FFIEC 051

CALL REPORT

INSTRUCTION BOOK UPDATE

SEPTEMBER 2017

FILING INSTRUCTIONS

NOTE: This update for the instruction book for the FFIEC 051 Call Report is designed for two-sided (duplex) printing. The pages listed in the column below headed "Remove Pages" are no longer needed in the *Instructions for Preparation of Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only and Total Assets Less than $1 Billion* (FFIEC 051) and should be removed and discarded. The pages listed in the column headed "Insert Pages" are included in this instruction book update and should be filed promptly in your instruction book for the FFIEC 051 Call Report.

Remove Pages	**Insert Pages**
1 – 2 (3-17)	1 – 2 (9-17)
RC-R-51 – RC-R-52 (3-17)	RC-R-51 – RC-R-52 (9-17) *
RC-R-93 – RC-R-94 (3-17)	RC-R-93 – RC-R-94 (9-17)
SU-3 – SU-4 (3-17)	SU-3 – SU-4 (9-17)
SU-9 – SU-10 (3-17)	SU-9 – SU-10 (9-17) *
SU-11 – SU-12 (3-17)	SU-11 – SU-12 (9-17)
A-39 – A-40 (3-17)	A-39 – A-40 (9-17)
A-89 – A-90 (3-17)	A-89 – A-90 (9-17)
A-93 – A-94 (3-17)	A-93 – A-94 (9-17)

* The updates to these pages are limited solely to the insertion of hyperlinks to other documents.

GENERAL INSTRUCTIONS

Schedules RC and RC-A through RC-T constitute the FFIEC 051 version of the Consolidated Report of Condition and its supporting schedules. Schedules RI and RI-A through RI-E constitute the Consolidated Report of Income and its supporting schedules. Schedule SU – Supplemental Information collects additional information in the FFIEC 051 on certain complex or specialized activities in which an institution may engage. The Consolidated Reports of Condition and Income are commonly referred to as the Call Report. For purposes of these General Instructions, the Financial Accounting Standards Board (FASB) Accounting Standards Codification is referred to as the "ASC."

Unless the context indicates otherwise, the term "bank" in the Call Report instructions refers to both banks and savings associations.

WHO MUST REPORT ON WHAT FORMS

Every national bank, state member bank, insured state nonmember bank, and savings association is required to file a consolidated Call Report normally as of the close of business on the last calendar day of each calendar quarter, i.e., the report date. The specific reporting requirements depend upon the size of the bank and whether it has any "foreign" offices. Banks must file the appropriate forms as described below:

(1) BANKS WITH FOREIGN OFFICES: Banks of any size that have any "foreign" offices (as defined below) must file quarterly the *Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices* (FFIEC 031). For purposes of these reports, all of the following constitute "foreign" offices:

    (a) An International Banking Facility (IBF);
    (b) A branch or consolidated subsidiary in a foreign country; and
    (c) A majority-owned Edge or Agreement subsidiary.

    In addition, for banks chartered and headquartered in the 50 states of the United States and the District of Columbia, a branch or consolidated subsidiary in Puerto Rico or a U.S. territory or possession is a "foreign" office. However, for purposes of these reports, a branch at a U.S. military facility located in a foreign country is a "domestic" office.

(2) BANKS WITHOUT FOREIGN OFFICES: Banks that have domestic offices only must file quarterly either:

    (a) The *Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only* (FFIEC 041); or
    (b) The *Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only and Total Assets Less than $1 Billion* (FFIEC 051),

    as appropriate to the reporting institution. An institution eligible to file the FFIEC 051 report (as discussed below) may choose instead to file the FFIEC 041 report.

For banks chartered and headquartered in Puerto Rico or a U.S. territory or possession, a branch or consolidated subsidiary in one of the 50 states of the United States, the District of Columbia, Puerto Rico, or a U.S. territory or possession is a "domestic" office.

For those institutions filing the FFIEC 031 or FFIEC 041, a separate instruction book covers both of these report forms. Please refer to this separate instruction book for the General Instructions for the FFIEC 031 and the FFIEC 041 report forms.

Eligibility to File the FFIEC 051

Institutions with domestic offices only and total assets less than $1 billion, excluding those that are advanced approaches institutions for regulatory capital purposes,[1] are eligible to file the FFIEC 051 Call Report. An institution's total assets are measured as of June 30 each year to determine the institution's eligibility to file the FFIEC 051 beginning in March of the following year.

For an institution otherwise eligible to file the FFIEC 051, the institution's primary federal regulatory agency, jointly with the state chartering authority, if applicable, may require the institution to file the FFIEC 041 instead based on supervisory needs. In making this determination, the appropriate agency will consider criteria including, but not limited to, whether the eligible institution is significantly engaged in one or more complex, specialized, or other higher risk activities, such as those for which limited information is reported in the FFIEC 051 compared to the FFIEC 041 (trading; derivatives; mortgage banking; fair value option usage; servicing, securitization, and asset sales; and variable interest entities). The agencies anticipate making such determinations only in a limited number of cases.

Close of Business

The term "close of business" refers to the time established by the reporting bank as the cut-off time for receipt of work for posting transactions to its general ledger accounts for that day. The time designated as the close of business should be reasonable and applied consistently. The posting of a transaction to the general ledger means that both debit and credit entries are recorded as of the same date. In addition, entries made to general ledger accounts in the period subsequent to the close of business on the report date that are applicable to the period covered by the Call Report (e.g., adjustments of accruals, posting of items held in suspense on the report date to their proper accounts, and other quarter-end adjusting entries) should be reported in the Call Report as if they had actually been posted to the general ledger at or before the cut-off time on the report date.

With respect to deposits received by the reporting bank after the cut-off time for posting them to individual customer accounts for a report date (i.e., so-called "next day deposits" or "late deposits"), but which are nevertheless posted in any manner to the reporting bank's general ledger accounts for that report date (including, but not limited to, through the use of one or more general ledger contra accounts), such deposits must be reported in Schedule RC-O, Other Data for Deposit Insurance and FICO Assessments, item 1, and may also be reported in Schedule RC, Balance Sheet, item 13, "Deposits," and Schedule RC-E, Deposit Liabilities. However, the use of memorandum accounts outside the reporting bank's general ledger system for control over "next day" or "late deposits" received on the report date does not in and of itself make such deposits reportable in Schedule RC-O and Schedules RC and RC-E.

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[1] In general, an advanced approaches institution, as defined in the regulatory capital rules, has consolidated total assets equal to $250 billion or more, has consolidated total on-balance sheet foreign exposure equal to $10 billion or more, is a subsidiary of a depository institution or holding company that uses the advanced approaches to calculate its total risk-weighted assets, or elects to use the advanced approaches to calculate its total risk-weighted assets. The regulatory capital rules are set forth in 12 CFR Part 3 for national banks and federal savings associations; 12 CFR Part 217 for state member banks; and 12 CFR Part 324 for state nonmember banks and state savings associations.

