FDIC
Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226-3500

Division of Finance
Assessment Compliance Section

September 2011

Dear Chief Executive Officer:

This Assessment Reporting Review Guide ("the Guide") replaces the Assessable Deposit Review Guide last updated in December 2010. The current Guide is always available on FDIC*connect*.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act") resulted in significant statutory changes to the FDIC deposit insurance assessment program. It required that the FDIC redefine the assessment base used to calculate deposit insurance assessments for all insured depository institutions. In conjunction with the required Dodd-Frank Act changes, certain Call Reports and Thrift Financial Reports ("TFR") were modified to capture information necessary to calculate assessments under the new methodologies. The modifications became mandatory with the June 2011 Call Report and TFR filings.

The Guide includes an overview of the recent statutory changes that impact an institution's assessment reporting and assessment computation. The most significant change is that an institution's deposit insurance assessment base is no longer derived from its domestic deposits. Instead, the deposit insurance assessment base is defined as average consolidated total assets minus average tangible equity (FDIC's final rule uses Tier 1 capital as the measure for tangible equity) with certain allowable deductions for qualifying banker's banks and custodial banks.

The Guide also includes information on the FDIC's Assessment Reporting Review Program and what supporting documentation is expected from each reporting institution in a review. The Guide does not create new data collection requirements; rather, it updates the FDIC's long-standing assessment validation process to reflect the reporting modifications. Using only the documentation provided in support of the amounts shown on one quarterly invoice, the review evaluates the effectiveness of an institution's assessment base reporting controls and reporting practices by analyzing the level of assessment base reporting compliance with (1) Section 7(b)(4) of the Federal Deposit Insurance Act, (2) the assessment regulations contained in Part 327 of the FDIC's Rules and Regulations, (3) the Call Report/TFR Instructions, and (4) the Assessment Reporting Review Guide. Items that need management attention will be detailed in the Final Report (Report) which requires a written management response within 30 days when deficiencies are found. The response should indicate what the institution will do to correct the deficiencies and also indicate that the Board of Directors has reviewed both the Report and the management response. The Assessment Reporting Reviews help ensure that each insured institution pays its appropriate share of deposit insurance premiums and help improve assessment reporting industry-wide.

It's your institution's responsibility to accurately report its defined assessment amounts. In order to do so, appropriate controls, procedures, and systems should be in place to ensure all assessment amounts are captured and correctly reported.

If you have any questions about the Guide, please contact the FDIC's Assessment Compliance Section by email (assessments@fdic.gov) or by phone (1-800-759-6596). FDIC staff is available to assist institutions with questions about the recent statutory changes and the FDIC's Assessment Reporting Review Program.

Sincerely,

Bruce W. Halper

Bruce W. Halper
Manager, Assessment Compliance Section

Assessment Reporting Review Guide

It is the responsibility of insured depository institutions to accurately report assessment amounts and maintain the documentation to readily permit verification of the correctness of assessment amounts reported. It is the responsibility of the FDIC to verify the correctness of the assessment amounts reported through periodic review of supporting records and documentation.

This Assessment Reporting Review Guide is intended to help by assisting preparers of the Call Report or Thrift Financial Report in understanding and properly applying assessment reporting standards as set forth in the Federal Deposit Insurance Act (FDI Act), the FDIC Rules and Regulations, the Call Report/Thrift Financial Report Instructions and this guide.

Overview

The Assessment Reporting Review Guide ("the Guide") is designed to help insured institutions better understand the FDIC's longstanding reporting, documentation, and verification requirements associated with deposit insurance assessment base amounts reporting. Insured institutions are required to accurately report average consolidated total assets and average tangible equity and to maintain supporting documentation. All institutions are subject to a periodic review by the FDIC of records and documentation supporting the reported assessment amounts ("Assessment Review"). The Guide is intended to be a resource to help an institution identify all of its assessment components, report its assessment amounts accurately, and determine what documentation needs to be maintained to readily permit verification of the correctness of assessment amounts reported for deposit insurance assessment purposes. The Guide also describes the Assessment Review process and offers insights on documentation that could help an institution successfully substantiate the deposit insurance assessment amounts it reports to the FDIC for its insurance assessment computation.

The Assessment Review is not intended to add regulatory burden or to duplicate risk compliance audit program information requests or examinations. We are reviewing Call Report Schedule RC-O – Other Data for Deposit Insurance and FICO Assessments/Thrift Financial Report (TFR) DI – Consolidated Deposit Information. These schedules are not included in supervision risk examinations. Primarily, the FDIC's Division of Finance reviews these schedules for reporting compliance/accuracy for deposit insurance premium assessment purposes.

