

## SUPPLEMENTAL INSTRUCTIONS

### June 2010 Call Report Forms

Sample Call Report forms for June 2010 are available on both the FFIEC's Web site ([http://www.ffiec.gov/ffiec\\_report\\_forms.htm](http://www.ffiec.gov/ffiec_report_forms.htm)) and the FDIC's Web site (<http://www.fdic.gov/callreports>). An instruction book update for June 2010 is expected to be available on these Web sites by July 7, 2010. This update primarily consists of revisions to certain Glossary entries for the effect of recent changes in accounting standards. Call Report forms, including the cover (signature) page, and instructional materials can be both printed and downloaded from the FFIEC's and the FDIC's Web sites. In addition, banks that use Call Report software generally can print paper copies of blank forms from their software. Please ensure that the person responsible for preparing Call Reports at your bank has been notified about the electronic availability of the June 2010 report forms and instruction book update as well as these Supplemental Instructions.

### Submission of Completed Reports

Each bank's Call Report data must be submitted to the FFIEC's Central Data Repository (CDR), an Internet-based system for data collection (<https://cdr.ffiec.gov/cdr/>), using one of the two methods described in the banking agencies' cover letter for the June 30, 2010, report date. For technical assistance with submissions to the CDR, please contact the CDR Help Desk by telephone at (888) CDR-3111, by fax at (703) 774-3946, or by e-mail at [CDR.Help@ffiec.gov](mailto:CDR.Help@ffiec.gov).

Banks are required to maintain in their files a signed and attested hard-copy record of the Call Report data file submitted to the CDR. The appearance of this hard-copy record of the submitted data file need not match exactly the appearance of the sample report forms on the FFIEC's Web site, but the hard-copy record should show at least the caption of each Call Report item and the reported amount. A copy of the cover page printed from Call Report software or from the FFIEC's Web site should be used to fulfill the signature and attestation requirement. The signed cover page should be attached to the hard-copy record of the Call Report data file that must be placed in the bank's files.

Currently, Call Report preparation software products marketed by DBI Financial Systems, Inc.; Fed Reporter, Inc.; Fidelity Regulatory Solutions; FinArch US, Inc.; FiServ, Inc.; FRSGlobal; Jack Henry & Associates, Inc.; and SOFGEN Americas, Inc., meet the technical specifications for producing Call Report data files that are able to be processed by the CDR. The addresses and telephone numbers of these vendors are listed at the end of these Supplemental Instructions.

### Reporting Term Deposits

The Term Deposit Facility (TDF) is a program through which the Federal Reserve Banks offer interest-bearing term deposits to eligible institutions. A term deposit is a deposit with a specific maturity date. Term deposits offered through the TDF should be treated as balances due from a Federal Reserve Bank for Call Report purposes. Accordingly, term deposits should be reported in Schedule RC, Balance Sheet, item 1.b, "Interest-bearing balances," and in Schedule RC-A, Cash and Balances Due From Depository Institutions, item 4, "Balances due from Federal Reserve Banks," on the FFIEC 031 and FFIEC 041 reporting forms. The earnings on these term deposits should be reported in Schedule RI, Income Statement, item 1.c, "Interest income on balances due from depository institutions."

### Reporting Purchased Subordinated Securities in Schedule RC-S

In item 9 of Schedule RC-S, Servicing, Securitization, and Asset Sale Activities, the agencies collect data on the maximum amount of banks' credit exposures arising from credit enhancements they have provided to other

institutions' securitization structures, including those used in structured finance programs (other than asset-backed commercial paper programs, which are covered in Memorandum item 3 of the schedule). The types of credit enhancements to be reported in item 9 include purchased subordinated securities. Examples of purchased subordinated securities include, but are not limited to, the mezzanine and subordinate tranches of private-label mortgage-backed securities and collateralized debt obligations. A so-called senior tranche of a securitization or structured finance program is not a subordinated security provided it cannot absorb credit losses prior to another designated senior tranche. Banks should ensure that they report in Schedule RC-S, item 9, the carrying value of their holdings of purchased subordinated securities issued in connection with other institutions' securitization and structured finance transactions (other than asset-backed commercial paper programs). Holdings of purchased subordinated securities that serve as credit enhancements for asset-backed commercial paper programs should be reported in Memorandum item 3.a of Schedule RC-S.

