REVISIONS TO THE REPORTS OF CONDITION AND INCOME (CALL REPORTS) FOR 1996

Contents

March 8, 1996

REVISIONS TO THE REPORTS OF CONDITION AND INCOME (CALL REPORTS) FOR 1996

The revisions to the Reports of Condition and Income (Call Report) that take effect as of March 31, 1996, are presented below. Unless otherwise indicated, each of the revisions applies to all four versions of the report forms (FFIEC 031, 032, 033, and 034). Samples of the revised schedules, or portions thereof, generally from the FFIEC 034 set of forms, are shown to illustrate the specific changes in reporting requirements and are followed by the relevant instructions. **For the March 31, 1996, report date, a reasonable estimate may be provided for any new or revised item for which the requested information is not readily available.** Also presented below are certain other revisions to the Call Report instructions.

DELETIONS AND REDUCTIONS IN DETAIL

The following deletions and reductions in detail will be made to the Call Report in 1996. The level of detail will be reduced in the two following areas for banks with foreign offices or with $100 million or more in total assets that file the FFIEC 031, 032, and 033 report forms. (Smaller banks that file the FFIEC 034 report forms do not provide these detailed data.)

Schedule RI, "Income Statement"

In addition, on the FFIEC 031, 032, and 033 report forms, a single item 5.c, "Trading revenue," will replace existing items 5.c, "Trading gains (losses) and fees from foreign exchange transactions," and 5.e, "Other gains (losses) and fees from trading assets and liabilities," in Schedule RI. The income statement memorandum items (Memorandum items 8.a through 8.d) providing a four-way breakdown of trading revenue by risk exposure (interest rate, foreign exchange, equity, and commodity and other) will continue to be collected. The sum of the four memorandum items will equal revised item 5.c.

Item 5.c, Trading revenue. Report the net gain or loss from trading cash instruments and off-balance sheet derivative contracts (including commodity contracts) that has been recognized during the calendar year-to-date. The amount reported in this item must equal the sum of Schedule RI, Memorandum items 8.a through 8.d.

Include as trading revenue:

(1) Revaluation adjustments to the carrying value of assets and liabilities reportable in Schedule RC, item 5, "Trading assets," and Schedule RC, item 15.b, "Trading liabilities," resulting from the periodic marking to market of such assets and liabilities.

(2) Revaluation adjustments from the periodic marking to market of interest rate, foreign exchange, equity derivative, and commodity and other contracts reportable in Schedule RC-L, item 15, "Total gross notional amount of derivative contracts held for trading."

(3) Incidental income and expense related to the purchase and sale of assets and liabilities reportable in Schedule RC, item 5, "Trading assets," and Schedule RC, item 15.b, "Trading liabilities," and off-balance sheet derivative contracts reportable in Schedule RC-L, item 15, "Total gross notional amount of derivative contracts held for trading."

If the amount to be reported in this item is a net loss, enclose it in parentheses.

Schedule RC-E, "Deposit Liabilities"

On the FFIEC 031, 032, and 033 report forms, the breakdown of nontransaction accounts by type of depositor in Schedule RC-E will contain fewer categories. These banks will begin to report single amounts in column C for nontransaction accounts of "Commercial banks in the U.S" (item 4) and "Banks in foreign countries" (item 6) in place of the previous two-way breakdowns of each of these items. (Smaller banks that file the FFIEC 034 report forms do not provide these detailed data.)

The revised items are shown below.

Other Deletions and Reductions in Detail

Call Report items in the four following areas will be deleted:

(1) The memorandum items for total deposits, total demand deposits, and total time and savings deposits (in domestic offices) that have been collected in the deposit schedule for deposit insurance assessment purposes (Schedule RC-E, Memorandum items 4, 4.a, and 4.b).

(2) The deposit schedule memorandum item for total deposits (in domestic offices) denominated in foreign currencies (Schedule RC-E, Memorandum item 1.d).

(3) The income statement memorandum item for foreign tax credits (Schedule RI, Memorandum item 3). This item has been completed only by banks with foreign offices or with $100 million or more in total assets that file the FFIEC 031, 032, and 033 report forms.

(4) The income statement memorandum item for the taxable equivalent adjustment to pretax income (Schedule RI, Memorandum item 4). This item has been applicable only to banks with foreign offices and $1 billion or more in total assets that file the FFIEC 031 report forms.

NEW ITEMS

New items will be added to the Call Report forms beginning March 31, 1996, to disclose six capital and asset amounts that are used in calculating regulatory capital ratios and other regulatory limitations. Other new items will provide better data on short-term liabilities and assets for liquidity analysis by focusing on those items with a remaining maturity of one year or less. Data also will begin to be collected on small business obligations sold with recourse and credit losses on off-balance sheet derivative contracts. For larger banks, the frequency of reporting on securitized credit card receivables will be changed from annually to quarterly. A more detailed description of these new items follows.

For a further explanation of these upcoming changes, please refer to Financial Institutions Letter FIL-83-95, dated December 15, 1995.

<u>Schedule RC-R, "Regulatory Capital"</u>

Six new items will be added to the regulatory capital schedule, Schedule RC-R, for (1) Tier 1 capital (the numerator of the Tier 1 risk-based and Tier 1 leverage capital ratios, i.e., net of deductions), (2) Tier 2 capital, (3) total risk-based capital (the numerator of the total risk-based capital ratio, i.e., net of deductions), (4) the excess amount of the allowance for loan and lease losses (if any), (5) total risk-weighted assets (the denominator of the risk-based capital ratio, i.e., net of deductions), and (6) "average total assets" (the denominator of the Tier 1 leverage capital ratio, i.e., net of deductions). Banks that already calculate their capital ratios for internal management purposes generally are not required to go to greater lengths to identify and determine the amounts to be reported in these six new capital-related items.

To assist banks in accurately reporting these capital items, an <u>optional</u> regulatory capital worksheet is being developed, will be provided regularly to banks, and will be updated as necessary.

Item 3, Amounts used in calculating regulatory capital ratios. Report in the appropriate subitem the indicated amounts used in calculating the bank's risk-based and leverage capital ratios. Some of these amounts are also used in calculating other regulatory limitations, such as limits on loans to insiders. The amounts to be reported in these subitems should be those determined by the bank for its own internal regulatory capital analyses and they are subject to examiner review.

Item 3.a, Tier 1 capital. Report the amount of the bank's Tier 1 capital. The amount reported in this item is the numerator of the bank's Tier 1 risk-based capital ratio and its Tier 1 leverage ratio.

