FFIEC 051

CALL REPORT

INSTRUCTION BOOK UPDATE

SEPTEMBER 2018

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**
i – iv (3-17, 6-18)	i – iv (9-18)
3 – 17 (3-17, 6-18)	3 – 18 (9-18)
RC-E-1 – RC-E-2 (3-17)	RC-E-1 – RC-E-2 (9-18)
RC-E-13 – RC-E-14 (3-17)	RC-E-13 – RC-E-14a (9-18)
RC-G-1 – RC-G-3 (3-17)	RC-G-1 – RC-G-3 (9-18)
A-9 – A-10 (3-17)	A-9 – A-10 (9-18)
A-13 – A-14 (3-17)	A-13 – A-14 (9-18)
A-43 – A-44 (3-17)	A-43 – A-44 (9-18)
A-49 – A-50 (3-17)	A-49 – A-50a (9-18)
A-53 – A-54 (3-17)	A-53 – A-54 (9-18)
A-59 – A-68 (3-17, 3-18)	A-59 – A-68 (9-18)
A-81 – A-82 (3-17)	A-81 – A-82 (9-18)
A-85 – A-88 (3-17)	A-85 – A-88a (9-18)
A-91 – A-94 (3-17, 9-17)	A-91 – A-94 (9-18)
A-97 – A-98 (3-17)	A-97 – A-98 (9-18)
A-105 – A-106 (3-17)	A-105 – A-106 (9-18)

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)

CONTENTS

GENERAL INSTRUCTIONS

Who Must Report on What Forms	1
Eligibility to File the FFIEC 051	2
Close of Business	2
Frequency of Reporting	3
Differences in Detail of Reports	4
Shifts in Reporting Status	6
Organization of the Instruction Book	7
Preparation of the Report	8
Signatures	8
Chief Financial Officer Declaration	8
Director Attestation	9
Submission of the Reports	9
Submission Date	10
Amended Reports	10
Retention of Reports	11
Scope of the "Consolidated Bank" Required to be Reported in the Submitted Reports	11
Exclusions from the Coverage of the Consolidated Report	11
Rules of Consolidation	12
Publication Requirements for the Consolidated Report of Condition	14
Release of Individual Bank Reports	14
Applicability of U.S. Generally Accepted Accounting Principles to Regulatory Reporting Requirements	14
Subsequent Events	15
Accrual Basis Reporting	16
Miscellaneous General Instructions	16
Rounding	16
Negative Entries	16
Verification	17
Transactions Occurring Near the End of a Reporting Period	17
Legal Entity Identifier	18

LINE ITEM INSTRUCTIONS FOR THE CONSOLIDATED REPORT OF INCOME

Schedule RI – Income Statement RI-1

Schedule RI-A – Changes in Bank Equity Capital RI-A-1

Schedule RI-B – Charge-offs and Recoveries and Changes in Allowance for Loan and Lease Losses

Part I. Charge-offs and Recoveries on Loans and Leases RI-B-1

Part II. Changes in Allowance for Loan and Lease Losses RI-B-5

Schedule RI-E – Explanations RI-E-1

LINE ITEM INSTRUCTIONS FOR THE CONSOLIDATED REPORT OF CONDITION

Schedule RC – Balance Sheet RC-1

Schedule RC-B – Securities RC-B-1

Schedule RC-C – Loans and Lease Financing Receivables

Part I. Loans and Leases RC-C-1

Part II. Loans to Small Businesses and Small Farms RC-C-41

Schedule RC-E – Deposit Liabilities RC-E-1

Schedule RC-F – Other Assets RC-F-1

Schedule RC-G – Other Liabilities RC-G-1

Schedule RC-K – Quarterly Averages RC-K-1

Schedule RC-L – Off-Balance-Sheet Items RC-L-1

Schedule RC-M – Memoranda RC-M-1

Schedule RC-N – Past Due and Nonaccrual Loans, Leases, and Other Assets RC-N-1

Schedule RC-O – Other Data for Deposit Insurance and FICO Assessments RC-O-1

Schedule RC-R – Regulatory Capital RC-R-1

Part I. Regulatory Capital Components and Ratios RC-R-1

Part II. Risk-Weighted Assets RC-R-35

Schedule RC-T – Fiduciary and Related Services RC-T-1

LINE ITEM INSTRUCTIONS FOR SCHEDULE SU

Schedule SU – Supplemental Information SU-1

Optional Narrative Statement Concerning the Amounts Reported in the Reports of Condition and Income SU-19

GLOSSARY

Accounting Changes A-1
Accrued Interest Receivable Related to Credit Card Securitizations A-4
Acquisition, Development, or Construction (ADC) Arrangements A-4
Allowance for Loan and Lease Losses A-5
Bankers Acceptances A-6
Bank-Owned Life Insurance A-8
Banks, U.S. and Foreign A-9
Brokered Deposits A-11
Broker's Security Draft A-13
Business Combinations A-13
Capital Contributions of Cash and Notes Receivable A-16
Capitalization of Interest Costs A-17
Cash Management Arrangements A-18
Commercial Paper A-19
Commodity or Bill-of-Lading Draft A-19
Coupon Stripping, Treasury Receipts, and STRIPS A-19
Custody Account A-20
Dealer Reserve Account A-20
Debt Issuance Costs A-20
Deferred Compensation Agreements A-21
Defined Benefit Postretirement Plans A-23
Depository Institutions in the U.S. A-24
Deposits A-24
Derivative Contracts A-33
Dividends A-39
Domestic Office A-40
Due Bills A-40
Edge and Agreement Corporation A-40
Equity-Indexed Certificates of Deposit A-40
Equity Method of Accounting A-42
Excess Balance Account A-43
Extinguishments of Liabilities A-43
Fails A-44
Fair Value A-44
Federal Funds Transactions A-45

GLOSSARY (cont.)

Federally-Sponsored Lending Agency A-46
Foreclosed Assets A-46
Foreign Currency Transactions and Translation A-52
Foreign Debt Exchange Transactions A-53
Foreign Governments and Official Institutions A-53
Foreign Office A-53
Goodwill A-54
Hypothecated Deposit A-57
Income Taxes A-58
Internal-Use Computer Software A-65
International Banking Facility (IBF) A-66
Lease Accounting A-67
Letter of Credit A-68
Loan A-70
Loan Fees A-70
Loan Impairment A-72
Loan Secured by Real Estate A-74
Loss Contingencies A-75
Mandatory Convertible Debt A-75
Nonaccrual Status A-76
Offsetting A-79
Overdraft A-80
Pass-through Reserve Balances A-81
Preferred Stock A-81
Premiums and Discounts A-82
Private Company A-82
Public Business Entity A-82
Purchased Credit-Impaired Loans and Debt Securities A-83
Reciprocal Balances A-86
Repurchase/Resale Agreements A-86
Revenue from Contracts with Customers A-88
Securities Activities A-88a
Securities Borrowing/Lending Transactions A-91
Servicing Assets and Liabilities A-91

Frequency of Reporting[1]

Each institution is required to submit a Call Report quarterly as of the report date. However, for banks with fiduciary powers, the reporting frequency for Schedule RC-T, Fiduciary and Related Services, depends on their total fiduciary assets and their gross fiduciary and related services income. Banks with total fiduciary assets greater than $250 million (as of the preceding December 31) or with gross fiduciary and related services income greater than 10 percent of revenue (net interest income plus noninterest income) for the preceding calendar year must complete the applicable items of Schedule RC-T quarterly. All other banks with fiduciary powers must complete the applicable items of Schedule RC-T annually as of the December 31 report date.

For all institutions filing the FFIEC 051, Schedule RC-C, Part II, Loans to Small Businesses and Small Farms, must be completed semiannually as of the June 30 and December 31 report dates.

Schedule RC, Memorandum item 1, on the level of external auditing work performed for the bank, and Memorandum item 2, on the bank's fiscal year-end date, are to be reported annually as of the March 31 report date.

In addition, the following items are to be completed annually as of the December 31 report date:

(1) Schedule RI-E, items 1.a through 1.l, on components of other noninterest income;

(2) Schedule RI-E, items 2.a through 2.p, on components of other noninterest expense;

(3) Schedule RC-C, Part I, Memorandum items 8.b and 8.c, and Schedule RI, Memorandum item 12, on closed-end 1-4 family residential mortgage loans with negative amortization features;

(4) Schedule RC-C, Part I, Memorandum items 15.a.(1) through 15.c.(2), on reverse mortgages;

(5) Schedule RC-E, Memorandum item 1.e, "Preferred deposits;"

(6) Schedule RC-M, item 6, "Does the reporting bank sell private label or third-party mutual funds and annuities?";

(7) Schedule RC-M, item 7, "Assets under the reporting bank's management in proprietary mutual funds and annuities";

(8) Schedule RC-M, item 9, "Do any of the bank's Internet websites have transactional capability, i.e., allow the bank's customers to execute transactions on their accounts through the website?";

(9) Schedule RC-M, item 11, "Does the bank act as trustee or custodian for Individual Retirement Accounts, Health Savings Accounts, and other similar accounts?";

(10) Schedule RC-M, item 12, "Does the bank provide custody, safekeeping, or other services involving the acceptance of orders for the sale or purchase of securities?"; and

(11) Schedule RC-M, items 14.a and 14.b, on assets of captive insurance and reinsurance subsidiaries.

[1] The reporting frequency for particular schedules and data items differs on the three versions of the Call Report. Please see the General Instructions for the FFIEC 031 and the FFIEC 041 for a listing of data items reported less frequently than quarterly on those report forms.

The following items are to be reported semiannually as of the June 30 and December 31 report dates:

(1) Schedule RC-B, Memorandum item 3, “Amortized cost of held-to-maturity securities sold or transferred to available-for-sale or trading securities during the calendar year-to-date”;

(2) Schedule RC-B, Memorandum items 6.a through 6.g, columns A through D, on structured financial products by underlying collateral or reference assets;

(3) Schedule RC-C, Part I, Memorandum item 4, “Adjustable-rate closed-end loans secured by first liens on 1–4 family residential properties (included in Schedule RC-C, Part I, item 1.c.(2)(a))”;

(4) Schedule RC-C, Part I, Memorandum items 7.a and 7.b, on purchased credit-impaired loans held for investment;

(5) Schedule RC-C, Part I, Memorandum item 8.a, on closed-end 1-4 family residential mortgage loans with negative amortization features;

(6) Schedule RC-C, Part I, Memorandum item 12, “Loans (not subject to the requirements of FASB ASC 310-30 (former AICPA Statement of Position 03-3)) and leases held for investment that were acquired in business combinations with acquisition dates in the current calendar year”;

(7) Schedule RC-F, items 6.a through 6.i, on components of all other assets;

(8) Schedule RC-G, items 4.a through 4.g, on components of all other liabilities;

(9) Schedule RC-L, items 9.c through 9.f, on components of all other off-balance sheet liabilities;

(10) Schedule RC-L, items, 10.b through 10.e, on components of all other off-balance sheet assets;

(11) Schedule RC-L, items 11.a and 11.b, on year-to-date merchant credit card sales volume;

(12) Schedule RC-N, Memorandum item, 5, on past due and nonaccrual loans and leases held for sale;

(13) Schedule RC-N, Memorandum items 7 and 8, on additions to and sales of nonaccrual assets during the previous six months; and

(14) Schedule RC-N, Memorandum items 9.a and 9.b, on purchased credit-impaired loans.

In addition, in Schedule RC-M, information on “International remittance transfers offered to consumers” is to be provided in item 16.a and, if appropriate, in items 16.c and 16.d semiannually as of the June 30 and December 31 report dates. Item 16.b is to be completed annually as of the June 30 report date only.

Differences in Detail of Reports

The amount of detail required to be reported varies between the three versions of the Call Report forms, with the report form for banks with foreign offices or with total consolidated assets of $100 billion or more (FFIEC 031) having more detail than the report form for banks with domestic offices only and total consolidated assets of less than $100 billion (FFIEC 041). The report form for banks with domestic offices only and total assets less than $1 billion (FFIEC 051) has the least amount of detail of the three reports.

Furthermore, as discussed below under Shifts in Reporting Status, the amount of detail also varies within each report form, primarily based on the size of the bank. See the General Instructions section of the instruction book for the FFIEC 031 and the FFIEC 041 for information on the differences in the level of detail within the FFIEC 031 and the FFIEC 041 report forms.

Differences in the level of detail within the FFIEC 051 report form are as follows:

(1) Banks with specified loan categories included in Schedule RC-C, Part I, Memorandum item 1.f, "All other loans" that exceed 10 percent of total loans restructured in troubled debt restructurings (TDRs) that are in compliance with their modified terms must report the amount of such TDRs in Memorandum items 1.f.(1), 1.f.(4)(a), 1.f.(4)(b), and 1.f.(4)(c).

(2) Banks that reported closed-end loans with negative amortization features secured by 1–4 family residential properties in Schedule RC-C, Part I, Memorandum item 8.a, as of the preceding December 31 that exceeded the lesser of $100 million or 5 percent of total loans and leases held for investment and held for sale must report certain additional information on these loans in Schedule RC-C, Part I, Memorandum items 8.b and 8.c, and Schedule RI, Memorandum item 12, annually in the December report only.

(3) Banks that reported construction, land development, and other land loans in Schedule RC-C, Part I, item 1.a, that exceeded 100 percent of total capital as of the preceding December 31 must report certain information on loans in this loan category with interest reserves in Schedule RC-C, Part I, Memorandum items 13.a and 13.b.

(4) Banks that reported in Schedule RC-M, item 16.b, that they provided more than 100 international remittance transfers in the previous calendar year or that they estimate that they will provide more than 100 international remittance transfers in the current calendar year must report certain additional information on their international remittance transfer activities during specified periods in Schedule RC-M, items 16.c and 16.d.