### **Prepaid Deposit Insurance Assessments**

On November 12, 2009, the Federal Deposit Insurance Corporation (FDIC) adopted a final rule requiring insured depository institutions (except those that are exempted) to prepay an FDIC-determined estimate of their quarterly risk-based deposit insurance assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, on December 30, 2009. Each institution's regular risk-based deposit insurance assessment for the third quarter of 2009, which is paid in arrears, also was payable on December 30, 2009. The amount of the prepaid assessment was included on the certified statement invoices for the third quarter of 2009, which were available on *FDICconnect*, the FDIC's e-business portal, as of December 15, 2009.

Each bank should record the estimated expense for its regular quarterly risk-based assessment for each calendar quarter through a charge to expense during that quarter and a corresponding credit to its prepaid assessments asset (or to an accrued expense payable if it has no prepaid assessments asset). In general, as a result of the interaction between the prepaid assessments and the regular quarterly assessments, the remaining amount of the prepaid assessments asset that a bank should report as a prepaid expense in its June 30, 2010, Call Report should be:

- The total amount of its prepaid deposit insurance assessments (paid December 30, 2009);
- Less the actual amount of its regular quarterly assessments for the fourth quarter of 2009 and the first quarter of 2010 (shown on its certified statement invoices for these two quarters, which were available on *FDICconnect* as of March 15 and June 15, 2010); and
- Less the estimated amount of its regular quarterly assessment for the second quarter of 2010 (which should have been accrued as a charge to expense during the second quarter).

This prepaid expense asset should be reported in Schedule RC-F, item 6, "All other assets," and, if it is greater than \$25,000 and exceeds 25 percent of the amount reported in item 6, it also should be reported in Schedule RC-F, item 6.f, "Prepaid deposit insurance assessments." The year-to-date deposit insurance assessment expense for 2010 should be reported in Schedule RI, item 7.d, "Other noninterest expense."

The banking agencies' risk-based capital standards permit an institution to apply a zero-percent risk weight to claims on U.S. Government agencies. When completing Schedule RC-R, Regulatory Capital, a bank may assign a zero-percent risk weight to the amount of its prepaid deposit insurance assessments asset in item 42 of this schedule.

For further information on the FDIC's prepaid assessments final rule, banks should refer to FDIC Financial Institution Letter (FIL) 63-2009 at <http://www.fdic.gov/news/news/financial/2009/fil09063.html>. For further guidance on reporting regular quarterly deposit insurance assessments, banks should refer to the Call Report Supplemental Instructions for September 30, 2009, at [http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200909.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200909.pdf).

## FASB Statements No. 166 and 167

In June 2009, the FASB issued Statement No. 166, *Accounting for Transfers of Financial Assets* (FAS 166), and Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167), which change the way entities account for securitizations and special purpose entities. FAS 166 (now codified in Accounting Standards Codification (ASC) Topic 860, Transfers and Servicing) revises FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, by eliminating the concept of a “qualifying special-purpose entity,” creating the concept of a “participating interest” (which is discussed more fully in the following section), changing the requirements for derecognizing financial assets, and requiring additional disclosures. FAS 167 (now codified in ASC Topic 810, Consolidation) revises FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, by changing how a bank or other company determines when an entity that is insufficiently capitalized or is not controlled through voting or similar rights, i.e., a “variable interest entity” (VIE), should be consolidated.

In general, both FAS 166 and FAS 167 take effect as of the beginning of each bank’s first annual reporting period that begins after November 15, 2009, for interim periods therein, and for interim and annual reporting periods thereafter (i.e., as of January 1, 2010, for banks with a calendar year fiscal year). Earlier application is prohibited. Banks are expected to adopt FAS 166 and FAS 167 for Call Report purposes in accordance with the effective date of these two standards. The Glossary entries for “Transfers of Financial Assets” and “Servicing Assets and Liabilities” in the Call Report instruction book have been revised this quarter to incorporate the provisions of FAS 166 and FAS 167 and a new Glossary entry has been created for “Variable Interest Entities.” These new and revised Glossary entries are included in the Call Report instruction book update for June 2010.

The assets and liabilities of consolidated VIEs should be reported on the Call Report balance sheet (Schedule RC) in the balance sheet category appropriate to the asset or liability. Because Schedule RC does not enable a bank to present separately (a) the assets of a consolidated VIE that can be used only to settle obligations of the consolidated VIE and (b) the liabilities of a consolidated VIE for which creditors do not have recourse to the general credit of the primary beneficiary, a bank that consolidates a VIE may wish to report on such assets and liabilities in the Call Report’s Optional Narrative Statement.

