REVISIONS TO THE REPORTS OF CONDITION AND INCOME (CALL REPORT) FOR 1998

Contents

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The new or revised instructions pertaining to the revisions to the Reports of Condition and Income (Call Report) that take effect as of March 31, 1998, are presented below. Unless otherwise indicated, each of the revisions applies to all four versions of the Call Report forms (FFIEC 031, 032, 033, and 034). Where appropriate, samples of the revised schedules, or portions thereof, generally from the FFIEC 034 set of forms, are shown to illustrate the reporting changes and are followed by the relevant instructions. ***For the March 31, 1998, report date, banks may report a reasonable estimate for any new or revised item for which the requested information is not readily available.***

REDUCTIONS IN FREQUENCY AND DETAIL

Schedule RC-E -- Deposit Liabilities:

Memorandum item 1.e, "Preferred deposits," will be collected annually as of December 31 rather than quarterly as at present. In general, preferred deposits are deposits of states and political subdivisions in the U.S. that are secured or collateralized as required under state law. ***No changes have been made to the current instruction for this Memorandum item.*** The current instruction is located on page RC-E-13 (dated 9-97) of the Call Report instruction book.

Schedule RC-D -- Trading Assets and Liabilities (FFIEC 031 and 032 only):

This schedule is completed by banks with $1 billion or more in total assets or with $2 billion or more in notional amount of off-balance sheet derivative contracts. Three existing trading asset items are being eliminated: item 6, "Certificates of deposit (in domestic offices)," item 7, "Commercial paper (in domestic offices), and item 8, "Bankers acceptances (in domestic offices)." As a result, commercial paper held for trading (in domestic offices) will be reported as part of a bank's trading account securities, normally in Schedule RC-D, item 5, "Other debt securities (in domestic offices)." Certificates of deposit and bankers acceptances held for trading (in domestic offices) will be included in Schedule RC-D, item 9, "Other trading assets (in domestic offices)."

Schedule RC-D, FFIEC 031 and 032 only:

ASSETS

1. U.S. Treasury securities in domestic offices . . . . |__|__|__|
2. U.S. Government agency obligations in domestic offices (exclude mortgage-backed securities) . . . . |__|__|__|
3. Securities issued by states and political subdivisions in the U.S. in domestic offices . . . . |__|__|__|
4. Mortgage-backed securities (MBS) in domestic offices:
   a. Pass-through securities issued or guaranteed by FNMA, FHLMC, or GNMA . . . . |__|__|__|
   b. Other mortgage-backed securities issued or guaranteed by FNMA, FHLMC, or GNMA (include CMOs, REMICs, and stripped MBS) . . . . |__|__|__|
   c. All other mortgage-backed securities . . . . |__|__|__|
5. Other debt securities in domestic offices . . . . |__|__|__|

6.-8. **Not applicable**

9. Other trading assets in domestic offices . . . . |__|__|__|

NOTE: This illustration is taken from the FFIEC 031 report forms. On the FFIEC 032 report forms, the captions for items 1 through 9 do not refer to domestic offices.

<u>Instructions</u>

The revised instructions for Schedule RC-D, items 5 through 9, are as follows, with changes from the existing instructions highlighted in bold italics:

<u>Item 5, Other debt securities (in domestic offices).</u> Report the total value of all other debt securities (as defined for Schedule RC-B, item 5, "Other debt securities") held for trading (in domestic offices).

<u>Items 6-8</u>, Not applicable.

<u>Item 9, Other trading assets (in domestic offices).</u> Report the total value of all trading assets (in domestic offices) that cannot properly be reported in items 1 through ***5***. <u>Exclude</u> revaluation gains on off-balance sheet interest rate, foreign exchange rate, and other commodity and equity contracts (in domestic offices) (report in item 11 below).

NEW ITEMS RELATING TO REGULATORY CAPITAL

Item 3 of Schedule RC-R -- Regulatory Capital is being revised by adding one new subitem (item 3.e) to all four versions of the report forms and another two new subitems (items 3.a.(3) and 3.d.(2)) to the FFIEC 031 and 032 report forms applicable to larger banks. Because of these additions to item 3, the existing subitems will be renumbered.

Schedule RC-R, FFIEC 033 and 034:

3. Amounts used in calculating regulatory capital ratios (report amounts determined by the bank for its own internal regulatory capital analyses consistent with applicable capital standards):
   a. (1) Tier 1 capital . . . . |__|__|__|
      (2) Tier 2 capital . . . . |__|__|__|
      (3) Not applicable
   b. Total risk-based capital . . . . |__|__|__|
   c. Excess allowance for loan and lease losses (amount that exceeds 1.25% of gross risk-weighted assets) . . . . |__|__|__|
   d. (1) Net risk-weighted assets (gross risk-weighted assets less excess allowance reported in item 3.c above and all other deductions) . . . . |__|__|__|
      (2) Not applicable
   e. **Maximum contractual dollar amount of recourse exposure in low level recourse transactions (to be completed only if the bank uses the "direct reduction method" to report these transactions in Schedule RC-R)** . . . |__|__|__|
   f. "Average total assets" (quarterly average reported in Schedule RC-K, item 7, less all assets deducted from Tier 1 capital) . . . . |__|__|__|

NOTE: On the FFIEC 033, the parenthetic guidance in the caption to item 3.f refers to Schedule RC-K, item 9.

Schedule RC-R, FFIEC 031 and 032:

3. Amounts used in calculating regulatory capital ratios (report amounts determined by the bank for its own internal regulatory capital analyses consistent with applicable capital standards):
   a. (1) Tier 1 capital . . . . |__|__|__|
      (2) Tier 2 capital . . . . |__|__|__|
      (3) **Tier 3 capital** . . . . |__|__|__|
   b. Total risk-based capital . . . . |__|__|__|
   c. Excess allowance for loan and lease losses (amount that exceeds 1.25% of gross risk-weighted assets) . . . . |__|__|__|
   d. (1) Net risk-weighted assets (gross risk-weighted assets less excess allowance reported in item 3.c above and all other deductions) . . . . |__|__|__|
      (2) **Market risk equivalent assets** . . . . |__|__|__|
   e. **Maximum contractual dollar amount of recourse exposure in low level recourse transactions (to be completed only if the bank uses the "direct reduction method" to report these transactions in Schedule RC-R)** . . . |__|__|__|
   f. "Average total assets" (quarterly average reported in Schedule RC-K, item 9, less all assets deducted from Tier 1 capital) . . . . |__|__|__|

New items 3.a.(3) and 3.d.(2) are applicable to banks subject to the recently adopted capital requirements for market risk. Because of the limited number of banks subject to these requirements, the banking agencies are sending instructional guidance in this area directly to affected institutions. The following discussion and instructions relate to the reporting of low level recourse transactions in Schedule RC-R and new item 3.e.

