



3501 Fairfax Drive - Room B7081a - Arlington, VA 22226-3550 - (703) 516-5588 - FAX (703) 562-6446 - <http://www.ffiec.gov>

Financial Institution Letter

FIL-85-99
September 30, 1999

SUPPLEMENTAL INSTRUCTIONS

September 1999 Call Report Materials

The enclosed sample set of September 30, 1999 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, 1998, 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 032 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 Call Report forms will be sent to every bank each quarter this year. Sample forms also are available on both the FFIEC's Web site (www.ffiec.gov) and the FDIC's Web site (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.

Internet Web Address

Banks are requested to provide their primary Internet Web address, if any, as part of their address information in the Call Report. On the report forms, the location for disclosing this address is on the cover page below the FDIC Certificate Number. Web addresses should not exceed 75 characters in length. The FFIEC and the banking agencies are initially treating Web addresses as confidential.

The primary Internet Web address is the public Internet site address (also known as the Uniform Resource Locator or URL) that a bank's customer or potential customer enters into Internet browser software in order to find the first page of the bank's Web site. Examples are www.bank.com, www.isp.com/bank/, or bank.isp.com. When entering your Web address on the Call Report, do not preface the Web address with <http://> because this is already included on the report form. If your bank does not have its own Web site or home page, but information on or

functions of your bank can be accessed through an affiliate's Web address, please provide that affiliate's primary Web address. If your bank maintains more than one Web site, it should provide the Web address that best represents your institution. If your bank has no Web site or home page of its own and the bank cannot be accessed through an affiliate's Web address, please leave the Web address item blank. In addition, do not provide an e-mail address in the space for the Web address.

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 September 30, 1999, report date. Banks are no longer permitted to send completed hard-copy (paper) Call Report forms directly to the federal banking agencies. 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. Either the cover page of the enclosed sample set of report forms, a photocopy of the cover page, or a copy of the cover page printed from Call Report software 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 BancTec, Inc.; DBI Financial Systems, Inc.; DPSC Software, Inc.; FICS America, Inc.; Information Technology, Inc.; Milas LLC; and Sheshunoff Information Services, Inc., have been certified for electronic submission by EDS. Both BancTec's and Information Technology's software operates on mainframe computers while the other vendors' software products run on personal computers. The addresses and telephone numbers of the vendors with EDS-certified Call Report software are listed at the end of these Supplemental Instructions.

FFIEC Instruction Books

A complete revised Call Report instruction book was sent to each bank in 1997. When appropriate, the quarterly Call Report materials distributed to each bank include an instruction book update. An update with pages dated 9-99 is enclosed with this Call Report package. Your instruction book should also include update pages dated 3-98, 6-98, and 3-99. Copies of the revised instruction book and the updates may be obtained from the FDIC's Reports Analysis and Quality Control 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.ffiiec.gov) and the FDIC's Web site (www.fdic.gov).

Proper Reporting of Sweep Arrangements Between Deposit Accounts

In an effort to reduce their reserve requirements, some banks have established sweep arrangements that involve transfers of customers' deposits between two deposit accounts. In a typical arrangement, a bank creates a master account and two subaccounts: a transaction subaccount (either a demand deposit account or a NOW account) and a savings subaccount that is not a transaction account. Depending upon the balances in the two subaccounts on a particular day, the bank will sweep funds from the transaction subaccount to the savings subaccount or vice versa. On some days, the balance in the savings subaccount may be zero.

(The savings subaccount may be an account defined for Call Report purposes as a money market deposit account (MMDA). However, for purposes of the Federal Reserve's Regulation D, there is no distinction between an MMDA and any other form of savings account in terms of legally required restrictions on transfers.)

Consistent with the reporting of these sweep arrangements for reserve requirement purposes, the transaction subaccount and savings subaccount must be treated separately for Call Report purposes when a bank reports its quarter-end deposit information in Schedules RC, RC-E, and RC-O, its quarterly averages in Schedule RC-K, and its interest expense (if any) in Schedule RI. Thus, when reporting quarterly averages in Schedule RC-K, a bank should include the amounts held in the transaction subaccounts (if interest-bearing) and the savings subaccounts each day or each week in the appropriate separate items for average deposits. In addition, if the bank pays interest on the accounts involved in sweep arrangements, the interest expense reported in Schedule RI should be allocated between the transaction subaccount and the savings subaccount based on the balances in these subaccounts during the reporting period.

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 add the same amount of gains to the historical cost of their available-for-sale equity securities when risk-weighting their assets and completing 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.

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.

As amended by FASB Statement No. 137 in June 1999, Statement No. 133 is effective for *all* fiscal quarters of fiscal years beginning after June 15, 2000. Earlier application of all of the provisions of this statement is encouraged by the FASB. 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 revised 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 revised the Call Report in March 1999 in response to Statement No. 133. Banks that elect to adopt Statement No. 133 prior to its effective date should include any accumulated net gains (losses) on cash flow hedges on the balance sheet (Schedule RC) in item 26.c. The year-to-date change in these accumulated net gains (losses) on cash flow hedges should be reported in the changes in equity capital schedule (Schedule RI-A) in item 11.b. 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 disclosed in Schedule RI-E -- Explanations, item 3.a.(1).

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 on 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 such a security that existed on the date of adoption should be reported in the Call Report income statement in Schedule RI, item 11, "Extraordinary items and other adjustments, net of income taxes," and should 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).

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 Reports Analysis and Quality Control Section in Washington, D.C., toll free at (800) 688-FDIC or call (202) 898-6607. The two optional worksheets for September 30, 1999, 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 criteria. 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 derivative contracts. Unless otherwise indicated, the various tests are based on amounts reported in the June 30, 1998, 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:

BancTec, Inc.
2405 Schneider Avenue
Menomonee, Wisconsin
54751
Telephone: (715) 235-8420

DPSC Software, Inc.
27200 Agoura Road
Suite 100
Calabasas Hills, California 91301
Telephone: (800) 825-3772

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

DBI Financial Systems,
Inc.
P.O. Box 90360
Santa Barbara, California
93190
Telephone: (800) 774-3279

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

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

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