Tier 1 (core) capital consists of:
(1) common stockholders' equity capital,
(2) noncumulative perpetual preferred stock and any related surplus, and
(3) minority interests in equity capital accounts of consolidated subsidiaries,
less goodwill, other disallowed intangible assets, and disallowed deferred tax assets, and any other amounts that are deducted in determining Tier 1 capital in accordance with the capital standards issued by the reporting bank's primary federal supervisory authority.

NOTE: For risk-based capital purposes, common stockholders' equity capital includes any net unrealized holding losses on available-for-sale equity securities with readily determinable fair values, but excludes other net unrealized holding gains (losses) on available-for-sale securities.

For most banks, Tier 1 capital will equal common stockholders' equity capital (Schedule RC, the sum of items 24, 25, 26.a, and 27, less any net unrealized holding losses on available-for-sale equity securities with readily determinable fair values) less goodwill and other disallowed intangible assets and less disallowed deferred tax assets. (Net unrealized holding losses on available-for-sale equity securities with readily determinable fair values can be determined from Schedule RC-B, items 6.a and 6.b. In general, if the sum of items 6.a and 6.b, column C, is greater than the sum of items 6.a and 6.b, column D, the excess should be deducted from Tier 1 capital. Intangible assets are reported in Schedule RC, item 10, and in Schedule RC-M, item 6. Disallowed deferred tax assets are reported in Schedule RC-F, Memorandum item 1.)

Item 3.b, Tier 2 capital. Report the amount of the bank's Tier 2 capital. The amount reported in this item must be less than or equal to the amount reported in Schedule RC-R, item 3.a, "Tier 1 capital."

Tier 2 (supplementary) capital is limited to 100 percent of Tier 1 capital and consists of:
(1) cumulative perpetual preferred stock and any related surplus,
(2) long-term preferred stock (original maturity of 20 years or more) and any related surplus (discounted for capital purposes as it approaches maturity),
(3) auction rate and similar preferred stock (both cumulative and noncumulative),
(4) hybrid capital instruments (including mandatory convertible debt securities),

(5) term subordinated debt and intermediate-term preferred stock (original weighted average maturity of five years or more) to the extent of 50 percent of Tier 1 capital (and discounted for capital purposes as they approach maturity), and
(6) the allowance for loan and lease losses (limited to the lesser of the balance of the allowance account or 1.25 percent of gross risk-weighted assets).

For most banks, Tier 2 capital will equal the allowable portion of the allowance for loan and lease losses (Schedule RC, item 4.b) and is further limited to 100 percent of Tier 1 capital. Banks with other capital components (e.g., subordinated debt and preferred stock) should refer to the definition of total capital set forth above and to the risk-based capital guidelines for the proper treatment of such components.

Item 3.c, 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 and Tier 2 capital 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, "Tier 1 capital," and item 3.b, "Tier 2 capital."

Item 3.d, Excess allowance for loan and lease losses. Report the amount, if any, by which the bank's allowance for loan and lease losses, as reported in Schedule RC, item 4.b, exceeds 1.25 percent of the bank's gross risk-weighted assets. 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.e, is net risk-weighted assets. Do not multiply the amount reported in item 3.e by 1.25 percent to determine the amount of the bank's excess allowance for loan and lease losses.)

Item 3.e, Risk-weighted assets. Report the amount of the bank's risk-weighted assets net of all deductions. The amount reported in this item 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. 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 gross 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.d) is the bank's net risk-weighted assets, which is the amount to be reported in this item.

Item 3.f, "Average total assets." Report the amount of the bank's "average total assets," i.e., the denominator of the bank's Tier 1 leverage capital ratio.

"Average total assets" consists of the quarterly average for "total assets" as reported in the Call Report, less goodwill, other disallowed intangible assets, disallowed deferred tax assets, and any other assets that are deducted in determining Tier 1 capital in accordance with the capital standards issued by the reporting bank's primary federal supervisory authority. For FDIC-supervised banks, the quarterly average for "total assets" must be adjusted for any securities subsidiary subject to Section 337.4 of the FDIC's Rules and Regulations and for any domestic depository institution subsidiary.

For most banks, "average total assets" will equal Schedule RC-K, item 7 on the FFIEC 034, item 9 on the FFIEC 031, 032, and 033, less goodwill and other disallowed intangible assets and less disallowed deferred tax assets. Intangible assets are reported in Schedule RC, item 10, and in Schedule RC-M, item 6. Disallowed deferred tax assets are reported in Schedule RC-F, Memorandum item 1.

Short-Term Liabilities and Assets

The banking agency staffs plan to revise the liquidity ratios in the Uniform Bank Performance Report (UBPR) to focus on short-term and total non-core liabilities (instead of so-called "volatile liabilities") as well as short-term assets and liabilities. As a result, changes are being made to the reporting of maturity and repricing data in Schedule RC, "Balance Sheet," Schedule RC-E, "Deposit Liabilities" (including Part II, "Deposits in Foreign Offices"), Schedule RC-C, "Loans and Lease Financing Receivables," and savings bank supplemental Schedule RC-J, "Repricing Opportunities for Selected Balance Sheet Categories."

Schedule RC, "Balance Sheet"

The two-way breakdown of item 16, "Other borrowed money," based on the original maturity of the borrowing is being changed to a breakdown based on remaining maturity (Schedule RC, item 16).

Item 16, Other borrowed money. Report in the appropriate subitem by remaining maturity the total amount borrowed by the consolidated bank:

(1) on its promissory notes;

(2) on notes and bills rediscounted (including commodity drafts rediscounted);

(3) on loans sold under repurchase agreements that mature in more than one business day and sales of participations in pools of loans that mature in more than one business day;

(4) on loans or other assets sold with recourse or sold in transactions in which risk of loss or obligation for payment of principal or interest is retained by, or may fall back upon, the seller that must be reported as borrowings for purposes of these reports (see the Glossary entries for "sales of assets" and "participations in pools of residential mortgages" for further information);

(5) by the creation of due bills representing the bank's receipt of payment and similar instruments, whether collateralized or uncollateralized (see the Glossary entry for "due bills");

(6) from Federal Reserve Banks and Federal Home Loan Banks;

(7) by overdrawing "due from" balances with depository institutions, except overdrafts arising in connection with checks or drafts drawn by the reporting bank and drawn on, or payable at or through, another depository institution either on a zero-balance account or on an account that is not routinely maintained with sufficient balances to cover checks or drafts drawn in the normal course of business during the period until the amount of the checks or drafts is remitted to the other depository institution (in which case, report the funds received or held in connection with such checks or drafts as deposits in Schedule RC-E until the funds are remitted);

(8) on purchases of so-called "term federal funds" (as defined in the Glossary entry for "federal funds transactions");

(9) on notes and debentures issued by consolidated subsidiaries of the reporting bank;

(10) on the FFIEC 031, on both federal funds purchased and all securities sold under repurchase agreements by foreign offices of the bank and by foreign offices of the bank's Edge and Agreement subsidiaries, unless they are legally defined as deposits in the foreign country where the liability is booked (in which case, report as a deposit in the appropriate item of Schedule RC-E, part II, and in Schedule RC, item 13.b); and

(11) on any other obligation for the purpose of borrowing money not reported elsewhere.