Reporting of Low Level Recourse Transactions for Risk-Based Capital Purposes

According to the agencies' risk-based capital standards, the amount of risk-based capital that must be maintained for assets transferred with recourse should not exceed the maximum amount of recourse for which a bank is contractually liable. This low level recourse rule applies to transactions in which a bank contractually limits its risk of loss or recourse exposure to less than the minimum risk-based capital requirement for the assets transferred. Current Call Report instructions require a bank to report its low level recourse transactions in Schedule RC-R using only the so-called "gross-up method." The FFIEC is revising the Call Report instructions to give banks the additional choice of using the so-called "direct reduction" method to report their low level recourse exposures in Schedule RC-R. Banks that choose to use the "direct reduction method" must complete new Schedule RC-R item 3.e, "Maximum contractual dollar amount of recourse exposure in low level recourse transactions."

Instructions

The revised instructions for Schedule RC-R that are affected by the change in reporting low level recourse transactions are as follows, with changes from the existing instructions highlighted in bold italics:

General Instructions for Schedule RC-R, page RC-R-5 (dated 9-97)

Treatment of Low Level Recourse Transactions -- The banking agencies' risk-based capital standards provide that the amount of risk-based capital that must be maintained for assets transferred with recourse should not exceed the maximum amount of recourse for which a bank is contractually liable under the recourse agreement. This rule, ***known as the low level recourse rule,*** applies to transactions ***accounted for as sales under generally accepted accounting principles (GAAP)*** in which a bank contractually limits its risk of loss or recourse exposure to less than the full effective minimum risk-based capital requirement for the assets transferred -- generally, four percent for qualifying first lien 1-to-4 family residential mortgages and eight percent for most other assets. ***Low level recourse transactions may arise when a bank sells or securitizes assets and:***

- ***Uses contractual cash flows (e.g., interest-only strips receivable and so-called "spread accounts"), retained subordinated interests, retained securities (e.g., collateral invested amounts or cash collateral accounts), or other assets as credit enhancements. When a credit enhancement is carried as an asset on the bank's Call Report balance sheet in accordance with GAAP and the low level recourse rule applies, the on-balance sheet asset amount of the credit enhancement should be reported in Schedule RC-R, item 8. The "maximum contractual dollar amount of recourse exposure" for the transaction is this on-balance sheet asset amount on a net of tax basis, when appropriate.***

OR

- ***Provides limited recourse to purchasers of the assets sold, but does not use on-balance sheet assets as credit enhancements. In this situation, the "maximum contractual dollar amount of recourse exposure" for a transaction is the maximum contractual amount of the bank's recourse exposure as of the report date, less the balance of any associated recourse liability account established in accordance with GAAP and reported in Schedule RC, item 20, "Other liabilities."***

Banks that have entered into low level recourse transactions should report these transactions in Schedule RC-R ***using either the "direct reduction method" or the "gross-up method"*** in accordance with the following guidance. ***When using the "gross-up method," a bank includes an amount in its risk-weighted assets (the denominator of its risk-based capital ratios) for its "maximum contractual dollar amount of recourse exposure" that is calculated under the assumption that the bank's total risk-based capital ratio equals the 8 percent minimum requirement. In contrast, when using the "direct reduction method," a bank includes an institution-specific amount in its risk-weighted assets for its "maximum contractual dollar amount of recourse exposure" that is calculated using the actual amount of the bank's total risk-based capital. This institution-specific calculation produces the effect of directly reducing Tier 1 and total risk-based capital by the "maximum contractual dollar amount of recourse exposure" without lowering the bank's Tier 1 leverage capital ratio. For a bank whose risk-based capital ratios exceed the required minimums, it is normally preferable to use the "direct reduction method."***

- ***If the bank chooses to use the "<u>direct reduction method</u>," the "maximum contractual dollar amount of recourse exposure," as defined above, should be reported in Schedule RC-R, item 3.e. In addition, the bank should report as a credit equivalent amount in Schedule RC-R, item 7.b, column B, an "institution-specific add-on factor" for its low level recourse exposure. The amount of this factor also should be included in the "net risk-weighted assets" that the bank reports in Schedule RC-R, item 3.d.(1). The "institution-specific add-on factor," which is independent of the risk weight category of the assets to which the recourse applies, is calculated as follows:***

$$F = \frac{C \times A}{C - R} - A$$

where ***F =*** ***institution-specific add-on factor;***
C = ***total risk-based capital (as reported in Schedule RC-R, item 3.b);***
A = ***net risk-weighted assets excluding low level recourse exposures; and***
R = ***maximum contractual dollar amount of recourse exposure in low level recourse transactions (as reported in Schedule RC-R, item 3.e)***

- ***If the bank chooses to use the "gross-up method," the "maximum contractual dollar amount of recourse exposure" for a transaction, as defined above,*** should be multiplied by a factor of 12.5, 25, or 62.5 ***according to whether the assets sold would be assigned to*** the 100 percent, 50 percent, or 20 percent risk weight category, respectively. The resulting dollar amount should be reported as an off-balance sheet credit equivalent amount in column B of Schedule RC-R ***in the item (item 7.b, 6.b, or 5.b)*** appropriate to the risk weight category of the assets ***sold***.

For example, a bank has ***sold*** $2 million in first lien residential mortgages subject to two percent recourse. The bank has removed the $2 million in mortgages from its Call Report balance sheet and, in accordance with GAAP, has also established a recourse liability account with a balance of $10,000. The maximum amount for which the bank is liable is $40,000. The mortgages ***qualify for*** a 50 percent risk weight and the bank's recourse exposure is less than the $80,000 minimum risk-based capital requirement for these assets ***sold*** with recourse. ***Thus, the low level recourse rule applies. The "maximum contractual dollar amount of recourse exposure" for this transaction is $30,000, the $40,000 maximum contractual amount of the bank's recourse exposure as of the report date, less the $10,000 balance of the recourse liability account for this transaction. The bank's total risk-based capital is $10.5 million and it has net risk-weighted assets excluding this low level recourse exposure of $100 million.***

- ***If the bank chooses to use the "direct reduction method," the bank would report $30,000 -- its "maximum contractual dollar amount of recourse exposure" -- in Schedule RC-R, item 3.e, and would use this amount to calculate its institution-specific add-on factor using the formula provided above. Based on the facts in the example, the bank calculates that its institution-specific add-on factor is $286,533. The bank would report the amount of this add-on factor as a credit equivalent amount in Schedule RC-R, item 7.b, column B, and also include this amount in the "net risk-weighted assets" that it reports in Schedule RC-R, item 3.d.(1).***

- ***If the bank chooses to use the "gross-up method,"*** the bank would report $750,000 as a credit equivalent amount in Schedule RC-R, item 6.b, ***column B*** ($30,000 ***-- its "maximum contractual dollar amount of recourse exposure"*** -- multiplied by 25 ***-- the factor for assets that qualify for a 50 percent risk weight***). Because the $2 million in mortgages ***sold have been removed from*** the balance sheet, the difference between the $750,000 credit equivalent amount and the $2 million is not reported in Schedule RC-R. ***In addition, because the $750,000 credit equivalent amount is assigned to the 50 percent risk category, the bank would include $375,000 ($750,000 multiplied by 50 percent) in the "net risk-weighted assets" that it reports in Schedule RC-R, item 3.d.(1).***

Item Instructions

The following paragraph will be added at the end of the instructions currently found on page RC-R-10 (dated 9-97) for item 3.a.(1), "Tier 1 capital," which was previously numbered item 3.a.

