



Federal Deposit Insurance Corporation

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Division of Finance

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TO: All FDIC-Insured Institutions

FROM: Bruce W. Halper
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SUBJECT: Common Reporting Errors and Documentation Exceptions

As you are aware, changes from a deposit-based assessment system to an asset-based system have required a number of changes in the FDIC's reporting and compliance requirements related to the accurate determination of each institution's quarterly deposit insurance premiums.

Last fall, we initiated our first Assessment Compliance Reviews of FDIC-insured institutions under the new asset-based system, which became effective with the June 30, 2011, reporting period. As expected, given the significant changes in the Call Report instructions, as well as to Part 327 of the FDIC's Rules and Regulations (12 C.F.R. Part 327), a number of institutions were deemed to be non-compliant in certain areas. The most common exceptions noted are related to the institutions' incorrect reporting of (and/or their inability to adequately document the accuracy of) Average Consolidated Total Assets on Line 4 of Schedule RC-O, and the improper reporting of Average Tangible Equity on Line 5 of Schedule RC-O. These exceptions and the proper method of reporting are discussed in detail below.

Average Consolidated Total Assets

The instructions for Line 4 of Schedule RC-O provide that Consolidated Total Assets used in determining the Daily or Weekly averages should be measured in accordance with the instructions for Schedule RC-K, Line 9 (Average Total Assets), with certain exceptions for insured institutions which have an FDIC-insured subsidiary and for institutions which have merged or consolidated during the quarter.

The instructions for Schedule RC-K provide that the quarterly average for total assets reported on RC-K, Line 9, should be as defined for Total Assets on Schedule RC, Line 12, except that the quarterly average should reflect: 1) all debt securities (not held for trading) at amortized cost and 2) available-for-sale equity securities with readily determinable fair values at the lower of cost or fair value; in addition, 3) to the extent that net deferred tax assets included in the bank's total assets include 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 determination of the quarterly average for total assets. Although the exclusion of these deferred tax effects is optional, once an institution elects to exclude these effects the exclusion must be applied consistently over time, that is, once an institution elects to exclude the deferred tax effects, it must continue to do so.

It appears that many institutions are not aware that the total assets used for averaging on Schedule RC-O, Line 4, must be adjusted for items 1 and 2 above, and may be adjusted for item 3. We also find that some institutions are calculating their average assets using year-to-date information. Per the instructions for RC-O, Line 4, average daily or weekly assets should be based on calendar quarter information. Generally, institutions with consolidated total assets of greater than \$1 billion and newly insured institutions must report average consolidated total assets using a daily average for the quarter. Similarly, institutions with less than \$1 billion in consolidated total assets may report average consolidated total assets using a weekly average or opt permanently to report using a daily average.

Average Tangible Equity

Some institutions are not reporting average tangible equity using the proper averaging method. In some instances, institutions are reporting average tangible equity using a daily average for the quarter, a daily year-to-date average, or an average of beginning and ending tangible equity for the quarter. Per the instructions for RC-O, Line 5, tangible equity should be determined based on a monthly average or quarter-end balance. Generally, institutions with consolidated total assets of greater than \$1 billion and newly insured institutions must report average tangible equity using the average of the three month-end tangible equity balances for the quarter. Institutions with less than \$1 billion in consolidated total assets may report average tangible equity using a quarter-end balance or opt permanently to report using a monthly average balance.

Institutions are required to report average tangible equity on Line 5 of Schedule RC-O, with the term “tangible equity” defined as Tier 1 capital as reported on Schedule RC-R, Line 11. In some instances, banks improperly report average tangible equity on Line 5 of Schedule RC-O, based on total capital as reported on Schedule RC, Line 27a, and not Tier 1 capital as reported on Schedule RC-R, Line 11.

Improper Classification of Balance Sheet Accounts

We find that some institutions are maintaining general ledger account balances that should be reclassified from a liability to an asset (or from an asset to a liability) in preparing the Call Report in accordance with the applicable instructions (e.g., receivables with credit balances and payables with debit balances). These non-traditional balances should be reclassified prior to the completion of Call Report information, as they inappropriately decrease an institution’s total asset balance.

Similarly, we find some institutions are aggregating their tax accounts (e.g., deferred taxes with federal and state obligations). It is our position that like obligations can be aggregated with a resulting debit balance reported as an asset or credit balance reported as a liability (e.g., all deferred tax accounts may be netted, federal and state obligations should be reported separately from deferred taxes and from each other).

Adequate Supporting Documentation

Section 327.5(a) of the FDIC's Rules and Regulations provides that the assessment base will be determined by either a daily or weekly average of an institution's consolidated total assets. More specifically, the regulation provides that the amounts to be reported as daily averages are the "sum of the gross amounts of consolidated total assets for each calendar day during the quarter divided by the number of calendar days in the quarter." Section 327.5(a)(1). Based on the initial Assessment Compliance Reviews, a number of institutions are unable to verify the actual amount of consolidated total assets for each calendar day in order to provide an adequate audit trail for determining the accuracy of the reported average amounts. Instead, the amounts reported as average consolidated total assets are derived from a computer-generated average balance in which the systems are not capable of providing an actual daily balance of consolidated assets for any particular day. Such systems do not provide an adequate record to determine the accuracy of the assessment base and are not in compliance with section 7(b)(4) of the Federal Deposit Insurance Act (12 U.S.C. § 1817(b)(4)), which requires each institution to maintain all records that the Corporation may require for verifying the correctness of any assessment.

It is our position that, in order to document the correct average consolidated total asset balances reported on Schedule RC-O, Line 4, each insured institution must be capable of providing an actual daily consolidated total asset balance for each day of the calendar quarter (or actual daily total asset balance for each Wednesday during the calendar quarter in the case of institutions using the weekly averaging method). These daily (or weekly) balances should be derived from the institution's financial accounting system, supported by summary reports and by an adequate audit trail of its system of records, including adjusting entries, to verify the daily (or weekly) reported balances.

We strongly encourage all insured institutions to review their current reporting methods related to the above items to ensure that all reported amounts used in determining the FDIC assessment base are properly reported. To the extent your review discloses improper reporting of amounts which materially impact the assessment base, amended Call Reports should be filed for the relevant period(s) and immediate steps should be taken to implement necessary controls to ensure such amounts are properly reported in the future. Additionally, for those institutions that are utilizing computer-based daily (weekly) averages for reporting average consolidated total assets on Schedule RC-O, please verify that your systems are capable of providing actual total consolidated assets for each day of the calendar quarter (or each Wednesday of the calendar quarter for those reporting on a weekly average basis) and that your systems of record are capable of providing supporting documentation to verify the total consolidated asset balance for any particular day.

If you have any questions, please contact us by phone at 1-800-759-6596 and select option 2 or by email at assessments@fdic.gov. Please note that this memo is also available on our web page at http://www.fdic.gov/deposit/insurance/assessments/reporting_reviews.html