Chapter 1 – The Assessment Review Program

Every institution, regardless of its size, will at some point be involved in an FDIC Assessment Review, either remotely or on-site at the institution. Chapter 1 describes the overall objectives of the Assessment Review Program, and describes in some detail how the process works. An Assessment Review evaluates the effectiveness of an institution's assessment reporting controls taking into consideration the accuracy of the amounts reported in the Call Report/TFR and presented on the certified statement invoice for one quarter. An Assessment Review also evaluates the completeness and availability of documentation, and the timeliness of responses to Assessment Review requests for documentation. At the end of an Assessment Review, a report will be issued to the institution's Chief Executive Officer (CEO). By reading how an Assessment Review works in this chapter, the Assessment Review documentation requirements, and the roles of the FDIC and the institution under review, an institution may be better able to integrate the Assessment Review requirements into its assessment reporting control processes.

An Assessment Review is primarily conducted electronically through the Examination File Exchange (EFE) feature of FDIC*connect*. It is crucial for an institution to be diligent in maintaining its reporting control processes each quarter. It is also important for an institution to make sure that there is currently staff serving as the FDIC*connect* Coordinator (and a backup) and staff serving as Users with appropriate authority.

Chapter 2 – Deposit Insurance Assessment Reporting

Chapter 2 contains information that may help an institution understand the recent statutory changes that impact an institution's assessment reporting and assessment amount due. This chapter also provides guidance on reporting assessment base amounts on the Call Report/TFR "assessments lines" (Call Report Schedule RC-O items 4-5 and TFR Schedule DI lines DI520-DI524 for all insured depository institutions and allowable deductions for qualifying banker's banks [RC-O 10-10b; DI659-662] and custodial banks [RC-O 11-11b; DI663-665]), including the requirements associated with average balance reporting. In addition, the chapter gives specific reporting guidance to institutions that own a bank/thrift subsidiary and how to handle mergers/consolidations for assessment reporting purposes.

Chapter 3 – FDIC*connect* and Examination File Exchange (EFE)

Chapter 3 contains a description of the FDIC*connect* and EFE and the roles they play in the Assessment Review process. This chapter contains detailed step-by-step instructions for signing up for FDIC*connect*, assigning EFE access to institution personnel, and using EFE.

Outreach and Additional Information

The FDIC conducts an outreach program that includes educational and communication initiatives applicable to assessment reporting topics of interest. The audiences for these outreach activities include individual institutions, financial industry groups, and the financial institution regulatory agencies. The FDIC also responds to assessment reporting issues and questions from insured institutions through a designated e-mail and phone number: assessments@fdic.gov or 1-800-759-6596.

We hope the following chapters help your institution understand the expectations regarding assessment reporting and help facilitate your efforts to maintain sound controls and determine appropriate documentation to substantiate your reported assessment amounts. This Guide will be updated as needed, so we encourage all insured institutions to send us comments and suggestions for improving the content or presentation to the e-mail address mentioned above.

Chapter 1 - Assessment Reporting Review Program

1. Assessment Review Program

The goal of the Assessment Review Program is to improve assessment reporting industry-wide by monitoring reported assessment amounts, ensuring uniform compliance with assessment reporting requirements, and confirming the adequacy of controls relative to asset and tangible equity documentation and reporting. Accurate reporting ensures that deposit insurance premiums are correct.

Periodically, your institution's assessment reporting will be validated by the FDIC's Assessment Compliance Section (ACS) for a selected quarter through an Assessment Review.

An assessment review will occur after the Call Report/TFR under review has been filed and the assessment payment for the period associated with that Call Report/TFR has been invoiced and collected. For instance, typically, your institution's March Call Report/TFR would not be subject to an assessment review until after the June 30 collection. Therefore, your institution's reported assessment amounts will have already been subjected to your institution's control and verification processes. An institution with strong control and verification procedures should be able to respond to an assessment review promptly and with little disruption to normal business operations.

The review tests the effectiveness of your institution's assessment-related control and reporting practices by reviewing the accuracy of average consolidated total assets and average tangible equity reported for one selected quarter. Basically, the Assessment Review process compares assessment totals reflected on page two of a quarterly certified statement invoice to the source documentation submitted as part of the review. (Tasks performed by regulatory risk examination will not be duplicated.) The documentation is examined to determine if *all* assessment amounts are being routinely included in your institution's reported assessment amounts.

At the end of the Assessment Review, a written report is issued to your institution's CEO that conveys the FDIC's opinion on the effectiveness of the institution's assessment-related control and reporting practices. The report evaluates the level of assessment reporting compliance with (1) the statutory definition of assessment base in the Dodd-Frank Wall Street Reform and Consumer Protection Act, section 331(b), (2) the assessment regulations contained in Part 327 of the FDIC's Rules and Regulations, (3) the Call Report/TFR Instructions, and (4) this Guide.

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1. A. Assessment Review Elements

The written report addresses the following questions:

- Did your institution maintain readily available records required to verify the average consolidated total assets and average tangible equity amounts reported on the selected invoice?

- Did your institution correctly identify, properly organize and clearly present all required supporting documentation as designated in the Assessment Review Instructions?

- Did your institution's reporting processes ensure that quarter end consolidated total assets, average consolidated total assets, quarter end tangible equity, and average tangible equity amounts, as defined in Part 327 of the FDIC's Rules and Regulations, were properly reported?