> ***If the bank has any low level recourse transactions and chooses to use the "direct reduction method" for reporting these transactions in Schedule RC-R (as discussed in the General Instructions to Schedule RC-R), do <u>not</u> deduct any of the bank's "maximum contractual dollar amount of recourse exposure in low level recourse transactions," as reported in Schedule RC-R, item 3.e, from the amount of Tier 1 capital that the bank reports in this item.***

The following paragraph will be added at the end of the instructions currently found on page RC-R-11 (dated 9-97) for item 3.b, "Total risk-based capital," which was previously numbered item 3.c.

> ***If the bank has any low level recourse transactions and chooses to use the "direct reduction method" for reporting these transactions in Schedule RC-R (as discussed in the General Instructions to Schedule RC-R), do <u>not</u> deduct the bank's "maximum contractual dollar amount of recourse exposure in low level recourse transactions," as reported in Schedule RC-R, item 3.e, from the amount of total risk-based capital that the bank reports in this item.***

The following paragraph will be added at the end of the instructions currently found on page RC-R-12 (dated 9-97) for item 3.d.(1), "Net risk-weighted assets," which was previously numbered item 3.e.

> ***If the bank has any low level recourse exposures, it should include in the net risk-weighted assets reported in this item the appropriate amount for these exposures as determined under the "direct reduction method" or the "gross-up method." These methods are discussed in the section of the General Instructions to Schedule RC-R on "Treatment of Low Level Recourse Transactions."***

The following instructions are for new item 3.e of Schedule RC-R.

<u>Item 3.e, Maximum contractual dollar amount of recourse exposure in low level recourse transactions.</u> If the bank has any low level recourse transactions and chooses to use the "direct reduction method" for reporting these transactions in Schedule RC-R, report the "maximum contractual dollar amount of recourse exposure" for these transactions in accordance with the guidance in the section of the General Instructions to Schedule RC-R on "Treatment of Low Level Recourse Transactions."

If the bank has no low level recourse transactions or if the bank chooses to use the "gross-up method" for reporting its low level recourse transactions in Schedule RC-R, report a zero in this item.

The following paragraph will be to the instructions currently found on page RC-R-18 (dated 9-97) for item 8, "On-balance sheet asset values excluded from and deducted in the calculation of the risk-based capital ratio."

If the bank has low level recourse transactions that use contractual cash flows (e.g., interest-only strips receivable and so-called "spread accounts"), retained subordinated interests, retained securities (e.g., collateral invested amounts or cash collateral accounts) or other assets as credit enhancements, the on-balance sheet asset amount of the credit enhancements should be included in this item. The "maximum contractual dollar amount of recourse exposure" for low level recourse transactions should be converted into off-balance sheet credit equivalent amounts and reported in accordance with the section of the General Instructions to Schedule RC-R on "Treatment of Low Level Recourse Transactions."

ALLOWANCE FOR CREDIT LOSSES

Generally accepted accounting principles now require 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 in the allowance for loan and lease losses (ALLL).

During 1997, the FFIEC advised banks to allocate the allowance for credit losses on Schedule RC -- Balance Sheet consistent with their allocation methodology for other financial reporting purposes. For example, portions of the allowance related to off-balance sheet credit exposures that are reported as liabilities are to be included in Schedule RC, item 20, "Other liabilities," and in item 4 of Schedule RC-G -- Other Liabilities. Banks also were advised to aggregate these components of the allowance for credit losses when completing Schedule RI-B, part II -- Changes in Allowance for Loan and Lease Losses. This will not change in 1998.

References to "loan and lease losses" are being changed to "credit losses" in Schedule RI-B, part II; in the captions of Schedule RI, item 4.a, and Schedule RI-E, item 8; and to the instructions for this schedule and these items. However, Schedule RI-B, part I -- Charge-offs and Recoveries on Loans and Leases is not being changed.

Schedule RI-B

Part II. Changes in Allowance for Credit Losses

1.	Balance originally reported in the December 31, 1997, Reports of Condition and Income	
2.	Recoveries (must equal or exceed part I, item 6, column B above)	
3.	LESS: Charge-offs (must equal or exceed part I, item 6, column A above)	
4.	**Provision for credit losses (must equal Schedule RI, item 4.a)**	
5.	Adjustments (see instructions for this schedule)	
6.	Balance end of current period (sum of items 1 through 5) (must equal or exceed Schedule RC, item 4.b)	

NOTE: On the FFIEC 031 and 032, the parenthetic guidance in the captions to items 2 and 3 refers to part I, item 9, column B and column A, respectively.

Instructions for Schedule RI-B, part II

The revised instructions for Schedule RI-B, part II -- Changes in Allowance for Credit Losses, items 1 through 6, are as follows, with changes from the existing instructions highlighted in bold italics. In addition, throughout the General Instructions to part II, the term "allowance for loan and lease losses" is being replaced with the term "allowance for credit losses."

Item Instructions

Item 1, Balance originally reported in the December 31, 19xx, Reports of Condition and Income. Report the balance in the ***allowance for credit losses*** from the Reports of Condition and Income as of the previous calendar year-end. ***The allowance for credit losses includes the allowance for loan and lease losses plus*** any portions of the allowance for credit losses related to off-balance sheet credit exposures. The amount reported in this item should equal the amount originally reported as the ending balance ***in Schedule RI-B, part II, item 6,*** for the previous calendar year-end before the filing of any amended report(s).

Item 2, Recoveries. Report the amount credited to the allowance for loan and lease losses for recoveries during the calendar year-to-date on amounts previously charged against the allowance ***for loan and lease losses. Also include amounts credited to any portions of the allowance for credit losses related to off-balance sheet credit exposures for recoveries on amounts previously charged-off against this allowance***.

