

FFIEC Federal Financial Institutions Examination Council

Washington, D.C. 20037

CALL REPORT DATE: December 31, 1998
FOURTH 1998 CALL, NUMBER 206**SUPPLEMENTAL INSTRUCTIONS****December 1998 Call Report Materials**

The enclosed sample set of December 31, 1998, Call Report forms has been sent to your bank based, in most cases, 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, 1997, 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 FIEC 033 report; and
- Banks without foreign offices and with assets of less than \$100 million must file the FFIEC 034 report.

Please retain the enclosed sample set of forms for reference. Sample forms for each quarter are available on both the FFIEC's Web site (www.ffiiec.gov) and the FDIC's Website (www.fdic.gov). A paper copy of the Call Report forms, including the cover (signature) page, can be printed from the Web sites. In addition, banks that use Call Report software can print paper copies of the forms from their software.

Submission of Completed Reports

All banks must submit their Call Reports electronically to the banking agencies' electronic collection agent, Electronic Data Systems Corporation (EDS), using one of the two methods described in the agencies' cover letter for the December 31, 1998, report date. 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. For assistance in submitting Call Reports to EDS, contact EDS toll free at (800)255-1571.

Banks are required to maintain in their files a signed and attested record of the completed Call Report that has been submitted to EDS showing at least the title of each Call Report item and the reported amount. The cover page of the enclosed sample set of report forms should be used to fulfill the signature and attestation requirement. The signed cover page should be attached to the Call Report that is placed in the bank's files.

Currently, Call Report preparation software products marketed by DBI Financial Systems, Inc.; DPSC Software, Inc.; Electronic Strategies, Inc.; FICS America, Inc.; Information Technology, Inc.; Milas LLC; and Sheshunoff Information Services, Inc., have been certified for electronic submission by EDS. Both Electronic Strategies' and Information Technology's software operate 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

A complete revised Call Report instruction book was sent to each bank last year for use beginning with the reports for September 30, 1997. When appropriate, the quarterly Call Report materials sent to each bank include an instruction book update. This Call Report package does not contain an update to your instruction book. Your instruction book should include update pages dated 3-98 and 6-98. If your bank has not received the revised instruction book or the updates, copies may be obtained from the FDIC's Call Reports Analysis Section (telephone toll free at 800-688-FDIC) or from your Federal Reserve District Bank. The Call Report instructions are available on both the FFIEC's Web site (www.ffiec.gov) and the FDIC's Web site (www.fdic.gov).

Unrealized Gains on Available-for-Sale Equity Securities

The federal banking agencies have amended their risk-based capital standards to permit banks to include up to 45 percent of pretax net unrealized holding gains (that is, the excess, if any, of fair value over historical cost) on available-for-sale equity securities as a component of Tier 2 capital. For the gains to be eligible for inclusion in Tier 2 capital, the equity securities must have readily determinable fair values and must be prudently valued. Available-for-sale equity securities with readily determinable fair values are reported in Schedule RC-B, item 6.a. Accordingly, banks may recognize eligible gains on available-for-sale equity securities up to the specified limit when calculating their Tier 2 capital, which is reported in Schedule RC-R, item 3.a.(2). Banks that include any of their eligible gains in Tier 2 capital must risk weight the fair value rather than the historical cost of their available-for-sale equity securities when reporting their assets by risk-weight category in Schedule RC-R.

The leverage ratio is not affected by this change in the risk-based capital standards. Unrealized gains on available-for-sale equity securities are not included in the numerator (Tier 1 capital) or the denominator (total assets as defined in the agencies' capital standards) of the leverage ratio.