- Did your institution properly identify and provide supporting documentation for all adjustments or reconciling items between the source systems of records and the reported assessment base amounts?

- Did the documentation provided indicate that your institution has maintained adequate controls over its assessment reporting processes necessary to ensure the overall completeness and accuracy of assessment amounts reported for quarterly invoices?

- Did your institution use the EFE feature of FDIC*connect* to communicate with ACS staff, to clarify instructions, and to securely deliver the required documentation, as instructed in the Assessment Review Engagement letter?

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1. B. Assessment Review Process

The Assessment Review is a fairly structured process accomplished by exchanging information between your institution and the FDIC through the EFE component of FDIC*connect*. Your institution should have an active FDIC*connect* Coordinator and a succession plan for prompt replacement of the designated Coordinator. In addition, your institution should have at least one FDIC*connect* user that is able to use EFE. The FDIC expects the FDIC*connect* Coordinator to facilitate and monitor the Assessment Review activities within your institution. Every institution is responsible for maintaining continuous FDIC*connect* and EFE coverage. See Chapter 3 for more information on FDIC*connect.*

An engagement letter is the official notice of the start of the review. It will be transmitted to your institution via FDIC*connect* and asks for supporting documentation for amounts reported and presented on one quarterly certified statement invoice. To fulfill this request, your institution should initially transmit the following:

- Source systems of record documentation for assets, tangible equity and adjustments included in the Call Report/TFR assessment lines. These systems may be a manual process or an automated processing platform used to track, control, and handle inquiries about a specific asset or equity amount.

- A listing that documents the computation of the average (daily or weekly) reported consolidated total assets and average (monthly if required) tangible equity for the calendar quarter.

- An unconsolidated general ledger balance sheet used to balance to the source systems of record for the date being reviewed.

- A consolidated general ledger balance sheet for the date being reviewed.

- A list of every account with a contra account and explanation of what is in the contra account.

- A list of every assessment base account in which transaction activity is not updated daily for review.

The FDIC does not mandate the method an institution uses to accumulate, reconcile, and control the assessment base amounts reported in the Call Report/TFR. The FDIC is open to consider alternative processes so long as the documentation provided clearly indicates that the assessment source systems of record are in agreement with the reported assessment totals. The Designated Contact(s) (point of contact for the review) must first confer with the FDIC EFE Session Contact before any alternate approach or response to an assessment review is taken.

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1. C Assessment Review Steps

Step 1: The review begins with an e-mail notice from the FDIC to your institution's assigned FDIC*connect* Coordinator advising your institution that an Assessment Review Engagement letter has been posted on FDIC*connect.*

Step 2: The Coordinator downloads the Assessment Review Engagement letter. The letter requests that a Designated Contact(s) be identified. A sample engagement letter is shown on page 10 (Exhibit A).

Step 3: The Coordinator quickly identifies who will be the "Designated Contact(s)" for the review and makes certain that the Designated Contact(s) is an established user on FDIC*connect* and has been given EFE transaction authority within FDIC*connect.* The Coordinator advises Assessment Compliance Section (ACS) staff via email (assessments@fdic.gov) of your institution's Designated Contact(s) for the review.

Step 4: Once notified of the Designated Contact(s), the FDIC establishes an EFE communication session within FDIC*connect* to facilitate the secure exchange of documentation with your institution.

Step 5: The FDIC sends an email notice to the Designated Contact(s) advising that files containing the Assessment Review Engagement letter, Asset and Equity Account Balances Summary, sample templates for the Averaging Summary, and specific instructions for completing the templates and providing supporting systems of record information are available on EFE for download by your institution to use as a documentation tool if it so wishes.

Step 6: The Designated Contact(s) coordinates the preparation and transmittal of the requested documentation to the FDIC.

Your institution should complete the Averaging Summary listing (similar to those described in step 5 above) and return it electronically using FDIC*connect* EFE. The designated contact should also provide supporting documentation in the form of system of record control total summary reports and adjustments which substantiate asset and equity numbers as reported for the last day of the quarter being reviewed. System of record control summaries are those reports routinely used each day by an institution to balance and reconcile asset and tangible equity activities.

If full supporting documentation (both assessment amount totals and supporting system control sheets) is not submitted at the start of the Assessment Review, your institution will be asked to correct its submission. Therefore, supporting documentation should be sufficiently detailed to avoid the need to make a subsequent request for additional information.

In some cases ACS staff may request additional documentation and clarification in support of the Assessment Review. Additional documentation or clarification might be required in cases of potential misclassifications, banker's bank and custodial bank deductions, to support the results of internal control reviews, and to support FAS 115 mark-to-market policies and entries.

Step 7: ACS staff will complete the review and issue a final report to your institution's CEO. The report will describe any deficiencies. Items that need management attention will be detailed in the final report. This report and management's response should be presented to your institution's Board of Directors. The response to the final report should be in the form of a letter and explain the nature and extent of the changes and/or corrective actions to current reporting processes. In addition, the letter should include a description of the actions needed to correct any prior reporting periods affected by the items detailed in the final report and when the corrections will be made. Finally, the response should also indicate when the final report and response were presented to the institution's Board for review. The formal response is to be submitted through EFE within 30 days of receipt of the final report.