(5) Banks with specified loan categories included in Schedule RC-N, Memorandum item 1.f, "All other loans" that exceed 10 percent of total loans restructured in troubled debt restructurings (TDRs) that are past due 30 days or more or are in nonaccrual status must report the amount of such TDRs in Memorandum items 1.f.(1), 1.f.(4)(a), 1.f.(4)(b), and 1.f.(4)(c).

(6) Banks with total fiduciary assets greater than $250 million (as of the preceding December 31) or with gross fiduciary and related services income greater than 10 percent of revenue (net interest income plus noninterest income) for the preceding calendar year must report information on their fiduciary and related services income and on fiduciary settlements and losses in Schedule RC-T.

(7) Banks with total fiduciary assets greater than $100 million but less than or equal to $250 million (as of the preceding December 31) and with gross fiduciary and related services income less than or equal to 10 percent of revenue (net interest income plus noninterest income) for the preceding calendar year must report information on fiduciary settlements and losses in Schedule RC-T.

(8) Banks with collective investment funds and common trust funds with a total market value of $1 billion or more as of the preceding December 31 must report a breakdown of these funds by type of fund in Schedule RC-T, Memorandum items 3.a through 3.g, quarterly or annually, as appropriate.

(9) Banks that, for each of the two calendar quarters preceding the current calendar quarter, had either (a) more than $10 million in sales of 1-4 family residential mortgage loans during the calendar quarter, or (b) more than $10 million in 1-4 family residential mortgage loans held for sale or trading at calendar quarter-end must complete Schedule SU, items 2.a and 2.b.

(10) Banks servicing either (a) any closed-end 1-4 family residential mortgages or (b) more than $10 million in financial assets other than closed-end 1-4 family residential mortgages must report the total volume of such servicing in Schedule SU, item 6.a.

(11) Banks that, together with affiliated institutions, have outstanding credit card receivables that exceed $500 million as of the report date or are credit card specialty institutions as defined for Uniform Institution Performance Report purposes must report certain information on retail credit card fees and finance charges in Schedule SU, items 8.a through 8.d.

Shifts in Reporting Status

All shifts in reporting status within the FFIEC 051 report form (except as noted below) are to begin with the March Call Report. Such a shift will take place only if the reporting bank's total assets, agricultural loans, or credit card lines, as reflected in the Consolidated Report of Condition for June of the previous calendar year, equal or exceed the following criteria:

(1) When *total assets equal or exceed $100 million*, a bank must begin to complete Schedule RC-K, item 13, for the quarterly average of "Other borrowed money."

(2) W*hen loans to finance agricultural production and other loans to farmers exceed 5 percent of total loans and leases held for investment and held for sale* at a bank with less than $300 million in total assets, the bank must begin to report the following information for these agricultural loans: interest and fee income, quarterly average, past due and nonaccrual loans, charge-offs and recoveries, and, if certain additional criteria are met, troubled debt restructurings.

(3) *When total assets equal or exceed $300 million*, a bank must begin to complete certain Memorandum items providing the following information on loans to finance agricultural production and other loans to farmers: interest and fee income, quarterly average, past due and nonaccrual loans, charge-offs and recoveries, and, if certain additional criteria are met, troubled debt restructurings.

Once a bank reaches the $100 million or $300 million total asset threshold or exceeds the agricultural loan percentage threshold and begins to report the additional required information described above, it *must* continue to report the additional information in subsequent years unless its total assets or loan percentage subsequently fall to less than the applicable threshold for four consecutive quarters. In this case, the institution may cease reporting the data items to which the threshold applies in the quarter after the four consecutive quarters in which its total assets or agricultural loans have fallen below the applicable threshold. However, if the institution exceeds the threshold as of a subsequent June 30 report date, the data items would again be required to be reported beginning in March of the following year.

For example, if June 30, 2018, is the first June 30 as of which an institution reports $300 million or more in total assets, the institution must begin reporting the data items to which the $300 million total assets threshold applies as of the March 31, 2019, report date. If the institution reports less than $300 million in total assets each quarter-end from September 30, 2018, through June 30, 2019, it may cease reporting the data items applicable to institutions with $300 million or more in total assets beginning September 30, 2019. In contrast, if instead the institution reports $300 million or more in total assets as of September 30 and December 31, 2018, but then reports less than $300 million in total assets each quarter-end from March 31, 2019, through December 31, 2019, it may cease reporting the data items applicable to institutions with $300 million or more in total assets beginning March 31, 2020.

For a bank that files the FFIEC 051 report, other shifts in reporting status occur when:

(1) The bank establishes or acquires any "foreign" office. The bank must begin filing the FFIEC 031 report form (Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices) for the first quarterly report date following the commencement of operations by the "foreign" office. However, a bank with "foreign" offices that divests itself of *all* its "foreign" offices must continue filing the FFIEC 031 report form through the end of the calendar year in which the cessation of all operations of its "foreign" offices was completed.

(2) The institution is involved in a business combination, a transaction between entities under common control, or a branch acquisition that is not a business combination. Beginning with the first quarterly report date following the effective date of a such a transaction involving an institution and one or more other depository institutions, the resulting institution, regardless of its size prior to the transaction, must (a) file the FFIEC 031 report form if it acquires any "foreign" office, (b) file the FFIEC 041 report form if its consolidated total assets after the consummation of the transaction are $1 billion or more, or (c) report the additional required information described above on the FFIEC 051 report form if its total assets or agricultural loans after the consummation of the transaction surpass the $100 million or $300 million total asset threshold or the agricultural loan percentage.

(3) The institution becomes an advanced approaches institution for regulatory capital purposes. The institution must begin filing the FFIEC 041 report for the first quarterly report date after the date it becomes an advanced approaches institution (unless it establishes or acquires a “foreign office” in the same quarter that it becomes an advanced approaches institution, in which case the institution must begin filing the FFIEC 031 report form for that first quarterly report date).

In addition, beginning with the first quarterly report date after an operating depository institution that was not previously a member of the Federal Deposit Insurance Corporation (FDIC) becomes an FDIC-insured institution and is eligible to, and chooses to, file the FFIEC 051, it must report the additional required information described above, based on its total assets and agricultural loans at the time it becomes FDIC-insured.

ORGANIZATION OF THE INSTRUCTION BOOK

This instruction book covers the FFIEC 051 report form.[1] It is divided into the following sections:

(1) The General Instructions describe overall reporting requirements.

(2) The Line Item Instructions for each schedule of the Consolidated Report of Income.

[1] A separate instruction book covers both the FFIEC 031 and the FFIEC 041 report forms.

(3) The Line Item Instructions for each schedule of the Consolidated Report of Condition.

(4) The Line Item Instructions for Schedule SU – Supplemental Information.

The instructions and definitions in sections (2), (3), and (4) are not necessarily self-contained; reference to more detailed treatments in the Glossary may be needed.

(5) The Glossary presents, in alphabetical order, definitions and discussions of accounting and reporting issues and other topics that require more extensive treatment than is practical to include in the line item instructions or that are relevant to several line items or to the overall preparation of these reports. The Glossary is not, and is not intended to be, a comprehensive discussion of the principles of bank accounting or reporting.

In determining the required treatment of particular transactions or portfolio items or in determining the definitions and scope of the various items, the General Instructions, the line item instructions, and the Glossary (all of which are extensively cross-referenced) must be used jointly. A single section does not necessarily give the complete instructions for completing all the items of the reports.

The instruction book for the FFIEC 051 report form is available on the Internet on the FFIEC's website (https://www.ffiec.gov/forms051.htm) and on the FDIC's website (https://www.fdic.gov/regulations/resources/call/call.html).

PREPARATION OF THE REPORT

Banks are required to prepare and file the Call Report in accordance with these instructions. All reports shall be prepared in a consistent manner.

The bank's financial records shall be maintained in such a manner and scope so as to ensure that the Call Report can be prepared and filed in accordance with these instructions and reflect a fair presentation of the bank's financial condition and results of operations.

Questions and requests for interpretations of matters appearing in any part of these instructions should be addressed to the bank's primary federal bank supervisory agency (i.e., the Federal Reserve Banks, the OCC, or the FDIC). Such inquiries will be referred for resolution to the Task Force on Reports of the Federal Financial Institutions Examination Council (FFIEC). Regardless of whether a bank requests an interpretation of a matter appearing in these instructions, when a bank's primary federal bank supervisory agency's interpretation of the instructions differs from the bank's interpretation, the supervisory agency may require the bank to prepare its Call Report in accordance with the agency's interpretation and to amend previously submitted reports.

SIGNATURES

Either the cover (signature) page of any agency-supplied sample set of report forms, a photocopy of this cover page, or a copy of the cover page printed from the bank's report preparation software or from the FFIEC's or the FDIC's Web site should be used to fulfill the signature and attestation requirement.

Chief Financial Officer Declaration

The chief financial officer of the bank (or the individual performing an equivalent function) shall sign a declaration on the cover (signature) page attesting to the correctness of the Consolidated Reports of Condition and Income that the bank has filed with the appropriate supervisory agency.

Director Attestation

National banks, state member banks, and savings associations – The correctness of the Consolidated Reports of Condition and Income shall be attested to by at least three directors of the reporting bank, other than the officer signing the chief financial officer declaration, as indicated on the cover (signature) page.

State nonmember banks – The correctness of the Consolidated Reports of Condition and Income shall be attested to by at least two directors of the reporting bank, other than the officer signing the chief financial officer declaration, as indicated on the cover (signature) page.

SUBMISSION OF THE REPORTS

Each bank must file its Call Report data in one of the following two ways:

- A bank may use computer software to prepare and edit its report data and then electronically submit the data directly to the FFIEC's Central Data Repository (CDR), an Internet-based system for data collection (https://cdr.ffiec.gov/cdr/).

- The institution may complete its report in paper form and arrange with a software vendor or another party to convert its paper report into the electronic format that can be processed by the CDR. The software vendor or other party then must electronically submit the institution's data file to the CDR.

The filing of a Call Report in paper form directly with the FDIC (for national banks, FDIC-supervised banks, and savings associations) or with the appropriate Federal Reserve District Bank (for state member banks) is not an acceptable method of submission.

Regardless of the method a bank uses to file its Call Report, the bank remains responsible for the accuracy of the data in its Call Report. Banks are required to submit a Call Report by the submission date (as defined below) that passes FFIEC-published validation criteria (validity edits and quality edits) or that contains explanations for any quality edits that are not passed. These validation criteria are published in advance of each quarter end. Specific "Guidelines for Resolving Edits" are available on the FFIEC's website (http://www.ffiec.gov/find/documents/resolvingedits.pdf).

In order to submit their completed reports to the CDR, banks (or third parties with whom they have made submission arrangements) must use software that meets the technical specifications for producing files that are able to be processed by the CDR. (These technical specifications are available on the FFIEC's website.) Vendors whose software has been successfully tested with regard to this ability are listed in each quarter's Financial Institution Letter for the Call Report. Alternatively, banks may develop their own reporting software and test directly with the CDR.

Submitted reports that are unable to be processed by the CDR, or that have not been adequately validated by the bank, will be rejected and will require correction and resubmission. In either case, if such resubmission is received by the CDR after the submission date for the report (as defined below), the submitting bank may be subject to the penalties prescribed for late submission.

Each bank is responsible for ensuring that the data reported each quarter reflects fully and accurately the data item reporting requirements for that report date, including any changes that may be made from time to time. This responsibility cannot be transferred or delegated to software vendors, servicers, or others outside the reporting bank.

A bank filing its Call Report with the CDR electronically or under the paper-based alternative must maintain in its files a signed and attested record of its completed report each quarter. This record should be either a computer printout showing at least the caption of each item in the Call Report and the

reported amount, a computer-generated facsimile of the report form, or a copy of the printed report form. The signed cover page, as discussed under “Signatures” above, should be attached to the printout, computer-generated facsimile, or copy of the form that the bank places in its files.

State banks should refer to their appropriate state bank supervisory authority for information concerning state requirements for submitting copies of the Call Report filed with federal bank supervisory authorities.

Submission Date

The term "submission date" is defined as the date by which a bank's completed Call Report must be received in electronic form by the CDR. Except as indicated below, the CDR must receive the data file for a bank's Call Report, with all corrections made and all explanations provided consistent with the “Guidelines for Resolving Edits” (http://www.ffiec.gov/find/documents/resolvingedits.pdf), no more than 30 calendar days after the report date. For example, the March 31 report must be received by April 30 and the June 30 report by July 30.

Any bank contracting with a third party to convert its reports to the electronic format for the CDR must ensure that it delivers its hard-copy reports to the third party in sufficient time for (1) the third party to enter the data into the appropriate format; (2) the bank to research and resolve any identified edit exceptions; and (3) the third party to electronically transmit the original submission and any necessary resubmissions to the CDR by the submission deadline. Early submission is strongly encouraged so that the bank has ample time to research and resolve any edit exceptions identified through the submission process. No extensions of time for submitting reports are granted.

Any bank that has more than one foreign office, other than a "shell" branch or an IBF, may take an additional limited period of time to submit its Call Report. The CDR must receive the data file for such a bank's Call Report no more than 35 calendar days after the report date. Such banks are urged to use the additional time only if absolutely necessary and to make every effort to report as soon as possible, preferably within the 30-day submission period.

Amended Reports

A bank's primary federal bank supervisory authority may require the filing of an amended Call Report if reports as previously submitted contain significant errors, as determined by the supervisory authority, in how the reporting bank classified or categorized items in the reports, i.e., on what line of the report an item has been reported.

When dealing with the recognition and measurement of events and transactions in the Call Report, amended reports may be required if a bank's primary federal bank supervisory authority determines that the reports as previously submitted contain errors that are material for the reporting bank. Materiality is a qualitative characteristic of accounting information that is addressed in FASB Concepts Statement No. 8, “Conceptual Framework for Financial Reporting,” as follows: "Information is material if omitting it or misstating it could influence decisions that users make on the basis of the financial information of a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude or both of the items to which the information relates in the context of an individual entity’s financial report."