On the FFIEC 033 and 034, the amount reported in this item must equal Schedule RI-B, part I, item 6, column B, plus any recoveries credited to portions of the allowance for credit losses related to off-balance sheet credit exposures. On the FFIEC 031 and 032, the amount reported in this item must equal Schedule RI-B, part I, item 9, column B, (plus any recoveries credited to portions of the allowance for credit losses related to off-balance sheet credit exposures.

Item 3, LESS: Charge-offs. Report the amount of all loans and leases charged against the allowance for loan and lease losses during the calendar year-to-date. ***Also include the amount of losses on*** off-balance sheet credit exposures charged to ***any*** portions of the allowance for credit losses related to off-balance sheet credit exposures.

On the FFIEC 033 and 034, the amount reported in this item must equal Schedule RI-B, part I, item 6, column A, plus any ***losses charged against any*** portions of the allowance for credit losses related to off-balance sheet credit exposures. On the FFIEC 031 and 032, the amount reported in this item must equal Schedule RI-B, part I, item 9, column A, plus any ***losses charged against any*** portions of the allowance for credit losses related to off-balance sheet credit exposures.

Item 4, ***Provision for credit losses***. Report the amount expensed as the ***provision for credit losses*** during the calendar year-to-date. ***The provision for credit losses includes the amount needed to make the allowance for loan and lease losses adequate to absorb expected loan and lease losses plus any amount provided for credit losses related to off-balance sheet credit exposures, based upon management's evaluation of the bank's current loan, lease, and off-balance sheet credit exposures.*** The amount reported in this item must equal Schedule RI, item 4.a. If the amount reported in this item is negative, enclose it in parentheses.

Item 5, Adjustments. Report the net cumulative effect of all corrections and adjustments made in any amended report(s) to the amount originally reported as the ending balance of the ***allowance for credit losses*** in the Reports of Condition and Income as of the previous calendar year-end.

Report the ***allowance for credit losses*** of a bank or other business acquired in a business combination during the calendar year-to-date reporting period. Determine the amount to be reported in this item in accordance with the General Instructions at the beginning of part II.

If the bank was acquired in a transaction which became effective during the reporting period and push down accounting was used to account for the acquisition, report the change in the balance of the ***allowance for credit losses*** from the end of the previous year through the effective date of the bank's acquisition in this item.

For those banks required to establish and maintain an allocated transfer risk reserve, report all allowable adjustments made during the reporting period between the regular allowance for loan and lease losses and the allocated transfer risk reserve as specified in Section 905(a) of the International Lending Supervision Act of 1983, in the agency regulations implementing the Act (Federal Reserve Regulation K, Part 351 of the FDIC Rules and Regulations, and Part 20 of the Comptroller of the Currency's Regulations), and in any guidelines, letters, or instructions issued by the agencies.

For banks with foreign offices that file the FFIEC 031 report forms, report any increases or decreases resulting from the translation into dollars of any portions of the ***allowance for credit losses*** which are denominated in a foreign currency.

If the amount reported in this item is negative, enclose it in parentheses.

State the dollar amount of and describe each transaction included in this item in Schedule RI-E, Explanations, item 8.

Item 6, Balance end of current period. Report the sum of items 1, 2, 4, and 5, minus item 3. The amount reported in this item must equal Schedule RC, item 4.b, "Allowance for loan and lease losses," plus any portions of the allowance for credit losses related to off-balance sheet credit exposures. ***Banks are encouraged to disclose the amounts of these other portions of the allowance for credit losses in Schedule RI-E, item 9, "Other explanations."***

Schedule RI

3. Net interest income (item 1.g minus 2.f)	|__|__|__|
4. Provisions:	
a. **Provision for credit losses**	|__|__|__|
b. Provision for allocated transfer risk	|__|__|__|

Instructions for Schedule RI, item 4.a

The revised instructions for Schedule RI, item 4.a, are as follows, with changes from the existing instructions highlighted in bold italics:

Item 4.a, ***Provision for credit losses***. Report the amount needed to make the allowance for loan and lease losses, as reported in Schedule RC, item 4.b, adequate to absorb expected loan and lease losses, based upon management's evaluation of the bank's current loan and lease portfolio. ***Also report in this item any amount provided*** for credit losses related to off-balance sheet credit exposures***, based upon management's evaluation of the bank's current off-balance sheet credit exposures. The amount reported in this item*** must equal Schedule RI-B, part II, item 4, "***Provision for credit losses***." Enclose negative amounts in parentheses.

The amount reported here may differ from the bad debt expense deduction taken for federal income tax purposes.

Refer to the Glossary entry for "allowance for loan and lease losses" for additional information.

Schedule RI-E

8. Adjustments to allowance for credit losses (from Schedule RI-B, part II, item 5) (itemize and describe all adjustments):
   a. ______________________________ |___|___|___|
   b. ______________________________ |___|___|___|

Instructions for Schedule RI-E, item 8

The revised instructions for Schedule RI-E, item 8, are as follows, with changes from the existing instructions highlighted in bold italics:

Item 8, Adjustments to ***allowance for credit losses***. List and briefly describe in items 8.a and 8.b the dollar amount of each adjustment to the ***allowance for credit losses*** that is included in Schedule RI-B, part II, item 5. If Schedule RI-B, part II, item 5, includes more than two adjustments, report the additional adjustments in Schedule RI-E, item 9 below.

If the effect of an adjustment is to reduce the bank's ***allowance for credit losses***, enclose the dollar amount reported in parentheses.

REPORTING BY BANKS WITH FOREIGN OFFICES OF INVESTMENT SECURITIES HOLDINGS IN THE DOMESTIC OFFICE ASSETS AND LIABILITIES SCHEDULE (FFIEC 031 ONLY)

On the FFIEC 031 version of the Call Report forms, banks with foreign offices report a breakdown of the investment securities they hold in domestic offices by type of security in Schedule RC-H -- Selected Balance Sheet Items for Domestic Offices. In items 10 through 17 of this schedule, banks currently report their domestic office held-to-maturity securities at amortized cost and their domestic office available-for-sale securities at fair value. Beginning March 31, 1998, banks with foreign offices will begin to report all of their domestic office investment securities on a cost basis in items 10 through 17 of Schedule RC-H.

Schedule RC-H, FFIEC 031 only:

In items 10-17, report the amortized (historical) cost of both held-to-maturity and available-for-sale securities in domestic offices.