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

Adjustments for Financial Subsidiaries

Section 121 of the Gramm-Leach-Bliley Act allows national banks and insured state banks to establish entities known as financial subsidiaries. (Savings associations are not authorized under the Gramm-Leach-Bliley Act to have financial subsidiaries.) One of the statutory requirements for establishing a financial subsidiary is that a national bank or insured state bank must deduct any investment in a financial subsidiary from the bank's assets and tangible equity. Therefore, under the regulatory capital rules, a bank must deduct the aggregate amount of its outstanding equity investment in a financial subsidiary, including the retained earnings of the subsidiary, from its common equity tier 1 capital elements in Schedule RC-R, Part I, item 10.b. In addition, the assets and liabilities of the subsidiary may not be consolidated with those of the parent bank for regulatory capital purposes.

For further information, a bank with one or more financial subsidiaries should refer to the discussion of "Adjustments for Financial Subsidiaries" in the General Instructions for Schedule RC-R, Part II, in the instructions for the FFIEC 031 and FFIEC 041 Call Reports.

Treatment of Embedded Derivatives

If a bank has a hybrid contract containing an embedded derivative that must be separated from the host contract and accounted for as a derivative instrument under ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended), then the host contract and embedded derivative should be treated separately for risk-based capital purposes. When the fair value of the embedded derivative has been reported as part of the bank's assets on Schedule RC – Balance Sheet, that fair value (whether positive or negative) should be reported (as a positive or negative number) in column B of the corresponding asset category item in Schedule RC-R, Part II (items 1 to 8). The host contract, if an asset, should be risk weighted according to the obligor or, if relevant, the guarantor or the nature of the collateral. All derivative exposures should be risk weighted in the derivative items of Schedule RC-R, Part II, as appropriate (items 20 or 21).

Reporting Exposures Hedged with Cleared Eligible Credit Derivatives

Institutions are able to obtain full or partial protection for (i.e., "hedge") on-balance sheet assets or off-balance sheet items using credit derivatives that are cleared through a qualified central counterparty (QCCP) or a central counterparty (CCP) that is not a QCCP. In some cases, a cleared credit derivative used for this purpose meets the definition of an eligible credit derivative in §.2 of the regulatory capital rules. In these cases, under §.36 of the regulatory capital rules, an institution that is a clearing member or a clearing member client may recognize the credit risk mitigation benefits of the eligible credit derivative. More specifically, the risk weight of the underlying exposure (e.g., 20 percent, 50 percent, or 100 percent) may be replaced with the risk weight of the CCP or QCCP as the protection provider if the credit derivative is an eligible credit derivative, is cleared through a CCP or a QCCP, and meets the applicable requirements under §.35 and §.36 of the regulatory capital rules. The risk weight for an eligible credit derivative cleared through a QCCP is 2 percent or 4 percent, based on conditions set forth in the rules. The risk weight for an eligible credit derivative cleared through a CCP is determined according to §.32 of the regulatory capital rules. In addition, the coverage amount provided by an eligible credit derivative must be adjusted downward under certain conditions as described in §.36 of the regulatory capital rules.

If a clearing member bank or clearing member client bank has obtained full or partial protection for an on-balance sheet asset or off-balance sheet item using a cleared eligible credit derivative cleared through a QCCP, the institution may, but is not required to, recognize the benefits of this eligible credit derivative in determining the risk-weighted asset amount for the hedged exposure in Schedule RC-R, Part II, by reporting the protected exposure amounts and credit equivalent amounts in the 2 percent or 4 percent

Part II. (cont.)

General Instructions for Schedule RC-R, Part II. (cont.)

risk-weight category, as appropriate under the regulatory capital rules. Any amount of the exposure that is not covered by the eligible credit derivative should be reported in the risk-weight category corresponding to the risk weight of the underlying exposure. For example, for an asset with a $200 exposure amount fully covered by an eligible credit derivative cleared through a QCCP that qualifies for a 2 percent risk weight, the institution would report the $200 exposure amount in Column D–2% risk weight for the appropriate asset category.

Treatment of FDIC Loss-Sharing Agreements

Loss-sharing agreements entered into by the FDIC with acquirers of assets from failed institutions are considered conditional guarantees for risk-based capital purposes due to contractual conditions that acquirers must meet. The guaranteed portion of assets subject to a loss-sharing agreement may be assigned a 20 percent risk weight. Because the structural arrangements for these agreements vary depending on the specific terms of each agreement, institutions should consult with their primary federal regulator to determine the appropriate risk-based capital treatment for specific loss-sharing agreements.

Allocated Transfer Risk Reserve (ATRR)

If the reporting bank is required to establish and maintain an ATRR as specified in Section 905(a) of the International Lending Supervision Act of 1983, the ATRR should be reported in Schedule RC-R, Part II, item 30. The ATRR is not eligible for inclusion in either tier 1 or tier 2 capital.

Any ATRR related to loans and leases held for investment is included on the balance sheet in Schedule RC, item 4.c, "Allowance for loan and lease losses." However, if the bank must maintain an ATRR for any asset other than a loan or lease held for investment, the balance sheet category for that asset should be reported net of the ATRR on Schedule RC. In this situation, the ATRR should be reported as a negative number (i.e., with a minus (-) sign) in column B, "Adjustments to totals reported in Column A," of the corresponding asset category in Schedule RC-R, Part II, items 1 through 4 and 7 through 9. The amount to be risk weighted for this asset in columns C through Q, as appropriate, would be its net carrying value plus the ATRR. For example, a bank has an HTM security issued by a foreign commercial company against which it has established an ATRR of $20. The security, net of the ATRR, is included in Schedule RC, item 2.a, "Held-to-maturity securities," at $80. The security should be included in Schedule RC-R, Part II, item 2.a, column A, at $80. The bank should include $-20 in Schedule RC-R, item 2.a, column B, and $100 in item 2.a, column I.

Part II. (cont.)

Item No.	Caption and Instructions

14 (cont.)

- *In column I–100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J. Also include the credit equivalent amount of the portion of commercial or similar letters of credit with an original maturity of one year or less reported in Schedule RC-L, item 4, that are secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

- For commercial and similar letters of credit that must be risk weighted according to the Country Risk Classification (CRC) methodology, including commercial and similar letters of credit (and self-liquidating, trade-related contingent items that arise from the movement of goods) with an original maturity of one year or less that have been conveyed to foreign banks, assign the credit equivalent amount of the portion of such letters of credit to risk-weight categories based on the CRC methodology described in the instructions for Schedule RC-R, Part, II, item 14, in the instructions for the FFIEC 031 and FFIEC 041 Call Reports.