RETENTION OF REPORTS

In general, a bank should maintain in its files a signed and attested record of its completed Call Report, including any amended reports, and the related workpapers and supporting documentation[1] for three years after the report date, unless any applicable state requirements mandate a longer retention period. This three-year time period is consistent with the time period specified in Section 7(b)(4) of the Federal Deposit Insurance Act, which provides that each insured depository institution shall maintain all records that the FDIC may require for verifying the correctness of any deposit insurance assessment on the institution until the later of the end of the three-year period beginning on the due date of the assessment, or in the case of a dispute between the insured depository institution and the FDIC with respect to such assessment, the date of a final determination of any such dispute.

SCOPE OF THE "CONSOLIDATED BANK" REQUIRED TO BE REPORTED IN THE SUBMITTED REPORTS

In their Call Reports submitted to the federal bank supervisory agencies, banks and their subsidiaries shall present their financial condition and results of operations on a consolidated basis in accordance with U.S. generally accepted accounting principles (GAAP). All majority-owned subsidiaries shall be consolidated unless either the subsidiary is not "significant" or control of the subsidiary does not rest with the parent bank (see "Exclusions from the Coverage of the Consolidated Report" below). See the Glossary entry for "subsidiaries" for the definition of "significant subsidiary." Accordingly, in the Call Report for a bank with domestic offices only, the bank shall consolidate the operations of:

(1) The bank's head office;

(2) All branches of the bank;

(3) All domestic majority-owned subsidiaries that are "significant," including domestic subsidiaries that are commercial banks, savings banks, or savings and loan associations that must file separate Call Reports (or separate reports of a comparable nature) with any state or federal financial institutions supervisory authority;

(4) All nonsignificant domestic majority-owned subsidiaries that the bank has elected to consolidate on a consistent basis in both the Consolidated Report of Condition and the Consolidated Report of Income; and

(5) All variable interest entities (VIEs) in which the bank, or a consolidated subsidiary of the bank, has a controlling financial interest and, thus, is the primary beneficiary. For further information, refer to the Glossary entry for "variable interest entity."

Each bank shall account for any investments in unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the bank exercises significant influence according to the equity method of accounting. The equity method of accounting is described in the instructions for Schedule RC, item 8. (Refer to the Glossary entry for "subsidiaries" for the definitions of the terms subsidiary, associated company, and corporate joint venture.)

Exclusions from the Coverage of the Consolidated Report

Subsidiaries where control does not rest with the parent – If control of a majority-owned subsidiary does not rest with the parent bank because of legal or other reasons (e.g., the subsidiary is in

[1] Supporting documentation may include, but is not limited to, overdraft reports, trust department records, and records of other material adjustments to deposits.

bankruptcy), the subsidiary is not to be consolidated for purposes of the report.[1] Thus, the bank's investment in such a subsidiary is not eliminated in consolidation but will be reflected in the report in the balance sheet item for "Investments in unconsolidated subsidiaries and associated companies" (Schedule RC, item 8) or "Direct and indirect investments in real estate ventures" (Schedule RC, item 9), as appropriate. Other transactions of the bank with such a subsidiary will be reflected in the appropriate items of the report in the same manner as transactions with unrelated outside parties. Additional guidance on this topic is provided in accounting standards, including ASC Subtopic 810-10, Consolidation – Overall (formerly FASB Statement No. 94, "Consolidation of All Majority-Owned Subsidiaries").

Trust accounts – For purposes of the Call Report, the reporting bank's trust department is not to be consolidated into the reporting bank's balance sheet or income statement. However, information concerning the bank's trust activities must be reported in Schedule RC-T, Fiduciary and Related Services. Assets held in or administered by the bank's trust department and the income earned on such assets are excluded from all of the other schedules of the Call Report except when trust funds are deposited by the trust department of the reporting bank in the commercial or some other department of the reporting bank.

When such trust funds are deposited in the bank, they are to be reported as deposit liabilities in Schedule RC-E in the deposit category appropriate to the beneficiary. Interest paid by the bank on such deposits is to be reported as part of the reporting bank's interest expense.

However, there are two exceptions:

(1) *Uninvested trust funds (cash)* held in the bank's trust department, which are *not* included on the balance sheet of the reporting bank, *must* be reported in Schedule RC-O, Other Data for Deposit Insurance and FICO Assessments; and

(2) The *fees* earned by the trust department for its fiduciary activities and the *operating expenses* of the trust department are to be reported in the bank's income statement (Schedule RI) on a gross basis as if part of the consolidated bank.

Custody accounts – All custody and safekeeping activities (i.e., the holding of securities, jewelry, coin collections, and other valuables in custody or in safekeeping for customers) are *not* to be reflected on any basis in the balance sheet of the Consolidated Report of Condition unless cash funds held by the bank in safekeeping for customers are commingled with the general assets of the reporting bank. In such cases, the commingled funds would be reported in the Consolidated Report of Condition as deposit liabilities of the bank.

RULES OF CONSOLIDATION

For purposes of these reports, all offices (i.e., branches, subsidiaries, and VIEs) that are within the scope of the consolidated bank as defined above are to be reported on a consolidated basis. Unless the instructions specifically state otherwise, this consolidation shall be on a line-by-line basis, according to the caption shown. As part of the consolidation process, the results of all transactions and all intercompany balances (e.g., outstanding asset/debt relationships) between offices, subsidiaries, and other entities *included* in the scope of the consolidated bank are to be *eliminated* in the consolidation and must be *excluded* from the Call Report. (For example, eliminate in the consolidation (1) loans made by

[1] In contrast, by definition, control of a VIE is deemed to rest with the parent if the parent or its consolidated subsidiary has a controlling financial interest in the VIE and, thus, is the primary beneficiary, in which case the VIE must be consolidated for purposes of the Call Report.

the bank to a consolidated subsidiary and the corresponding liability of the subsidiary to the bank, (2) a consolidated subsidiary's deposits in the bank and the corresponding cash or interest-bearing asset balance of the subsidiary, and (3) the intercompany interest income and expense related to such loans and deposits of the bank and its consolidated subsidiary.)

Exception: For purposes of reporting the total assets of captive insurance and reinsurance subsidiaries in Schedule RC-M, Memoranda, items 14.a and 14.b, only, banks should measure the subsidiaries' total assets before eliminating intercompany transactions between the consolidated subsidiary and other offices or subsidiaries of the consolidated bank. Otherwise, captive insurance and reinsurance subsidiaries should be reported on a consolidated basis as described in the preceding paragraph.

Subsidiaries of subsidiaries – For a subsidiary of a bank which is in turn the parent of one or more subsidiaries:

(1) Each subsidiary shall consolidate its majority-owned subsidiaries in accordance with the consolidation requirements set forth above.

(2) Each subsidiary shall account for any investments in unconsolidated subsidiaries, corporate joint ventures over which the bank exercises significant influence, and associated companies according to the equity method of accounting.

Noncontrolling (minority) interests – A noncontrolling interest, sometimes called a minority interest, is the portion of equity in a bank's subsidiary not attributable, directly or indirectly, to the parent bank. Report noncontrolling interests in the reporting bank's consolidated subsidiaries in Schedule RC, item 27.b, "Noncontrolling (minority) interests in consolidated subsidiaries," of the Consolidated Report of Condition. Report the portion of consolidated net income reported in Schedule RI, item 12, that is attributable to noncontrolling interests in consolidated subsidiaries of the bank in Schedule RI, item 13, of the Consolidated Report of Income.

Deposit insurance and FICO assessments – When one FDIC-insured institution that files the FFIEC 051 owns another FDIC-insured institution as a subsidiary, the parent institution should complete items 1 through 11 (except item 9.a) and Memorandum items 1 and 3 of Schedule RC-O by accounting for the insured institution subsidiary under the equity method of accounting instead of consolidating it, i.e., on an "unconsolidated single FDIC certificate number basis." (However, an FDIC-insured institution that owns another FDIC-insured institution should complete item 9.a of Schedule RC-O by consolidating its subsidiary institution.) In contrast, when an FDIC-insured institution consolidates entities other than FDIC-insured institutions for purposes of Schedule RC, Balance Sheet, the parent institution should complete items 1 through 11 and Memorandum items 1 and 3 of Schedule RC-O on a consolidated basis with respect to these other entities. However, all deposits of subsidiaries (except an insured depository institution subsidiary) that are consolidated and, therefore, eliminated from reported deposits on the balance sheet (Schedule RC, item 13.a) must be reported in Schedule RC-O, items 1 and 2 and Memorandum item 1. Similarly, the interest accrued and unpaid on these deposits, which is eliminated in consolidation from reported other liabilities on the balance sheet (Schedule RC, item 20), also must be reported in these Schedule RC-O items.

Cutoff dates for consolidation – All *branches* must be consolidated as of the report date. For purposes of consolidation, the date of the financial statements of a *subsidiary* should, to the extent practicable, match the report date of the parent bank, but in no case differ by more than 93 days from the report date.

PUBLICATION REQUIREMENTS FOR THE CONSOLIDATED REPORT OF CONDITION

There are no federal requirements for a bank to publish the balance sheet of the Consolidated Report of Condition in a newspaper. However, state-chartered banks should consult with their state banking authorities concerning the applicability of any state publication requirements.

RELEASE OF INDIVIDUAL BANK REPORTS

All schedules of the FFIEC 051 Call Report submitted by each reporting bank, including the optional narrative statement at the end of the Call Report, are available to the public from the federal bank supervisory agencies with the exception of any amounts reported in Schedule RI-E, item 2.g, "FDIC deposit insurance assessments." Refer to the discussion of "Release of Individual Bank Reports" in the General Instructions section of the instructions for the FFIEC 031 and FFIEC 041 Call Reports for information on items reported in the FFIEC 041 Call Report before the March 2017 implementation of the FFIEC 051 Call Report that are not publicly disclosed on an individual bank basis.

All publicly available individual institution data are posted on the FFIEC's Central Data Repository (CDR) Public Data Distribution Web site (https://cdr.ffiec.gov/public/) as soon as the data have been submitted, placed in an accepted status, and prepared for publication in the CDR.

A reporting institution may request confidential treatment for some or all of the portions of the Call Report that will be made publicly available if the institution is of the opinion that disclosure of specific commercial or financial information in the report would likely cause substantial harm to its competitive position. In certain limited circumstances, the reporting institution's primary federal supervisor may approve confidential treatment of some or all of the items for which such treatment has been requested if the institution has clearly provided a compelling justification for the request. A request for confidential treatment must be submitted in writing prior to the submission of the report. The written request must identify the specific items for which confidential treatment is requested, provide justification for the confidential treatment requested for the identified items, and demonstrate the specific nature of the harm that would result from public release of the information. Merely stating that competitive harm would result is not sufficient. Information for which confidential treatment is requested may subsequently be released by the reporting institution's primary federal supervisor in accordance with the terms of 12 CFR 4.16 (OCC), 12 CFR 261.16 (Federal Reserve Board), 12 CFR 309.6 (FDIC), or as otherwise provided by law.

APPLICABILITY OF U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES TO REGULATORY REPORTING REQUIREMENTS

For recognition and measurement purposes, the regulatory reporting requirements applicable to the Call Report shall conform to U.S. generally accepted accounting principles (GAAP) as set forth in the FASB's Accounting Standards Codification. Nevertheless, because the Call Report is an institution-level report, each institution (together with its consolidated subsidiaries) is considered an "accounting entity" for regulatory reporting purposes and normally must prepare its Call Report on a separate entity basis.

A bank or savings association that is a private company, as defined in U.S. GAAP (and discussed in the Glossary entry for "public business entity"), is permitted to use private company accounting alternatives issued by the FASB when preparing its Call Reports, except as provided in Section 37(a) of the Federal Deposit Insurance Act (12 U.S.C. 1831n(a)) as described in the following sentence. If the banking agencies determine that a particular accounting principle within U.S. GAAP, including a private company accounting alternative, is inconsistent with the statutorily specified supervisory objectives, the banking agencies may prescribe an accounting principle for regulatory reporting purposes that is no less stringent than U.S. GAAP. In such a situation, an institution would not be permitted to use that particular private

company accounting alternative or other accounting principle within U.S. GAAP for Call Report purposes. The banking agencies would provide appropriate notice if they were to disallow any such accounting alternative or accounting principle under the statutory process.

When reporting events and transactions not covered in principle by Call Report instructions or authoritative U.S. GAAP standards, institutions are encouraged to discuss the event or transaction with their primary federal bank supervisory agency. However, regardless of whether an institution discusses a reporting issue with its supervisory agency, when an institution's supervisory agency's interpretation of how U.S. GAAP should be applied to a specified event or transaction (or series of related events or transactions) differs from the institution's interpretation, the supervisory agency may require the institution to reflect the event(s) or transaction(s) in its Call Report in accordance with the agency's interpretation and to amend previously submitted reports.

The Call Report instructions contain certain specific reporting guidance that falls within the range of acceptable practice under U.S. GAAP. These instructions have been adopted to achieve safety and soundness and other public policy objectives and to ensure comparability. Should the need arise in the future, other specific reporting guidance that falls within the range of U.S. GAAP may be issued. Current Call Report instructions providing such specific reporting guidance include the nonaccrual rules in the Glossary entry for "Nonaccrual Status," the treatment of impaired collateral dependent loans in the Glossary entry for "Loan Impairment," the Glossary entry for the "Allowance for Loan and Lease Losses" which references the 2006 Interagency Policy Statement on this subject, the separate entity method of accounting for income taxes of depository institution subsidiaries of holding companies in the Glossary entry for "Income Taxes," and the treatment of property dividends in the Glossary entry for "Dividends."