Mortgage and Nonmortgage Servicing Assets

On August 10, 1998, the federal banking agencies published a final rule amending their regulatory capital treatment of servicing assets. This rule increases the maximum amount of servicing assets (when combined with purchased credit card relationships (PCCRs)) that are includable in regulatory capital from 50 percent to 100 percent of Tier 1 capital. Servicing assets include the aggregate amount of mortgage servicing assets (MSAs) and nonmortgage servicing assets (NMSAs). The final rule also applies a further sublimit of 25 percent of Tier 1 capital to the aggregate amount of NMSAs and PCCRs. In addition, the rule subjects the valuation of MSAs, NMSAs, and PCCRs to a 10 percent discount.

One effect of the final rule is that NMSAs will for the first time be recognized, rather than deducted, for regulatory capital purposes. As a result, the FFIEC and the banking agencies are considering what the reporting treatment should be for NMSAs in the Call Report in 1999. Until then, banks with NMSAs should continue to report them as part of "All other identifiable intangible assets" in Schedule RC-M, item 6.b.(2). However, when completing Schedule RC-R -- Regulatory Capital, banks may recognize NMSAs in accordance with the provisions of the final rule. As an interim reporting treatment, banks that recognize NMSAs in their regulatory capital calculations should report the amount of NMSAs they include in their Tier 1 capital in Schedule RC-M, item 6.e, "Amount of intangible assets that have been grandfathered or are otherwise qualifying for regulatory capital purposes." This amount, plus the amount of PCCRs included in Tier 1 capital, must not exceed the 25 percent of Tier 1 capital sublimit for NMSAs and PCCRs.

FASB Statement No. 133

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under Statement No. 133, banks must recognize all derivatives as either assets or liabilities on the balance sheet and must measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a "fair value hedge," a "cash flow hedge," or a hedge of a foreign currency exposure of a net investment in a foreign operation. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation.

Statement No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Earlier application of *all* of the provisions of this statement is encouraged. Statement No. 133 contains further guidance on the initial application of this accounting standard. Piecemeal adoption of Statement No. 133 is not permitted. Banks must adopt Statement No. 133 for Call Report purposes upon its effective date based on their fiscal year. Early application is permitted in the Call Report in accordance with the transition guidance in Statement No. 133. Banks are encouraged to consult with their outside accountants as they plan to implement this new standard.

The FFIEC and the banking agencies are considering possible revisions to the Call Report in 1999 in response to Statement No. 133. In the interim, banks that have elected to adopt Statement No. 133 in 1998 should include any accumulated net gains (losses) on cash flow hedges on the balance sheet (Schedule RC) in item 26.b, "Net unrealized holding gains (losses) on available-for-sale securities." This amount should also be included in Schedule RI-A -- Changes in Equity Capital in item 11, "Change in net unrealized holding gains (losses) on available-for-sale securities." Any transition adjustments at the date of initial application of Statement No. 133 that must be reported as cumulative-effect-type adjustments of net income should be included in the income statement (Schedule RI) in item 11, "Extraordinary items and other adjustments, net of income taxes," and itemized and described in Schedule RI-E -- Explanations, item 3.

The transition provisions of Statement No. 133 provide that at the date of initial application, a bank may transfer any debt security categorized as held-to-maturity into the available-for-sale category or the trading category without calling into question the bank's intent to hold other debt securities to maturity in the future. The transition provisions further require that the unrealized holding gain (loss) on a transferred held-to-maturity debt security be reported as part of the cumulative-effect-type adjustments of net income if transferred to the trading category or as part of the adjustment to the change in net unrealized holding gains (losses) on available-for-sale securities if transferred to the available-for-sale category. Any security transferred from the held-to-maturity category as of the date of adoption of Statement No. 133 and sold in the same fiscal quarter should have been transferred to the trading category, not the available-for-sale category. Thus, any unrealized gain (loss) on the security that exists on the date of transfer would be reported in the Call Report income statement in Schedule RI, item 11, "Extraordinary items and other adjustments, net of income taxes," and would not be included in the gain (loss) on the sale of the security in Schedule RI, item 6.b, "Realized gains (losses) on available-for-sale securities."