On January 28, 2010, the federal banking agencies published a final rule amending their risk-based capital standards related to the FASB’s adoption of FAS 166 and FAS 167 (<http://edocket.access.gpo.gov/2010/pdf/2010-825.pdf>). The final rule eliminates the exclusion of certain consolidated asset-backed commercial paper programs from risk-weighted assets. It also provides an optional four-quarter transition mechanism related to the implementation of the consolidation requirements under FAS 167 for certain VIEs that were used in securitization and structured finance transactions that took place before the effective date of the new accounting standards. In general, the transition mechanism applies to qualifying VIEs and consists of an optional two-quarter delay in implementation followed by an optional two-quarter partial implementation of the effect of FAS 167 on risk-weighted assets and the allowance for loan and lease losses (ALLL) includable in Tier 2 capital. The transition mechanism does not apply to the leverage capital ratio nor does it apply to loan participations. For information on reporting risk-weighted assets and the ALLL in Call Report Schedule RC-R, Regulatory Capital, in accordance with the optional transition mechanism, banks electing to adopt this mechanism should refer to the “Reporting Guidance for the Optional Transition Mechanism for Risk-Based Capital Requirements Associated with the Implementation of FAS 166 and FAS 167” on the FFIEC’s Web site at [http://www.ffiec.gov/ffiec\\_report\\_forms.htm](http://www.ffiec.gov/ffiec_report_forms.htm).

### Accounting for Loan Participations under FAS 166

FAS 166 (ASC Topic 860) modified the criteria that must be met in order for a transfer of a portion of a financial asset, such as a loan participation, to qualify for sale accounting. These changes apply to transfers of loan participations on or after the effective date of FAS 166 (which is discussed above), including advances under lines of credit that are transferred on or after the effective date of FAS 166 even if the line of credit agreements were entered into before the effective date of FAS 166. Therefore, banks with a calendar year fiscal year must account for transfers of loan participations on or after January 1, 2010, in accordance with FAS 166. In general, loan participations transferred before the effective date of FAS 166 (January 1, 2010, for calendar year banks)

are not affected by this new accounting standard and pre-FAS 166 participations that were properly accounted for as sales under FASB Statement No. 140 will continue to be reported as having been sold.

Under FAS 166, if a transfer of a portion of an entire financial asset meets the definition of a “participating interest,” then the transferor (normally the lead lender) must evaluate whether the transfer meets all of the conditions in this accounting standard to qualify for sale accounting. (In summary, these conditions are the isolation of the transferred assets from the transferor, the transferee’s right to pledge or exchange the assets received, and the transferor’s lack of effective control over the transferred assets.) In general, in order for a loan participation, whether retained by the lead lender or transferred to another party, to meet the definition of a participating interest in FAS 166, it must have all of the following characteristics:

- It must represent a proportionate (pro rata) ownership interest in an entire financial asset;
- All cash flows received from the entire financial asset, except any cash flows allocated as compensation for servicing or other services performed (which must not be subordinated and must not significantly exceed an amount that would fairly compensate a substitute service provider should one be required), must be divided proportionately among the participating interest holders in an amount equal to their share of ownership;
- The rights of each participating interest holder (including the lead lender) must have the same priority, no interest is subordinated to another interest, and no participating interest holder has recourse to the lead lender or another participating interest holder other than standard representations and warranties and ongoing contractual servicing and administration obligations; and
- No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

If a transfer of a portion of a financial asset does not meet the definition of a participating interest, both the lead lender transferring the nonqualifying participation and the party acquiring the nonqualifying participation must account for the transaction as a secured borrowing with a pledge of collateral.

Thus, under FAS 166, so-called “last-in, first-out” (LIFO) and “first-in, first-out” (FIFO) participations in which all principal cash flows collected on the loan are paid first to one of the participants do not meet the definition of a participating interest. As a result, neither LIFO nor FIFO participations transferred after the effective date of FAS 166 will qualify for sale accounting and instead must be reported as secured borrowings.

The participating interest definition in FAS 166 also applies to transfers of government-guaranteed portions of loans, such as those guaranteed by the Small Business Administration (SBA). In this regard, if a bank transfers the guaranteed portion of an SBA loan at a premium, the “seller” is obligated by the SBA to refund the premium to the “purchaser” if the loan is repaid within 90 days of the transfer. Under FAS 166, this premium refund obligation is a form of recourse, which means that the transferred guaranteed portion of the loan does not meet the definition of a “participating interest” for the 90-day period that the premium refund obligation exists. As a result, the transfer must be accounted for as a secured borrowing during this period. After the 90-day period, assuming the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan now meet the definition of a “participating interest,” the transfer of the guaranteed portion can be accounted for as a sale if all of the conditions for sale accounting in FAS 166 are met. In contrast, if the guaranteed portion of the SBA loan is transferred at par in a so-called “par sale” in which the “seller” agrees to pass interest through to the “purchaser” at less than the contractual interest rate and the spread between the contractual rate and the pass-through interest rate significantly exceeds an amount that would fairly compensate a substitute servicer, the excess spread is viewed as an interest-only strip. The existence of this interest-only strip results in a disproportionate sharing of the cash flows on the entire SBA loan, which means that the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan do not meet the definition of a “participating interest,” which precludes sale accounting. Instead, the transfer of the guaranteed portion must be accounted for as a secured borrowing.