Certain provisions of AICPA Statement of Position (SOP) No. 92-3, “Accounting for Foreclosed Assets,” have been incorporated into the Glossary entry for “Foreclosed Assets,” which institutions must follow for Call Report purposes, even though SOP 92-3 was rescinded subsequent to the issuance of ASC Topic 360, Property, Plant, and Equipment (formerly FASB Statement No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”). The application of these provisions of SOP 92-3 represents prevalent practice in the banking industry and is consistent with safe and sound banking practices and the accounting objectives set forth in Section 37(a) of the Federal Deposit Insurance Act (12 U.S.C. 1831n(a)).

There may be areas in which an institution wishes more technical detail on the application of accounting standards and procedures to the requirements of these instructions. Such information may often be found in the appropriate entries in the Glossary section of these instructions or, in more detail, in the U.S. GAAP standards. Selected sections of the U.S. GAAP standards are referenced in the instructions where appropriate. The accounting entries in the Glossary are intended to serve as an aid in specific reporting situations rather than as a comprehensive statement on accounting for depository institutions.

Subsequent Events

Subsequent events are events or transactions that occur after the Call Report balance sheet date, e.g., December 31, but before the Call Report is filed. Consistent with ASC Topic 855, Subsequent Events (formerly FASB Statement No. 165, “Subsequent Events”), an institution shall recognize in the Call Report the effects of all subsequent events (not addressed in other ASC Topics) that provide additional evidence about conditions that existed at the date of the Call Report balance sheet (Schedule RC), including the estimates inherent in the process of preparing the Call Report, e.g., a loss that has been incurred but not yet confirmed as of the Call Report balance sheet date.

ACCRUAL BASIS REPORTING

All banks, regardless of size, shall prepare all schedules of the Call Report on an accrual basis. However, banks may report particular accounts on a cash basis, except for the four listed below, if the results would not materially differ from those obtained using an accrual basis.

All banks *must* report the following on an accrual basis:

(1) Income from installment loans;
(2) Amortization of premiums paid on held-to-maturity and available-for-sale securities (see the Glossary entry for "premiums and discounts");
(3) Income taxes (see the Glossary entry for "income taxes"); and
(4) Depreciation on premises and fixed assets.

All banks shall establish and maintain an allowance for loan and lease losses at a level that is appropriate to cover estimated credit losses associated with its held-for-investment loan and lease portfolio. Accounting for loan and lease losses is discussed in more detail in the Glossary entries for "allowance for loan and lease losses" and “loan impairment.”

No interest or discount shall be accrued on any asset which must be carried in nonaccrual status. Refer to the Glossary entry for "nonaccrual status" for further information.

MISCELLANEOUS GENERAL INSTRUCTIONS

Rounding

On the FFIEC 051 Call Report, all dollar amounts must be reported in thousands, with the figures rounded to the nearest thousand. Items less than $500 will be reported as zero.

Rounding may result in details not adding to their stated totals. The only permissible differences between totals and the sums of their components are those attributable to the mechanics of rounding.

On the Consolidated Report of Condition, Schedule RC, item 12, "Total assets," and Schedule RC, item 29, "Total liabilities and equity capital," which must be equal, must be derived.

Negative Entries

Except for the items listed below, negative entries are not appropriate on the Consolidated Report of Condition and shall not be reported. Hence, assets with credit balances must be reported in liability items and liabilities with debit balances must be reported in asset items, as appropriate, and in accordance with these instructions. The Consolidated Report of Condition items for which negative entries may be made, if appropriate, are:

(1) Schedule RC:

- item 8, "Investments in unconsolidated subsidiaries and associated companies,"
- item 9, “Direct and indirect investments in real estate ventures,”
- item 26.a, "Retained earnings,"
- item 26.b, "Accumulated other comprehensive income,"
- item 26.c, “Other equity capital components,”
- item 27.a, “Total bank equity capital,” and
- item 28, “Total equity capital.”

(2) Schedule RC-C, item 10, on "Lease financing receivables (net of unearned income)," and Memorandum item 13.b, on “Amount of interest capitalized from interest reserves on construction, land development, and other land loans that is included in interest and fee income on loans during the quarter.”

(3) Schedule RC-R:

- Part I, item 2, “Retained earnings,”
- Part I, item 3, “Accumulated other comprehensive income (AOCI),”
- Part I, items 9.a through 9.f, AOCI-related adjustments,
- Part I, items 10.a and 10.b, Other deductions from (additions to) common equity tier 1 capital before threshold-based deductions,
- Part I, item 12, "Subtotal,"
- Part I, item 19, “Common equity tier 1 capital,”
- Part I, item 26, "Tier 1 capital,"
- Part I, item 35, "Total capital,"
- Part I, item 38, “Other deductions from (additions to) assets for leverage ratio purposes,”
- Part I, items 41 through 44, Risk-based and Leverage capital ratios, and
- Part II, column B, “Adjustments to Totals Reported in Column A,” for the asset categories in items 1 through 11.

When negative entries do occur in one or more of these items, they must be reported with a minus (-) sign rather than in parentheses.

On the Consolidated Report of Income, negative entries may appear as appropriate.[1] Income items with a debit balance and expense items with a credit balance must be reported with a minus (-) sign.

Verification

All addition and subtraction should be double-checked before reports are submitted. Totals and subtotals in supporting materials should be cross-checked to corresponding items elsewhere in the reports. Before a report is submitted, all amounts should be compared with the corresponding amounts in the previous report. If there are any unusual changes from the previous report, a brief explanation of the changes should be attached to the submitted reports.

Banks should retain workpapers and other records used in the preparation of these reports.

Transactions Occurring Near the End of a Reporting Period

Transactions between banks occurring near the end of a reporting period may not be reported by the parties to the transaction in such a manner as to cause the asset (or liability) either to disappear entirely from the Consolidated Reports of Condition submitted for that report date or to appear on both of the submitted reports, regardless of the time zones in which the banks are located, the time zone in which the transaction took place, or the actual zone clock times at the effective moment of the transaction.

In the case of a transaction occurring in different reporting periods for the parties because of time zone differences, the parties may decide between themselves on the reporting period in which they will all,

[1] In addition, in Schedule SU—Supplemental Information, negative entries may be reported for item 3.c, “Year-to-date net gains (losses) recognized in earnings on fair value option assets,” and item 3.d, “Year-to-date net gains (losses) recognized in earnings on fair value option liabilities.”

consistently, report the transaction as having occurred, so that in any given reporting period, the asset (or liability) transferred will appear somewhere and without duplication in the reports submitted by the parties to the transaction.

If, in such cases, the parties do not agree on the reporting period in which the transaction is to be treated as having occurred on the reports of all parties, i.e., if they do not agree on which party will reflect the asset (or liability) on its reports for these purposes, the transaction will be deemed to have occurred prior to midnight in the time zone of the buyer (or transferee) and must be reported accordingly by all parties to the transaction.

If, in fact, the parties, in their submitted reports, treat the transaction as having occurred in different reporting periods, the parties will be required to amend their submitted reports on the basis of the standard set forth in the preceding paragraph.

LEGAL ENTITY IDENTIFIER

The Legal Entity Identifier (LEI) is a 20-digit alpha-numeric code that uniquely identifies entities that engage in financial transactions. An institution must provide its LEI on the cover page of the Call Report only if the institution already has an LEI. The LEI must be a currently issued, maintained, and valid LEI, not an LEI that has lapsed. An institution that does not have an LEI is not required to obtain one for purposes of reporting it on the Call Report.

SCHEDULE RC-E – DEPOSIT LIABILITIES

General Instructions

A complete discussion of deposits is included in the Glossary entry entitled "deposits." That discussion addresses the following topics and types of deposits in detail:

(1) Federal Deposit Insurance Act definition of deposits;
(2) transaction accounts;
(3) demand deposits;
(4) NOW accounts;
(5) ATS accounts;
(6) telephone or preauthorized transfer accounts;
(7) nontransaction accounts;
(8) savings deposits;
(9) money market deposit accounts;
(10) other savings deposits;
(11) time deposits;
(12) time certificates of deposit;
(13) time deposits, open account;
(14) interest-bearing deposit accounts; and
(15) noninterest-bearing deposit accounts.

Additional discussions pertaining to deposits will also be found under separate Glossary entries for:

(1) brokered deposits;
(2) cash management arrangements;
(3) dealer reserve accounts;
(4) hypothecated deposits;
(5) letter of credit (for letters of credit sold for cash and travelers letters of credit);
(6) overdraft;
(7) pass-through reserve balances; and
(8) reciprocal balances.

NOTE: For information about the reporting of deposits for deposit insurance and FICO assessment purposes, refer to Schedule RC-O.

NOTE: For the appropriate treatment of deposits of depository institutions for which the reporting bank is serving as a pass-through agent for balances maintained to satisfy reserve balance requirements, see the Glossary entry for "pass-through reserve balances."

NOTE: For banks that elect to report deposits at fair value under a fair value option, report the fair value of those deposits in the same items and columns as similar deposits to which a fair value option has not been applied. Currently, deposits that include a demand feature (e.g., demand and savings deposits) are not eligible to be reported under a fair value election.

Definitions

The term "deposits" is defined in the Glossary and generally follows the definitions of deposits used in the Federal Deposit Insurance Act and in Federal Reserve Regulation D.

Reciprocal balances between the reporting bank and other depository institutions may be reported on a net basis when a right of setoff exists. See the Glossary entry for "offsetting" for the conditions that must be met for a right of setoff to exist.

The following are not reported as deposits in Schedule RC-E:

(1) Deposits received in one office of the bank for deposit in another office of the bank.

(2) Outstanding drafts (including advices or authorizations to charge the bank's balance in another depository institution) drawn in the regular course of business by the reporting bank on other depository institutions.

(3) Trust funds held in the bank's own trust department that the bank keeps segregated and apart from its general assets and does not use in the conduct of its business. NOTE: Such uninvested trust funds must be reported as deposit liabilities in Schedule RC-O, item 1.

(4) Deposits accumulated for the payment of personal loans (i.e., hypothecated deposits), which should be netted against loans in Schedule RC-C, Loans and Lease Financing Receivables.

(5) All obligations arising from assets sold under agreements to repurchase.

(6) Overdrafts in deposit accounts. Overdrafts are to be reported as loans in Schedule RC-C and not as negative deposits. Overdrafts in one or more transaction accounts within a group of related transaction accounts of a single type (i.e., demand deposit accounts or NOW accounts, but not a combination thereof) maintained in the same right and capacity by a customer (a single legal entity) that are established under a bona fide cash management arrangement by this customer are not to be classified as loans unless there is a net overdraft position in the group of related transaction accounts taken as a whole. For reporting and deposit insurance assessment purposes, such accounts function as, and are regarded as, one account rather than multiple separate accounts. (NOTE: Affiliates and subsidiaries are considered separate legal entities.) See the Glossary entry for "cash management arrangements" for information on bona fide cash management arrangements.

(7) Time deposits sold (issued) by the reporting bank that it has subsequently purchased in the secondary market (typically as a result of the bank's trading activities) and has not resold as of the report date. For purposes of these reports, a bank that purchases a time deposit it has issued is regarded as having paid the time deposit prior to maturity. The effect of the transaction is that the bank has cancelled a liability as opposed to having acquired an asset for its portfolio.

(8) Cash payments received in connection with transfers of the reporting institution's other real estate owned that have been financed by the institution and do not qualify for sale accounting, which applicable accounting standards describe as a "liability," a "deposit," or a "deposit liability." Until a transfer qualifies for sale accounting, these cash payments shall be reported in Schedule RC-G, item 4, "All other liabilities." See the Glossary entry for "foreclosed assets" for further information.

The following are reported as deposits:

(1) Deposits of trust funds standing to the credit of other banks and all trust funds held or deposited in any department of the reporting bank other than the trust department.

(2) Credit items that could not be posted to the individual deposit accounts but that have been credited to the control accounts of the various deposit categories on the general ledger.

Memoranda

Item No.	Caption and Instructions
1.e (cont.)	In other states, banks must participate in a state public deposits program in order to receive deposits from the state or from political subdivisions within the state in amounts that would not be covered by federal deposit insurance. Under state law in such states, the value of the securities a bank must pledge to the state is calculated annually, but represents only a percentage of the uninsured portion of its public deposits. Institutions participating in the state program may potentially be required to share in any loss to public depositors incurred in the failure of another participating institution. As long as the value of the securities pledged to the state exceeds the calculated requirement, all of the bank's uninsured public deposits are protected from loss under the operation of the state program if the bank fails and, therefore, all of the uninsured public deposits are considered "preferred deposits." For example, a bank participating in a state public deposits program has $1,600,000 in public deposits under the program from four political subdivisions and $700,000 of this amount is uninsured, given the currently applicable $250,000 deposit insurance limit. The bank's most recent calculation indicates that it must pledge securities with a value of at least $77,000 to the state in order to participate in the state program. The bank has pledged securities with an actual value of $80,000. The bank should report the $700,000 in uninsured public deposits as "preferred deposits."
1.f	**Estimated amount of deposits obtained through the use of deposit listing services that are not brokered deposits.** Report in this Memorandum item the estimated amount of all nonbrokered deposits obtained through the use of deposit listing services included in total deposits (Schedule RC-E, sum of item 7, columns A and C), regardless of size or type of deposit instrument. The objective of this Memorandum item is not to capture all deposits obtained through the Internet, such as deposits that a bank receives because a person or entity has seen the rates the bank has posted on its own Web site or on a rate-advertising Web site that has picked up and posted the bank's rates on its site without the bank's authorization. Rather, the objective of this Memorandum item is to collect the estimated amount of deposits obtained as a result of action taken by the bank to have its deposit rates listed by a listing service, and the listing service is compensated for this listing either by the bank whose rates are being listed or by the persons or entities who view the listed rates. A bank should establish a reasonable and supportable estimation process for identifying listing service deposits that meet these reporting parameters and apply this process consistently over time. However, for those nonbrokered deposits acquired through the use of a deposit listing service that offers deposit tracking, the actual amount of listing service deposits, rather than an estimate, should be reported. When a nonbrokered time deposit obtained through the use of a deposit listing service is renewed or rolled over at maturity, the time deposit should continue to be reported in this item as a listing service deposit if the reporting institution continues to have its time deposit rates listed by a listing service and the listing service is compensated for this listing as described above. In contrast, if the reporting institution no longer has its time deposit rates listed by a listing service when a nonbrokered listing service time deposit matures and is renewed or rolled over by the depositor, the time deposit would no longer need to be reported as a listing service deposit after the renewal or rollover. The reporting institution should continue to report nonbrokered listing service deposits other than time deposits in this item as long as the reporting institution continues to have its deposit rates for the same type of deposit (e.g., NOW account, money market deposit account) listed by a listing service and the listing service is compensated for this listing as described above.