ACS staff may conduct a follow-up review to ensure that the identified deposit insurance assessment base reporting issues were resolved in a timely and appropriate manner.

Exhibit A – Sample Assessment Review Engagement Letter

FDIC
Federal Deposit Insurance Corporation
Assessment Compliance Section

Chief Executive Officer
Bank Name
Location

Assessment Review Engagement

The Assessment Compliance Section ("ACS") of the Federal Deposit Insurance Corporation ("FDIC") has selected your institution for an Assessment Review. This engagement letter officially requests that your institution provide, within 14 calendar days of this letter being made viewable in FDIC*connect*, the documentation required to verify the assessment amounts reported by your institution, which are reflected on Page 2 of your quarterly Certified Statement Invoice and are shown in the following table:

FDIC Certificate #		**Assessment Period:**	**Report Date:**
Schedule	**Line Item**	**Description**	**Amount**
RC-O / DI	4/521	Average Consolidated Total Assets	
RC-O / DI	5/524	Average Tangible Equity	
RC-O / DI	10/659	Banker's Bank Certification	
RC-O / DI	10a./661	Banker's Bank Deduction	
RC-O / DI	10b./662	Banker's Bank Deduction Limit	
RC-O / DI	11/663	Custodial Bank Certification	
RC-O / DI	11a./664	Custodial Bank Deduction	
RC-O / DI	11b./665	Custodial Bank Deduction Limit	

Section 7 (b)(4) of the Federal Deposit Insurance Act (FDI Act) states that each insured institution shall maintain all records that may be required to verify the correctness of any assessment for up to 3-years from the due date of the assessment. The accuracy of your institution's reported assets and tangible equity will be determined by confirming verifiable system of record control sheet totals with the amounts reported for the designated period.

To make sure that your submission is complete, you are required to provide source systems of record for each asset and tangible equity reported amount.

During this review, all documentation must be submitted through the Examination File Exchange ("EFE") feature of FDIC*connect*. Use of EFE provides a secure and confidential conduit between FDIC and your institution to exchange this information. Your FDIC*connect* Coordinator will receive an email requesting that a designated contact be established and the required EFE access be granted and/or confirmed. More detailed instructions and guidance for submission of the required information will be available upon first access to EFE for the assessment compliance review session.

A final report will be issued describing your institution's overall compliance with assessment reporting requirements and a management response will be required for any deficiencies identified. A description of the Assessment Review Program is available in the FDIC's Assessment Reporting Review Guide ("the Guide"), which was previously provided to your institution through FDIC*connect*. The compliance review process and expectations are addressed in Chapter 1 of the Guide.

Sincerely,

Bruce W. Halper
Manager, Assessment Compliance Section

Chapter 2 – Deposit Insurance Assessment Reporting

2. Call Report/TFR Assessment Reporting

FDIC assessments are based on average consolidated total assets less average tangible equity reported on Schedule RC-O of the Call Report (items 4, 4a and 5) and TFR Schedule DI (lines 521-524) for all insured depository institutions. Qualifying banker's banks and custodial banks are entitled to certain deductions.

The reporting elements for deposit insurance assessments include: (1) average consolidated total assets; (2) average tangible equity; (3) averaging method used; (4) average banker's bank deduction; (5) average banker's bank deduction limit; (6) average custodial bank deduction: and (7) average custodial bank deduction limit.

Assessment amounts reported on the Call Report/TFR are derived from your institution's accounting records and "systems of record". When preparing its Call Report/TFR, your institution must ensure that all systems that process or record items that meet the part 327 of the FDIC regulations definition of the reported assessment amounts are identified; the assessment amounts associated with each system of record are reported on the Call Report/TFR; and the amounts reported are properly documented. These systems may be a manual process or an automated asset processing platform used to track, control, and handle inquiries from internal and external customers.

Understanding the nature of a financial transaction is helpful in ensuring that all assessment components are identified and reported correctly. A systematic approach to identifying reported assessment amounts and their systems of record should be integrated into your institution's control processes. Some institutions include personnel from operations and from other departments (i.e. trust, loans, etc.) in the assessment reporting process because they are familiar with their respective systems.