Upon the completion of a transfer of a participating interest that satisfies the conditions to be accounted for as a sale, the transferor (seller) must allocate the previous carrying amount of the entire financial asset between the participating interests sold and any that are retained based on their relative fair values at the transfer date, derecognize the participating interests sold, recognize and initially measure at fair value servicing assets (or

servicing liabilities) and any other assets obtained and liabilities incurred in the sale, recognize in earnings any gain or loss on the sale, and report any retained participating interests as the difference between the previous carrying amount of the entire financial asset and the amount derecognized.

As mentioned above, when a portion of a financial asset is transferred, but the transferred portion does not meet the definition of a participating interest, the transaction must be reported as a secured borrowing with a pledge of collateral. In this situation, because the transferred loan participation does not qualify for sale accounting under FAS 166, the bank lead lender must continue to report the transferred participation (as well as the retained portion of the loan) as a loan asset on its Call Report balance sheet (Schedule RC), normally in item 4.b, "Loans and leases, net of unearned income," and in the appropriate loan category in Schedule RC-C, part I, Loans and Leases. The bank lead lender should report the transferred loan participation as a secured borrowing on the Call Report balance sheet in Schedule RC, item 16, "Other borrowed money." The transferred loan participation should also be reported in the appropriate subitem or subitems in Schedule RC-M, item 5.b, "Other borrowings," in Schedule RC-M, item 10.b, "Amount of 'Other borrowings' that are secured," and in Schedule RC-C, part I, Memorandum item 14, "Pledged loans and leases." As a consequence, the transferred nonqualifying participation should be included in the bank's loans and leases for purposes of determining the appropriate level for the bank's allowance for loan and lease losses.

From the standpoint of the bank that acquires the nonqualifying loan participation, it should normally report the participation in item 4.b, "Loans and leases, net of unearned income," on the Call Report balance sheet. For purposes of the Call Report loan schedule (Schedule RC-C, part I, Loans and Leases), the nonqualifying participation should be reported in the loan category appropriate to the underlying loan, e.g., as a "commercial and industrial loan" in item 4 or as a "loan secured by real estate" in item 1. Furthermore, for risk-based capital purposes, the bank that acquired the nonqualifying participation should assign it to the risk-weight category appropriate to the underlying borrower or, if relevant, the guarantor or the nature of the collateral.

The discussion of loan participations in the Glossary entry for "Transfers of Financial Assets" in the Call Report instruction book has been revised this quarter to incorporate the provisions of FAS 166. This revised Glossary entry is included in the Call Report instruction book update for June 2010.

### **Accounting Standards Codification™**

In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles* (FAS 168), to establish the FASB Codification as the single source of authoritative nongovernmental U.S. generally accepted accounting principles (U.S. GAAP). The FASB Codification reorganizes existing U.S. accounting and reporting standards issued by the FASB and other related private-sector standard setters, and all guidance contained in the FASB Codification carries an equal level of authority. All previously existing accounting standards documents are superseded as described in FAS 168. All other accounting literature not included in the FASB Codification is nonauthoritative. The FASB Codification can be accessed at <http://asc.fasb.org/>.

The FASB Codification is effective for interim and annual periods ending after September 15, 2009. The agencies are in the process of incorporating the FASB Codification references into the Call Report instruction book. Until this incorporation process has been completed, references in the Call Report instructions (including these Supplemental Instructions) to specific pre-Codification standards under U.S. GAAP (e.g., FASB Statements of Financial Accounting Standards, FASB Interpretations, Emerging Issues Task Force Issues, and Accounting Principles Board Opinions) should be understood to mean the corresponding reference in the FASB's Accounting Standards Codification. In addition, the agencies have published on the FFIEC's Web site a list of all pre-Codification references to authoritative accounting literature found in the Call Report instruction book (as updated in March 2010) and the corresponding FASB Codification references. This reference guide can be accessed at [http://www.ffiec.gov/pdf/ffiec\\_forms/CodificationIntroduction\\_201006.pdf](http://www.ffiec.gov/pdf/ffiec_forms/CodificationIntroduction_201006.pdf).