Memoranda

Item No. **Caption and Instructions**

1.f (cont.) If the reporting institution has merged with or acquired another institution that had obtained nonbrokered deposits through the use of deposit listing services, these deposits would continue to be regarded as listing service deposits after the merger or acquisition. In this situation, the reporting institution should determine whether it must continue to report these deposits as listing service deposits after the merger or acquisition in accordance with the guidance in the preceding paragraph.

Exclude from this item all brokered deposits reported in Schedule RC-E, Memorandum item 1.b.

A deposit listing service is a company that compiles information about the interest rates offered on deposits, such as certificates of deposit, by insured depository institutions. A particular company could be a deposit listing service (compiling information about certificates of deposits) as well as a deposit broker (facilitating the placement of certificates of deposit). A deposit listing service is not a deposit broker if all of the following four criteria are met:

(1) The listing service is not involved in placing deposits. Any funds to be invested in deposit accounts are remitted directly by the depositor to the insured depository institution and not, directly or indirectly, by or through the listing service.

(2) The person or entity providing the listing service is compensated solely by means of subscription fees (i.e., the fees paid by subscribers as payment for their opportunity to see the rates gathered by the listing service) and/or listing fees (i.e., the fees paid by depository institutions as payment for their opportunity to list or “post” their rates). The listing service does not require a depository institution to pay for other services offered by the listing service or its affiliates as a condition precedent to being listed.

(3) The fees paid by depository institutions are flat fees: they are not calculated on the basis of the number or dollar amount of deposits accepted by the depository institution as a result of the listing or “posting” of the depository institution’s rates.

(4) In exchange for these fees, the listing service performs no services except (A) the gathering and transmission of information concerning the availability of deposits; and/or (B) the transmission of messages between depositors and depository institutions (including purchase orders and trade confirmations). In publishing or displaying information about depository institutions, the listing service must not attempt to steer funds toward particular institutions (except that the listing service may rank institutions according to interest rates and also may exclude institutions that do not pay the listing fee). Similarly, in any communications with depositors or potential depositors, the listing service must not attempt to steer funds toward particular institutions.

NOTE: Institutions should report their total reciprocal deposits in Schedule RC-E, Memorandum items 1.g and 1.h, without regard to whether these reciprocal deposits are reported as brokered deposits in Schedule RC-E, Memorandum items 1.b through 1.d, and reciprocal brokered deposits in Schedule RC-O, item 9 and, if applicable, item 9.a, in accordance with the reporting approaches described in the Call Report Supplemental Instructions for September 2018.

1.g **Total reciprocal deposits (as of the report date).** Report in this Memorandum item the total amount of the reporting institution’s reciprocal deposits as of the report date, i.e., the deposits included in the institution’s total deposits (in domestic offices) (Schedule RC-E, sum of item 7, columns A and C) that are deposits received through a deposit placement network with the same maturity (if any) and in the same aggregate amount as covered deposits placed by the agent institution in other network member banks.

Memoranda

Item No. Caption and Instructions

1.g (cont.)

For an institution that is not well capitalized and not well rated, the amount reported in this Memorandum item will be used to compute the institution's average amount of reciprocal deposits held at quarter-end during the last four quarters preceding the quarter that the institution fell below well capitalized or well rated. This average will be used to determine whether the institution meets the third prong of the definition of "agent institution" under Section 202 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. Section 202 allows an institution to meet the "agent institution" definition, and exclude certain reciprocal deposits from its brokered deposits, if it maintains its reciprocal deposits below the four-quarter average mentioned above.

For purposes of this Memorandum item and Memorandum item 1.h, consistent with the definitions in Section 202:

- "Covered deposit" means a deposit that (i) is submitted for placement through a deposit placement network by the institution; and (ii) does not consist of funds that were obtained for the institution, directly or indirectly, by or through a deposit broker before submission for placement through a deposit placement network.
- "Deposit placement network" means a network in which an insured depository institution participates, together with other insured depository institutions, for the processing and receipt of reciprocal deposits.
- "Network member bank" means an insured depository institution that is a member of a deposit placement network.

NOTE: Schedule RC-E, Memorandum item 1.h, is to be reported on a one-time only basis in the Call Report for September 30, 2018.

1.h **Total reciprocal deposits as of June 30, 2018.** Report in this Memorandum item the total amount of the reporting institution's reciprocal deposits as of June 30, 2018, i.e., the deposits included in the institution's total deposits (in domestic offices) (Schedule RC-E, sum of item 7, columns A and C) as of June 30, 2018, that are deposits received through a deposit placement network with the same maturity (if any) and in the same aggregate amount as covered deposits placed by the institution in other network member banks.

For an institution that is not well capitalized and not well rated, the amount reported in this Memorandum item will be used to compute the institution's average amount of reciprocal deposits held at quarter-end during the last four quarters preceding the quarter that the institution fell below well capitalized or well rated. This average will be used to determine whether the institution meets the third prong of the definition of "agent institution" under Section 202 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. Section 202 allows an institution to meet the "agent institution" definition, and exclude certain reciprocal deposits from its brokered deposits, if it maintains its reciprocal deposits below the four-quarter average mentioned above.

2 **Components of total nontransaction accounts.** Memorandum item 2 divides total nontransaction accounts into two major categories: savings deposits (Memorandum items 2.a.(1) and 2.a.(2)) and time deposits (Memorandum items 2.b, 2.c, and 2.d). The sum of Memorandum items 2.a.(1) and 2.a.(2) equals total savings deposits. The sum of Memorandum items 2.b, 2.c, and 2.d equals total time deposits. The sum of Memorandum items 2.a.(1) and 2.a.(2) (savings deposits) and Memorandum items 2.b, 2.c, and 2.d (time deposits) equals total nontransaction deposits reported in item 7, column C, above.

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SCHEDULE RC-G – OTHER LIABILITIES

Item Instructions

Item No. Caption and Instructions

1.a **Interest accrued and unpaid on deposits.** Report the amount of interest on deposits accrued through charges to expense during the current or prior periods, but not yet paid or credited to a deposit account. For savings banks, include in this item "dividends" accrued and unpaid on deposits.

1.b **Other expenses accrued and unpaid.** Report the amount of income taxes, interest on nondeposit liabilities, and other expenses accrued through charges to expense during the current or prior periods, but not yet paid. Exclude interest accrued and unpaid on deposits (report such accrued interest in Schedule RC-G, item 1.a above).

2 **Net deferred tax liabilities.** Report the net amount after offsetting deferred tax assets (net of valuation allowance) and deferred tax liabilities measured at the report date for a particular tax jurisdiction if the net result is a credit balance. If the result for a particular tax jurisdiction is a net debit balance, report the amount in Schedule RC-F, item 2, "Net deferred tax assets." If the result for each tax jurisdiction is a net debit balance, enter a zero in this item. (A bank may report a net deferred tax debit, or asset, for one tax jurisdiction, such as for federal income tax purposes, and also report at the same time a net deferred tax credit, or liability, for another tax jurisdiction, such as for state or local income tax purposes.)

For further information on calculating deferred taxes for different tax jurisdictions, see the Glossary entry for "income taxes."

3 **Allowance for credit losses on off-balance sheet credit exposures.** Report the amount of any allowance for credit losses on off-balance sheet exposures established in accordance with generally accepted accounting principles.

NOTE: Items 4.a through 4.g are to be completed semiannually in the June and December reports only.

4 **All other liabilities.** Report the amount of all other liabilities (other than those reported in Schedule RC-G, items 1, 2, and 3, above) that cannot properly be reported in Schedule RC, items 13 through 19.

Disclose in items 4.a through 4.g each component of all other liabilities, and the dollar amount of such component, that is greater than $100,000 and exceeds 25 percent of the amount reported for this item.

For each component of all other liabilities that exceeds this disclosure threshold for which a preprinted caption has not been provided in Schedule RC-G, items 4.a through 4.d, describe the component with a clear but concise caption in Schedule RC-G, items 4.e through 4.g. These descriptions should not exceed 50 characters in length (including spacing between words).

Include as all other liabilities:

(1) Accounts payable (other than expenses accrued and unpaid). (Report the amount of accounts payable in Schedule RC-G, item 4.a, if this amount is greater than $100,000 and exceeds 25 percent of the amount reported in Schedule RC-G, item 4.)

Item No.	Caption and Instructions

4 (cont.)

(2) Deferred compensation liabilities. (Report the amount of such liabilities in Schedule RC-G, item 4.b, if this amount is greater than $100,000 and exceeds 25 percent of the amount reported in Schedule RC-G, item 4.)

(3) Dividends declared but not yet payable, i.e., the amount of cash dividends declared on limited-life preferred, perpetual preferred, and common stock on or before the report date but not payable until after the report date. (Report the amount of such dividends in Schedule RC-G, item 4.c, if this amount is greater than $100,000 and exceeds 25 percent of the amount reported in Schedule RC-G, item 4.) (Report dividend checks outstanding as deposit liabilities in Schedule RC-E, item 1, column A, and item 7, column B.)

(4) Derivative instruments that have a negative fair value that the reporting bank holds for purposes other than trading. For further information, see the Glossary entry for "derivative contracts." (Report this negative fair value in Schedule RC-G, item 4.d, if this amount is greater than $100,000 and exceeds 25 percent of the amount reported in Schedule RC-G, item 4.)

(5) Deferred gains from sale-leaseback transactions.

(6) Unamortized loan fees, other than those that represent an adjustment of the interest yield, if material (refer to the Glossary entry for "loan fees" for further information).

(7) Bank's liability for deferred payment letters of credit.

(8) Recourse liability accounts arising from asset transfers with recourse that are reported as sales.

(9) Unearned insurance premiums, claim reserves and claims adjustment expense reserves, policyholder benefits, contractholder funds, and "separate account liabilities" of the reporting bank's insurance subsidiaries.

(10) The *full* amount (except as noted below) of the liability represented by drafts and bills of exchange that have been accepted by the reporting bank, or by others for its account, and that are outstanding. The bank's liability on acceptances executed and outstanding should be reduced prior to the maturity of such acceptances only when the reporting bank acquires and holds its own acceptances, i.e., only when the acceptances are not outstanding. See the Glossary entry for "bankers acceptances" for further information.

(11) Servicing liabilities.

(12) The negative fair value of unused loan commitments (not accounted for as derivatives) that the bank has elected to report at fair value under a fair value option.

(13) Cash payments and other consideration received in connection with transfers of the reporting institution’s other real estate owned that have been financed by the institution and do not qualify for sale accounting, which applicable accounting standards describe as a “liability,” a “deposit,” or a “deposit liability.” See the Glossary entry for “foreclosed assets” for further information.

Item No.	Caption and Instructions
4 (cont.)	Exclude from all other liabilities (report in appropriate items of Schedule RC-E, Deposit Liabilities):

(1) Proceeds from sales of U.S. savings bonds.

(2) Withheld taxes, social security taxes, sales taxes, and similar items.

(3) Mortgage and other escrow funds (e.g., funds received for payment of taxes or insurance), sometimes described as mortgagors' deposits or mortgage credit balances.

(4) Undisbursed loan funds for which borrowers are liable and on which they pay interest. The amounts of such undisbursed funds should be included in both loans and deposits.

(5) Funds held as dealer reserves (see the Glossary entry for "dealer reserve accounts" for the definition of this term).

(6) Payments collected by the bank on loans secured by real estate and other loans serviced for others that have not yet been remitted to the owners of the loans.

(7) Credit balances on credit cards and other revolving credit plans as a result of customers' overpayments.

Also exclude from all other liabilities due bills or similar instruments representing the bank's receipt of payment and the bank's liability on capital lease obligations (report in Schedule RC, item 16, "Other borrowed money").

5 **Total.** Report the sum of items 1 through 4. This amount must equal Schedule RC, item 20, "Other liabilities."

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Bank-Owned Life Insurance (cont.):
arrangement is, in substance, an individual deferred compensation contract), and reported on the balance sheet in Schedule RC, item 20, “Other liabilities,” and in Schedule RC-G, item 4, "All other liabilities." In addition, for a collateral assignment split-dollar arrangement, ASC Subtopic 715-60 states that an employer such as a bank should recognize and measure an insurance asset based on the nature and substance of the arrangement.

The amount that could be realized under bank-owned life insurance policies as of the report date should be reported on the balance sheet in Schedule RC, item 11, “Other assets,” and in Schedule RC-F, item 5, “Life insurance assets.” The net earnings (losses) on or the net increases (decreases) in the bank’s life insurance assets should be reported in the income statement in Schedule RI, item 5.l, "Other noninterest income." Alternatively, the gross earnings (losses) on or increases (decreases) in these life insurance assets may be reported in Schedule RI, item 5.l, and the life insurance policy expenses may be reported in Schedule RI, Item 7.d, "Other noninterest expense." In the December report only, if the absolute value of the earnings (losses) on, or the increases (decreases) in, the bank’s life insurance assets reported in Schedule RI, item 5.l, “Other noninterest income,” is greater than $100,000 and exceeds 7 percent of “Other noninterest income,” this amount should be reported in Schedule RI-E, item 1.b.

