

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

CALL REPORT DATE: June 30, 1998

SECOND 1998 CALL, NUMBER 204

SUPPLEMENTAL INSTRUCTIONS**June 1998 Call Report Materials**

The banking agencies are providing every bank with a sample set of June 30, 1998, report forms as part of this Call Report package because of the high percentage of banks requesting sample forms for this quarter. The enclosed sample set of forms for your bank 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, 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 FFIEC 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 use through December 31, 1998. You should photocopy the cover page of the sample forms and use it to fulfill the Call Report signature and attestation requirement. The banking agencies will include a cover (signature) page in the Call Report materials to be sent to your bank in September and December 1998 in order to lessen your need for sample forms for those quarters. However, if necessary, you may request sample forms for the following quarter by marking the box located in the section of the report asking for the name of your bank's Call Report contact person. Each quarter's report forms, including the cover (signature) page, also will be available on both the FFIEC's Web site (www.ffiec.gov) and the FDIC's Web site (www.fdic.gov).

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' June 30, 1998, cover letter. 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 on (800) 255-1571.

Banks that contract with another party to convert their Call Reports to electronic form for 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.

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. As mentioned above, the cover page of the enclosed sample set of report forms should be photocopied and 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.; 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. This book contains the instructions for all four versions of the Call Report forms (FFIEC 031, 032, 033, and 034) in a single volume. When appropriate, the quarterly Call Report materials sent to each bank include an instruction book update. An update with pages dated 6-98 is enclosed with this Call Report package. Your instruction book should also include update pages dated 3-98. 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 on 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) and the 6-98 instruction book update is expected to be available on those sites by June 30, 1998.

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 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

When available information confirms that a specific loan or lease, or a portion thereof, is uncollectible, a bank should promptly charge this amount off against the allowance for loan and lease losses. When making a full or partial direct write-down of a loan or lease for the amount that is uncollectible, the bank establishes a new cost basis for the asset. As the bank attempts to recover the loan or lease in a period subsequent to the recording of the direct write-down, the bank may determine that the borrower's condition has significantly improved or it may obtain additional collateral from the borrower. In some cases when this has occurred, a bank has attempted to reverse the previous write-down and "re-book" the charged-off loan or lease. 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. 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.

Individual Retirement Accounts

When completing Schedule RC-E, Memoranda item 1.a, "Total Individual Retirement Accounts (IRAs) and Keogh Plan accounts," banks should report the total of all IRA and Keogh Plan deposits included in total deposits (in domestic offices). Banks should include in this item deposits held in the two new types of IRAs recently created under the Taxpayer Relief Act of 1997, the Roth IRA and the Educational IRA.

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. However, 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 are

effective for transfers occurring after December 31, 1997. All of the provisions of Statement No. 125 must be applied prospectively, and earlier or retroactive application is not permitted.

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. **Thus, each bank should ensure that it prepares its June 30, 1998, Call Report in accordance with this accounting standard.** Glossary entries for "Transfers of financial assets," "Extinguishments of liabilities," "Servicing assets and liabilities," "Repurchase/resale agreements," and "Securities borrowing/lending transactions," which provide a summary of relevant provisions of this new accounting standard, are contained in the Call Report instruction book. Banks are encouraged to consult with their outside accountants for assistance in implementing Statement No. 125.

GAAP as the Reporting Basis for the Call Report

When preparing your Call Report, your bank should follow generally accepted accounting principles (GAAP), including the specific reporting guidance that falls within the range of acceptable practice under GAAP (see page 11 of the General Instructions), 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.

Optional Regulatory Capital Worksheet

In item 3 of the Call Report's regulatory capital schedule (Schedule RC-R), banks report certain capital and asset amounts used in calculating capital ratios. To assist banks in accurately completing the items applicable to all institutions, an **optional** regulatory capital worksheet is **available on request** (see below). 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.

Optional Income Tax Worksheet

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** (see below).

Verification Checklist

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, is **available upon request** (see below).

Requesting Optional Worksheets and Checklists

To request a copy of the optional regulatory capital worksheet, the optional income tax worksheet, or the verification 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 on (800) 688-FDIC or call (202) 898-6607. The two optional worksheets for June 30, 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.

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, 1997, Report of Condition, not on amounts as of the current Call Report 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

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

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

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

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

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