## Other-Than-Temporary Impairment

When the fair value of an investment is less than its cost basis, the impairment is either temporary or other-than-temporary. To determine whether the impairment is other-than-temporary, a bank must apply other pertinent guidance such as paragraph 16 of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*; FASB Staff Position (FSP) FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*; FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*; paragraph 6 of Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*; Emerging Issues Task Force (EITF) Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*; and FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*. In general, these standards have been codified in ASC Subtopic 320-10, Investments-Debt and Equity Securities – Overall; ASC Subtopic 325-20, Investments-Other – Cost Method Investments; and ASC Subtopic 325-40, Investments-Other – Beneficial Interests in Securitized Financial Assets.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2). This FSP, which banks are expected to implement for Call Report purposes, amended the other-than-temporary impairment guidance in several standards (including FASB Statement No. 115, FSP FAS 115-1 and FAS 124-1, and EITF Issue No. 99-20) that applies to investments in debt securities. FSP FAS 115-2 does not apply to investments in securities that meet the definition of an equity security in FASB Statement No. 115. Under FSP FAS 115-2, if a bank intends to sell a debt security or it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis, an other-than-temporary impairment has occurred and the entire difference between the security's amortized cost basis and its fair value at the balance sheet date must be recognized in earnings. In these cases, the fair value of the debt security would become its new amortized cost basis. The FSP also provides that if the present value of cash flows expected to be collected on a debt security is less than its amortized cost basis, a credit loss exists. In this situation, if a bank does not intend to sell the security and it is not more likely than not that the bank will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, an other-than-temporary impairment has occurred. The amount of the total other-than-temporary impairment related to the credit loss must be recognized in earnings, but the amount of the total impairment related to other factors must be recognized in other comprehensive income, net of applicable taxes.

For other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities that occur during the current calendar year-to-date reporting period for the Call Report, banks should report the total amount of such losses, the portion recognized in other comprehensive income (before income taxes), and the net impairment losses recognized in earnings in Call Report Schedule RI, Memorandum items 14.a, 14.b, and 14.c, respectively. Other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities that must be recognized in earnings should be included in items 6.a and 6.b, of the Call Report income statement (Schedule RI), respectively. Other-than-temporary impairment losses that are to be recognized in other comprehensive income, net of applicable taxes, should be reported in item 10 of Schedule RI-A, Changes in Bank Equity Capital, and included in item 26.b, "Accumulated other comprehensive income," on the Call Report balance sheet (Schedule RC). For a held-to-maturity debt security on which the bank has recognized an other-than-temporary impairment loss related to factors other than credit loss in other comprehensive income, the bank should report the carrying value of the debt security, as defined in FSP FAS 115-2, in item 2.a of Schedule RC and in column A of Schedule RC-B, Securities. Under the FSP, this carrying value should be the fair value of the debt security as of the date of the most recently recognized other-than-temporary impairment loss adjusted for subsequent accretion of the impairment loss related to factors other than credit loss.

For regulatory capital purposes, any other-than-temporary impairment losses on both held-to-maturity and available-for-sale debt securities related to factors other than credit loss that are reported, net of applicable taxes, in Schedule RC, item 26.b, "Accumulated other comprehensive income," should be included in Schedule RC-R, item 2, together with the net unrealized gains (losses) on available-for-sale securities that are reported in item 2. Furthermore, when determining the regulatory capital limit for deferred tax assets, a bank

may, but is not required to, adjust the reported amount of its deferred tax assets for any deferred tax assets arising from other-than-temporary impairment losses reported, net of applicable taxes, in Schedule RC, item 26.b in accumulated other comprehensive income. A bank must follow a consistent approach over time with respect to this adjustment to the reported amount of deferred tax assets.

In addition, when risk-weighting a held-to-maturity debt security for which an other-than-temporary impairment loss related to factors other than credit loss was previously recognized in other comprehensive income, include the carrying value of the debt security, as described above, in column A of Schedule RC-R, item 35. Then, include the pre-tax amount of this impairment loss that has not yet been accreted from accumulated other comprehensive income to the carrying value of the security as a negative number in column B of Schedule RC-R, item 35, and include the amortized cost of the security, as defined in FSP FAS 115-2, in the appropriate risk-weight category column of item 35 (provided the security is not a purchased subordinated security that is not eligible for the ratings-based approach). Under FSP FAS 115-2, amortized cost is the security's previous amortized cost as of the date of the most recently recognized other-than-temporary impairment loss less the amount of impairment loss recognized in earnings adjusted for subsequent accretion of interest income and payments received on the security.