Also include any borrowings by an Employee Stock Ownership Plan (ESOP) that the reporting bank must report as a borrowing in accordance with generally accepted accounting principles. For further information, see AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans."

For banks filing the FFIEC 031, for a discussion of borrowings in foreign offices, see the Glossary entry for "borrowings and deposits in foreign offices."

Exclude from other borrowed money:

(1) federal funds purchased, securities sold under agreements to repurchase, and sales of participations in pools of securities (by domestic offices of the bank, by domestic offices of its Edge and Agreement subsidiaries, and by their IBFs) (report in Schedule RC, item 14);

(2) liability for short positions (report in Schedule RC, item 15.b);

(3) mortgages on bank premises and other real estate owned (report in Schedule RC, item 17); and

(4) subordinated notes and debentures (report in Schedule RC, item 19).

Item 16.a, With a remaining maturity of one year or less. Report the total amount of the reporting bank's "Other borrowed money" with a remaining maturity of one year or less. For purposes of this item, remaining maturity is the amount of time remaining from the report date until the final contractual maturity of a borrowing without regard to the borrowing's repayment schedule, if any. Include in this item those overdrawn "due from" balances with depository institutions that are reportable as "Other borrowed money," as described in the instructions to Schedule RC, item 16, above.

Item 16.b, With a remaining maturity of more than one year. Report the total amount of the reporting bank's "Other borrowed money" with a remaining maturity of more than one year. For purposes of this item, remaining maturity is the amount of time remaining from the report date until the final contractual maturity of a borrowing without regard to the borrowing's repayment schedule, if any.

Schedule RC-E, "Deposit Liabilities"

New or revised data on the maturity and repricing of deposits in Schedule RC-E involves three types of deposits: (1) brokered deposits (for all banks), (2) time deposits (for commercial banks), and (3) deposits in foreign offices.

Brokered deposits -- New Memorandum items 1.d.(1) and 1.d.(2) are being created for brokered deposits issued in denominations of less than $100,000 with a remaining maturity of one year or less and brokered deposits issued in denominations of $100,000 or more with a remaining maturity of one year or less. These new Memorandum items are applicable to both commercial and FDIC-supervised savings banks.

Memorandum item 1.d, Maturity data for brokered deposits. Report in the appropriate subitem the indicated maturity data for brokered deposits (as defined in the Glossary entry for "brokered deposits").

Memorandum item 1.d.(1), Brokered deposits issued in denominations of less than $100,000 with a remaining maturity of one year or less. Report in this item those brokered deposits issued by the bank in denominations of less than $100,000 with a remaining maturity of one year or less. Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of a brokered deposit. The brokered deposits included in this item will have been reported in Schedule RC-E, Memorandum item 1.c.(1) above.

Memorandum item 1.d.(2), Brokered deposits issued in denominations of $100,000 or more with a remaining maturity of one year or less. Report in this item those brokered deposits issued by the bank in denominations of $100,000 or more with a remaining maturity of one year or less. Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of a brokered deposit. The brokered deposits included in this item will have been reported in Schedule RC-E, Memorandum item 1.b above.

Time deposits -- For commercial banks, a number of changes are being made in the reporting of the maturity and repricing data in Memorandum items 5 and 6 of Schedule RC-E. Memorandum items 5 and 6 are not applicable to FDIC-supervised savings banks that must complete the Call Report's supplemental Schedule RC-J, "Repricing Opportunities for Selected Balance Sheet Categories." The reporting of time deposit data by savings banks that must complete Schedule RC-J is discussed below on pages 15 and 16.

First, the maturity and repricing data for open-account time deposits of $100,000 or more, which are currently included in Memorandum item 5 with the maturity and repricing data for time deposits of less than $100,000, will be switched so that these data are included with the maturity and repricing data for time certificates of deposit of $100,000 or more in Memorandum item 6.

Second, the maturity and repricing data for fixed rate and floating rate time deposits of less than $100,000, which are currently reported on a combined basis in Memorandum item 5, will be split so that the remaining maturities of fixed rate time deposits of less than $100,000 will be reported separately from the repricing frequencies of floating rate time deposits of less than $100,000. A new time interval will also be added for these time deposits. Fixed rate time deposits of less than $100,000 will contain a remaining maturity category of over one year and floating rate time deposits of less than $100,000 will include a repricing interval of less frequently than annually.

Third, two new memorandum items will be collected in the deposit schedule for floating rate time deposits of less than $100,000 with a remaining maturity of one year or less and for floating rate time deposits of $100,000 or more with a remaining maturity of one year or less.

Memorandum item 5, Maturity and repricing data for time deposits of less than $100,000. Report in the appropriate subitem maturity and repricing data for the bank's time deposits of less than $100,000, i.e., the bank's time certificates of deposit of less than $100,000 and the bank's open-account time deposits of less than $100,000. The time deposits included in this item will have been reported in Schedule RC-E, Memorandum item 2.b above. Therefore, the sum of the amounts reported in Schedule RC-E, Memorandum items 5.a.(1) through 5.b.(3) must equal Schedule RC-E, Memorandum item 2.b above.

For purposes of this memorandum item and Schedule RC-E, Memorandum item 6, the following definitions apply:

A fixed interest rate is a rate that is specified at the origination of the transaction, is fixed and invariable during the term of the time deposit, and is known to both the bank and the depositor. Also treated as a fixed interest rate is a predetermined interest rate which is a rate that changes during the term of the time deposit on a predetermined basis, with the exact rate of interest over the life of the time deposit known with certainty to both the bank and the depositor when the time deposit is acquired.

A floating rate is a rate that varies, or can vary, in relation to an index, to some other interest rate such as the rate on certain U.S. Government securities or the bank's "prime rate," or to some other variable criterion the exact value of which cannot be known in advance. Therefore, the exact rate the time deposit carries at any subsequent time cannot be known at the time the time deposit is received by the bank or subsequently renewed.