2.A. Consolidated Total Assets

An institution that reported $1 billion or more in quarter-end consolidated total assets in its Consolidated Reports of Condition and Income (Schedule RC, item 12, "Total assets") or Thrift Financial Report (Schedule SC, line item SC60, "Total assets") for March 31, 2011, and any institution that becomes FDIC-insured after March 31, 2011, must report average consolidated total assets on a daily average basis on RC-O/DI.[1] An institution that reported less than $1 billion in quarter-end consolidated total assets in its Consolidated Reports of Condition and Income (Schedule RC, item 12, "Total assets") or Thrift Financial Report (Schedule SC, line item SC60, "Total assets") for March 31, 2011, may report average consolidated total assets on a weekly average basis, or it may at any time opt permanently to report average consolidated total assets on a daily average basis on RC-O/DI. Once an institution that reports average consolidated

[1] An institution that becomes newly insured and begins operating during the calendar quarter reports average consolidated total assets on a daily average basis. Daily average consolidated total assets for such an institution should be calculated by adding the institution's consolidated total assets as of the close of business for each day during the quarter since it became insured and operational, and dividing by the number of calendar days since it became insured and operational.

total assets using a weekly average reports average consolidated total assets of $1 billion or more in its Consolidated Reports of Condition and Income (Schedule RC, item 12, "Total assets") or Thrift Financial Report (Schedule SC, line item SC60, "Total assets") for two consecutive quarters, it must permanently report average consolidated total assets using daily averaging beginning the next quarter on RC-O/DI.

Averaging Method for Consolidated Total Assets

Daily average consolidated total assets should be calculated by adding the institution's consolidated total assets as of the close of business for each day of the calendar quarter and dividing by the number of days in the calendar quarter (the number of days in a quarter ranges from 90 days to 92 days). For days that an institution is closed (e.g., Saturdays, Sundays, or holidays), the amount from the previous business day would be used. A bank is considered closed if there are no transactions posted to the general ledger as of that date. **Institutions electing to use their general ledger for calculating average assessment reporting should confirm that the general ledger software used calculates averages in the same manner as described here.**

Weekly average consolidated total assets should be calculated by adding the institution's consolidated total assets as of the close of business on each Wednesday during the calendar quarter and dividing by the number of Wednesdays in the quarter.

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2. B. Average Tangible Equity

Average tangible equity amounts are subtracted from an institution's average consolidated total assets to determine the assessment base. Tangible equity is reported on RC-O item 5 and TFR DI line 524 and is defined as Tier 1 capital as set forth in the banking agencies' regulatory capital standards and reported in Schedule RC-R, item 11/TFR Schedule CCR.

Tangible equity or Tier 1 capital is generally perpetual preferred stock, common stock, surplus, retained earnings, and other comprehensive income.

An institution that reported $1 billion or more in quarter-end consolidated total assets in its Consolidated Reports of Condition and Income (Schedule RC, item 12, "Total assets") or Thrift Financial Report (Schedule SC, line item SC60, "Total assets") for March 31, 2011, and any institution that becomes FDIC-insured after March 31, 2011, must report average tangible equity on a monthly average basis on RC-O/DI. An institution that reported less than $1 billion in quarter-end consolidated total assets in its Consolidated Reports of Condition and Income (Schedule RC, item 12, "Total assets") or Thrift Financial Report (Schedule SC, line item SC60, "Total assets") for March 31, 2011, may report its quarter-end tangible equity rather than an average amount, or it may at any time opt permanently to report average tangible equity on a monthly average basis[2].

[2] An institution that becomes newly insured and begins operating during the calendar quarter should report average tangible equity on a monthly average basis. Monthly average tangible equity for such an institution should be calculated by adding the institution's Tier 1 capital as of each month-end date during the quarter since it became insured and operational, and dividing by the number of month-end dates since it became insured and operational.

Averaging Method for Tangible Equity

Monthly average tangible equity should be calculated by adding Tier 1 capital as of each month-end date during the calendar quarter and dividing by three.

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2. C. For Mergers and Consolidations

Consolidated Total Assets

If the reporting institution is the surviving or resulting institution in a merger or consolidation that occurred during the calendar quarter, the reporting institution should calculate its average consolidated total assets by including the consolidated total assets of all entities that were merged or consolidated into the reporting institution as if the merger or consolidation occurred on the **first day** of the calendar quarter. Acceptable methods for including a merged or consolidated entity's consolidated total assets in this calculation for the days during the calendar quarter preceding the merger or consolidation date include using (a) the acquisition date fair value of the merged or consolidated entity's consolidated total assets for all days during the calendar quarter preceding the acquisition date and (b) the merged or consolidated entity's consolidated total assets, as defined for Schedule RC-K, item 9 or TFR Schedule SI, Line 870, average "Total assets," for all days during the calendar quarter preceding the acquisition date.

If the reporting institution was acquired in a transaction that became effective during the calendar quarter and push down accounting was used to account for the acquisition, the reporting institution should calculate its average consolidated total assets as if the acquisition occurred on the first day of the calendar quarter. Acceptable methods for including the institution's consolidated total assets in this calculation for the days during the calendar quarter preceding the acquisition date include using (a) the acquisition date fair value of the reporting institution's consolidated total assets for all days during the calendar quarter preceding the acquisition date and (b) the reporting institution's consolidated total assets, as defined for Schedule RC-K, item 9 or TFR Schedule SI, Line 870, average "Total assets," for all days during the calendar quarter preceding the acquisition date.

Tangible Equity

An acceptable method for measuring tangible equity for month-end dates during the calendar quarter preceding the merger or consolidation date is to use the amount of Tier 1 capital for the month-end date immediately following the merger or consolidation date as the amount of Tier 1 capital for the month-end date or dates preceding the merger or consolidation date.