The discussion of impairment in the Glossary entry for "Securities Activities" in the Call Report instruction book has been revised this quarter to incorporate the provisions of FSP FAS 115-2. This revised Glossary entry is included in the Call Report instruction book update for June 2010.

### **Extended Net Operating Loss Carryback Period**

The Worker, Homeownership, and Business Assistance Act of 2009, which was enacted on November 6, 2009, permits banks and other businesses, excluding those banking organizations that received capital from the U.S. Treasury under the Troubled Asset Relief Program, to elect a net operating loss carryback period of three, four, or five years instead of the usual carryback period of two years for any one tax year ending after December 31, 2007, and beginning before January 1, 2010. For calendar year banks, this extended carryback period applies to either the 2008 or 2009 tax year. The amount of the net operating loss that can be carried back to the fifth carryback year is limited to 50 percent of the available taxable income for that fifth year, but this limit does not apply to other carryback years.

Under generally accepted accounting principles, banks may not record the effects of this tax change in their balance sheets and income statements for financial and regulatory reporting purposes until the period in which the law was enacted, i.e., the fourth quarter of 2009. Therefore, banks should have recognized the effects of this fourth quarter 2009 tax law change on their current and deferred tax assets and liabilities, including valuation allowances for deferred tax assets, in their Call Reports for December 31, 2009. Banks should not amend their Call Reports for quarters prior to the fourth quarter of 2009 for the effects of the extended net operating loss carryback period.

The banking agencies' regulatory capital standards limit the amount of deferred tax assets that are dependent upon future taxable income that can be included in regulatory capital. Deferred tax assets that are dependent upon future taxable income are (a) deferred tax assets arising from deductible temporary differences that exceed the amount of taxes previously paid that a bank could recover through loss carrybacks if the bank's temporary differences (both deductible and taxable) fully reverse at the report date and (b) deferred tax assets arising from operating loss and tax credit carryforwards. A bank with a calendar year fiscal year could have considered the recoverability of taxes paid during the extended carryback period when determining the amount of its deferred tax assets dependent upon future taxable income for regulatory capital calculation purposes as of December 31, 2009, but may not do so for regulatory capital reporting purposes in its March 31, 2010, and subsequent Call Reports. In addition, any recognized income tax refund receivable resulting from a net operating loss carryback that is currently outstanding should be reported in Schedule RC-F, item 6, "All other assets," not in Schedule RC-F, item 2, "Net deferred tax assets."

## Treasury Department’s Capital Purchase Program

On October 14, 2008, the U.S. Treasury Department announced a Capital Purchase Program (CPP) under the Troubled Asset Relief Program mandated by the Emergency Economic Stabilization Act of 2008 (<http://www.treas.gov/press/releases/hp1207.htm>). The CPP was designed to encourage U.S. financial institutions to build capital to buttress the financial strength of the banking system, increase the flow of financing to U.S. businesses and consumers, and support the U.S. economy.

For banks (other than those that are Subchapter S or mutual institutions) that are not subsidiaries of holding companies that are approved for participation in the CPP, the Treasury Department purchased noncumulative perpetual preferred stock and warrants to purchase common stock or noncumulative perpetual preferred stock, depending on whether the bank’s common stock is “publicly traded.” For such banks that are not publicly traded, the Treasury Department’s intent was to immediately exercise the warrants for noncumulative perpetual preferred stock (“warrant preferred stock”). The noncumulative perpetual preferred stock issued to the Treasury Department, including warrant preferred stock, should be reported on the Call Report balance sheet (Schedule RC) in item 23, “Perpetual preferred stock and related surplus.” For regulatory capital purposes, the noncumulative perpetual preferred stock issued to the Treasury Department qualifies as a component of Tier 1 capital and should be included in the amount reported for “Total equity capital” in item 1 of Schedule RC-R, Regulatory Capital.

Warrants issued by a publicly traded bank should be included in equity capital on the Call Report balance sheet (Schedule RC) provided the bank has sufficient authorized but unissued shares of the common stock to allow exercise of the warrants and any other necessary shareholder approvals have been obtained. If the bank does not have required shareholder approval, including shareholder approval for sufficient authorized but unissued shares of the common stock subject to the warrants that may be required for settlement, the warrants may be included in equity capital on the Call Report balance sheet provided that the bank takes the necessary action to secure sufficient approvals prior to the end of the fiscal quarter in which the warrants are issued. The amount assigned to warrants classified as equity capital should be included in Schedule RC, item 25, “Surplus.” Warrants that are not eligible to be classified as equity capital should be reported on the Call Report balance sheet in item 20, “Other liabilities,” and in Schedule RC-G, item 4, “All other liabilities” (where the warrants should be itemized and described if their amount is greater than \$25,000 and exceeds 25 percent of item 4).