Banks, U.S. and Foreign: In the classification of banks as customers of the reporting bank, distinctions are drawn for purposes of the Consolidated Reports of Condition and Income between "U.S. banks" and "commercial banks in the U.S." and between "foreign banks" and "banks in foreign countries." Some report items call for one set of these categories and other items call for the other set. The distinctions center around the inclusion or exclusion of foreign branches of U.S. banks and U.S. branches and agencies of foreign banks. For purposes of describing the office location of banks as customers of the reporting bank, the term "United States" covers the 50 states of the United States, the District of Columbia, Puerto Rico, and U.S. territories and possessions. (This is in contrast to the usage with respect to the offices of the reporting bank, where U.S.-domiciled Edge and Agreement subsidiaries and IBFs are included in "foreign" offices. Furthermore, for banks chartered and headquartered in the 50 states of the United States and the District of Columbia, offices of the reporting bank in Puerto Rico and U.S. territories and possessions are also included in “foreign” offices, but, for banks chartered and headquartered in Puerto Rico and U.S. territories and possessions, offices of the reporting bank in Puerto Rico and U.S. territories and possessions are included in “domestic” offices.)

U.S. banks – The term "U.S. banks" covers both the U.S. and foreign branches of banks chartered and headquartered in the U.S. (including U.S.-chartered banks owned by foreigners), but excluding U.S. branches and agencies of foreign banks. On the other hand, the term "banks in the U.S." or "commercial banks in the U.S." (the institutional coverage of which is described in detail later in this entry) covers the U.S. offices of U.S. banks (including their IBFs) and the U.S. branches and agencies of foreign banks, but excludes the foreign branches of U.S. banks.

Foreign banks – Similarly, the term "foreign banks" covers all branches of banks chartered and headquartered in foreign countries (including foreign banks owned by U.S. nationals and institutions), including their U.S.-domiciled branches and agencies, but excluding the foreign branches of U.S. banks. In contrast, the term "banks in foreign countries" covers foreign-domiciled branches of banks, including the foreign branches of U.S. banks, but excluding the U.S. branches and agencies of foreign banks.

Banks, U.S. and Foreign (cont.):

The following table summarizes these contrasting categories of banks considered as customers as used in the Consolidated Reports of Condition and Income ("X" indicates inclusion; no entry indicates exclusion.)

	"U.S. banks"	"Commercial banks in the U.S."	"Foreign banks"	"Banks in foreign countries"
U.S. branches of U.S. banks (including IBFs)	X	X		
Foreign branches of U.S. banks	X			X
Foreign branches of foreign banks			X	X
U.S. branches and agencies of foreign banks		X	X	

Commercial banks in the U.S. – The detailed institutional composition of "commercial banks in the U.S." includes:

(1) the U.S.-domiciled head offices and branches of:

(a) national banks;
(b) state-chartered commercial banks;
(c) trust companies that perform a commercial banking business;
(d) industrial banks;
(e) private or unincorporated banks;
(f) International Banking Facilities (IBFs) of U.S. banks;
(g) Edge and Agreement corporations; and

(2) the U.S.-domiciled branches and agencies of foreign banks (as defined below).

This coverage includes the U.S. institutions listed above that are owned by foreigners. Excluded from commercial banks in the U.S. are branches located in foreign countries of U.S. banks.

U.S. savings and loan associations and savings banks are treated as "other depository institutions in the U.S." for purposes of the Consolidated Reports of Condition and Income.

U.S. branches and agencies of foreign banks – U.S. branches of foreign banks include any offices or places of business of foreign banks that are located in the United States at which deposits are accepted. U.S. agencies of foreign banks include any offices or places of business of foreign banks that are located in the United States at which credit balances are maintained incidental to or arising out of the exercise of banking powers but at which deposits may not be accepted from citizens or residents of the United States.

Brokered Deposits (cont.):

A deposit listing service whose only function is to provide information on the availability and terms of accounts is not facilitating the placement of deposits and therefore is not a deposit broker per se. However, if a deposit broker uses a deposit listing service to identify an institution offering a high rate on deposits and then places its customers' funds at that institution, the deposits would be brokered deposits and the institution should report them as such in Schedule RC-E. The designation of these deposits as brokered deposits is based not on the broker's use of the listing service but on the placement of the deposits in the institution by the deposit broker.

Fully insured brokered deposits are brokered deposits (including brokered deposits that represent retirement deposit accounts as defined in Schedule RC-O, Memorandum item 1) with balances of $250,000 or less or with balances of more than $250,000 that have been participated out by the deposit broker in shares of $250,000 or less. As more fully described in the instructions for Schedule RC-E, Memorandum item 1.c, fully insured brokered deposits also include (a) certain brokered certificates of deposit issued in $1,000 amounts under a master certificate of deposit issued by a bank to a deposit broker in an amount that exceeds $250,000 and (b) certain brokered transaction accounts and money market deposit accounts denominated in amounts of $0.01 and established and maintained by the deposit broker (or its agent) as agent, custodian, or other fiduciary for the broker's customers.

For additional information on brokered deposits, refer to the FDIC's "Identifying, Accepting and Reporting Brokered Deposits: Frequently Asked Questions.".

Broker's Security Draft: A broker's security draft is a draft with securities or title to securities attached that is drawn to obtain payment for the securities. This draft is sent to a bank for collection with instructions to release the securities only on payment of the draft.

Business Combinations: The accounting and reporting standards for business combinations are set forth in ASC Topic 805, Business Combinations (formerly FASB Statement No. 141 (revised 2007), "Business Combinations"). ASC Topic 805 requires that all business combinations, which are defined as the acquisition of assets and assumption of liabilities that constitute a business, be accounted for using the acquisition method of accounting. The formation of a joint venture, the acquisition of a group of assets that do not constitute a business, and a transfer of net assets or exchange of equity interests between entities under common control are not considered business combinations and therefore are not accounted for using the acquisition method of accounting.

Acquisition method – Under the acquisition method, the acquirer in a business combination shall measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their acquisition-date fair values (with limited exceptions specified in ASC Topic 805) using the definition of fair value in ASC Topic 820, Fair Value Measurement (formerly FASB Statement No. 157, "Fair Value Measurements"). The acquisition date is generally the date on which the acquirer legally transfers the consideration, acquires the assets, and assumes the liabilities of the acquiree, i.e., the closing date. ASC Topic 805 requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values and the acquirer may not recognize a separate valuation allowance (e.g., allowance for loan and lease losses) for the contractual cash flows that are deemed to be uncollectible as of that date. The consideration transferred in a business combination shall be calculated as the sum of the acquisition-date fair values of the assets (including any cash) transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree, and the equity interests issued by the acquirer. Acquisition-related costs are costs the acquirer incurs to effect a business combination such as finder's fees; advisory, legal, accounting, valuation, and other professional or consulting fees; and general administrative costs. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services received. The cost to register and issue debt or equity securities shall be recognized in accordance with other applicable generally accepted accounting principles.

ASC Topic 805 provides guidance for recognizing particular assets acquired and liabilities assumed in a business combination. Acquired assets may be tangible (such as securities or fixed assets) or

Business Combinations (cont.):

intangible, as discussed in the following paragraph. An acquiring entity must not recognize the goodwill, if any, or the deferred income taxes recorded by an acquired entity before the business combination. However, a deferred tax liability or asset must be recognized for differences between the carrying values assigned in the business combination and the tax bases of the recognized assets acquired and liabilities assumed, in accordance with ASC Topic 740, Income Taxes (formerly FASB Statement No. 109, "Accounting for Income Taxes," and FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes"). (For further information, see the Glossary entry for "income taxes.")

Under ASC Topic 805, an intangible asset must be recognized separately from goodwill if it arises from contractual or other legal rights, regardless of whether the rights are transferable or separable. Otherwise, an intangible asset must be recognized separately from goodwill only if it is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged individually or together with a related contract, identifiable asset, or liability. Examples of intangible assets that must be recognized separately from goodwill are core deposit intangibles, purchased credit card relationships, servicing assets, favorable leasehold rights, trademarks, trade names, internet domain names, and noncompetition agreements. However, an institution that is a private company, as defined in U.S. GAAP, may elect the private company accounting alternative for the recognition of certain identifiable intangible assets acquired in a business combination provided by ASC Subtopic 805-20, Business Combinations – Identifiable Assets and Liabilities, and Any Noncontrolling Interest, if it also has adopted the private company goodwill accounting alternative provided by ASC Subtopic 350-20, Intangibles–Goodwill and Other – Goodwill. Intangible assets that are recognized separately from goodwill must be reported in Schedule RC, item 10, "Intangible assets," and in Schedule RC-M, item 2.a or 2.c, as appropriate. Refer to the Glossary entry for "goodwill" for further information on the private company accounting alternative for identifiable intangible assets. See also the Glossary entries for "private company" and "public business entity."

In general, the amount recognized as goodwill in a business combination is the excess of the sum of the consideration transferred and the fair value of any noncontrolling interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is reported in Schedule RC, item 10.a. An acquired intangible asset that does not meet the criteria described in the preceding paragraph must be treated as goodwill. After initial recognition, goodwill must be accounted for in accordance with ASC Topic 350, Intangibles-Goodwill and Other (formerly FASB Statement No. 142, "Goodwill and Other Intangible Assets") and the Glossary entry for "goodwill."

In contrast, if the total acquisition-date amount of the identifiable net assets acquired exceeds the consideration transferred plus the fair value of any noncontrolling interest in the acquiree (i.e., a bargain purchase), the acquirer shall reassess whether it has correctly identified all of the assets acquired and all the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. If that excess remains after the review, the acquirer shall recognize that excess in earnings as a gain attributable to the acquirer on the acquisition date and report the amount in Schedule RI, item 5.l, "Other noninterest income."

Under the acquisition method, the historical equity capital balances of the acquired business are *not* to be carried forward to the acquirer's consolidated balance sheet. The operating results of the acquiree are to be included in the income and expenses of the acquirer only from the acquisition date. In addition, if the ownership interests in the acquiree were obtained in a series of purchase transactions, the equity interest in the acquiree previously held by the acquirer is remeasured at its acquisition-date fair value and any resulting gain or loss is recognized in the acquirer's earnings.

Pushdown accounting – Pushdown accounting is an acquiree's establishment of a new accounting basis in its separate financial statements when an acquirer obtains control of the acquired entity. On November 18, 2014, the FASB issued ASU No. 2014-17, "Pushdown Accounting," which amended ASC Subtopic 805-50, Business Combinations–Related Issues, and took effect upon issuance. Under

<u>Excess Balance Account:</u> An excess balance account (EBA) is a limited-purpose account at a Federal Reserve Bank established for maintaining the excess balances of one or more depository institutions (participants) that are eligible to earn interest on balances held at the Federal Reserve Banks. An EBA is managed by another depository institution that has its own account at a Federal Reserve Bank (such as a participant's pass-through correspondent) and acts as an agent on behalf of the participants. Balances in an EBA represent a liability of a Federal Reserve Bank directly to the EBA participants and not to the agent. The Federal Reserve Banks pay interest on the average balance in the EBA over a 7-day maintenance period and the agent disburses that interest to each participant in accordance with the instructions of the participant. Only a participant's excess balances may be placed in an EBA; the account balance cannot be used to satisfy the participant's reserve balance requirement.

The reporting of an EBA by participants and agents differs from the required reporting of a pass-through reserve relationship, which is described in the Glossary entry for "pass-through reserve balances."

A participant's balance in an EBA is to be treated as a claim on a Federal Reserve Bank (not as a claim on the agent) and, as such, should be reported on the balance sheet in Schedule RC, item 1.b, "Interest-bearing balances" due from depository institutions. For risk-based capital purposes, the participant's balance in an EBA is accorded a zero percent risk weight and should be reported in Schedule RC-R, Part II, item 1, "Cash and balances due from depository institutions," column C. A participant should not include its balance in an EBA in Schedule RC, item 3.a, "Federal funds sold."

The balances in an EBA should not be reflected as an asset or a liability on the balance sheet of the depository institution that acts as the agent for the EBA. Thus, the agent should <u>not</u> include the balances in the EBA in Schedule RC, item 1.b, "Interest-bearing balances" due from depository institutions; Schedule RC, item 13.a.(2), "Interest-bearing" deposits; or Schedule RC-R, Part II, item 1, "Cash and balances due from depository institutions."

<u>Extinguishments of Liabilities:</u> The accounting and reporting standards for extinguishments of liabilities are set forth in ASC Subtopic 405-20, Liabilities – Extinguishments of Liabilities (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities"). Under ASC Subtopic 405-20, a bank should remove a previously recognized liability from its balance sheet if and only if the liability has been extinguished. A liability has been extinguished if either of the following conditions is met:

(1) The bank pays the creditor and is relieved of its obligation for the liability. Paying the creditor includes delivering cash, other financial assets, goods, or services or the bank's reacquiring its outstanding debt.

(2) The bank is legally released from being the primary obligor under the liability, either judicially or by the creditor.

Banks should aggregate their gains and losses from the extinguishment of liabilities (debt), including losses resulting from the payment of prepayment penalties on borrowings such as Federal Home Loan Bank advances, and consistently report the net amount in item 7.d, "Other noninterest expense," of the income statement (Schedule RI). Only if a bank's debt extinguishments normally result in net gains over time should the bank consistently report its net gains (losses) in Schedule RI, item 5.l, "Other noninterest income."

In addition, under ASC Subtopic 470-50, Debt – Modifications and Extinguishments (formerly FASB EITF Issue No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments"), the accounting for the gain or loss on the modification or exchange of debt depends on whether the original

Extinguishments of Liabilities (cont.):
and the new debt instruments are substantially different. If they are substantially different, the transaction is treated as an extinguishment of debt and the gain or loss on the modification or exchange is reported immediately in earnings as discussed in the preceding paragraph. If the original and new debt instruments are not substantially different, the gain or loss on the modification or replacement of the debt is deferred and recognized over time as an adjustment to the interest expense on the new borrowing. ASC Subtopic 470-50 provides guidance on how to determine whether the original and the new debt instruments are substantially different.