15 **Retained recourse on small business obligations sold with recourse.** Report in column A the amount of retained recourse on small business obligations reported in Schedule SU, items 4 and 5, that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules.

For retained recourse on small business obligations sold with recourse that qualify as securitization exposures, please see §.42(h) of the regulatory capital rule for purposes of risk weighting and report these exposures in Schedule RC-R, Part II, item 10.

Under Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994, a "qualifying institution" that transfers small business loans and leases on personal property (small business obligations) with recourse in a transaction that qualifies as a sale under generally accepted accounting principles (GAAP) must maintain risk-based capital only against the amount of recourse retained, provided the institution establishes a recourse liability account that is sufficient under GAAP. Only loans and leases to businesses that meet the criteria for a small business concern established by the Small Business Administration under Section 3(a) of the Small Business Act (15 U.S.C. 632 et seq.) are eligible for this favorable risk-based capital treatment.

In general, a "qualifying institution" is one that is well capitalized without regard to the Section 208 provisions. If a bank ceases to be a qualifying institution or exceeds the retained recourse limit set forth in banking agency regulations implementing Section 208, all new transfers of small business obligations with recourse would not be treated as sales. However, the reporting and risk-based capital treatment described above will continue to apply to any transfers of small business obligations with recourse that were consummated during the time the bank was a "qualifying institution" and did not exceed the limit.

- *In column B*, report 100 percent of the amount reported in column A.

- *In column C–0% risk weight*, include the credit equivalent amount of the portion of retained recourse on small business obligations sold with recourse reported in Schedule SU, items 4 and 5, that are secured by collateral or has a guarantee that qualifies for the zero percent risk weight.

- *In column G–20% risk weight*, include the credit equivalent amount of the portion of retained recourse on small business obligations sold with recourse reported in Schedule SU, items 4 and 5, that are secured by collateral or has a guarantee that qualifies for the 20 percent risk weight.

Part II. (cont.)

Item No. **Caption and Instructions**

15 (cont.)

- *In column H–50% risk weight*, include the credit equivalent amount of the portion of retained recourse on small business obligations sold with recourse reported in Schedule SU, items 4 and 5, that are secured by collateral or has a guarantee that qualifies for the 50 percent risk weight.

- *In column I-100% risk weight*, include the portion of the credit equivalent amount reported in column B that is not included in columns C through H and J. Also include the credit equivalent amount of the portion of retained recourse on small business obligations sold with recourse reported in Schedule SU, items 4 and 5, that are secured by collateral or has a guarantee that qualifies for the 100 percent risk weight.

16 **Repo-style transactions.** Repo-style transactions include:

- Securities lending transactions, including transactions in which the bank acts agent for a customer and indemnifies the customer against loss. Securities lent are reported in Schedule RC-L, item 6.a.
- Securities borrowing transactions. Securities borrowed are reported in Schedule RC-L, item 6.b.
- Securities purchased under agreements to resell (i.e., reverse repos). Securities purchased under agreements to resell are reported in Schedule RC, item 3.b.
- Securities sold under agreements to repurchase (i.e., repos). Securities sold under agreements to repurchase are reported in Schedule RC, item 14.b.[16]

Report in column A the exposure amount of repo-style transactions that do not meet the definition of a *securitization exposure* as described in §.2 of the regulatory capital rules.

For repo-style transactions to which the bank applies the Simple Approach to recognize the risk-mitigating effects of qualifying financial collateral, as outlined in §.37 of the regulatory capital rules, the exposure amount to be reported in column A is the sum of the fair value as of the report date of securities the bank has lent,[17] the amount of cash or the fair value as of the report date of other collateral the bank has posted for securities borrowed, the amount of cash provided to the counterparty for securities purchased under agreements to resell (as reported in Schedule RC, item 3.b), and the fair value as of the report date of securities sold under agreements to repurchase.

For repo-style transactions to which the bank applies the Collateral Haircut Approach to recognize the risk-mitigating effects of qualifying financial collateral, as outlined in §.37 of the regulatory capital rules, the exposure amount to be reported in column A for a repo-style transaction or a single-product netting set of such transactions is determined by using the exposure amount equation in §.37(c) of the regulatory capital rules.

A bank may apply either the Simple Approach or the Collateral Haircut Approach to repo-style transactions; however, the bank must use the same approach for similar exposures or transactions. For further information, see the discussion of “Treatment of Collateral and Guarantees” in the General Instructions for Schedule RC-R, Part II.

[16] Although securities purchased under agreements to resell and securities sold under agreements to repurchase are reported on the balance sheet (Schedule RC) as assets and liabilities, respectively, they are included with securities lent and securities borrowed and designated as repo-style transactions that are treated collectively as off-balance sheet items under the regulatory capital rules.

[17] For held-to-maturity securities that have been lent, the amortized cost of these securities is reported in Schedule RC-L, item 6.a, but the fair value of these securities should be reported as the exposure amount in column A of this item.

Item No.	Caption and Instructions

1 (cont.) agrees to deliver, at a specified future date, a specified instrument or commodity at a specified price or yield. Forward contracts are not traded on organized exchanges and their contractual terms are not standardized.

Forward contracts include contracts for the purchase and sale of when-issued securities that are not excluded from the requirements of ASC Topic 815. Report contracts for the purchase of when-issued securities that are excluded from the requirements of ASC Topic 815 and accounted for on a settlement-date basis as "Other off-balance sheet liabilities" in Schedule RC-L, item 9, and contracts for the sale of when-issued securities that are excluded from the requirements of ASC Topic 815 and accounted for on a settlement-date basis as "Other off-balance sheet assets" in Schedule RC-L, item 10, subject to the existing reporting thresholds for these two items.

Option contracts. Option contracts convey either the right or the obligation, depending upon whether the reporting institution is the purchaser or the writer, respectively, to buy or sell a financial instrument or commodity at a specified price by a specified future date. Some options are traded on organized exchanges and are known as exchange-traded options. Other options are written to meet the specialized needs of the counterparties to the transaction. These customized option contracts are known as over-the- counter (OTC) options. Thus, OTC options include all option contracts not traded on an organized exchange.

The buyer (purchaser) of an option contract has, for compensation (such as a fee or premium), acquired the right (or option) to sell to, or purchase from, another party some financial instrument or commodity at a stated price on a specified future date. The seller (writer) of the option contract has, for such compensation, become obligated to purchase or sell the financial instrument or commodity at the option of the buyer of the contract. A put option contract obligates the seller of the contract to purchase some financial instrument or commodity at the option of the buyer of the contract. A call option contract obligates the seller of the contract to sell some financial instrument or commodity at the option of the buyer of the contract.