10. U.S. Treasury securities . . . . |__|__|__|
11. U.S. Government agency obligations (exclude mortgage-backed securities) . . . . |__|__|__|
12. Securities issued by states and political subdivisions in the U.S. . . . . |__|__|__|
13. Mortgage-backed securities (MBS):
    a. Pass-through securities:
        (1) Issued or guaranteed by FNMA, FHLMC, or GNMA . . . . |__|__|__|
        (2) Other pass-through securities . . . . |__|__|__|
    b. Other mortgage-backed securities (include CMOs, REMICs, and stripped MBS):
        (1) Issued or guaranteed by FNMA, FHLMC, or GNMA . . . . |__|__|__|
        (2) All other mortgage-backed securities . . . . |__|__|__|
14. Other domestic debt securities . . . . |__|__|__|
15. Foreign debt securities . . . . |__|__|__|
16. Equity securities:
    a. Investments in mutual funds and other equity securities with readily determinable fair values . . . . |__|__|__|
    b. All other equity securities . . . . |__|__|__|
17. **Total amortized (historical) cost of both held-to-maturity and available-for-sale securities (sum of items 10 through 16)** . . . . |__|__|__|

Instructions

The revised instructions for reporting investment securities in Schedule RC-H are as follows, with changes from the existing instructions highlighted in bold italics:

NOTE: Items 10 through 17 include held-to-maturity and available-for-sale securities in domestic offices. ***Report the amortized cost of both held-to-maturity and available-for-sale debt securities in these items. Report the historical cost of both available-for-sale equity securities and equity securities without readily determinable fair values in these items.*** These amounts will have been included in the amounts reported in Schedule RC-B, columns A and ***C***.

Item 10, U.S. Treasury securities. Report the amortized cost of ***both held-to-maturity and available-for-sale*** U.S. Treasury securities (as defined for Schedule RC-B, item 1) held in domestic offices of the reporting bank.

Item 11, U.S. Government agency obligations. Report the amortized cost of ***both held-to-maturity and available-for-sale*** U.S. Government agency obligations (as defined for Schedule RC-B, items 2.a and 2.b) held in domestic offices of the reporting bank. Exclude mortgage-backed securities (report in Schedule RC-H, item 13 below).

[Because the instructions for items 12 through 15 have been revised in the identical manner as those for items 10 and 11 above, the revised instructions for items 12 through 15 are not included here.]

Item 16, Equity securities. Report in the appropriate subitem the ***historical cost*** of equity securities (as defined for Schedule RC-B, item 6) held in domestic offices of the reporting bank.

<u>Item 16.a, Investments in mutual funds and other equity securities with readily determinable fair values</u>. Report the ***historical cost*** of all investments in mutual funds and other equity securities with readily determinable fair values (as defined for Schedule RC-B, item 6.a) held in domestic offices of the reporting bank.

<u>Item 16.b, All other equity securities</u>. Report the historical cost of all other equity securities, i.e., equity securities without readily determinable fair values (as defined for Schedule RC-B, item 6.b) held in domestic offices of the reporting bank.

<u>Item 17, Total held-to-maturity and available-for-sale securities</u>. Report the sum of items 10 through 16.c. This amount must be less than or equal to Schedule RC-B, item 7, the sum of columns A and ***C***.

REPORTING OF SECURITIZED CONSUMER LOANS FOR VEHICLE PURCHASES (FFIEC 031 AND 032 ONLY)

On the FFIEC 031 and 032 versions of the Call Report forms, banks report annually as of September 30 the amount of their securitized consumer installment loans to purchase private passenger automobiles and the amount of all other securitized consumer installment loans (excluding credit cards and related plans) in Schedule RC-L, Memorandum items 5.a and 5.c, respectively. The current instructions for these items state that consumer loans for the purchase of pickup trucks and vans should be reported in the "all other" category rather than the "private passenger automobiles" category. The instructions for Memorandum item 5.a are being revised so that securitized consumer loans to purchase vans and light trucks (such as pickup trucks) for personal use are reported in this item rather than in Memorandum item 5.c. In addition, the word "installment" is being removed from the captions and instructions throughout Memorandum item 5.

Schedule RC-L, Memoranda, FFIEC 031 and 032 only:

5. Loans to individuals for household, family, and other personal expenditures that have been securitized and sold (with servicing retained), amounts outstanding by type of loan:
    a. Loans to purchase private passenger automobiles **(to be completed for the September report only)** . . . . |__|__|__|__|
    b. Credit cards and related plans **(TO BE COMPLETED QUARTERLY)** . . . . |__|__|__|__|
    c. All other consumer credit (including mobile home loans) **(to be completed for the September report only)** . . . . |__|__|__|__|

<u>Instructions</u>

The revised instructions for Schedule RC-L, Memorandum item 5, are as follows, with changes from the existing instructions highlighted in bold italics:

<u>Memorandum item 5, Loans to individuals for household, family, and other personal expenditures that have been securitized and sold (with servicing retained), amounts outstanding by type of loan</u>.

Memorandum items 5.a through 5.c are applicable only to banks filing the FFIEC 031 and 032 report forms.

Report in the appropriate subitem the amount outstanding of ***consumer loans***, by type of loan, included in packages of asset-backed securities which the bank has transferred in transactions that have been reported as sales in accordance with these instructions and for which the servicing of the loans has been retained ("securitized loans"). The amounts reported should include loans securitized and sold in all prior quarters as well as in the current quarter. Because they have been reported as sold, these securitized ***consumer loans*** are no longer included as assets on the balance sheet of the reporting bank and thus are not reported in Schedule RC-C, item 6, "Loans to individuals for household, family, and other personal expenditures."

Exclude from Memorandum item 5:

(1) ***Consumer loans*** that have been sold in a form other than as a package to collateralize an asset-backed security.

(2) Securitized ***consumer loans*** that have been sold without servicing retained by either the reporting bank or an affiliate of the reporting bank.

(3) All loans secured by real estate that have been securitized and sold, including loans for the purchase or holding of mobile homes (a) where state laws define the purchase or holding of a mobile home as the purchase or holding of real property and (b) where the loans themselves are secured by the mobile homes as evidenced by mortgages or other instruments on real property.

Item 5.a, Loans to purchase private passenger automobiles. Memorandum item 5.a is to be completed for the September report only.

Report the amount outstanding of securitized loans to individuals, both direct loans and indirect loans (purchased paper), arising from the retail sale of private passenger automobiles, regardless of whether the loans are collateralized by the automobiles. ***For purposes of this item, private passenger automobiles include minivans, vans, sport-utility vehicles, pickup trucks, and similar light trucks for personal use.***

Exclude from this item securitized loans to individuals for the purpose of purchasing motorcycles, travel trailers, campers, recreational vehicles (RVs), and other similar vehicles for personal use (report in Memorandum item 5.c below).

Item 5.b, Credit cards and related plans. Memorandum item 5.b is to be completed each quarter.

Report the amount outstanding of securitized extensions of credit to individuals for household, family, and other personal expenditures arising from bank credit cards and related plans. (Refer to the instruction for Schedule RC-C, item 6.a, for further information on "Credit cards and related plans.")

Item 5.c, All other ***consumer credit***. Memorandum item 5.c is to be completed for the September report only.

Report the amount outstanding of all other securitized loans to individuals for household, family, and other personal expenditures.