Fails: When a bank has sold an asset and, on settlement date, does not deliver the security or other asset and does not receive payment, a sales fail exists. When a bank has purchased a security or other asset and, on settlement date, does not receive the asset and does not pay for it, a purchase fail exists. Fails do not affect the way securities are reported in the Reports of Condition and Income.

Fair Value: ASC Topic 820, Fair Value Measurement (formerly FASB Statement No. 157, "Fair Value Measurements"), defines fair value and establishes a framework for measuring fair value. ASC Topic 820 should be applied when other accounting topics require or permit fair value measurements. For further information, refer to ASC Topic 820.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the asset's or liability's principal (or most advantageous) market at the measurement date. This value is often referred to as an "exit" price.

An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced liquidation or distressed sale.

ASC Topic 820 establishes a three level fair value hierarchy that prioritizes inputs used to measure fair value based on observability. The highest priority is given to Level 1 (observable, unadjusted) and the lowest priority to Level 3 (unobservable). The broad principles for the hierarchy follow.

Level 1 fair value measurement inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a bank has the ability to access at the measurement date. In addition, a Level 1 fair value measurement of a liability can also include the quoted price for an identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required.

Level 2 fair value measurement inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Depending on the specific factors related to an asset or a liability, certain adjustments to Level 2 inputs may be necessary to determine the fair value of the asset or liability. If those adjustments are significant to the asset or liability's fair value in its entirety, the adjustments may render the fair value measurement to a Level 3 measurement.

Level 3 fair value measurement inputs are unobservable inputs for the asset or liability. Although these inputs may not be readily observable in the market, the fair value measurement objective is, nonetheless, to develop an exit price for the asset or liability from the perspective of a market participant. Therefore, Level 3 fair value measurement inputs should reflect the bank's own assumptions about the assumptions that a market participant would use in pricing an asset or liability and should be based on the best information available in the circumstances.

Refer to ASC Topic 820 for additional fair value measurement guidance, including considerations related to holding large positions (blocks), the existence of multiple active markets, and the use of practical expedients.

Foreclosed Assets (cont.):

(a) A sale has been consummated;
(b) The buyer's initial investment (down payment) and continuing investment (periodic payments) are adequate to demonstrate a commitment to pay for the property;
(c) The receivable is not subject to future subordination; and
(d) The usual risks and rewards of ownership have been transferred.

Guidelines for the minimum down payment that must be made in order for a transaction to qualify for the full accrual method are set forth in ASC Subtopic 360-20. These vary from five percent to 25 percent of the property's sales value. These guideline percentages vary by type of property and are primarily based on the inherent risk assumed for the type and characteristics of the property. To meet the continuing investment criteria, the contractual loan payments must be sufficient to repay the loan over the customary loan term for the type of property involved. Such periods may range up to 30 years for loans on single family residential property.

(2) Installment Method – Dispositions of foreclosed real estate that do not qualify for the full accrual method may qualify for the installment method. This method recognizes a sale and the corresponding loan. Any profits on the sale are only recognized as the institution receives payments from the purchaser/borrower. Interest income is recognized on an accrual basis, when appropriate.

The installment method is used when the buyer's down payment is not adequate to allow use of the full accrual method but recovery of the cost of the property is reasonably assured if the buyer defaults. Assurance of recovery requires careful judgment on a case-by-case basis. Factors which should be considered include: the size of the down payment, loan-to-value ratios, projected cash flows from the property, recourse provisions, and guarantees.

Since default on the loan usually results in the seller's reacquisition of the real estate, reasonable assurance of cost recovery may often be achieved with a relatively small down payment. This is especially true in situations involving loans with recourse to borrowers who have verifiable net worth, liquid assets, and income levels. Reasonable assurance of cost recovery may also be achieved when the purchaser/borrower pledges additional collateral.

(3) Cost Recovery Method – Dispositions of foreclosed real estate that do not qualify for either the full accrual or installment methods are sometimes accounted for using the cost recovery method. This method recognizes a sale and the corresponding loan, but all income recognition is deferred. Principal payments are applied as a reduction of the loan balance and interest increases the unrecognized gross profit. No profit or interest income is recognized until either the aggregate payments by the borrower exceed the recorded investment in the loan or a change to another accounting method is appropriate (e.g., installment method). Consequently, the loan is maintained in nonaccrual status while this method is being used.

(4) Reduced-Profit Method – This method is used in certain situations where the institution receives an adequate down payment, but the loan amortization schedule does not meet the requirements for use of the full accrual method. The method recognizes a sale and the corresponding loan. However, like the installment method, any profit is apportioned over the life of the loan as payments are received. The method of apportionment differs from the installment method in that profit recognition is based on the present value of the lowest level of periodic payments required under the loan agreement.

Since sales with adequate down payments are generally not structured with inadequate loan amortization requirements, this method is seldom used in practice.

(5) Deposit Method – The deposit method is used in situations where a sale of the foreclosed real estate has not been consummated. It may also be used for dispositions that could be accounted for under the cost recovery method. Under this method a sale is not recorded and the asset

Foreclosed Assets (cont.):

continues to be reported as foreclosed real estate. Further, no profit or interest income is recognized. Payments received from the borrower are reported as a liability in Schedule RC-G, item 4, "All other liabilities," until sufficient payments or other events have occurred which allow the use of one of the other methods.

Accounting under ASC Subtopic 610-20 (and ASC Topic 606) – The amendments to ASC Subtopic 610-20, when effective as a result of ASU 2014-09 (as discussed above), eliminate the prescriptive criteria and methods for sale accounting and gain recognition for dispositions of OREO set forth in ASC Subtopic 360-20. Under ASC Subtopic 610-20, if the buyer of the OREO is a legal entity, an institution should first assess whether it has a controlling financial interest in the legal entity buying the OREO by applying the guidance in ASC Topic 810, Consolidation. If an institution determines that it has a controlling financial interest in the buying legal entity, it should not derecognize the OREO and should apply the guidance in ASC Subtopic 810-10. When an institution does not have a controlling financial interest in the buying legal entity or the OREO buyer is not a legal entity, which is expected to be the case for most sales of OREO, the institution will recognize the entire gain or loss, if any, and derecognize the OREO at the time of sale if the transaction meets certain requirements of ASC Topic 606. Otherwise, the institution generally will continue reporting the OREO as an asset, with any cash payments or other consideration received from the individual or entity acquiring the OREO (i.e., any down payment and any subsequent payments of principal or interest) reported as a liability in Schedule RC-G, item 4, "All other liabilities," until it becomes appropriate to recognize the revenue and the sale of the OREO in accordance with ASC Subtopic 610-20 and ASC Topic 606.[1]

When applying ASC Subtopic 610-20 and Topic 606, an institution will need to exercise judgment in determining whether a contract (within the meaning of Topic 606) exists for the sale or transfer of OREO, whether the institution has performed its obligations identified in the contract, and what the transaction price is for calculation of the amount of gain or loss. These standards apply to all sales or transfers of real estate by institutions, but greater judgment will generally be required for seller-financed sales of OREO.

Under ASC Subtopic 610-20, when an institution does not have a controlling financial interest in the buying legal entity or the OREO buyer is not a legal entity, the institution's first step in assessing whether it can derecognize an OREO asset and recognize revenue upon the sale or transfer of the OREO is to determine whether a contract exists under the provisions of Topic 606. In the context of an OREO sale or transfer, in order for an institution's transaction with the party acquiring the property to be a contract under ASC Topic 606, it must meet all the following criteria:

(a) The parties to the contract have approved the contract (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations;
(b) The institution can identify each party's rights regarding the OREO to be transferred;
(c) The institution can identify the payment terms for the OREO to be transferred;
(d) The contract has commercial substance (that is, the risk, timing, or amount of the institution's future cash flows is expected to change as a result of the contract); and
(e) It is probable that the institution will collect substantially all of the consideration to which it will be entitled in exchange for OREO that will be transferred to the buyer, i.e. the transaction price. In evaluating whether collectability of an amount of consideration is probable, an institution shall consider only the buyer's ability and intention to pay that amount of consideration when it is due.

These five criteria require careful analysis for seller-financed sales of OREO. In particular, criteria (a) and (e) may require significant judgment. When determining whether the buyer is committed to

[1] Although ASC Topic 606 describes the consideration received (including any cash payments) using such terms a "liability," "deposit," and "deposit liability," for regulatory reporting purposes these amounts should be reported in Schedule RC-G, item 4, and not as a deposit in Schedule RC, item 13.

Foreclosed Assets (cont.):

perform its obligations under criterion (a) and collectability under criterion (e), a selling institution should consider all facts and circumstances related to the buyer's ability and intent to pay the transaction price, which may include:

- Amount of cash paid as a down payment;
- Existence of recourse provisions;
- Credit standing of the buyer;
- Age and location of the property;
- Cash flow from the property;

Foreign Currency Transactions and Translation (cont.):

Foreign currency transaction gains or losses on intercompany foreign currency transactions of a long-term investment nature (i.e., settlement is not planned or anticipated in the foreseeable future), when the parties to the transaction are consolidated, combined, or accounted for by the equity method in the bank's Consolidated Reports of Condition and Income are to be excluded from the determination of net income. For further information, refer to the Glossary entry for "foreign currency transactions and translation" in the instructions for the FFIEC 031 and FFIEC 041 Call Reports.:

In addition, the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities should not be included in "Realized gains (losses) on available-for-sale debt securities" (Schedule RI, item 6.b), but should be reported in Schedule RI-A, item 10, "Other comprehensive income." These fair value changes should be accumulated in the "Net unrealized holding gains (losses) on available-for-sale securities" component of "Accumulated other comprehensive income" in Schedule RC, item 26.b. However, if a decline in fair value of a foreign-currency-denominated available-for-sale debt security is judged to be other than temporary, the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down shall be included in earnings (Schedule RI, item 6.b).

See the Glossary entry for "derivative contracts" for information on the accounting and reporting for foreign currency derivatives.

For further guidance, refer to ASC Topic 830, Foreign Currency Matters (formerly FASB Statement No. 52, "Foreign Currency Translation").

Foreign Debt Exchange Transactions: Foreign debt exchange transactions generally fall into three categories: (1) loan swaps, (2) debt/equity swaps, and (3) debt-for-development swaps. These transactions are to be reported in the Consolidated Reports of Condition and Income in accordance with generally accepted accounting principles. Generally accepted accounting principles require that these transactions be reported at their fair value. For further information on these transactions, see the Glossary entry for "Foreign debt exchange transactions" in the instructions for the FFIEC 031 and FFIEC 041 Call Reports.

Foreign Governments and Official Institutions: Foreign governments and official institutions are central, state, provincial, and local governments in foreign countries and their ministries, departments, and agencies. These include treasuries, ministries of finance, central banks, development banks, exchange control offices, stabilization funds, diplomatic establishments, fiscal agents, and nationalized banks and other banking institutions that are owned by central governments and that have as an important part of their function activities similar to those of a treasury, central bank, exchange control office, or stabilization fund. For purposes of these reports, other government-owned enterprises are not included.

Also included as foreign official institutions are international, regional, and treaty organizations, such as the International Monetary Fund, the International Bank for Reconstruction and Development (World Bank), the Bank for International Settlements, the Inter-American Development Bank, and the United Nations.

Foreign Office: For purposes of these reports, a foreign office of the reporting bank is a branch or consolidated subsidiary located in a foreign country; an Edge or Agreement subsidiary, including both its U.S. and its foreign offices; or an IBF. In addition, if the reporting bank is chartered and headquartered in the 50 states of the United States and the District of Columbia, a branch or consolidated subsidiary located in Puerto Rico or a U.S. territory or possession is a foreign office. Branches on U.S. military facilities wherever located are treated as domestic offices, not foreign offices.

Forward Contracts: See "derivative contracts."

Functional Currency: See "foreign currency transactions and translation."

Futures Contracts: See "derivative contracts."

Goodwill: According to ASC Topic 805, Business Combinations (formerly FASB Statement No. 141 (revised 2007), "Business Combinations"), goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The private company accounting alternative for identifiable intangible assets acquired in a business combination is discussed in a subsection of this Glossary entry. In addition, see "acquisition method" in the Glossary entry for "business combinations" for guidance on the recognition and initial measurement of goodwill acquired in a business combination.

Subsequent Measurement of Goodwill – Goodwill should not be amortized, but must be tested for impairment at the reporting unit level at least annually, unless an institution meets the definition of a private company, as defined in U.S. GAAP, and elects the goodwill amortization accounting alternative described below. Any impairment losses recognized on goodwill during the year-to-date reporting period should be reported in Schedule RI, item 7.c.(1), "Goodwill impairment losses," except those impairment losses associated with discontinued operations, which should be reported on a net-of-tax basis in Schedule RI, item 11. Goodwill, net of any impairment losses, should be reported on the balance sheet in Schedule RC, item 10, and in Schedule RC-M, item 2.b.

Private Company Accounting Alternative for Goodwill – ASC Subtopic 350-20, Intangibles-Goodwill and Other – Goodwill (formerly FASB Statement No. 142, "Goodwill and Other Intangible Assets"), generally permits a private company, as defined in U.S. GAAP, to elect an accounting alternative for goodwill under which goodwill is amortized on a straight-line basis over a period of ten years (or less than ten years if more appropriate) and a simplified impairment model is applied to goodwill. In addition, if a private company chooses to adopt the goodwill accounting alternative, the private company is required make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. Goodwill must be tested for impairment when a triggering event occurs that indicates that the fair value of an entity or a reporting unit, as appropriate under the private company's accounting policy election, may be below its carrying amount. U.S. GAAP for a public business entity does not permit goodwill to be amortized, instead requiring goodwill to be tested for impairment at the reporting unit level annually and between annual tests in certain circumstances. For information on the distinction between a private company and a public business entity, see the Glossary entry for "public business entity."