Reporting of Risk-Weight Information in Schedule RC-R

Items 4 through 9 of Schedule RC-R -- Regulatory Capital are used for reporting the amount of assets and the credit equivalent amount of off-balance sheet items assigned to the four risk-based capital risk weight categories (zero, 20, 50, and 100 percent). Although banks with assets of less than \$1 billion whose total risk-based capital is greater than or equal to 8 percent of "adjusted total assets" are not required to complete items 4 through 9, such banks may choose to complete these items at their option. The risk-weight information needed for these items generally should be available to banks because it is used to determine net risk-weighted assets, which all banks must report in item 3.d.(1) of Schedule RC-R. In addition, banks that complete items 4 through 9 of Schedule RC-R will facilitate the banking agencies' verification of the net risk-weighted assets reported in item 3.d.(1).

AICPA Statements of Position 98-1 and 98-5

The American Institute of Certified Public Accountants has recently issued Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, and Statement of Position 98-5, *Reporting on the Costs of Start-Up Activities*.

SOP 98-1 provides guidance on whether costs of internal-use software should be capitalized (and then amortized) or expensed as incurred. Internal-use software has the following characteristics: (a) the software is acquired, internally developed, or modified solely to meet the entity's internal needs, and (b) during the software's development or modification, no substantive plan exists or is being developed to market the software externally.

SOP 98-5 requires costs of start-up activities and organization costs to be expensed as incurred. SOP 98-5 defines start-up activities broadly as "those one-time activities related to opening a new facility, introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer or beneficiary, initiating a new process in an existing facility, or commencing some new operation."

Both of these SOPs are effective for financial statements for fiscal years beginning after December 15, 1998, with earlier application encouraged in fiscal years for which annual financial statements have not been issued. For Call Report purposes, banks must adopt these two SOPs upon their effective date based on their fiscal year. Early application is permitted in the Call Report in accordance with the transition guidance in the SOPs. The Glossary entries for "Internally Developed Computer Software" and "Organization Costs" in the Call Report instruction book and other instructions affected by these SOPs will be revised at a later date.

Re-Booking Charged-Off Loans

Re-booking a charged-off loan is not an acceptable practice under generally accepted accounting principles and, therefore, is not acceptable for Call Report purposes. When making a full or partial direct write-down of a loan or lease for the amount that is uncollectible, a bank establishes a new cost basis for the asset. Consequently, once a new cost basis has been established for a loan or lease through a direct write-down, this cost basis must not be "written up" at a later date.

Optional Worksheets and Checklist

Item 3 of Schedule RC-R -- Regulatory Capital requests certain capital and asset amounts used in calculating capital ratios. To assist banks in accurately providing this information, an **optional** regulatory capital worksheet is available on request. The worksheet incorporates the recent regulatory capital changes for servicing assets and unrealized gains on available-for-sale equity securities. Because of the limited number of banks subject to the market risk capital guidelines, the worksheet does not include any calculations pertaining to these guidelines.\

In addition, for assistance in calculating a reasonable estimate of year-to-date applicable income taxes in accordance with FASB Statement No. 109, *Accounting for Income Taxes*, an **optional** worksheet geared toward smaller banks is available upon request. Also available upon request is a Report Preparer's Checklist, which banks can use to assist in verifying subtotals, totals, and tie-ins between schedules in the Call Report prior to its submission.

To request a copy of the optional worksheets or checklist, 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 at (800)688-FDIC or call (202) 898-6607. The two optional worksheets for December 31, 1998, also are expected to be available on both the FFIEC's Web site (www.ffiec.gov) and the FDIC's Web site (www.fdic.gov) by that date.

Call Report Software Vendors

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

DBI Financial Systems, Inc.
P.O. Box 60410
Santa Barbara, California 93160
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

FICS America, Inc.
2525 Water Ridge Parkway,
Suite 500
Charlotte, North Carolina 28217
Telephone: (704) 423-0394

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

Milas LLC
2936 Graceland Way
Glendale, California 91206
Telephone: (888) 862-7610

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

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