Option contracts also include swaptions, i.e., options to enter into a swap contract, and contracts known as caps, floors, collars, and corridors. In addition, a reporting institution’s commitments to lend that meet the definition of a derivative and must be accounted for in accordance with ASC Topic 815, Derivatives and Hedging, are considered written options and should be reported in Schedule SU, items 1.a through 1.d. All other commitments to lend should be reported in Schedule RC-L, item 1.

Swaps. Swaps, including forward-starting swap contracts, are transactions in which two parties agree to exchange payment streams based on a specified notional amount for a specified period. For purposes of these reports, a swap that has an embedded early termination option that may be exercised either at a specified date or dates before the maturity date of the swap or during a specified period, which may be until the maturity date of the swap, should be reported as a swap and not as an option contract.

Interest Rate Derivative Contracts. Interest rate derivative contracts are contracts whose predominant risk characteristic is interest rate risk and are related to an interest-bearing financial instrument or whose cash flows are determined by referencing interest rates or another interest rate contract (e.g., an option on a futures contract to purchase a Treasury bill). These contracts are generally used to adjust the institution's interest rate exposure or, if the institution is an intermediary, the interest rate exposure of others. Interest rate derivative contracts include interest rate futures, single currency interest rate swaps, basis swaps, interest rate forwards, forward rate agreements, and interest rate options, including caps, floors, collars, and corridors.

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1 (cont.) Interest rate derivative contracts also include:

(1) A reporting institution's commitments (i.e., commitments that have a specific interest rate or price, selling date, and dollar amount) to sell loans secured by 1-to-4 family residential properties that meet the definition of a derivative contract under ASC Topic 815.
(2) A reporting institution's commitments to lend that meet the definition of a derivative and must be accounted for in accordance with ASC Topic 815 are considered written options for purposes of Schedule SU, items 1.a through 1.d. All other commitments to lend should be reported in Schedule RC-L, item 1.

Interest rate derivative contracts exclude contracts involving the exchange of one or more foreign currencies (e.g., cross-currency swaps and currency options), which are to be reported as foreign exchange contracts in Schedule SU, item 1.b or 1.d, as appropriate. In addition, interest rate derivative contracts exclude contracts not involving the exchange of foreign currency whose predominant risk characteristic is foreign exchange risk, which are also to be reported as foreign exchange contracts in Schedule SU, item 1.b or 1.d, as appropriate.

Examples of interest rate derivative contracts to be reported in Schedule SU, items 1.a and 1.c, include Chicago Board Options Exchange options on the 13-week Treasury bill rate and futures on 90-day U.S. Treasury bills, 12-year GNMA pass-through securities, and 2-, 4-, 6-, and 10-year U.S. Treasury notes.

Other Derivative Contracts. Other derivative contracts include foreign exchange contracts, equity derivative contracts, commodity contracts, credit derivative contracts, and any other derivative contracts not reportable as interest rate derivative contracts.

The following types of derivative contracts are to be included in Schedule SU, items 1.b and 1.d:

(1) **Foreign Exchange Contracts.** Foreign exchange contracts are contracts to purchase foreign (non-U.S.) currencies and U.S. dollar exchange in the forward market, i.e., on an organized exchange or in an over-the-counter market, whose predominant risk characteristic is foreign exchange risk. A purchase of U.S. dollar exchange is equivalent to a sale of foreign currency. Foreign exchange contracts include cross-currency interest rate swaps where there is an exchange of principal, forward foreign exchange contracts (usually settling three or more business days from trade date), and currency futures and currency options. All amounts are to be reported in U.S. dollar equivalent values.

Only one side of a foreign currency transaction is to be reported. In those transactions where foreign (non-U.S.) currencies are bought or sold against U.S. dollars, report only that side of the transaction that involves the foreign (non-U.S.) currency. For example, if the reporting institution enters into a futures contract which obligates the institution to purchase U.S. dollar exchange against which it sells Japanese yen, then the institution would report (in U.S. dollar equivalent values) the amount of Japanese yen sold. In cross-currency transactions, which involve the purchase and sale of two non-U.S. currencies, only the purchase side is to be reported (in U.S. dollar equivalent values).

Examples of foreign exchange contracts to be reported in Schedule SU, items 1.b and 1.d, include exchange-traded options on major currencies such as the Euro, Japanese Yen, and British Pound Sterling, options on futures contracts of major currencies, and cross-currency interest rate swaps. A cross-currency interest rate swap is a transaction in which two parties agree to exchange principal amounts of different currencies, usually at the prevailing spot rate, at the inception of an agreement that lasts for a certain

Item No. **Caption and Instructions**

3.a (cont.) on Schedule RC, Balance Sheet, at fair value under a fair value option with changes in fair value recognized in earnings.

3.b **Aggregate amount of fair value option liabilities.** Report the total fair value, as defined by ASC Topic 820, Fair Value Measurement (formerly FASB Statement No. 157, "Fair Value Measurements"), of those financial and servicing liabilities your institution has elected to report on Schedule RC, Balance Sheet, at fair value under a fair value option with changes in fair value recognized in earnings.

3.c **Year-to-date net gains (losses) recognized in earnings on fair value option assets.** Report the total amount of pretax gains (losses) from fair value changes included in earnings during the calendar year to date for all assets your institution has elected to account for at fair value under a fair value option. If the amount to be reported is a net loss, report it with a minus (-) sign. Disclosure of such gains (losses) is also required by ASC Subtopic 825-10, Financial Instruments – Overall (formerly FASB Statement No. 159, "Fair Value Option for Financial Assets and Financial Liabilities") and ASC Subtopic 860-50, Transfers and Servicing – Servicing Assets and Liabilities (formerly FASB Statement No. 156, "Accounting for Servicing of Financial Assets").

3.d **Year-to-date net gains (losses) recognized in earnings on fair value option liabilities.** Report the total amount of pretax gains (losses) from fair value changes included in earnings during the calendar year to date for all liabilities accounted for at fair value under a fair value option. If the amount to be reported is a net loss, report it with a minus (-) sign. Disclosure of such gains (losses) is also required by ASC Subtopic 825-10, Financial Instruments – Overall (formerly FASB Statement No. 159, "Fair Value Option for Financial Assets and Financial Liabilities") and ASC Subtopic 860-50, Transfers and Servicing – Servicing Assets and Liabilities (formerly FASB Statement No. 156, "Accounting for Servicing of Financial Assets").

Servicing, Securitization, and Asset Sale Activities

4 and 5 **General Instructions**

For purposes of items 4 and 5 in this schedule, the following definition is applicable.