Include in Memorandum item 5.c loans not secured by real estate:

(1) Arising from the sale to individuals of new or used private mobile homes, regardless of whether the loan is collateralized by the mobile home.

(2) For the purchase of boats; motorcycles; travel trailers, campers, and similar recreational vehicles (RVs); household appliances; or furniture.

(3) For repairs or improvements to the borrower's residence.

(4) For educational expenses (including all student loans, whether payments are required currently or will begin at a future date, e.g., after graduation), medical expenses, personal taxes, vacations, consolidation of personal (nonbusiness) debts, and other personal expenditures.

CATEGORIZATION OF INDUSTRIAL DEVELOPMENT BONDS ON THE BALANCE SHEET

Industrial development bonds (IDBs), sometimes referred to as "industrial revenue bonds," are typically issued by local industrial development authorities to benefit private commercial and industrial development. The Call Report instructions currently require all IDBs that are rated by a nationally-recognized rating service to be reported as securities in item 3.c of Schedule RC-B -- Securities, but generally require those IDBs that are not rated to be reported as loans in Schedule RC-C -- Loans and Lease Financing Receivables.

Effective March 31, 1998, the Call Report instructions governing the treatment of IDBs are being revised to indicate that IDBs (both rated and nonrated) should be reported as securities in Schedule RC-B or as loans in Schedule RC-C, consistent with the manner in which the bank reports IDBs on the balance sheet for other financial reporting purposes. As under the current instructions, all IDBs that meet the definition of a "security" in FASB Statement No. 115 must continue to be measured in accordance with Statement No. 115.

The revised instructions for Schedule RC-B, item 3, are as follows, with changes from the existing instructions highlighted in bold italics. Comparable changes are being made to the existing instructions for reporting "Obligations (other than securities and leases) of states and political subdivisions in the U.S." in Schedule RC-C, part I, item 7 on the FFIEC 034, item 8 on the FFIEC 031, 032, and 033.

Schedule RC-B, Item 3, Securities issued by states and political subdivisions in the U.S. Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all securities issued by states and political subdivisions in the United States not held for trading.

States and political subdivisions in the U.S., for purposes of this report, include:

(1) the fifty States of the United States and the District of Columbia and their counties, municipalities, school districts, irrigation districts, and drainage and sewer districts; and
(2) the governments of Puerto Rico and of the U.S. territories and possessions and their political subdivisions.

Treatment of industrial development bonds (IDBs). Industrial development bonds (IDBs), sometimes referred to as "industrial revenue bonds," are typically issued by local industrial development authorities to benefit private commercial and industrial development. For purposes of these reports, ***all IDBs should be reported as securities in this item (in Schedule RC-B, item 3.c) or as loans in Schedule RC-C, part I (in item 7 on the FFIEC 034; in item 8 on the FFIEC 031, 032, and 033), consistent with the asset category in which the bank reports IDBs on its balance sheet for other financial reporting purposes. Regardless of whether they are reported as securities in Schedule RC-B or as loans in Schedule RC-C, part I, all IDBs*** that meet the definition of a "security" in FASB Statement No. 115 must be measured in accordance with Statement No. 115.

Treatment of other obligations of states and political subdivisions in the U.S. In addition to those IDBs that are ***reported*** as securities in accordance with the preceding paragraph, also include in this item (in the appropriate subitem) as securities issued by states and political subdivisions in the U.S. all obligations other than IDBs that meet any of the following criteria:

(1) Nonrated obligations of states and political subdivisions in the U.S., other than those specifically excluded below, that the bank considers securities ***for other financial reporting purposes***.

(2) Notes, bonds, and debentures (including tax warrants and tax-anticipation notes) that are rated by a nationally-recognized rating service.

(3) Obligations of state and local governments that are guaranteed by the United States Government (excluding mortgage-backed securities).

Exclude from item 3:

(1) All overdrafts of states and political subdivisions in the U.S. (report as loans in Schedule RC-C, item 7 on the FFIEC 034; item 8 on the FFIEC 031, 032, and 033).

(2) All lease financing receivables of states and political subdivisions in the U.S. (report as leases in Schedule RC-C, item 9 on the FFIEC 034; item 10 on the FFIEC 031, 032, and 033).

(3) All IDBs that are to be reported as loans in accordance with the reporting treatment described above (report as loans in Schedule RC-C, item 7 on the FFIEC 034; item 8 on the FFIEC 031, 032, and 033).

(4) All other nonrated obligations of states and political subdivisions in the U.S. that the bank considers loans ***for other financial reporting purposes*** (report as loans in Schedule RC-C, item 7 on the FFIEC 034; item 8 on the FFIEC 031, 032, and 033).

(5) All mortgage pass-through securities issued by state and local housing authorities in the U.S. (report in Schedule RC-B, item 4.a below).

(6) Collateralized mortgage obligations (CMOs), real estate mortgage investments conduits (REMICs), CMO and REMIC residuals, and stripped mortgage-backed securities (such as interest-only strips (IOs), principal-only strips (POs), and similar instruments) issued by state and local housing authorities in the U.S. (report in Schedule RC-B, item 4.b below).

(7) All obligations of states and political subdivisions in the U.S. held by the reporting bank for trading (report in Schedule RC, item 5).

Call Report Instructions: Schedule RC-R -- Regulatory Capital

Market Risk Capital Guidelines

The revised instructions for Schedule RC-R relating to or otherwise affected by the market risk capital guidelines are presented below.

General Instructions to Schedule RC-R

The following three paragraphs will be added at the end of the General Instructions to Schedule RC-R:

<u>Treatment of covered positions by banks that are subject to the market risk capital guidelines</u> -- The banking agencies' risk-based capital standards require all banks with significant market risk to measure their market risk exposure and hold sufficient capital to mitigate this exposure. In general, a bank is subject to the market risk capital guidelines if its consolidated trading activity, defined as the sum of trading assets and liabilities, equals: (1) 10 percent or more of the bank's total assets, or (2) $1 billion or more. However, the primary federal supervisory authority may exempt or include a bank if necessary or appropriate for safe and sound banking practices.

A bank that is subject to the market risk capital guidelines must hold capital to support its exposure to general market risk arising from fluctuations in interest rates, equity prices, foreign exchange rates, and commodity prices and its exposure to specific risk associated with certain debt and equity positions. Covered positions include all positions in a bank's trading account and foreign exchange and commodity positions, whether or not in the trading account. Covered positions generally should not be risk-weighted as part of the bank's gross risk-weighted assets. However, foreign exchange positions that are outside of the trading account and all over-the-counter (OTC) derivatives continue to have a counterparty credit risk capital charge. Those positions are included in both gross risk-weighted assets for credit risk and the bank's covered positions for market risk.