When the rate on a time deposit with a floating rate can no longer float because it has reached a floor or ceiling level, the time deposit is to be treated as "fixed rate" rather than as "floating rate" until the rate is again free to float.

Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of a time deposit.

Repricing frequency is how often the contract permits the interest rate on a time deposit to be changed (e.g., daily, monthly, quarterly, semiannually, annually) without regard to the length of time between the report date and the date the rate can next change.

Time deposits held in Individual Retirement Accounts (IRAs) and Keogh Plan accounts should be reported without regard to distribution schedules that may be in effect for funds held in certain depositors' accounts. Such time deposits should be reported in this memorandum item and in Schedule RC-E, Memorandum item 6 in the same manner as time deposits not held in IRAs and Keogh Plan accounts.

Noninterest-bearing time deposits should be treated as fixed rate time deposits and reported according to the amount of time remaining to final contractual maturity in this memorandum item and in Schedule RC-E, Memorandum item 6.

Memorandum item 5.a, Fixed rate time deposits of less than $100,000 with a remaining maturity of. Report the dollar amount of the bank's fixed rate time deposits of less than $100,000 in the appropriate subitems according to the amount of time remaining to their final contractual maturities.

Memorandum item 5.a.(1), Three months or less. Report the dollar amount of the bank's fixed rate time deposits of less than $100,000 with remaining maturities of three months or less.

Memorandum item 5.a.(2), Over three months through 12 months. Report the dollar amount of the bank's fixed rate time deposits of less than $100,000 with remaining maturities of over three months through 12 months.

Memorandum item 5.a.(3), Over one year. Report the dollar amount of the bank's fixed rate time deposits of less than $100,000 with remaining maturities of over one year.

Memorandum item 5.b, Floating rate time deposits of less than $100,000 with a repricing frequency of. Report the dollar amount of the bank's floating rate time deposits of less than $100,000 in the appropriate subitems according to their repricing frequencies, that is, how often the contract permits the interest rates on the certificates of deposit to be changed (e.g., daily, monthly, quarterly, semiannually,

annually) without regard to the length of time between the report date and the dates the rates can next change.

Memorandum item 5.b.(1), Quarterly or more frequently. Report the dollar amount of the bank's floating rate time deposits of less than $100,000 which can be repriced quarterly or more frequently (e.g., quarterly, monthly, weekly, daily).

Memorandum item 5.b.(2), Annually or more frequently, but less frequently than quarterly. Report the dollar amount of the bank's floating rate time deposits of less than $100,000 which can be repriced annually or more frequently, but which reprice less frequently than quarterly (e.g., annually, semiannually).

Memorandum item 5.b.(3), Less frequently than annually. Report the dollar amount of the bank's floating rate time deposits of less than $100,000 which can be repriced less frequently than annually (e.g., every five years, every two years).

Memorandum item 5.c, Floating rate time deposits of less than $100,000 with a remaining maturity of one year or less. Report all floating rate time deposits of less than $100,000 with a remaining maturity of one year or less. The floating rate time deposits included in this item will also have been reported by repricing frequency in Memorandum items 5.b.(1) through 5.b.(3) above.

Memorandum item 6, Maturity and repricing data for time deposits of $100,000 or more. Report in the appropriate subitem maturity and repricing data for the bank's time deposits of $100,000 or more, i.e., the bank's time certificates of deposit of $100,000 or more and the bank's open-account time deposits of $100,000 or more. The time deposits included in this item will have been reported in Schedule RC-E, Memorandum items 2.c and 2.d above. Therefore, the sum of the amounts reported in Schedule RC-E, Memorandum items 6.a.(1) through 6.b.(4) must equal the sum of Schedule RC-E, Memorandum items 2.c and 2.d above. Refer to the definitions and other instructions about time deposits in Schedule RC-E, Memorandum item 5 above.

Memorandum item 6.a, Fixed rate time deposits of $100,000 or more with a remaining maturity of. Report the dollar amount of the bank's fixed rate time deposits of $100,000 or more in the appropriate subitems according to the amount of time remaining to their final contractual maturities.

Memorandum item 6.a.(1), Three months or less. Report the dollar amount of the bank's fixed rate time deposits of $100,000 or more with remaining maturities of three months or less.

Memorandum item 6.a.(2), Over three months through 12 months. Report the dollar amount of the bank's fixed rate time deposits of $100,000 or more with remaining maturities of over three months through 12 months.

Memorandum item 6.a.(3), Over one year through five years. Report the dollar amount of the bank's fixed rate time deposits of $100,000 or more with remaining maturities of over one year through five years.

Memorandum item 6.a.(4), Over five years. Report the dollar amount of the bank's fixed rate time deposits of $100,000 or more with remaining maturities of over five years.

Memorandum item 6.b, Floating rate time deposits of $100,000 or more with a repricing frequency of. Report the dollar amount of the bank's floating rate time deposits of $100,000 or more in the appropriate subitems according to their repricing frequencies, that is, how often the contract permits the interest rates on the certificates of deposit to be changed (e.g., daily, monthly, quarterly, semiannually, annually) without regard to the length of time between the report date and the dates the rates can next change.

Memorandum item 6.b.(1), Quarterly or more frequently. Report the dollar amount of the bank's floating rate time deposits of $100,000 or more which can be repriced quarterly or more frequently (e.g., quarterly, monthly, weekly, daily).

Memorandum item 6.b.(2), Annually or more frequently, but less frequently than quarterly. Report the dollar amount of the bank's floating rate time deposits of $100,000 or more which can be repriced annually or more frequently, but which reprice less frequently than quarterly (e.g., annually, semiannually).

Memorandum item 6.b.(3), Every five years or more frequently, but less frequently than annually. Report the dollar amount of the bank's floating rate time deposits of $100,000 or more which can be repriced every five years or more frequently, but which reprice less frequently than annually (e.g., every five years, every two years).

Memorandum item 6.b.(4), Less frequently than every five years. Report the dollar amount of the bank's floating rate time deposits of $100,000 or more which can be repriced less frequently than every five years (e.g., every ten years, every six years).

Memorandum item 6.c, Floating rate time deposits of $100,000 or more with a remaining maturity of one year or less. Report all floating rate time deposits of $100,000 or more with a remaining maturity of one year or less. The floating rate time deposits included in this item will also have been reported by repricing frequency in Memorandum items 6.b.(1) through 6.b.(4) above.

Deposits in foreign offices -- For banks with foreign offices that file the FFIEC 031 report forms, a new memorandum item will be added to Schedule RC-E, Part II, "Deposits in Foreign Offices," for time deposits in foreign offices with remaining maturities of one year or less.