Recourse or other seller-provided credit enhancement means an arrangement in which the reporting institution retains, in form or in substance, any risk of credit loss directly or indirectly associated with a transferred (sold) asset that exceeds its pro rata claim on the asset. It also includes a representation or warranty extended by the reporting institution when it transfers an asset, or assumed by the institution when it services a transferred asset, that obligates the institution to absorb credit losses on the transferred asset. Such an arrangement typically exists when an institution transfers assets and agrees to protect purchasers or some other party, e.g., investors in securitized assets, from losses due to default by or nonperformance of the obligor on the transferred assets or some other party. The institution provides this protection by retaining:

(1) an interest in the transferred assets, e.g., credit-enhancing interest-only strips, "spread" accounts, subordinated interests or securities, collateral invested amounts, and cash collateral accounts, that absorbs losses, or
(2) an obligation to repurchase the transferred assets

in the event of a default of principal or interest on the transferred assets or any other deficiency in the performance of the underlying obligor or some other party. *Subordinated*

<u>**Item No.**</u> <u>**Caption and Instructions**</u>

4 and 5 (cont.) *interests and subordinated securities* retained by an institution when it securitizes assets expose the institution to more than its pro rata share of loss and thus are considered a form of credit enhancement to the securitization structure.

4 <u>**Does the institution have any assets it has sold and securitized with servicing retained or with recourse or other seller-provided credit enhancements?**</u>

If your institution has any assets currently outstanding that it has sold and securitized with servicing retained or with recourse or other seller-provided credit enhancements, place an "X" in the box marked "Yes" and complete item 4.a, below.

If your institution has no assets currently outstanding that it has sold and securitized with servicing retained or with recourse or other seller-provided credit enhancements, place an "X" in the box marked "No," skip item 4.a, and go to item 5.

4.a <u>**Total outstanding principal balance of assets sold and securitized by the reporting institution with servicing retained or with recourse or other seller-provided credit enhancements.**</u> Report the total principal balance outstanding as of the report date of loans, leases, and other assets which the reporting institution has sold and securitized while:

(1) retaining the right to service these assets, or

(2) when servicing has not been retained, retaining recourse or providing other seller-provided credit enhancements to the securitization structure.

Include the amount outstanding of any credit card fees and finance charges that the reporting institution has securitized and sold in connection with its securitization and sale of credit card receivable balances.

Include the principal balance outstanding of loans the reporting institution has (1) pooled into securities that have been guaranteed by the Government National Mortgage Association (Ginnie Mae) and (2) sold with servicing rights retained.

Also include the principal balance outstanding of securitizations of small business obligations transferred with recourse under Section 208 of the <u>Riegle Community Development and Regulatory Improvement Act of 1994</u>.

<u>Exclude</u> the principal balance of loans underlying seller's interests owned by the reporting institution. Seller's interest means the reporting institution's ownership interest in loans that have been securitized, except an interest that is a form of recourse or other seller-provided credit enhancement.

Do ***not*** report in this item the outstanding balance of 1-4 family residential mortgages sold to the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac) that the government-sponsored agency in turn securitizes. Report 1-4 family residential mortgages sold to Fannie Mae or Freddie Mac with recourse or other seller-provided credit enhancements in Schedule SU, item 5.a. If servicing has been retained on closed-end 1-4 family residential mortgages sold to Fannie Mae or Freddie Mac, report the outstanding principal balance of the mortgages in Schedule SU, item 6.a.

Item No.	Caption and Instructions
4.a (cont.)	Exclude securitizations that the reporting institution has accounted for as secured borrowings because the transactions do not meet the criteria for sale accounting under generally accepted accounting principles. The securitized loans, leases, and other assets should continue to be carried as assets on the reporting institution's balance sheet.
5	**Does the institution have any assets it has sold with recourse or other seller-provided credit enhancements but has not securitized?** If your institution has any assets currently outstanding that it has sold with recourse or other seller-provided credit enhancements but has not securitized, place an "X" in the box marked "Yes" and complete item 5.a, below. If your institution has no assets currently outstanding that it has sold and securitized with recourse or other seller-provided credit enhancements, place an "X" in the box marked "No," skip item 5.a, and go to item 6.
5.a	**Total outstanding principal balance of assets sold by the reporting institution with recourse or other seller-provided credit enhancements, but not securitized by the reporting institution.** Report the unpaid principal balance as of the report date of loans, leases, and other assets, which the reporting institution has sold with recourse or other seller-provided credit enhancements, but which were not securitized by the reporting institution. Include loans, leases, and other assets that the reporting institution has sold with recourse or other seller-provided credit enhancements to other institutions or entities, whether or not the purchaser has securitized the loans and leases purchased from the reporting institution. Include 1-4 family residential mortgages that the reporting institution has sold to the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac) with recourse or other seller-provided credit enhancements. Include the unpaid principal balance of small business obligations the reporting institution has transferred with recourse under Section 208 of the Riegle Community Development and Regulatory Improvement Act of 1994, but which were not securitized by the reporting institution.
6	**Does the institution service any closed-end 1-4 family residential mortgage loans for others or does it service more than $10 million of other financial assets for others?** If your institution either (1) services any closed-end 1-4 family residential mortgage loans for others or (2) services more than $10 million of other financial assets for others, place an "X" in the box marked "Yes" and complete item 6.a, below. If your institution (1) does not service any closed-end 1-4 family residential mortgage loans for others and (2) does not service more than $10 million of other financial assets for others, place an "X" in the box marked "No," skip item 6.a, and go to item 7.
6.a	**Total outstanding principal balance of closed-end 1-4 family residential mortgage loans serviced for others plus the total outstanding principal balance of other financial assets serviced for others if more than $10 million.** Report the sum of (1) the outstanding principal balance of closed-end 1-to-4 family residential mortgage loans the reporting institution services for others, regardless of amount, plus (2) the outstanding principal balance of all other financial assets the reporting institution services for others, provided this balance is more than $10 million. For purposes of reporting the outstanding principal balance of loans serviced for others in accordance with the preceding sentence, include the servicing of whole loans and other financial assets or only portions thereof, as is typically the case with

Item No. **Caption and Instructions**

6.a (cont.) loan participations. An institution should report the outstanding principal balance of assets for which it is the contractual servicer of record without regard to any subservicing agreements applicable to the assets.

Include (1) the principal balance of loans and other financial assets owned by others for which the reporting institution has purchased the servicing (i.e., purchased servicing) and (2) the principal balance of loans and other financial assets that the reporting institution has either originated or purchased and subsequently sold, whether or not securitized, but for which it has retained the servicing duties and responsibilities (i.e., retained servicing). If the institution services a portion of a loan or other financial asset for one or more other parties and owns the remaining portion of the loan or other financial asset, report only the principal balance of the portion of the asset serviced for others.

Include the outstanding principal balance of all closed-end 1-to-4 family residential mortgage loans (as defined for Schedule RC-C, Part I, item 1.c.(2)) that the reporting institution services for others regardless of whether the reporting institution provides recourse or other service-provided credit enhancements. For example, the reporting institution should include closed-end 1-to-4 family residential mortgages serviced under regular option contracts (i.e., with recourse) with the Federal National Mortgage Association, serviced with recourse for the Federal Home Loan Mortgage Corporation, and serviced with recourse under other servicing contracts.