Proceeds from a bank’s issuance to the Treasury Department of noncumulative perpetual preferred stock and warrants eligible to be classified as equity capital during the calendar year-to-date reporting period should be included in Schedule RI-A, item 5, “Sale, conversion, acquisition, or retirement of capital stock, net.”

For banks that have elected to be taxed under Subchapter S or are organized in mutual form, the full amount of all subordinated debt securities issued to the Treasury Department under the CPP should be reported in Schedule RC, item 19, “Subordinated notes and debentures.” For regulatory capital purposes, report in Schedule RC-R, item 12, “Qualifying subordinated debt and redeemable preferred stock,” the portion of such subordinated debt securities that qualify for inclusion in Tier 2 capital based on the capital guidelines of the reporting bank’s primary federal supervisory authority.

## FASB Statement No. 158 on Defined Benefit Postretirement Plans

FASB Statement No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158), issued in September 2006 and now codified in ASC Subtopic 715-20, Compensation-Retirement Benefits – Defined Benefit Plans-General, requires a bank that sponsors a single-employer defined benefit postretirement plan, such as a pension plan or health care plan, to recognize the funded status of each such plan on its balance sheet. An overfunded plan is recognized as an asset while an underfunded plan is recognized as a liability. As of the end of the fiscal year when a bank initially applies FAS 158, the postretirement plan amounts recognized on the bank’s balance sheet before applying FAS 158 must be adjusted to recognize gains or losses, prior service costs or credits, and transition assets or obligations that have not yet been included in the net periodic benefit cost of its plans. These adjustment amounts are recognized directly in equity capital as components of the ending balance of accumulated other comprehensive

income (AOCI), net of tax. Thereafter, a bank must recognize certain gains and losses and prior service costs or credits that arise during each reporting period, net of tax, as a component of other comprehensive income (OCI) and, hence, AOCI. Postretirement plan amounts carried in AOCI are adjusted as they are subsequently recognized in earnings as components of the plans' net periodic benefit cost. For further information on accounting for defined benefit postretirement plans, banks should refer to FAS 158; FASB Statement No. 87, *Employers' Accounting for Pensions*; and FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, all of which are codified in ASC Topic 715, Compensation-Retirement Benefits.

In addition, according to an interim decision announced by the banking agencies on December 14, 2006, banks should reverse the effects on AOCI of FAS 158 for regulatory capital purposes, including for purposes of reporting and measuring the numerators and denominators for the leverage and risk-based capital ratios. The intent of the reversal is to neutralize the effect on AOCI of the application of FAS 158 on regulatory capital. Banks should exclude from regulatory capital any amounts recorded in AOCI resulting from the initial and subsequent application of both the funded status and measurement date provisions of FAS 158. For Call Report purposes, these excluded amounts should be reported in item 4 of Schedule RC-R, Regulatory Capital, together with the accumulated net gains (losses) on cash flow hedges. If the sum of the amounts included in AOCI (Schedule RC, item 26.b) for defined benefit postretirement plans under FAS 158 and for cash flow hedges represents a net gain (i.e., a net increase) in reported equity capital, this sum should be reported as a positive value in item 4 of Schedule RC-R. If the sum represents a net loss (i.e., a decrease) in reported equity capital, it should be reported as a negative number in item 4 of Schedule RC-R.

In addition, when determining the regulatory capital limit for deferred tax assets, a bank may, but is not required to, adjust the amount of its deferred tax assets for any deferred tax assets or liabilities associated with any amounts recorded in AOCI resulting from the application of FAS 158 that are excluded from regulatory capital (and reported in Schedule RC-R, item 4) in accordance with the preceding guidance. A bank must follow a consistent approach over time with respect to such adjustments.