Memorandum item 1, Time deposits with a remaining maturity of one year or less. Report all time deposits in foreign offices with remaining maturities of one year or less. Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of a time deposit. The time deposits included in this item will also have been reported in Schedule RC-E, Part II, item 7 above.

Schedule RC-C, "Loans and Lease Financing Receivables"

For commercial banks, a single memorandum item for floating rate loans with a remaining maturity of one year or less will be added to Schedule RC-C, Part I, "Loans and Leases." This new memorandum item will provide maturity data for the floating rate loans that are reported by repricing frequency in Memorandum items 2.b.(1) through 2.b.(4) on the FFIEC 034 report forms and Memorandum item 3.b.(1) through 3.b.(4) on the FFIEC 031, 032, and 033 report forms. These Schedule RC-C memorandum items are not applicable to FDIC-supervised savings banks that must complete the Call Report's supplemental Schedule RC-J, "Repricing Opportunities for Selected Balance Sheet Categories." The reporting of loan and lease data by savings banks that must complete Schedule RC-J is discussed below on page 15.

NOTE: Maturity and repricing data for loans and leases are reported in Memorandum item 2 on the FFIEC 034 report forms and in Memorandum item 3 on the FFIEC 031, 032, and 033 report forms.

Memorandum item 2.d on the FFIEC 034; Memorandum item 3.d on the FFIEC 031, 032, and 033, Floating rate loans with a remaining maturity of one year or less. Report all floating rate loans with a remaining maturity of one year or less. Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of a loan without regard to the loan's repayment schedule, if any. On the FFIEC 034, the floating rate loans included in this item will also have been reported by repricing frequency in Memorandum items 2.b.(1) through 2.b.(4) above. On the FFIEC 031, 032, and 033, the floating rate loans included in this item will also have been reported by repricing frequency in Memorandum items 3.b.(1) through 3.b.(4) above.

Supplemental Schedule RC-J, "Repricing Opportunities for Selected Balance Sheet Categories"

For FDIC-supervised savings banks, two new memorandum items will be added to both parts I and part II of this schedule. In part I, Memorandum items 5 and 6 for loans and leases and debt securities with remaining maturities of one year or less will be added. Savings banks will begin to complete this Memorandum item 6 instead of existing Memorandum item 6 in Schedule RC-B, "Securities," on floating rate debt securities with a remaining maturity of one year or less. In part II of supplemental Schedule RC-J, savings banks will complete new Memorandum items 2 and 3 for time deposits of less than $100,000 with remaining maturities of one year or less and for time deposits of $100,000 or more with remaining maturities of one year or less.[1]

Part I. Memoranda

5.	**Loans and leases with a remaining maturity of one year or less (included in Part I, items 1 through 3 above)**	**|___|___|___|M.5.**
6.	**Debt securities with a remaining maturity of one year or less (included in Schedule RC, items 2.a and 2.b)**	**|___|___|___|M.6.**

Memorandum item 5, Loans and leases with a remaining maturity of one year or less. Report all fixed rate and floating rate loans and all leases with a remaining maturity of one year or less. Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of a loan or lease without regard to the loan's or lease's repayment schedule, if any. The fixed rate loans and leases included in this item will also have been reported in Part I, items 1.a, 2.a, and 3, column A, above. The floating rate loans included in this item will also have been reported in Part I, items 1.b, 2.b, and 3 above. Exclude those loans and leases that are reported as "nonaccrual" in Schedule RC-N, column C.

Memorandum item 6, Debt securities with a remaining maturity of one year or less. Report all fixed rate and floating rate debt securities with a remaining maturity of one year or less. For held-to-maturity debt securities with a remaining maturity of one year or less, report amortized cost. For available-for-sale debt securities with a remaining maturity of one year or less, report fair value. Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of a debt security without regard to the security's repayment schedule, if any. The debt securities included in this item will also have been reported in Schedule RC, item 2.a, "Held-to-maturity securities," and item 2.b, "Available-for-sale securities." Exclude those debt securities that are reported as "nonaccrual" in Schedule RC-N, column C, item 6 on the FFIEC 033 and 034; item 9 on the FFIEC 031 and 032.

[1] Savings banks should also note that Schedule RC-J, part II, Memorandum item 1, "Net worth certificates," is being deleted.

Part II. Memoranda

1. **Not applicable**
2. **Time deposits of less than $100,000 with a remaining maturity of one year or less (included in Part II, item 6.b above)** |___|___|___|M.2.
3. **Time deposits of $100,000 or more with a remaining maturity of one year or less (included in Part II, items 6.a and 6.b above)** |___|___|___|M.3.

Memorandum item 2, Time deposits of less than $100,000 with a remaining maturity of one year or less. Report all fixed rate and floating rate time deposits of less than $100,000 with a remaining maturity of one year or less. Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of a time deposit. The time deposits included in this item will also have been reported in Part II, item 6.b above.

Memorandum item 3, Time deposits of $100,000 or more with a remaining maturity of one year or less. Report all fixed rate and floating rate time deposits of $100,000 or more with a remaining maturity of one year or less. Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of a time deposit. The time deposits included in this item will also have been reported in Part II, items 6.a and 6.b above.

Other New Items

Schedule RC-L, "Off-Balance Sheet Items"

Two revisions are being made to Schedule RC-L. The first change is applicable to all banks. The second change applies only to banks with foreign offices or with $300 million or more in total assets that file the FFIEC 031 and 032 report forms.

First, new items 9.d.(1) and 9.d.(2) will be added to Schedule RC-L for (1) the outstanding principal balance of small business obligations sold with recourse and (2) the amount of retained recourse on these obligations as of the report date. These items are applicable to qualifying institutions that have sold small business loans and leases on personal property with recourse under Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994. Section 208 provides that a qualifying institution that sells small business obligations with recourse is required to include only the amount of the retained recourse in its risk-weighted assets when calculating its risk-based capital ratios, provided two conditions are met. First, the transaction must qualify as a sale under generally accepted accounting principles (GAAP). Second, the selling institution must establish a non-capital reserve sufficient to meet its reasonably estimated liability under the recourse arrangement. Therefore, qualifying institutions should report these transactions in accordance with GAAP in the Call Report.

To be a qualifying institution, a bank must be well capitalized based on capital ratio calculations made without regard to the preferential capital treatment that Section 208 authorizes for these transactions. In addition, in general, for purposes of determining a bank's capital category under the prompt corrective action rules, the capital ratio calculations must be made without regard to the preferential Section 208 treatment. The two new Schedule RC-L items will enable the banking agencies to determine the capital ratios of institutions that have engaged in transactions covered by Section 208 on this "without regard to" basis.