Other serviced financial assets may include, but are not limited to, home equity lines, credit cards, automobile loans, and loans guaranteed by the Small Business Administration.

Variable Interest Entities

7 **Does the institution have any consolidated variable interest entities?**

If your institution has any consolidated variable interest entities, place an “X” in the box marked “Yes” and complete items 7.a and 7.b, below.

If your institution does not have any consolidated variable interest entities, place an “X” in the box marked “No,” skip item items 7.a and 7.b, and go to item 8.

General Instructions

A variable interest entity (VIE), as described in ASC Topic 810, Consolidation (formerly FASB Interpretation No.46 (revised December 2003), “Consolidation of Variable Interest Entities,” as amended by FASB Statement No. 167, "Amendments to FASB Interpretation No. 46(R)”), is an entity in which equity investors do not have sufficient equity at risk for that entity to finance its activities without additional subordinated financial support or, as a group, the holders of the equity investment at risk lack one or more of the following three characteristics: (a) the power, through voting rights or similar rights, to direct the activities of an entity that most significantly impact the entity’s economic performance, (b) the obligation to absorb the expected losses of the entity, or (c) the right to receive the expected residual returns of the entity.

Variable interests in a VIE are contractual, ownership, or other pecuniary interests in an entity that change with changes in the fair value of the entity’s net assets exclusive of variable interests. When an institution or other company has a variable interest or interests in a VIE, ASC Topic 810 provides guidance for determining whether the institution or other company must consolidate the VIE. If an institution or other company has a controlling financial interest in a VIE, it is deemed to be the primary beneficiary of the VIE and, therefore, must

Derivative Contracts (cont.):

and exceeds 25 percent of "All other liabilities," this amount should be disclosed in Schedule RC-G, item 4.d. Net gains (losses) on derivatives held for purposes other than trading that are not designated as hedging instruments in hedging relationships that qualify for hedge accounting in accordance with ASC Topic 815 should be recognized currently in earnings and reported consistently as either “Other noninterest income” or “Other noninterest expense” in Schedule RI, item 5.l or item 7.d, respectively.

Netting of derivative assets and liabilities is prohibited on the balance sheet except as permitted under ASC Subtopic 210-20, Balance Sheet – Offsetting (formerly FASB Interpretation No. 39, “Offsetting of Amounts Related to Certain Contracts”). See the Glossary entry for "offsetting."

Discounts: See "premiums and discounts."

Dividends: Cash dividends are payments of cash to stockholders in proportion to the number of shares they own. Cash dividends on preferred and common stock are to be reported on the date they are declared by the bank's board of directors (the declaration date) by debiting "retained earnings" and crediting "dividends declared not yet payable," which is to be reported in other liabilities. Upon payment of the dividend, "dividends declared not yet payable" is debited for the amount of the cash dividend with an offsetting credit, normally in an equal amount, to "dividend checks outstanding" which is reportable in the "demand deposits" category of the bank's deposit liabilities.

A liability for dividends payable may not be accrued in advance of the formal declaration of a dividend by the board of directors. However, the bank may segregate a portion of retained earnings in the form of a net worth reserve in anticipation of the declaration of a dividend.

Stock dividends are distributions of additional shares to stockholders in proportion to the number of shares they own. Stock dividends are to be reported by transferring an amount equal to the fair value of the additional shares issued from retained earnings to a category of permanent capitalization (common stock and surplus). However, the amount transferred from retained earnings must be reduced by the amount of any mandatory and discretionary transfers previously made (such as those from retained earnings to surplus for increasing the bank's legal lending limit) provided such transfers have not already been used to record a stock dividend. In any event, the amount transferred from retained earnings may not be less than the par or stated value of the additional shares being issued.

Property dividends, also known as dividends in kind, are distributions to stockholders of assets other than cash. The transfer of securities of other companies, real property, or any other asset owned by the reporting bank to a stockholder or related party is to be recorded at the fair value of the asset on the declaration date of the dividend. A gain or loss on the transferred asset must be recognized in the same manner as if the property had been disposed of in an outright sale at or near the declaration date. In those instances where a bank transfers bank premises to a parent holding company in the form of a property dividend and the parent immediately enters into a sale-leaseback transaction with a third party, the gain must be deferred by the bank and amortized over the life of the lease.

Domestic Office: For purposes of these reports, a domestic office of the reporting bank is a branch or consolidated subsidiary (other than an Edge or Agreement subsidiary) located in the 50 states of the United States or the District of Columbia or a branch on a U.S. military facility wherever located. However, if the reporting bank is chartered and headquartered in Puerto Rico or a U.S. territory or possession, a branch or consolidated subsidiary located in the 50 states of the United States, the District of Columbia, Puerto Rico, or a U.S. territory or possession is a domestic office. The domestic offices of the reporting bank exclude all International Banking Facilities (IBFs); all offices of Edge and Agreement subsidiaries, including their U.S. offices; and all branches and other consolidated subsidiaries of the bank located in foreign countries.

Due Bills: A due bill is an obligation that results when a bank sells an asset and receives payment, but does not deliver the security or other asset. A due bill can also result from a promise to deliver an asset in exchange for value received. In both cases, the receipt of the payment creates an obligation regardless of whether the due bill is issued in written form. Outstanding due bill obligations shall be reported as borrowings in Schedule RC, item 16, "Other borrowed money," by the issuing bank. Conversely, when the reporting bank is the holder of a due bill, the outstanding due bill obligation of the seller shall be reported as a loan to that party.

Edge and Agreement Corporation: An Edge corporation is a federally-chartered corporation organized under Section 25(a) of the Federal Reserve Act and subject to Federal Reserve Regulation K. Edge corporations are allowed to engage only in international banking or other financial transactions related to international business.

An Agreement corporation is a state-chartered corporation that has agreed to operate as if it were organized under Section 25 of the Federal Reserve Act and has agreed to be subject to Federal Reserve Regulation K. Agreement corporations are restricted, in general, to international banking operations. Banks must apply to the Federal Reserve for permission to acquire stock in an Agreement corporation.

A reporting bank's Edge or Agreement subsidiary, i.e., the bank's majority-owned Edge or Agreement corporation, is treated for purposes of these reports as a "foreign" office of the reporting bank.

Equity-Indexed Certificates of Deposit: Under ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended), a certificate of deposit that pays "interest" based on changes in an equity securities index is a hybrid instrument with an embedded derivative that must be accounted for separately from the host contract, i.e., the certificate of deposit. For further information, see the Glossary entry for "Derivative Contracts." Examples of equity-indexed certificates of deposit include the "Index Powered® CD" and the “Dow Jones Industrials Indexed Certificate of Deposit.”