For purposes of reporting and measuring the denominators for the risk-based and leverage ratios, banks should also adjust their assets for any amounts recorded in AOCI affecting assets resulting from the initial and subsequent application of the funded status and measurement date provisions of FAS 158. Specifically, assets recognized or derecognized as an adjustment to AOCI as part of the incremental effect of applying FAS 158 should be reported as an adjustment to assets in item 42 of Schedule RC-R, column B, and should also be reported in item 26 of Schedule RC-R. For example, derecognition of an asset recorded as an offset to AOCI as part of the initial incremental effect of applying FAS 158 should be recorded as a negative amount in item 42, column B, of Schedule RC-R and as a positive amount in item 42, column F. This amount should also be added back to average total assets for leverage capital purposes by reporting it as a negative number in item 26 of Schedule RC-R. As another example, the portion of a benefit plan surplus asset that is included in Schedule RC, item 26.b as an increase to AOCI and is included in item 42, column A, of Schedule RC-R should be excluded from risk-weighted assets by reporting the amount as a positive number in item 42, column B. This amount should also be deducted from average total assets for leverage capital purposes by reporting the amount as a positive number in item 26 of Schedule RC-R. In addition, the adjustments for purposes of calculating risk-based capital and the leverage ratio described above should be adjusted for subsequent amortization of such amounts from AOCI into earnings.

### **Amending Previously Submitted Report Data**

Should your bank find that it needs to revise previously submitted Call Report data for quarters beginning September 30, 2005, please make the appropriate changes to the data, ensure that the revised data passes the FFIEC-published validation criteria, and submit the revised data file to the CDR using one of the two methods described in the banking agencies' cover letter for the June 30, 2010, report date. Should your bank need to amend its Call Report data for June 30, 2005, or an earlier date, please contact your Call Report analyst at the FDIC (for national banks and FDIC-supervised banks) or your Federal Reserve District Bank (for state member banks) for instructions on how to submit amendments to prior period data.

**Other Reporting Matters**

For the following topics, banks should continue to follow the guidance in the specified Call Report Supplemental Instructions:

- FASB Interpretation No. 48 on uncertain tax positions – Supplemental Instructions for December 31, 2009 ([http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200912.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200912.pdf))
- Accounting for business combinations and noncontrolling (minority) interests under FASB Statements Nos. 141(R) and 160 – Supplemental Instructions for June 30, 2009 ([http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200906.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200906.pdf))
- Fair value measurement under FASB Statement No. 157 and the fair value option under FASB Statement No. 159 – Supplemental Instructions for June 30, 2009 ([http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200906.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200906.pdf))
- Accounting for share-based payments under FASB Statement No. 123 (Revised 2004), *Share-Based Payment* – Supplemental Instructions for December 31, 2006 ([http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200612.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200612.pdf))
- Tobacco Transition Payment (Buyout) Program – Supplemental Instructions for March 31, 2006 ([http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200603.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200603.pdf))
- Commitments to originate and sell mortgage loans – Supplemental Instructions for March 31, 2006 ([http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200603.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200603.pdf)) and June 30, 2005 ([http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200506.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200506.pdf))
- Reporting of funds invested through Bentley Financial Services, Inc. – Supplemental Instructions for June 30, 2003 ([http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst0603.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst0603.pdf))

**Call Report Software Vendors**

For information on available Call Report preparation software products, banks should contact:

DBI Financial Systems, Inc.  
 P.O. Box 14027  
 Bradenton, Florida 34280  
 Telephone: (800) 774-3279  
[www.e-dbi.com](http://www.e-dbi.com)

Fed Reporter, Inc.  
 28118 Agoura Road, Suite 202  
 Agoura Hills, California 91301  
 Telephone: (888) 972-3772  
[www.fedreporter.net](http://www.fedreporter.net)

Fidelity Regulatory Solutions  
 27200 Agoura Road, Suite 100  
 Calabasas, California 91301  
 Telephone: (800) 825-3772  
[www.callreporter.com](http://www.callreporter.com)

FinArch US, Inc.  
 Burlington Center, 4th Floor  
 35 Corporate Drive  
 Burlington, Massachusetts 01803  
 Telephone: (800) 763-7070  
[www.finarch.com](http://www.finarch.com)

FiServ, Inc.  
 1345 Old Cheney Road  
 Lincoln, Nebraska 68512  
 Telephone: (402) 423-2682  
[www.premier.fiserv.com](http://www.premier.fiserv.com)

FRSGlobal  
 119 Russell Street  
 Littleton, Massachusetts 01460  
 Telephone: (978) 698-7200  
[www.frsglobal.com](http://www.frsglobal.com)

Jack Henry & Associates, Inc.  
 Regulatory Filing Group  
 7600B North Capital of Texas  
 Highway, Suite 320  
 Austin, Texas 78731  
 Telephone: (800) 688-9191  
[filing.jackhenry.com](http://filing.jackhenry.com)

SOFGEN Americas, Inc.  
 One Gateway Center, 26th Floor  
 Newark, New Jersey 07102  
 Telephone: (973) 648-0900  
[www.sofgen.com](http://www.sofgen.com)