The Glossary entry for "sales of assets" in the Call Report instructions also is being revised to incorporate the GAAP reporting treatment for sales of small business obligations with recourse by qualifying institutions.

Item 9, Loans transferred (i.e., sold or swapped) with recourse that have been treated as sold for Call Report purposes. Report in the appropriate subitem the outstanding principal balance of and the recourse exposure on pooled residential mortgages, agricultural mortgages, and small business obligations that (1) have been transferred with recourse in transactions reported as sales in accordance with the applicable Call Report instructions or (2) have been swapped with recourse with FNMA or FHLMC in exchange for participation certificates which the bank has either sold or carries as assets in Schedule RC, Balance Sheet. Banks that have not engaged in such recourse transactions should report a zero or the word "none" in the appropriate subitems of this item. A transfer of loans without recourse or any other form of risk retention in which the bank's (or a consolidated subsidiary's) servicing responsibilities obligate it to advance interest payments on delinquent loans is not considered a transfer with recourse for purposes of this item.

The amount of recourse exposure to be reported in this item is the maximum contractual exposure remaining as of the report date under the recourse provision under which the assets have been transferred (or swapped), not a reasonable estimate of the probable loss under the recourse provision. The amount of recourse exposure to be reported should not include interest payments the bank has advanced on delinquent loans. For assets transferred (or swapped) with full (unlimited) recourse, the amount of recourse exposure to be reported is the outstanding principal balance of the mortgages as of the report date. For assets transferred (or swapped) with limited recourse, the amount of recourse exposure to be reported is the maximum amount of principal the transferring bank would be obligated to pay the holder of the assets in the event the entire outstanding principal balance of the assets transferred (or swapped) becomes uncollectible.

Item 9.d, Small business obligations transferred with recourse under Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994:

Item 9.d.(1), Outstanding principal balance of small business obligations transferred as of the report date. Report the principal balance outstanding as of the report date for small business loans and leases on personal property (small business obligations) which the bank has transferred with recourse during the time the bank was a "qualifying institution" and did not exceed the retained recourse limit set forth in banking agency regulations implementing Section 208. Transfers of small business obligations with recourse that were consummated during such a time may be reported as sales for Call Report purposes if the transactions are treated as sales under generally accepted accounting principles and the institution establishes a recourse liability account sufficient to meet the institution's reasonably estimated liability under the recourse arrangement.

Item 9.d.(2), Amount of retained recourse on these obligations as of the report date. Report the amount of recourse the bank has retained on the small business obligations whose outstanding principal balance was reported in item 9.d.(1).

Second, banks filing the FFIEC 031 and 032 report forms will begin to report Memorandum item 5.b. on the outstanding amount of securitized credit card receivables that they service on a quarterly rather than annual basis. Other than the change in reporting frequency for this item, the existing instructions for Memorandum item 5.b. are not being revised.

Schedule RI, "Income Statement"

For banks with foreign offices or with $300 million or more in total assets that file the FFIEC 031 and 032 report forms, new Memorandum item 10 will be added to Schedule RI for the reporting of year-to-date credit losses on derivatives.[2] This new memorandum item will not be collected from banks that file the FFIEC 033 and 034 report forms.

---

[2] The location of this new Memorandum item has been changed to Schedule RI. When this new Call Report item was announced in Financial Institutions Letter FIL-83-95, dated December 15, 1995, it was described as an addition to Schedule RI-B, part I. A related instructional change that was announced in FIL-83-95 would have required banks that file the FFIEC 031 and 032 report forms to report off-balance sheet derivatives that, while not technically 90 days past due, are with counterparties that are not expected to pay the full amounts owed to the institution under the derivative contracts as if they were 90 days past due. This proposed instructional change is **not** being implemented at this time.

Memorandum item 10, Credit losses on off-balance sheet derivatives. Report the bank's year-to-date credit losses (e.g., charge-offs) incurred on off-balance sheet derivative contracts (as defined for Schedule RC-L, item 14). The amount reported in this item should include all credit losses regardless of whether the bank charged such losses directly to income (e.g., trading revenue) or to another account (e.g., allowance for credit losses on derivatives).

OTHER INSTRUCTIONAL CHANGES

As previously noted in Financial Institutions Letter FIL-83-95, dated December 15, 1995, the Examination Council has approved a number of instructional changes for 1996. Existing Call Report instructions for mortgage servicing rights and trading accounts are being revised to bring them into conformity with GAAP. New or revised Call Report instructions also will address the reporting of low-level recourse transactions, accrued receivables related to derivatives for risk-based capital purposes, and certain other topics. More detailed information about these instructional changes follows.

Mortgage Servicing Rights

In May 1995, the Financial Accounting Standards Board (FASB) issued Statement No. 122, "Accounting for Mortgage Servicing Rights." This new accounting standard amended FASB Statement No. 65, "Accounting for Certain Mortgage Banking Activities," and is effective for fiscal years beginning after December 15, 1995. Statement No. 122 must be adopted for Call Report purposes as of its effective date based on each bank's fiscal year. Early adoption is also permitted to the extent allowable under Statement No. 122. For banks with a calendar year fiscal year that do not elect early adoption, the March 31, 1996, Call Report will be the first report to be completed in accordance with Statement No. 122.

The existing Glossary entry for "mortgage servicing rights" was written based on the provisions of Statement No. 65. This Glossary entry has been revised as follows to incorporate the amendments to Statement No. 65 that were made by Statement No. 122.

Mortgage Servicing Rights: Mortgage servicing rights are the contractual obligations undertaken by one party to provide servicing for mortgage loans that have been securitized or are owned by another party, typically for a fee. Mortgage servicing entails the processing of payments of principal and interest and the maintenance of escrow accounts for the payment of taxes and insurance. In order for a bank to report mortgage servicing rights as an asset the rights must: (1) represent the bank's obligation to service mortgage loans that have been securitized or are owned by others, (2) have been purchased directly or acquired by purchasing or originating mortgage loans and selling or securitizing those loans while retaining the servicing in a bona fide transaction, and (3) provide for the receipt of future servicing revenue which is expected to exceed the anticipated costs of providing the servicing.

Estimates of future servicing revenue should include fees for servicing mortgage loans, which are generally based on a percentage of the outstanding principal balance of the loans, and expected late charges and other ancillary revenue, including income on escrow deposits. Estimates of expected future servicing costs should include all direct costs associated with performing the servicing function and appropriate allocations of other costs. If the cost of the mortgage servicing rights exceeds the estimated future net servicing income, the excess shall be charged off at the time of acquisition.

