Reporting of Interest Rate Risk-Related Data

Several changes to the interest rate risk-related information collected in the Call Report took effect as of June 30, 1997. For the December 31, 1997, report date, banks may continue to report a reasonable estimate for any *individual* new or revised interest rate risk-related item for which the requested information is not yet readily available. Please note that even if estimates are reported, banks must follow footnotes 4, 5, and 6 to Schedule RC-B, "Securities," as they apply to Memorandum items 2.a, 2.b, and 2.c, respectively. Similarly, in Schedule RC-C, part I, "Loans and Leases," banks must follow the footnotes (footnotes 3 and 4 on the FFIEC 033 and 034; footnotes 2 and 3 on the FFIEC 031 and 032) as they apply to Memorandum items 2.a and 2.b on the FFIEC 034 and Memorandum items 3.a and 3.b on the FFIEC 031, 032, and 033.

In other words, each sum of the components of the maturity and repricing data for debt securities reported in Memorandum item 2.a, in Memorandum item 2.b, and in Memorandum item 2.c of Schedule RC-B plus any nonaccrual debt securities of the appropriate category included in Schedule RC-N, "Past Due and Nonaccrual Loans, Leases, and Other Assets," *must foot* to amounts reported in the body of Schedule RC-B. Likewise, each sum of the components of the maturity and repricing data for loans and leases reported in Memorandum item 2.a and in

Memorandum item 2.b on the FFIEC 034 and reported in Memorandum item 3.a and in Memorandum item 3.b on the FFIEC 031, 032, and 033, after appropriate adjustments for nonaccrual loans and leases included in Schedule RC-N, *must foot* to amounts reported in the body of Schedule RC-C, part I. Please refer to the instructions for these maturity and repricing items for further guidance.

Adoption of GAAP as the Reporting Basis for the Call Report

The FFIEC adopted generally accepted accounting principles (GAAP) as the reporting basis for the balance sheet, income statement, and related schedules in the Call Report, effective with the March 31, 1997, report date. The revised Call Report instruction book conforms with GAAP, but retains certain specific reporting guidance that falls within the range of acceptable practice under GAAP (see page 11 of the General Instructions). Thus, when preparing your Call Report, your bank should follow GAAP, including the specific reporting guidance, for recognition and measurement purposes. However, banks must continue to follow the line item instructions in order to determine the specific Call Report line item on which assets, liabilities, income, expenses, and other items are to be reported.

Banks that engaged in transactions or activities prior to January 1, 1997, that they had to report in the Call Report prior to 1997 in accordance with previous instructions that differed from GAAP are permitted to report them in accordance with GAAP beginning in 1997. If your bank has any of these pre-1997 transactions or activities that it would like to report in accordance with GAAP and has not yet done so, this change must be made in your December 31, 1997, Call Report. The effect of this retroactive application of GAAP on the amount of a bank's Call Report undivided profits as of January 1, 1997, net of applicable income taxes, (i.e., the amount of the "catch-up" adjustment) should be reported as a direct adjustment to equity capital in Schedule RI-A, item 9, and itemized in Schedule RI-E, item 5.a.

FASB Statement No. 125

Financial Accounting Standards Board (FASB) Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," issued in June 1996 and amended in December 1996, provides accounting and reporting standards for these types of transactions. These standards are based on consistent application of a financial-components approach that focuses on control. This means that after a bank transfers financial assets, it recognizes the financial and servicing assets it controls and the liabilities it has incurred, removes financial assets from the balance sheet when control has been surrendered, and removes liabilities from the balance sheet when they have been extinguished. Statement No. 125 provides consistent standards for determining whether transfers of financial assets should be treated as sales or secured borrowings. The statement includes implementation guidance for the accounting for loan participations and syndications, repurchase agreements including "dollar rolls," transfers of receivables with recourse, servicing of financial assets, securitizations, and securities lending transactions.

In general, Statement No. 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996, and is to be applied prospectively. Earlier or retroactive application is not permitted. However, the FASB has amended Statement No. 125 to defer until January 1, 1998, the effective date of this accounting standard's provisions governing the accounting for secured borrowings and collateral and the accounting for repurchase agreement, dollar-roll, securities lending, and similar transactions.

Statement No. 125 also affects the accounting and reporting for servicing contracts in existence before January 1, 1997, and certain other financial assets held on January 1, 1997, that can be

prepaid without the holder recovering substantially all of its recorded investment. Statement No. 125 also supersedes FASB Statement No. 122 on mortgage servicing.