If the reporting institution is the surviving or resulting institution in a merger or consolidation that occurred after the end of the first month of the calendar quarter and it reports its average tangible equity on a monthly average basis, the reporting institution should calculate its average tangible equity as if the merger or consolidation occurred on the first day of the calendar quarter.

If the reporting institution was acquired in a transaction that became effective after the end of the first month of the calendar quarter, push down accounting was used to account for the acquisition, and the institution reports its average tangible equity on a monthly average basis, the reporting institution should calculate its average tangible equity as if the acquisition occurred on the first day of the calendar quarter. An acceptable method for measuring tangible equity for month-end dates during the calendar quarter preceding the acquisition date is to use the amount of Tier 1 capital for the month-end date immediately following the acquisition date as the amount of Tier 1 capital for the month-end date or dates preceding the acquisition date.

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2. D. Special Instructions for Institutions that have a Bank or Thrift Subsidiary

There are a few insured banks and thrifts that own another separately chartered FDIC insured bank or thrift, and operate it as a subsidiary. The FDIC is required to assess each insured institution separately. If the reporting institution has an FDIC-insured depository institution subsidiary, the reporting institution should report its average consolidated total assets and tangible equity capital without consolidating its insured depository institution subsidiaries. In order to avoid paying duplicate assessments, both the parent institution and subsidiary bank or thrift should each report **only its own average total consolidated assets and tangible equity** on the assessment lines.

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2. E. Allowable Deductions for Qualifying Banker's Banks and Custodial Banks

Certain assessment base deductions are allowed for qualifying banker's banks and qualifying custodial banks, as defined in part 327 of the FDIC's regulations.

Banker's Banks

A qualifying banker's bank[3] is eligible to have certain assets deducted from its assessment base, subject to a limit. This deduction is an allowable deduction.

The average banker's bank allowable deduction equals the sum of the qualifying banker's bank's average balances due from Federal Reserve Banks plus its average federal funds sold. These averages should be calculated on a daily or weekly basis consistent with the qualifying banker's bank's calculation of its average consolidated total assets in Schedule RC-O, item 4 (and as reported in Schedule RC-O, item 4.a).

[3] The definition of "banker's bank" is set forth in 12 U.S.C. 24, which states that a banker's bank is an FDIC-insured bank where the stock of the bank or its parent holding company "is owned exclusively (except to the extent directors' qualifying shares are required by law) by depository institutions or depository institution holding companies (as defined in section 1813 of this title)" and the bank or its parent holding "company and all subsidiaries thereof are engaged exclusively in providing services to or for other depository institutions, their holding companies, and the officers, directors, and employees of such institutions and companies, and in providing correspondent banking services at the request of other depository institutions or their holding companies."

This banker's bank allowable deduction cannot exceed the sum of the banker's bank's average deposits due to commercial banks and other depository institutions in the U. S. plus its average federal funds purchased. These averages would be calculated on a daily or weekly basis consistent with the banker's bank's calculation of its average consolidated total assets.

There are three reporting elements for a qualifying banker's bank allowable deduction: (1) banker's bank certification; (2) average banker's bank deduction; (3) average banker's bank deduction limit.

To meet the business conduct test, which is set forth in Part 327.5(b)(3) of the FDIC Rules and Regulations, a bank must conduct 50 percent or more of its business with entities other than its parent holding company or entities other than those controlled either directly or indirectly by its parent holding company. Control has the same meaning as in section 3(w)(5) of the Federal Deposit Insurance Act [12 U.S.C. 1813(w)(5)].

Custodial Banks

An institution that meets the definition of a custodial bank[4] per 12 CFR § 327.5(c) (1) is eligible to have certain assets deducted from its assessment base, subject to a limit. The custodial bank's allowable deduction equals the average qualifying low-risk assets. Qualifying low-risk assets are determined without regard to the maturity of the assets.

These averages should be calculated on a daily or weekly basis consistent with the custodial bank's calculation of its average consolidated total assets in Schedule RC-O, item 4 (and as reported in Schedule RC-O, item 4.a or TFR Schedule DE line 522-523).

Custodial banks have their assessment base reduced by an amount which can be no greater than the daily or weekly average amount of deposits classified as transaction accounts which are identified by the institution as being directly linked to a fiduciary, custodial, or safekeeping account ("custodial bank deduction limit"). Institutions meeting the definition of custodial bank should report the custodial bank deduction limit on Call Report RC-O, item 11.b, or TFR DI line 665.