When a bank purchases or originates mortgage loans, the cost of acquiring those loans includes the cost of the related mortgage servicing rights. If the bank sells or securitizes the mortgages and retains the mortgage servicing rights, the bank shall allocate the cost of the mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values if it is practicable to estimate those fair values. If it is not practicable to estimate the fair values of the mortgage servicing rights and the mortgage loans (without the mortgage servicing rights), the entire cost of the mortgage loans shall be allocated to the mortgage loans (without the servicing rights) and no cost shall be allocated to the mortgage servicing rights.

A bank that purchases or originates mortgage loans with a definitive plan to sell or securitize those loans and retain the mortgage servicing rights shall allocate the cost of the mortgage loans based on the relative fair values at the date of purchase or acquisition. The allocation shall be based on the assumption that a normal servicing fee will be received and that the rights to the remaining cash flows from the underlying mortgage loans will be sold or securitized. A definitive plan exists if (1) the mortgage banking enterprise has obtained, before the purchase or origination date, commitments from permanent investors to purchase the mortgage loans or related mortgage-backed securities, makes a commitment within a reasonable period (usually not more than 30 days after the purchase or origination date) to sell the mortgage loans or related mortgage-backed securities to a permanent investor or underwriter, or has made, before the purchase or origination date, commitments to deliver the mortgage loans for securitization and (2) estimates of the selling price have been made. When a bank does not have a definitive plan at the purchase or origination date and later sells or securitizes the mortgage loans and retains the mortgage servicing rights, the cost of the mortgage loans shall be allocated based on the relative fair values at the date of sale or securitization.

All mortgage servicing rights carried on the books of reporting banks shall be amortized in proportion to, and over the period of, estimated net servicing income (servicing revenue in excess of servicing costs). The book value of each stratum of mortgage servicing rights should be reviewed at least quarterly. If the book value of a stratum exceeds its fair value, the mortgage servicing rights are considered to be impaired and the book value shall be reduced to fair value through a valuation allowance for that stratum. The mortgage servicing rights shall be stratified into groups based on one or more of the predominant risk characteristics of the underlying loans for purposes of determining fair value. The fair value of mortgage servicing rights is the amount at which the asset could be bought or sold in a bona fide transaction between willing parties.

For further information, see FASB Statement No. 122, "Accounting for Mortgage Servicing Rights," and No. 65, "Accounting for Certain Mortgage Banking Activities."

In addition, Statement No. 122 contains guidance for determining when mortgage servicing rights should be considered impaired that differs from the impairment guidance currently set forth in the Call Report instructions for Schedule RC-M, item 6.a, "Mortgage servicing rights." Accordingly, these instructions are being revised as follows.

Item 6.a, Mortgage servicing rights. Report the book value of mortgage servicing rights (both purchased and originated).

Each stratum of mortgage servicing rights shall be carried at the lesser of its amortized cost or its fair value. Impairment shall be recognized through a valuation allowance for an individual stratum. The management of an institution shall review the book value of each stratum at least quarterly, adequately document this review, and adjust the book value as necessary for changes in fair value. See the Glossary entry for "mortgage servicing rights" for further information.

"Trading Account" Glossary Entry

This Glossary entry has been revised to bring it into conformity with the provisions of FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and to incorporate the effects of other recent Call Report changes. The revised Glossary entry is presented below.

Trading account: Banks that (a) regularly underwrite or deal in securities, interest rate contracts, foreign exchange rate contracts, other off-balance sheet commodity and equity contracts, other financial instruments, and other assets for resale, (b) acquire or take positions in such items principally for the purpose of selling in the near term or otherwise with the intent to resell in order to profit from short-term price movements, or (c) acquire or take positions in such items as an accommodation to customers or for other trading purposes shall report such assets or positions as trading assets or liabilities.

All trading assets should be segregated from a bank's other assets and reported in Schedule RC, item 5, "Trading assets." In addition, for banks with $1 billion or more in total assets or with $2 billion or more in notional amount of off-balance sheet derivative contracts, the types of assets and liabilities in the trading account should be detailed in Schedule RC-D, "Trading Assets and Liabilities." A bank's failure to establish a separate account for assets that are used for trading purposes does not prevent such assets from being designated as trading for purposes of these reports. For further information, see the FFIEC Supervisory Policy Statement on Securities Activities and FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

All trading account assets should be reported at their fair value with unrealized gains and losses recognized in current income. When a security or other asset is acquired, a bank should determine whether it intends to hold the asset for trading or for investment (e.g., for securities, available-for-sale or held-to-maturity). A bank should not record a newly acquired asset in a suspense account and later determine whether it was acquired for trading or investment purposes. Regardless of how a bank categorizes a newly acquired asset, management should document its decision.

All trading liabilities should be segregated from other transactions and reported in Schedule RC, item 15.b, "Trading liabilities." The trading liability account includes the fair value of off-balance sheet derivative contracts held for trading that are in loss positions and short sales of securities and other assets. Trading account liabilities should be reported at fair value with unrealized gains and losses recognized in current income in a manner similar to trading account assets.

Given the nature of the trading account, transfers into or from the trading category should be rare. Transfers between a trading account and any other account of the bank must be recorded at fair value at the time of the transfer. For a security transferred from the trading category, the unrealized holding gain or loss at the date of the transfer will already have been recognized in earnings and should not be reversed. For a security transferred into the trading category, the unrealized holding gain or loss at the date of the transfer should be recognized in earnings.

For purposes of these reports, short sales of securities or other assets are treated as trading transactions because such sales are entered into with the intent to profit from short-term price movements. Nonetheless, the obligation incurred in a short sale should not be netted against trading assets, but should be recorded as a liability in Schedule RC, item 15.b, "Trading liabilities," and in Schedule RC-D, item 13, "Liability for short positions." (See the Glossary entry for "short position.")

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

In 1995, the three banking agencies amended their risk-based capital standards to incorporate the so-called "low-level recourse" rule. Under this rule, when a bank transfers assets with recourse, the amount of risk-based capital that must be maintained is limited to the bank's maximum contractual exposure under the recourse agreement if this is less than the amount of capital that would have to be held against the outstanding amount of the transferred assets.

The Supplemental Instructions that were included in the quarterly Call Report materials distributed to banks during 1995 provided interim guidance on how low-level recourse transactions should be reported for risk-based capital purposes in the regulatory capital schedule (Schedule RC-R). This guidance, which is presented below, is now being formally incorporated into the Schedule RC-R instructions.

