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

March 8, 2013

TO: All FDIC-Insured Institutions

FROM: Bruce W. Halper
Manager, Assessment Compliance Section

SUBJECT: Average Tangible Equity (Call Report Schedule RC-O, item 5)

A relatively large number of institutions are not reporting Average Tangible Equity ("ATE") in accordance with the Call Report instructions for Schedule RC-O, item 5. Generally, ATE is based on Tier 1 Capital as reported on Schedule RC-R, item 11, reported in accordance with the RC-O, item 5, averaging instructions.

The instructions for Schedule RC-O, item 5 provide that ATE should be reported using *only* one of the following two methods:

1) The average method based on taking the sum of the amounts of Tier 1 Capital for "each month-end date" during the calendar quarter and dividing by three; or
2) The quarter-end method, based on the amount of Tier 1 capital as of the quarter-end date.

(Note: The quarter-end method is only available to institutions which a) reported less than $1 billion in consolidated total assets, on Schedule RC, item 12, as of March 31, 2011; b) were FDIC-insured on or before March 31, 2011; and c) have not reported average consolidated total assets of $1 billion or more on Schedule RC-O, item 4 for two consecutive quarters since March 31, 2011.)

The instructions further provide that institutions which are permitted to report ATE using the quarter-end method may "at any time opt permanently to report average tangible equity on a monthly average basis." Therefore, once an institution reports ATE on an average basis (whether or not the average was calculated correctly), the institution has permanently elected to report on the average method and may no longer revert to the quarter-end method. If the amounts reported on Schedule RC-O, item 5 and Schedule RC-R, item 11 are not the same, it is generally presumed that the institution has been utilizing the average method. *(Note: the only exception would be when the reporting institution has an FDIC-insured subsidiary. In this case, the amounts on RC-R, item 11 and RC-O, item 5 would not be the same even though the reporting institution was utilizing the quarter-end method.)*

In many instances, institutions have been reporting an amount on Schedule RC-O, item 5 utilizing a system-generated daily or monthly "average" which does not conform to either of the prescribed methods. Also, in many cases, these system-generated averages are based on "total equity" and do not properly incorporate adjustments for the computation of Tier 1 capital.

Institutions that *are required* to report using the average method should review their current method of calculating ATE to ensure that each of the three month-end numbers used in the average is calculated using the same elements of Tier 1 capital reported on Schedule RC-R, item 11.

Institutions that could have used the quarter-end method, but which have been utilizing some other averaging method (i.e., Schedule RC-O, item 5 is not the same as Schedule RC-R, item 11 - subject to the exception involving FDIC-insured subsidiaries), are required to use the average method described in item 1 above. However, if such an institution did not intentionally choose to use an averaging method and wishes to utilize the quarter-end method for future reporting periods, it may only do so by amending *all* previous Call Reports, beginning with the June 30, 2011 report, to reflect the quarter-end method (i.e., Schedule RC-O, item 5 should be the same as Schedule RC-R, item 11 unless the reporting institution has an FDIC-insured subsidiary). Please note that Call Reports may only be amended for a period of up to three years, or 12 quarters, from the payment date of the invoice based upon that Call Report. For example, if an institution wished to file amended Call Reports on October 15, 2014, it would only be permitted to amend any and all quarters back to and including December 31, 2011.

For more reporting guidance, please see the Compliance Section of the Assessments webpage. For questions, please call the Assessments Hotline (between 8:30 a.m. and 4:30 p.m. Eastern Time) at 1-800-759-6596, select Option 2 and ask for a member of the Compliance Staff.