The following guidelines describe how an institution can identify which transaction accounts to use. The titling of a transaction account or specific references in the deposit account documents should clearly demonstrate the link between the transaction account and a specific fiduciary, custodial, or safekeeping account. Alternatively, for trust account cash that is commingled and placed into one or more omnibus transaction accounts in an affiliated commercial bank or thrift, the deposits should be included in the calculation of the daily or weekly average account amount only if the account title indicates the existence of a custodial or agency relationship, and records of the identities

[4] A custodial bank for purposes of calculating deposit insurance assessments shall be an insured depository institution with previous calendar-year trust assets (fiduciary and custody and safekeeping assets, as described in the instructions to Schedule RC-T of the Consolidated Report of Condition and Income or Schedule FS of the Thrift Financial Report as of December 31, 2010) of at least $50 billion or an insured depository institution that derived more than 50 percent of its total revenue (interest income plus non-interest income) from trust activity over the previous calendar year.

of the owners, as well as the amount owned by these customers, are kept. For such omnibus transaction accounts, only the portion of the account balances that can be clearly linked to a fiduciary, custodial, or safekeeping account can be included in custodial bank allowable exclusion on the Call Report RC-O, item 11.b or TFR DI line 665.

There are three reporting elements for a qualifying custodial bank allowable deduction: (1) custodial bank certification; (2) average custodial bank deduction; (3) average custodial bank deduction limit.

2.F. Other Adjustments

Non-asset and non-tangible equity amounts that do not meet the definition of assessment base components per the FDIC regulations and that were included with the institution's total assets or tangible equity amounts can also be excluded from an institution's assessment base; these are **Other Adjustments.**

One of the objectives of an Assessment Review is to verify that allowable deductions and other adjustments are reported correctly and an institution has documentation to support these amounts. The supporting documentation must be complete and readily available or the deduction/adjustment will not be allowed. The documentation should identify the type of allowable deduction or other adjustments, or **any other elimination from the assessment base amounts** and support the amount of the adjustment. Any elimination should include a written explanation that describes the system from which it is derived, states the basis for adjustment from assessable amounts, and supports the amount of the adjustment.

2. G. Supporting Documentation for Other Adjustments

The initial request for supporting documentation for an assessment review will require that your institution provide the control total page from the system of record from which the adjustment amount is derived and the total adjustment amount. Subsequent documentation requests may include such things as account statements, account agreements, investment contracts, pass-thru or correspondent agreements, and loan agreements, to provide additional support for a reported adjustment during an assessment review.

Chapter 3 - FDIC*connect* and Examination File Exchange (EFE)

3. FDIC*connect*

IMPORTANT NOTE: It is imperative that your institution have an active FDICconnect Coordinator and that a succession plan exists to replace the Coordinator and any other of your institution's users in the event of staffing and/or responsibility changes.

FDIC*connect*, established in response to legislation requiring agencies to offer on-line alternatives to paper-based processes, is the secure Internet channel for FDIC-insured institutions to conduct business and exchange information with the FDIC. (Since March 2005, institutions have been downloading their FDIC quarterly certified statement invoices through FDIC*connect*.)

Assessment Review activities are conducted through FDIC*connect* and its EFE component, including transmittal of the engagement letter, exchange of documentation, and transmittal of the final report. Therefore, it is important for your institution to make sure it has procedures in place to ensure that there is adequate FDIC*connect* coverage at all times.

3.A. EFE

EFE is a feature of FDIC*connect* that establishes secure electronic communication between an insured institution and the FDIC, and is used for the transfer of files and messages related to Assessment Reviews through an EFE "session." The session itself is opened by the FDIC.

All Assessment Review activities (including communications, requests for information, and commitments from both the FDIC and an institution being reviewed) are documented in the "Session Notes" feature of EFE. This will ensure confidentiality and make the status and documentation available to all session participants.

3.B. Gaining Access

IMPORTANT NOTE: The FDIC recommends that the FDICconnect Coordinator, as well as the Assessment Review Designated Contact(s), have access to EFE.

To access EFE, an institution must have at least one FDIC*connect* Coordinator. The Coordinator has the ability to approve other personnel as "users" of each individual FDIC*connect* function. Most FDIC insured institutions have already completed the registration process and designated a FDIC*connect* Coordinator. The registration process is explained in detail on the FDIC*connect* website at https://www2.FDICconnect.gov/.

3.C. CEO Responsibilities

Your institution's Chief Executive Officer (CEO) or designee is expected to delegate FDIC*connect* responsibilities to institution personnel and put into place processes that ensure the capability to access and retrieve correspondence and/or files sent via FDIC*connect*. Your institution should have FDIC*connect* coverage at all times.

The FDIC*connect* Coordinator is the person notified when an Assessment Review is scheduled. The FDIC encourages proper controls and processes that ensure the timely and complete delivery of supporting documentation in response to an Assessment Review request.

Again, it is important to note that i**t is imperative that your institution has an active FDIC*connect* Coordinator and that a succession plan exists to replace the Coordinator and any other of your institution's users in the event of staffing and/or responsibility changes.**

3.D. FDIC*connect* Coordinator Responsibilities

Once your institution has been selected for an Assessment Review, the FDIC will formally notify your institution's FDIC*connect* Coordinator via an e-mail message that the engagement letter is available for download through FDIC*connect*. The Coordinator is responsible for advising institution personnel of the review and for distributing the engagement letter as deemed appropriate.