At the maturity date of a typical equity-indexed certificate of deposit, the holder of the certificate of deposit receives the original amount invested in the deposit plus some or all of the appreciation, if any, in an index of stock prices over the term of the certificate of deposit. Thus, the equity-indexed certificate of deposit contains an embedded equity call option. To manage the market risk of its equity-indexed certificates of deposit, a bank that issues these deposits normally enters into one or more separate freestanding equity derivative contracts with an overall term that matches the term of the certificates of deposit. At maturity, these separate derivatives are expected to provide the bank with a cash payment in an amount equal to the amount of appreciation, if any, in the same stock price index that is embedded in the certificates of deposit, thereby providing the bank with the funds to pay the "interest" on the equity-indexed certificates of deposit. During the term of the separate freestanding equity derivative contracts, the bank will periodically make either fixed or variable payments to the counterparty on these contracts.

When a bank issues an equity-indexed certificate of deposit, it must either account for the written equity call option embedded in the deposit separately from the certificate of deposit host contract or irrevocably elect to account for the hybrid instrument (the equity-indexed certificate of deposit) in its entirety at fair value.

Securities Activities (cont.):

Held-to-maturity securities are debt securities that an institution has the positive intent and ability to hold to maturity. Held-to-maturity securities are generally reported at amortized cost. Securities not categorized as trading or held-to-maturity must be reported as available-for-sale. An institution must report its available-for-sale securities at fair value on the balance sheet, but unrealized gains and losses are excluded from earnings and reported in a separate component of equity capital (i.e., in Schedule RC, item 26.b, "Accumulated other comprehensive income").

When the fair value of a security is less than its (amortized) cost basis, the security is impaired and the impairment is either temporary or other than temporary. Under ASC Topic 320, institutions must determine whether an impairment of an individual available-for-sale or held-to-maturity security is other than temporary. To make this determination, institutions should apply applicable accounting guidance including, but not limited to, ASC Topic 320, ASC Subtopic 325-40, Investments-Other – Beneficial Interests in Securitized Financial Assets (formerly EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets," as amended), and SEC Staff Accounting Bulletin No. 59, Other Than Temporary Impairment of Certain Investments in Equity Securities (Topic 5.M. in the Codification of Staff Accounting Bulletins).

Under ASC Topic 320, if an institution 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.

In addition, under ASC Topic 320, 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 an institution does not intend to sell the security and it is not more likely than not that the institution 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.

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 Schedule RI, items 6.a and 6.b, 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 on the balance sheet in Schedule RC, item 26.b, "Accumulated other comprehensive income." The amount of other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities recognized in earnings during the current calendar year-to-date reporting period should be reported in Schedule RI, Memorandum item 14. For a held-to-maturity debt security on which the institution has recognized an other-than-temporary impairment loss related to factors other than credit loss in other comprehensive income, the institution should report the carrying value of the debt security in Schedule RC, item 2.a, and in column A of Schedule RC-B, Securities. Under ASC Topic 320, this carrying value should be the fair value of the held-to-maturity 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.

The proper categorization of securities is important to ensure that trading gains and losses are promptly recognized in earnings and regulatory capital. This will not occur when securities intended to be held for trading purposes are categorized as held-to-maturity or available-for-sale. The following practices are considered trading activities:

(1) Gains Trading – Gains trading is characterized by the purchase of a security and the subsequent sale of the same security at a profit after a short holding period, while securities acquired for this

Securities Activities (cont.):

purpose that cannot be sold at a profit are typically retained in the available-for-sale or held-to-maturity portfolio. Gains trading may be intended to defer recognition of losses, as unrealized losses on available-for-sale and held-to-maturity debt securities do not directly affect regulatory capital and generally are not reported in income until the security is sold.

(2) When-Issued Securities Trading – When-issued securities trading is the buying and selling of securities in the period between the announcement of an offering and the issuance and payment date of the securities. A purchase of a "when-issued" security acquires the risks and rewards of owning a security and may sell the when-issued security at a profit before having to take delivery and pay for it. Because such transactions are intended to generate profits from short-term price movements, they should be categorized as trading.

(3) Pair-offs – Pair-offs are security purchase transactions that are closed-out or sold at, or prior to, settlement date. In a pair-off, an institution commits to purchase a security. Then, prior to the predetermined settlement date, the institution will pair-off the purchase with a sale of the same security. Pair-offs are settled net when one party to the transaction remits the difference between the purchase and the sale price to the counterparty. Pair-offs may also involve the same sequence of events using swaps, options on swaps, forward commitments, options on forward commitments, or other off-balance sheet derivative contracts.

(4) Extended Settlements – In the U.S., regular-way settlement for federal government and federal agency securities (except mortgage-backed securities and derivative contracts) is one business day after the trade date. Regular-way settlement for corporate and municipal securities is three business days after the trade date. For mortgage-backed securities, it can be up to 60 days or more after the trade date. The use of extended settlements may be offered by securities dealers in order to facilitate speculation on the part of the purchaser, often in connection with pair-off transactions. Securities acquired through the use of a settlement period in excess of the regular-way settlement periods in order to facilitate speculation should be reported as trading assets.

(5) Repositioning Repurchase Agreements – A repositioning repurchase agreement is a funding technique offered by a dealer in an attempt to enable an institution to avoid recognition of a loss. Specifically, an institution that enters into a "when-issued" trade or a "pair-off" (which may include an extended settlement) that cannot be closed out at a profit on the payment or settlement date will be provided dealer financing in an effort to fund its speculative position until the security can be sold at a gain. The institution purchasing the security typically pays the dealer a small margin that approximates the actual loss in the security. The dealer then agrees to fund the purchase of the security, typically buying it back from the purchaser under a resale agreement. Any securities acquired through a dealer financing technique such as a repositioning repurchase agreement that is used to fund the speculative purchase of securities should be reported as trading assets.

(6) Short Sales – A short sale is the sale of a security that is not owned. The purpose of a short sale generally is to speculate on a fall in the price of the security. (For further information, see the Glossary entry for "short position.")

One other practice, referred to as "adjusted trading," is not acceptable under any circumstances. Adjusted trading involves the sale of a security to a broker or dealer at a price above the prevailing market value and the contemporaneous purchase and booking of a different security, frequently a lower-rated or lower quality issue or one with a longer maturity, at a price above its market value. Thus, the dealer is reimbursed for losses on the purchase from the institution and ensured a profit. Such transactions inappropriately defer the recognition of losses on the security sold and establish an excessive cost basis for the newly acquired security. Consequently, such transactions are prohibited and may be in violation of 18 U.S.C. Sections 1001–Statements or Entries Generally and 1005–Bank Entries, Reports and Transactions.

See also "trading account."