The value-at-risk (VAR) of the bank's covered positions should be used to determine the bank's measure for market risk. VAR is an estimate of the amount by which a bank's positions in a risk category could decline due to expected losses in the bank's portfolio due to market movements during a given period, measured with a specified confidence level. A bank's measure for market risk equals the sum of its VAR-based capital charge, the specific risk add-on (if any), and the capital charge for de minimus exposures (if any). A bank's market risk equivalent assets equal its measure for market risk multiplied by 12.5 (the reciprocal of the minimum 8.0 percent capital ratio). Banks subject to the market risk capital guidelines must maintain an overall minimum 8.0 percent ratio of total qualifying capital (the sum of Tier 1 capital (both allocated and excess), Tier 2 capital (both allocated and excess), and Tier 3 capital (allocated for market risk), net of all deductions) to risk-weighted assets and market risk equivalent assets. Banks should refer to the capital guidelines of their primary federal supervisory authority for specific instructions on the calculation of the measure for market risk.

Item Instructions

The instructions for new items 3.a.(3), "Tier 3 capital," and 3.d.(2), "Market risk equivalent assets," and the revised instructions for items 3.c, "Excess allowance for loan and lease losses," 3.d.(1), "Net risk-weighted assets," items 4 through 7, "Assets and credit equivalent amounts of off-balance sheet items assigned to the xx percent risk category," item 8, "On-balance sheet asset values excluded from and deducted in the calculation of the risk-based capital ratio," and Memorandum item 1, "Current credit exposure across all off-balance sheet derivative contracts covered by the risk-based capital standards," are as follows, with changes from existing instructions highlighted in bold italics.

Item 3.a.(3), Tier 3 capital. Report the amount of the bank's Tier 3 capital allocated for market risk. This item is only applicable to banks that are subject to the market risk capital guidelines. The amount reported in this item may only be used to satisfy the bank's market risk capital requirement and may not be used to support credit risk. The sum of the amount reported in this item and the amount reported in Schedule RC-R, item 3.a.(2), "Tier 2 capital," must be less than or equal to the amount reported in Schedule RC-R, item 3.a.(1), "Tier 1 capital." In addition, Tier 3 capital allocated for market risk plus Tier 2 capital allocated for market risk are limited to 71.4 percent of a bank's measure for market risk.

Item 3.b, Total risk-based capital. Report the amount of the bank's total risk-based capital. The amount reported in this item is the numerator of the bank's total risk-based capital ratio. Total risk-based capital is the sum of Tier 1 ***capital,*** Tier 2 capital, ***and Tier 3 capital allocated for market risk,*** net of all deductions. Deductions are made for investments in banking and finance subsidiaries that are not consolidated for regulatory capital purposes, intentional reciprocal cross-holdings of banking organizations' capital instruments, and other deductions as determined by the reporting bank's primary federal supervisory authority.

For most banks, total risk-based capital will equal the sum of Schedule RC-R, item 3.a.***(1)***, "Tier 1 capital," and item 3.***a.(2)***, "Tier 2 capital."

If the bank has any low level recourse transactions and chooses to use the "direct reduction method" for reporting these transactions in Schedule RC-R (as discussed in the General Instructions to Schedule RC-R), do not deduct the bank's "maximum contractual dollar amount of recourse exposure in low level recourse transactions," as reported in Schedule RC-R, item 3.e, from the amount of total risk-based capital that the bank reports in this item.

Item 3.c, Excess allowance for loan and lease losses. Report the amount, if any, by which the bank's allowance for ***credit losses*** exceeds 1.25 percent of the bank's gross risk-weighted assets. ***The allowance for credit losses is reported in Schedule RI-B, part II, item 6. On the FFIEC 034 in quarters when Schedule RI-B, part II, is not completed, the allowance for credit losses generally is the allowance for loan and lease losses as reported in Schedule RC, item 4.b. However, the allowance for credit losses also includes any portions of the allowance for credit losses related to off-balance sheet credit exposures reported elsewhere on the balance sheet (Schedule RC).***

Gross risk-weighted assets is the amount of the bank's risk-weighted assets before deducting the amount of any excess allowance for loan and lease losses. (Note: The amount reported in Schedule RC-R, item 3.***d.(1)***, is net risk-weighted assets. Do not multiply the amount reported in item 3.***d.(1)*** by 1.25 percent to determine the amount of the bank's excess allowance for loan and lease losses.)

For banks that are subject to the market risk capital guidelines, report the amount, if any, by which the allowance for credit losses exceeds 1.25 percent of the sum of market risk equivalent assets (as reported in Schedule RC-R, item 3.d.(2)) plus gross risk-weighted assets.

<u>Item 3.d.(1), Net risk-weighted assets</u>. Report the amount of the bank's risk-weighted assets <u>net</u> of all deductions. The ***sum of the*** amount reported in this item ***and any amount reported in Schedule RC-R, item 3.d.(2), "Market risk equivalent assets,"*** is the denominator of the bank's total risk-based capital ratio.

When determining the amount of risk-weighted assets, on-balance sheet assets are assigned an appropriate risk weight (zero percent, 20 percent, 50 percent, or 100 percent) and off-balance sheet items are first converted to a credit equivalent amount and then assigned to one of the four risk weight categories. ***All covered positions that are subject to the market risk capital guidelines, except for foreign exchange positions that are outside of the trading account and all over-the-counter (OTC) derivatives, are excluded from the amounts used to determine risk-weighted assets. Foreign exchange positions outside of the trading account and all OTC derivatives have a counterparty credit risk capital charge and are included in net risk-weighted assets.*** The on-balance sheet assets and the credit equivalent amounts of off-balance sheet items are then multiplied by the appropriate risk weight percentages and the sum of these risk-weighted amounts, less certain deductions, is the bank's <u>gross</u> risk-weighted assets. These deductions are for goodwill, other disallowed intangible assets, disallowed deferred tax assets, investments in banking and finance subsidiaries that are not consolidated for regulatory capital purposes, intentional reciprocal cross-holdings of banking organizations' capital instruments, and other deductions as determined by the reporting bank's primary federal supervisory authority. Gross risk-weighted assets minus any excess allowance for loan and lease losses (reported in Schedule RC-R, item 3.***c***) and minus any allocated transfer risk reserve is the bank's <u>net</u> risk-weighted assets, which is the amount to be reported in this item.

If the bank has any low level recourse exposures, it should include in the net risk-weighted assets reported in this item the appropriate amount for these exposures as determined under the "direct reduction method" or the "gross-up method." These methods are discussed in the section of the General Instructions to Schedule RC-R on "Treatment of Low Level Recourse Transactions."