Treatment of Low Level Recourse Transactions -- Banks that have entered into low level recourse transactions should report these transactions in Schedule RC-R in accordance with the following guidance:

For low level recourse transactions that are reported as financings for Call Report purposes, i.e., where the transferred assets continue to be carried as assets on the Call Report balance sheet, the maximum contractual dollar amount of the bank's recourse exposure as of the report date should be multiplied by a factor that is a function of the risk weight accorded the transferred assets. The resulting dollar amount should be reported in the item in column A of Schedule RC-R appropriate to the risk weight category of the transferred assets. The difference between this resulting dollar amount and the amount at which the transferred assets are carried on the Call Report balance sheet should be reported in Schedule RC-R, item 8, "On-balance sheet asset values excluded from the calculation of the risk-based capital ratio." The multiplication factors are 12.5, 25, and 62.5 for transferred assets in the 100 percent, 50 percent, and 20 percent risk weight categories, respectively.

For example, a bank has transferred $1 million in loans subject to five percent recourse and reports the transaction as a financing on its Call Report. The maximum amount for which the bank is liable is $50,000. The loans are of a type that falls in the 100 percent risk weight category and the bank's recourse exposure is less than the $80,000 minimum risk-based capital requirement for the transferred assets. The bank would report $625,000 in Schedule RC-R, item 7.a (its $50,000 maximum exposure multiplied by 12.5), and $375,000 in Schedule RC-R, item 8 (the difference between $625,000 and the $1 million carrying amount of the loans on the Call Report balance sheet).

For low level recourse transactions that qualify for sale treatment for Call Report purposes, the transferred assets will have been removed from the Call Report balance sheet. In this situation, the maximum contractual dollar amount of the bank's off-balance sheet recourse exposure as of the report date, less the balance of any associated recourse liability account established in accordance with generally accepted accounting principles (GAAP) and reported in Schedule RC, item 20, "Other liabilities," should be multiplied by the factor appropriate to the risk weight category of the transferred assets, as discussed above. The resulting dollar amount should be reported as a credit equivalent amount in the item in column B of Schedule RC-R appropriate to the risk weight category of the off-balance sheet transferred assets.

For example, a bank has transferred $2 million in first lien residential mortgages subject to two percent recourse under a U.S. Government program and properly reports the transaction as a sale in accordance with the applicable Call Report instructions. 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 are accorded a 50 percent risk weight and the bank's recourse exposure is less than the $80,000 minimum risk-based capital requirement for the off-balance sheet assets transferred with recourse. The bank would report $750,000 as the credit equivalent amount in Schedule RC-R, item 6.b (its $30,000 maximum exposure, net of the recourse liability account balance, multiplied by 25). Because the $2 million in transferred mortgages is off the balance sheet, the difference between the $750,000 credit equivalent amount and the $2 million is not reported in Schedule RC-R.

Reporting Accrued Receivables Related to Derivatives for Risk-Based Capital Purposes

The instructions for Schedule RC-R, item 8, "On-balance sheet asset values excluded from the calculation of the risk-based capital ratio," are being revised, as follows, to permit institutions to report accrued receivables related to off-balance sheet derivative contracts in item 8 when these amounts are included in a bank's credit equivalent amount calculations.

Item 8, On-balance sheet asset values excluded from the calculation of the risk-based capital ratio. Report in this item the difference between the fair value and the amortized cost of the reporting bank's available-for-sale securities (and report the amortized cost of these 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 may 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.

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. 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 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. If the value of a contract is negative or equal to zero, 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 contracts on Schedule RC.

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.

Purchased options that are reported according to current instructions for the Reports of Condition and Income (e.g., no valuation of open positions is to be made) will often have an on-balance sheet asset value equal to the fee paid until the option expires. If that on-balance sheet amount 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.

Other Instructional Matters

Several other instructional changes and clarifications are summarized below.

Reporting of Quarterly Averages in a Quarter When Push Down Accounting Has Been Applied -- The instructions for the quarterly average calculations in Schedule RC-K are being clarified to indicate that banks acquired in push down transactions should calculate quarterly averages using only the dollar amounts for the days since the acquisition in the numerator and the number of days since the acquisition in the denominator.

Past Due Status for Residential Mortgages -- The definition of past due in the instructions for Schedule RC-N, "Past Due and Nonaccrual Loans, Leases, and Other Assets," indicates that amortizing loans secured by real estate are to be reported as past due when the borrower is in arrears two or more monthly payments. The definition also states that banks may use 30 days as a proxy for a month if they prefer, but this option has apparently not been fully understood by banks. As a result, this 30-day language is being replaced with a statement to the effect that, at a bank's option, loans and leases with payments scheduled monthly may be reported as past due when one scheduled payment is due and unpaid for 30 days or more.

Separate Entity Method of Accounting for Income Taxes -- The section of the Glossary entry for "income taxes" that discusses income taxes of a bank subsidiary of a holding company states that a bank should generally report income tax amounts in its Call Report as if it were a separate entity. When the reporting bank has subsidiaries of its own, there have been questions about how the separate entity method should be applied. In this situation, the bank, together with its consolidated subsidiaries, is treated as a separate taxpayer for purposes of computing the bank's applicable income taxes and the amount of any disallowed deferred tax assets. The "income taxes" Glossary entry is being clarified in this manner.

Checks or Drafts Drawn on Zero-Balance and Similar Accounts -- The instructions for Schedule RC-E, "Deposit Liabilities," were revised in 1993 to describe how funds received or held in connection with checks or drafts drawn by the reporting bank and drawn on, or payable at or through, another institution on a zero-balance or similar account should be reported. When this revision was made, the instructions for the balance sheet items for "Other borrowed money" (Schedule RC, item 16) and "Cash and balances due from depository institutions" (Schedule RC, item 1) and the Glossary entry for "overdraft" were not also updated to describe the treatment of any zero-balance or similar accounts that the reporting bank maintains at other institutions. Appropriate changes to these instructions are now being made.

Capitalization of Interest Cost -- Both generally accepted accounting principles (GAAP) and the Call Report instructions require material interest costs associated with the construction of a building to be capitalized as part of the cost of the building. When a bank has a specific borrowing to finance the construction of a building, interest expense is reduced by the amount of capitalized interest. However, for internally-financed projects, the Call Report instructions currently require banks to report the credit resulting from the capitalization of imputed interest as a reduction of "Other noninterest expense." This reporting treatment for imputed interest does not appear to be consistent with GAAP. Accordingly, the instructions advising banks to credit "Other noninterest expense" for the amount of capitalized imputed interest are being eliminated.