Banks must adopt Statement No. 125 for Call Report purposes as of January 1, 1997, except for those provisions that have been deferred until 1998. *Thus, each bank should ensure that it prepares its December 31, 1997, Call Report in accordance with the applicable provisions of this accounting standard.* Glossary entries for "Transfers of financial assets," "Extinguishments of liabilities," and "Servicing assets and liabilities," which provide a summary of relevant provisions of this new accounting standard, are contained in the revised Call Report instruction book. Banks are encouraged to consult with their outside accountants for assistance in implementing Statement No. 125.

Allowance for Credit Losses

The American Institute of Certified Public Accountants' Audit and Accounting Guide for Banks and Savings Institutions, issued as of April 1, 1996, requires the allocation on the balance sheet of the allowance for credit losses between on-balance sheet financial instruments and off-balance sheet credit exposures. Previously, these allowance components often were reported in the aggregate on the balance sheet in the allowance for loan and lease losses (ALLL).

Banks should allocate the allowance for credit losses on Schedule RC, "Balance Sheet," consistent with their allocation methodology for other financial reporting purposes. Portions of the allowance related to off-balance sheet credit exposures that are reported as liabilities should be reported in Schedule RC, item 20, "Other liabilities," and in item 4 of Schedule RC-G. However, banks should aggregate these components of the allowance for credit losses when completing Schedule RI-B, part II, "Changes in Allowance for Loan and Lease Losses." Banks are encouraged to disclose the amounts of these components in Schedule RI-E, item 9, "Other explanations."

Under the previous reporting standards, banks have been including the portion of the allowance related to off-balance sheet credit exposures in Tier 2 capital for risk-based capital purposes, subject to specified limits. This regulatory capital treatment remains in effect under the new reporting standards.

Optional Regulatory Capital Worksheet

To assist banks in accurately reporting the items for certain capital and asset amounts used in calculating capital ratios in the Call Report's regulatory capital schedule (Schedule RC-R, items 3.a through 3.f), an *optional* regulatory capital worksheet is enclosed with this Call Report package. Although all banks must complete these six capital-related items, banks are not required to use the optional worksheet. Banks may use any reasonable approach to determining the requested capital-related items that is consistent with their primary federal regulator's capital standards.

The optional regulatory capital worksheet for December 31, 1997, is expected to be available on both the FFIEC's Web site (<http://www.ffiec.gov>) and the FDIC's Web site () by that date.

Accounting for Income Taxes

All banks must report income taxes, including deferred taxes, in the Call Report in accordance with FASB Statement No. 109, "Accounting for Income Taxes," as discussed in the Glossary entry for "income taxes" in your Call Report instruction book. For assistance in calculating a reasonable estimate of year-to-date applicable income taxes, an *optional* worksheet geared toward smaller banks is **available upon request**. To request a copy of the worksheet, state

member banks should contact their Federal Reserve District Bank. National and FDIC-supervised banks should telephone the FDIC's Call Reports Analysis Section in Washington, D.C., toll free on (800) 688-FDIC. In addition, the tax worksheet for December 31, 1997, is expected to be available on both the FFIEC's Web site (<http://www.ffiec.gov>) and the FDIC's Web site () by that date.

Asset, Loan, and Other Size Tests

Certain Call Report schedules and items are to be completed only by banks that meet specified size tests. While most of these size tests are based on total assets, some are based on the volume of a bank's agricultural loans or on the total par/notional amount of certain off-balance sheet contracts. Unless otherwise indicated, the various size tests are based on total assets and other amounts as reported in the June 30, 1996, Report of Condition, not on amounts as of the current Call Report date.

Checklist/Preparer's Guide

A Report Preparer's Checklist/Guide has been included with each Call Report package. This checklist should be used as a guide for the verification by the bank of details and totals reported on the Call Report forms. The checklist should not be returned with the completed forms.

Call Report Software Vendors

For information on available Call Report software, banks should contact:

DBI Financial Systems, Inc.
P.O. Box 1249
Cannon Beach, Oregon 97110
Telephone: (800) 774-3279

DPSC Software, Inc.
23501 Park Sorrento, Suite 105
Calabasas, California 91302
Telephone: (800) 825-3772

Electronic Strategies, Inc.
2405 Schneider Avenue
Menomonie, Wisconsin 54751
Telephone: (715) 235-8420

Information Technology, Inc.
1345 Old Cheney Road
Lincoln, Nebraska 68512
Telephone: (402) 423-2682

Milas LLC
2936 Graceland Way
Glendale, California 91206
Telephone: (818) 247-4866

Sheshunoff Information Services, Inc.
P.O. Box 13203 Capitol Station
Austin, Texas 78711-3203
Telephone: (800) 505-8333