The FDIC*connect* Coordinator is responsible for facilitating and monitoring the progress of the Assessment Review process and as such the FDIC will include the Coordinator in the sessions. The Coordinator should:

1. Promptly identify to the FDIC your institution's contact(s) (Designated Contacts) for the Assessment Review.

2. Ensure that the Designated Contact(s) is a registered FDIC*connect* user and should "assign" the EFE transaction privileges to the Designated Contact(s). If the Designated Contact(s) is not yet a FDIC*connect* user, this person must first complete the registration process through the FDIC*connect* website.

3.E. Use of EFE during An Assessment Review

Once your institution's Assessment Review Designated Contact(s) has been established, the FDIC will:

- Initiate an EFE Assessment "session" with the Designated Contact(s) and the FDIC*connect* Coordinator.

- Send an email to your institution's Designated Contact(s) (see Exhibit B below for a sample email) advising that an EFE session has been established by the FDIC and instructing the Designated Contact(s) to log-in to EFE to access the session.

- Generate e-mail notifications through EFE to all members included in the session each time either party (insured institution or FDIC) submits information to the session. The e-mail informs the other party that something new has been transmitted or added to the session.

Exhibit B – EFE Notification Email

From: FDICconnect [mailto:FDICconnect@fdic.gov]
Sent: Friday, November 02, 20113:44 PM
To: mary.banks@msbank-ia.com
Subject: An Exam File Exchange Session Has Been Opened - IA, MIDDLETOWN, MIDDLETOWN STATE BANK

Good day!

The FDIC has initiated a file exchange session with you from FDICconnect.

FDIC Contact: John Doe

Contact Information: 999-999-9999

Exam Type: Assessment

Session Description: Assessment Review

Expiration Date: 01/31/2012

Please log-in to https://www2.fdicconnect.gov/ to access the session.

Once the EFE Assessment Review session has been opened, instructions will be available for the Designated Contact to follow. For instance, the first EFE Assessment Review session will contain instructions and sample templates designed to aid your institution in the collecting and inventorying of all assessment accounts by your institution's system of record. During EFE Assessment Review sessions, the Designated Contact will be able to download files from the FDIC and upload documentation files to the FDIC.

EFE Assessment Review sessions will remain open through the completion of the Assessment Review and the issuance of the final report. The files and correspondence exchanged will remain on-line and available while the EFE Assessment Review session is open. Once the session is either closed by the FDIC or is allowed to expire, the session and its attached files will no longer be available to your institution. **It is your institution's responsibility to retain backup files of information sent to the FDIC if so desired.**

3.F. File Formats

IMPORTANT NOTE: Most file formats (Word, Excel, etc.) can be exchanged on EFE.

The Assessment Review requires that your institution maintain supporting documentation of the system of record totals used to compile the amounts reported on the Call Report/TFR assessment lines (see Chapter 1). This documentation should be in an approved electronic format that is readable and that can be readily transmitted to the FDIC using EFE. EFE is flexible and different file formats can be exchanged between the FDIC and insured institutions. However, to expedite the review process, it is requested that whenever possible files or documents exchanged be in PDF, DOC, XLS or CSV format. Below is a complete list of the file formats that may be transmitted through EFE.

Exhibit C – File Formats that may be exchanged in EFE

ANS (Text with layout)	BMP, DIB, RLE (Windows Bitmap)
ASC (MS DOC with text layout)	BMP, DIB, RLE (Windows Bitmap)
CSV (Comma Delimited File)	DAT (data files)
DIF (Data Inter change format)	DBF (DBase file)
DOC (Word)	HTML , HTM (web page)
GIF (Graphics Interchange format)	MCW (MS word for Mackintosh)
JPG, JPEG, JPE, JFIF	PDF (Printer Definition File)
MDB (Access Database)	PRN (Formatted text space delimited)
PPT (Power Point)	PUB (MS Publisher file)
PRN (Printer Text File)	WPD (Word Perfect)
RTF (Rich Text Format)	XLS (Excel) (XLW Excel 4.0 files)
TXT (regular txt file)	ZIP (ZIP files)
WPS (Works 2000 & older MS Word)	TIF or TIFF (Tag Image File Format)
XML (XML Data string)	

3.G. Help with FDIC*connect*/ EFE

EFE and FDIC*connect* assistance is available online through the FDIC*connect* website (https://www2.FDICconnect.gov/**), by email** (FDICconnect@fdic.gov), **or by telephone (1-877-275-3342).**

For problems with FDIC*connect* or EFE, institution personnel should first contact the institution's FDIC*connect* Coordinator.

A comprehensive EFE Help link is available and provides simple instructions on how to use EFE and exchange files with FDIC personnel. A “Help” link can be found at the top, center of each EFE page. Once logged into FDIC*connect*, the first step is to expand the Examination Related Transmissions menu and launch EFE.

Since every institution is required to use FDICc*onnect* for downloading assessment invoices and other FDIC business purposes, the FDIC believes that all institutions will be able to conduct their Assessment Reviews electronically.