<u>Item 3.d.(2), Market risk equivalent assets</u>. Report the amount of the bank's market risk equivalent assets. This item is only applicable to banks that are subject to the market risk capital guidelines. Market risk equivalent assets equals the bank's measure for market risk multiplied by 12.5. Banks should refer to the capital guidelines of their primary federal supervisory authority for specific instructions on the calculation of the measure for market risk.

<u>Items 4 through 7, "Assets and credit equivalent amounts of off-balance sheet items assigned to the xx percent risk category."</u>

The following paragraph would be placed at the end of the existing instructions for Schedule RC-R, item 4, "Assets and credit equivalent amounts of off-balance sheet items assigned to the Zero percent risk category," item 5, "Assets and credit equivalent amounts of off-balance sheet items assigned to the 20 percent risk category," item 6, "Assets and credit equivalent amounts of off-balance sheet items assigned to the 50 percent risk category," and item 7, "Assets and credit equivalent amounts of off-balance sheet items assigned to the 100 percent risk category."

> ***For banks that are subject to the market risk capital guidelines, exclude all covered positions except for foreign exchange positions that are outside of the trading account and over-the-counter (OTC) derivatives. The book value or credit equivalent amount, as appropriate, of foreign exchange positions that are outside of the trading account and all OTC derivatives assigned to the xx percent risk category should continue to be included in this item. Covered positions include all positions in a bank's trading account, and all foreign exchange and commodity positions whether or not in the trading account.***

<u>Item 8, On-balance sheet asset values excluded from and deducted in the calculation of the risk-based capital ratio</u>. Report in this item the difference between the fair value and the amortized cost of the reporting bank's available-for-sale debt securities (and report the amortized cost of these debt securities in Schedule RC-R, items 4 through 7 above). Furthermore, to the extent that the amount of net deferred tax assets carried on the balance sheet (Schedule RC) 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 <u>may</u> 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 assets are excluded, they should be reported in this item and this reporting treatment must be followed consistently over time. For available-for-sale equity securities, if fair value exceeds cost, include the difference between the fair value and the cost in this item and report the cost of these equity securities in items 5 through 7 above; if cost exceeds fair value, report the fair value of these equity securities in items 5 through 7 above and include no amount in this item.

Include in this item any portion of the bank's mortgage servicing assets, purchased credit card relationships, and net deferred tax assets that is disallowed for regulatory capital purposes as well as all other intangible assets (including servicing assets related to financial assets other than mortgages) and other assets that are required to be deducted from regulatory capital in accordance with the capital standards issued by the bank's primary federal regulatory agency.

If the bank has low level recourse transactions that use contractual cash flows (e.g., interest-only strips receivable and so-called "spread accounts"), retained subordinated interests, retained securities (e.g., collateral invested amounts or cash collateral accounts) or other assets as credit enhancements, the on-balance sheet asset amount of the credit enhancements should be included in this item. The "maximum contractual dollar amount of recourse exposure" for low level recourse transactions should be converted into off-balance sheet credit equivalent amounts and reported in accordance with the section of the General Instructions to Schedule RC-R on "Treatment of Low Level Recourse Transactions."

Also report in this item the on-balance sheet asset values (or portions thereof) of off-balance sheet interest rate, foreign exchange, equity derivative, and commodity and other contracts that are treated for risk-based capital purposes as off-balance sheet items even though they may have on-balance sheet amounts included on

Schedule RC. In addition, include in this item the on-balance sheet asset values related to (1) foreign exchange contracts with an original maturity of fourteen calendar days or less, (2) instruments traded on organized exchanges that require daily payment and receipt of variation margin (e.g., futures contracts), and (3) other interest rate, foreign exchange, equity derivative, and commodity and other contracts not covered under the risk-based capital guidelines such as over-the-counter written options. These on-balance sheet asset values may have been reported on Schedule RC on a net basis in accordance with the FASB Interpretation No. 39, as described in the Glossary entry for "Offsetting." (Purchased options that are traded on an organized exchange are to be included in the calculation of the risk-based capital ratio because such option contracts are not subject to a daily variation margin.) ***For banks that are subject to the market risk capital guidelines, to the extent that their on-balance sheet amounts have not already been included in this item in accordance with the preceding instructions, also report in this item the on-balance sheet asset values of all positions in the trading account and commodity positions.***

For those off-balance sheet interest rate, foreign exchange, equity derivative, and commodity and other contracts subject to risk-based capital, banks should report the on-balance sheet asset values (or portions thereof) in this item to avoid a capital charge against the on-balance sheet amounts in addition to the capital charge against the credit equivalent amounts calculated under the risk-based capital guidelines. The amount to be reported in this item for each off-balance sheet interest rate, foreign exchange, equity derivative, and commodity and other contract should equal the lower of the contract's positive on-balance sheet asset amount included in Schedule RC or its positive market value included in computing the credit equivalent amount of the transaction. (For purposes of this comparison, if the amount of any accrued receivable is included in the calculation of the credit equivalent amount of an off-balance sheet derivative contract, this amount should be treated as part of the contract's positive on-balance sheet asset amount.) If either amount is zero or negative, then report for that contract in this item the amount, if any, which has been included in the on-balance sheet asset amount reported for such contract on Schedule RC. For example, a forward contract that is marked to market for reporting purposes will have its on-balance sheet market value, if positive, reported in this item and, as a result, this on-balance sheet asset amount will be excluded from the risk-based capital ratio computation. The positive market value, however, will be included in the credit equivalent amount of this off-balance sheet item for risk-based capital purposes.

If the on-balance sheet asset value of a purchased option exceeds the market value of the purchased option, then the excess is not to be included in this item; rather, the excess is to be included in the appropriate risk weight category in Schedule RC-R, items 4 through 6 above. However, if the market value equals or exceeds the on-balance sheet asset value, the full on-balance sheet amount would be included in this item.

Exclude from this item any accrued receivables associated with off-balance sheet derivative contracts that are not included in the calculation of the credit equivalent amounts of these contracts and margin accounts related to derivative contracts. Margin accounts must be assigned to the 100 percent risk category while accrued receivables not reported in this item are to be included in the appropriate risk-weight category.

<u>Memorandum Item 1, Current credit exposure across all off-balance-sheet derivative contracts covered by the risk-based capital standards</u>. 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. For descriptions of these contracts, refer to the instructions for Schedule RC-L, item 14. ***For banks that are subject to the market risk capital guidelines, exclude all covered positions subject to these guidelines, except for foreign exchange derivatives that are outside of the trading account and all over-the-counter (OTC)***

derivatives. Foreign exchange derivatives that are outside of the trading account and all OTC derivatives continue to have a counterparty credit risk capital charge and, therefore, a current credit exposure amount.

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.

Consistent with the risk-based capital guidelines, if a bilateral netting agreement covers off-balance sheet derivative contracts that are normally not covered by the risk-based capital standards (e.g., 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.