Servicing Assets and Liabilities (cont.):

increased obligation based on fair value at each quarter-end report date. The servicing assets within a class should be stratified into groups based on one or more of the predominant risk characteristics of the underlying financial assets. If the carrying amount of a stratum of servicing assets exceeds its fair value, the bank should separately recognize impairment for that stratum by reducing the carrying amount to fair value through a valuation allowance for that stratum. The valuation allowance should be adjusted to reflect changes in the measurement of impairment subsequent to the initial measurement of impairment. For the servicing liabilities within a class, if subsequent events have increased the fair value of the liability above the carrying amount of the servicing liabilities, the bank should recognize the increased obligation as a loss in current earnings.

Under the fair value measurement method, all servicing assets or servicing liabilities in a class should be measured at fair value at each quarter-end report date. Changes in the fair value of these servicing assets and servicing liabilities should be reported in earnings in the period in which the changes occur.

For purposes of these reports, servicing assets resulting from contracts to service loans secured by real estate (as defined for Schedule RC-C, Part I, item 1, in the Glossary entry for "Loans secured by real estate") should be reported in Schedule RC-M, item 2.a, "Mortgage servicing assets." Servicing assets resulting from contracts to service all other financial assets should be reported in Schedule RC-M, item 2.b, "Purchased credit card relationships and nonmortgage servicing assets." When reporting the carrying amount of mortgage servicing assets in Schedule RC-M, item 2.a, and nonmortgage servicing assets in Schedule RC-M, item 2.b, banks should include all classes of servicing accounted for under the amortization method as well as all classes of servicing accounted for under the fair value measurement method. The fair value of all recognized mortgage servicing assets should be reported in Schedule RC-M, item 2.a.(1), regardless of the subsequent measurement method applied to these assets. The amount of mortgage servicing assets reported in Schedule RC-M, item 2.a, should be used when determining the amount of such assets, net of associated deferred tax liabilities, that exceed the 10 and 15 percent common equity tier 1 capital deduction thresholds in Schedule RC-R, Part I. Servicing liabilities should be reported in Schedule RC-G, item 4, “All other liabilities.” In the Call Reports for June and December, if the amount of servicing liabilities is greater than $100,000 and exceeds 25 percent of “All other liabilities,” this amount should be itemized and described in Schedule RC-G, item 4.e, 4.f, or 4.g, as appropriate.

Servicing assets and servicing liabilities may not be netted on the balance sheet (Schedule RC), but must be reported gross as assets and liabilities, respectively.

Changes in the fair value of any class of servicing assets and servicing liabilities accounted for under the fair value measurement method should be included in earnings in Schedule RI, item 5.f, “Net servicing fees.” In addition, an institution must report in Schedule SU, item 6, whether it services any closed-end 1-4 family residential mortgage loans or more than $10 million of other financial assets. If so, the institutions must report information about the serviced assets in Schedule SU, item 6.a.

Settlement Date Accounting: See "trade date and settlement date accounting."

Shell Branches: Shell branches are limited service branches that do not conduct transactions with residents, other than with other shell branches, in the country in which they are located. Transactions at shell branches are usually initiated and effected by their head office or by other related branches outside the country in which the shell branches are located, with records and supporting documents maintained at the initiating offices. Examples of such locations are the Bahamas and the Cayman Islands.

Short Position: When a bank sells an asset that it does not own, it has established a short position. If on the report date a bank is in a short position, it shall report its liability to purchase the asset in Schedule RC, item 15, "Trading liabilities." In this situation, the right to receive payment shall be reported in Schedule RC-F, item 6, "All other assets.” Short positions shall be reported gross. Short trading positions shall be revalued consistent with the method used by the reporting bank for the valuation of its trading assets.

Significant Subsidiary: See "subsidiaries."

Standby Letter of Credit: See "letter of credit."

Start-Up Activities: Guidance on the accounting and reporting for the costs of start-up activities, including organization costs, is set forth in ASC Subtopic 720-15, Other Expenses – Start-Up Costs (formerly AICPA Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities"). A summary of this accounting guidance follows. For further information, see ASC Subtopic 720-15.

Start-up activities are defined broadly as those one-time activities related to opening a new facility, introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer, or commencing some new operation. Start-up activities include activities related to organizing a new entity, such as a new bank, the costs of which are commonly referred to as organization costs.[1]

Costs of start-up activities, including organization costs, should be expensed as incurred. Costs of acquiring or constructing premises and fixed assets and getting them ready for their intended use are not start-up costs, but the costs of using such assets that are allocated to start-up activities (e.g., depreciation of computers) are considered start-up costs.

For a new bank, pre-opening expenses such as salaries and employee benefits, rent, depreciation, supplies, directors' fees, training, travel, postage, and telephone are considered start-up costs.

Pre-opening income earned and expenses incurred from the bank's inception until the date the bank commences operations should be reported in the Consolidated Report of Income using one of the two following methods, consistent with the manner in which the bank reports pre-opening income and expenses for other financial reporting purposes:

(1) Pre-opening income and expenses for the entire period from the bank's inception until the date the bank commences operations should be reported in the appropriate items of Schedule RI, Income Statement, each quarter during the calendar year in which operations commence; or

(2) Pre-opening income and expenses for the period from the bank's inception until the beginning of the calendar year in which the bank commences operations should be included, along with the bank's opening (original) equity capital, in Schedule RI-A, item 5, "Sale, conversion, acquisition, or retirement of capital stock, net." The net amount of these pre-opening income and expenses should be identified and described in Schedule RI-E, item 7. Pre-opening income earned and expenses incurred during the calendar year in which the bank commences operations should be reported in the appropriate items of Schedule RI, Income Statement, each quarter during the calendar year in which operations commence.

The organization costs of forming a holding company and the costs of other holding company start-up activities are sometimes paid by the bank that will be owned by the holding company. Because these are the holding company's costs, whether or not the holding company formation is successful, they should not be reported as expenses of the bank. Accordingly, any unreimbursed costs paid by the bank on behalf of the holding company should be reported as a cash dividend to the holding company in Schedule RI-A, item 9. In addition, if a new bank and holding company are being formed at the same time, the costs of the bank's start-up activities, including its organization costs, should be reported as start-up costs for the bank. If the holding company pays these costs for the bank but is not reimbursed by the bank, the bank should treat the holding company's forgiveness of payment as a capital contribution, which should be reported in Schedule RI-A, item 11, "Other transactions with stockholders (including a parent holding company)," and in Schedule RI-E, item 5.

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[1] Organization costs for a bank are the direct costs incurred to incorporate and charter the bank. Such costs include, but are not limited to, professional (e.g., legal, accounting, and consulting) fees and printing costs directly related to the chartering or incorporation process, filing fees paid to chartering authorities, and the cost of economic impact studies.