A bank or savings association that meets the definition of a private company is permitted, but not required to adopt the goodwill amortization accounting alternative. If a private institution issues U.S. GAAP financial statements and chooses to adopt the private company alternative, it should apply the goodwill accounting alternative in its Call Report in a manner consistent with its reporting of goodwill in its financial statements.

Goodwill amortization expense should be reported in item 7.c.(1) of the Call Report income statement (Schedule RI) unless the amortization is associated with a discontinued operation, in which case the goodwill amortization should be included within the results of discontinued operations and reported in Schedule RI, item 11.

Goodwill Impairment Testing – ASC Subtopic 350-20 provides guidance for testing and reporting goodwill impairment losses, a summary of which follows. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Because the fair value of goodwill can be measured only as a residual and cannot be measured directly, ASC Subtopic 350-20 includes a methodology for estimating the implied fair value of goodwill for impairment measurement purposes.

Income Taxes (cont.):

positions. No tax benefit can be recorded for a tax position that fails to meet the more-likely-than-not recognition threshold.

Each tax position that meets the more-likely-than-not recognition threshold should be measured to determine the amount of benefit to recognize in the Consolidated Reports of Condition and Income. The tax position is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. When measuring the tax benefit, a bank must consider the amounts and probabilities of the outcomes that could be realized upon ultimate settlement using the facts, circumstances, and information available at the reporting date. A bank may not use the valuation allowance associated with any deferred tax asset as a substitute for measuring this tax benefit or as an offset to this amount.

If a bank's assessment of the merits of a tax position subsequently changes, the bank should adjust the amount of tax benefit it has recognized and accrue interest and penalties for any underpayment of taxes in accordance with the tax laws of each applicable jurisdiction. In this regard, a tax position that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent quarterly reporting period in which the threshold is met. A previously recognized tax position that no longer meets the more-likely-than-not recognition threshold should be derecognized in the first subsequent quarterly reporting period in which the threshold is no longer met.

Temporary differences result when events are recognized in one period on the bank's books but are recognized in another period on the bank's tax return. These differences result in amounts of income or expense being reported in the Consolidated Report of Income in one period but in another period in the tax returns. There are two types of temporary differences. Deductible temporary differences reduce taxable income in future periods. Taxable temporary differences result in additional taxable income in future periods.

For example, a bank's provision for loan and lease losses is expensed for financial reporting purposes in one period. However, for some banks, this amount may not be deducted for tax purposes until the loans are actually charged off in a subsequent period. This deductible temporary difference "originates" when the provision for loan and lease losses is recorded in the financial statements and "turns around" or "reverses" when the loans are subsequently charged off, creating tax deductions. Other deductible temporary differences include writedowns of other real estate owned, the recognition of loan origination fees, and other postemployment benefits expense.

Depreciation can result in a taxable temporary difference if a bank uses the straight-line method to determine the amount of depreciation expense to be reported in the Consolidated Report of Income but uses an accelerated method for tax purposes. In the early years, tax depreciation under the accelerated method will typically be larger than book depreciation under the straight-line method. During this period, a taxable temporary difference originates. Tax depreciation will be less than book depreciation in the later years when the temporary difference reverses. Therefore, in any given year, the depreciation reported in the Consolidated Report of Income will differ from that reported in the bank's tax returns. However, total depreciation taken over the useful life of the asset will be the same under either method. Other taxable temporary differences include the undistributed earnings of unconsolidated subsidiaries and associated companies and amounts funded to pension plans that exceed the recorded expense.

Some events do not have tax consequences and therefore do not give rise to temporary differences. Certain revenues are exempt from taxation and certain expenses are not deductible. These events were previously known as "permanent differences." Examples of such events (for federal income tax purposes) are interest received on certain obligations of states and political subdivisions in the U.S., premiums paid on officers' life insurance policies where the bank is the beneficiary, and 50 percent[1] of cash dividends received on the corporate stock of domestic U.S. corporations owned less than 20 percent.

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[1] The percentage is 70 percent for tax years beginning before January 1, 2018.

Income Taxes (cont.):

Deferred tax assets shall be calculated at the report date by applying the "applicable tax rate" (defined below) to the bank's total deductible temporary differences and operating loss carryforwards. A deferred tax asset shall also be recorded for the amount of tax credit carryforwards available to the bank. Based on the estimated realizability of the deferred tax asset, a valuation allowance should be established to reduce the recorded deferred tax asset to the amount that is considered "more likely than not" (i.e., greater than 50 percent chance) to be realized.

Deferred tax liabilities should be calculated by applying the "applicable tax rate" to total taxable temporary differences at the report date.

Net operating loss carrybacks and carryforwards and tax credit carryforwards – When a bank's deductions exceed its income for income tax purposes, it has sustained a net operating loss. To the extent permitted under a taxing authority's laws and regulations, a net operating loss that occurs in a year following periods when the bank had taxable income may be carried back to recover income taxes previously paid. The tax effects of any loss carrybacks that are realizable through a refund of taxes previously paid is recognized in the year the loss occurs. In this situation, the applicable income taxes on the Consolidated Report of Income will reflect a credit rather than an expense. For tax years beginning before January 1, 2018, a bank may carry back net operating losses for two years for federal income tax purposes. However, in general, for tax years beginning on or after January 1, 2018, a bank may no longer carry back operating losses to recover taxes paid in prior tax years.

Generally, a net operating loss that occurs when loss carrybacks are not available becomes a net operating loss carryforward. For tax years beginning before January 1, 2018, a bank may carry operating losses forward 20 years for federal income tax purposes. For tax years beginning on or after January 1, 2018, net operating losses can be carried forward indefinitely for federal income tax purposes; however, for net operating losses arising in such tax years, the amount of loss that can be carried forward and deducted in a particular year is limited to 80 percent of a bank's taxable income in that year.

Tax credit carryforwards are tax credits which cannot be used for tax purposes in the current year, but which can be carried forward to reduce taxes payable in a future period.

Deferred tax assets are recognized for net operating loss and tax credit carryforwards just as they are for deductible temporary differences. As a result, a bank can recognize the benefit of a net operating loss for tax purposes or a tax credit carryforward to the extent the bank determines that a valuation allowance is not considered necessary (i.e., if the realization of the benefit is more likely than not).

Applicable tax rate – The income tax rate to be used in determining deferred tax assets and liabilities is the rate under current tax law that is expected to apply to taxable income in the periods in which the deferred tax assets or liabilities are expected to be realized or paid. For tax years beginning on or after January 1, 2018, the federal corporate tax rate is a flat 21 percent rate. This flat rate replaced the graduated federal corporate tax rate structure that applied in prior tax years. If a bank is subject to graduated tax rates and the bank's income level is such that graduated tax rates are a significant factor, then the bank shall use the average graduated tax rate applicable to the amount of estimated taxable income in the period in which the deferred tax asset or liability is expected to be realized or settled.

When the tax law changes, banks shall determine the effect of the change, adjust the deferred tax asset or liability and include the effect of the change in Schedule RI, item 9, "Applicable income taxes (on item 8.c)."

Valuation allowance – A valuation allowance must be recorded, if needed, to reduce the amount of deferred tax assets to an amount that is more likely than not to be realized. Changes in the valuation allowance generally shall be reported in Schedule RI, item 9, "Applicable income taxes (on item 8.c)." The following discussion of the valuation allowance relates to the allowance, if any, included in the

Income Taxes (cont.):

amount of net deferred tax assets or liabilities to be reported on the balance sheet (Schedule RC) and in Schedule RC-F, item 2, or Schedule RC-G, item 2. This discussion does not address the determination of the amount of deferred tax assets, if any, that is disallowed for regulatory capital purposes and reported in Schedule RC-R, Part I, items 8, 15, and 16.

Banks must consider all available evidence, both positive and negative, in assessing the need for a valuation allowance. The future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character in either the carryback or carryforward period.

Four sources of taxable income may be available to realize the deferred tax assets:

(1) Taxable income in carryback years (which can be offset to recover taxes previously paid),
(2) Reversing taxable temporary differences,
(3) Future taxable income (exclusive of reversing temporary differences and carryforwards.
(4) Tax-planning strategies.

In general, positive evidence refers to the existence of one or more of the four sources of taxable income. To the extent evidence about one or more sources of income is sufficient to support a conclusion that a valuation allowance is not necessary (i.e., the bank can conclude that the deferred tax asset is more likely than not to be realized), other sources need not be considered. However, if a valuation allowance is needed, each source of income must be evaluated to determine the appropriate amount of the allowance needed.

Evidence used in determining the valuation allowance should be subject to objective verification. The weight given to evidence when both positive and negative evidence exist should be consistent with the extent to which it can be verified. Sources (1) and (2) listed above are more susceptible to objective verification and, therefore, may provide sufficient evidence regardless of future events.

The consideration of future taxable income (exclusive of reversing temporary differences and carryforwards) as a source for the realization of deferred tax assets will require subjective estimates and judgments about future events which may be less objectively verifiable.

Examples of negative evidence include:

- Cumulative losses in recent years.
- A history of operating loss or tax credit carryforwards expiring unused.
- Losses expected in early future years by a presently profitable bank.
- Unsettled circumstances that, if unfavorably resolved, would adversely affect future profit levels.
- A brief carryback or carryforward that would limit the ability to realize the deferred tax asset.

Examples of positive evidence include:

- A strong earnings history exclusive of the loss that created the future deductible amount (tax loss carryforward or deductible temporary difference) coupled with evidence indicating that the loss is an aberration rather than a continuing condition.
- Existing contracts that will generate significant income.
- An excess of appreciated asset value over the tax basis of an entity's net assets in an amount sufficient to realize the deferred tax asset.

When realization of a bank's deferred tax assets is dependent upon future taxable income, the reliability of a bank's projections is very important. The bank's record in achieving projected results under an actual operating plan will be a strong measure of this reliability. Other factors a bank should consider in evaluating evidence about its future profitability include but are not limited to current and expected economic conditions, concentrations of credit risk within specific industries and geographical areas, historical levels and trends in past due and nonaccrual assets, historical levels and trends in loan loss reserves, and the bank's interest rate sensitivity.

Income Taxes (cont.):

When strong negative evidence, such as the existence of cumulative losses, exists, it is extremely difficult for a bank to determine that no valuation allowance is needed. Positive evidence of significant quality and quantity would be required to counteract such negative evidence.

For purposes of determining the valuation allowance, a tax-planning strategy is a prudent and feasible action that would result in realization of deferred tax assets and that management ordinarily might not take, but would do so to prevent an operating loss or tax credit carryforward from expiring unused. For example, a bank could accelerate taxable income to utilize carryforwards by selling or securitizing loan portfolios, selling appreciated securities, or restructuring nonperforming assets. Actions that management would take in the normal course of business are not considered tax-planning strategies.

Significant expenses to implement the tax-planning strategy and any significant losses that would result from implementing the strategy shall be considered in determining any benefit to be realized from the tax-planning strategy. Also, banks should consider all possible consequences of any tax-planning strategies. For example, loans pledged as collateral would not be available for sale.

The determination of whether a valuation allowance is needed for deferred tax assets should be made for total deferred tax assets, not for deferred tax assets net of deferred tax liabilities. In addition, the evaluation should be made on a jurisdiction-by-jurisdiction basis. Separate analyses should be performed for amounts related to each taxing authority (e.g., federal, state, and local).

Deferred tax assets (net of the valuation allowance) and deferred tax liabilities related to a particular tax jurisdiction (e.g., federal, state, and local) may be offset against each other for reporting purposes. A resulting debit balance shall be included in "Other assets" and reported in Schedule RC-F, item 2. A resulting credit balance shall be included in "Other liabilities" and reported in Schedule RC-G, item 2. (A bank may report a net deferred tax debit, or asset, for one tax jurisdiction (e.g., federal taxes) and also report a net deferred tax credit, or liability, for another tax jurisdiction (e.g., state taxes).

Interim period applicable income taxes – When preparing its year-to-date Consolidated Report of Income as of the end of March, June, and September ("interim periods"), a bank generally should determine its best estimate of its effective annual tax rate for the full year, including both current and deferred portions and considering all tax jurisdictions (e.g., federal, state and local). To arrive at its estimated effective annual tax rate, a bank should divide its estimated total applicable income taxes (current and deferred) for the year by its estimated pretax income for the year (excluding discontinued operations). This rate would then be applied to the year-to-date pretax income to determine the year-to-date applicable income taxes at the interim date.

Intraperiod allocation of income taxes – When the Consolidated Report of Income for a period includes the results of "Discontinued operations" that are reportable in Schedule RI, item 11, the total amount of the applicable income taxes for the year to date shall be allocated in Schedule RI between item 9, "Applicable income taxes (on item 8.c)," and item 11, "Discontinued operations, net of applicable income taxes."

The applicable income taxes on operating income (item 9) shall be the amount that the total applicable income taxes on pretax income, including both current and deferred taxes (calculated as described above), would have been for the period had the results of "Discontinued operations" been zero.

The difference between item 9, "Applicable income taxes (on item 8.c)," and the total amount of the applicable taxes shall then be reflected in item 11 as applicable income taxes on discontinued operations.

Tax calculations by tax jurisdiction – Separate calculations of income taxes, both current and deferred amounts, are required for each tax jurisdiction. However, if the tax laws of the state and local jurisdictions do not significantly differ from federal income tax laws, then the calculation of deferred income tax expense can be made in the aggregate. The bank would calculate both current and deferred tax expense considering the combination of federal, state, and local income tax rates. The rate used should consider whether amounts paid in one jurisdiction are deductible in another

Income Taxes (cont.):

jurisdiction. For example, since state and local taxes are deductible for federal purposes, the aggregate combined rate would generally be (1) the federal tax rate plus (2) the state and local tax rates minus (3) the federal tax effect of the deductibility of the state and local taxes at the federal tax rate.

Income taxes of a bank subsidiary of a holding company – A bank should generally report income tax amounts in its Consolidated Reports of Condition and Income as if it were a separate entity. A bank's separate entity taxes include taxes of subsidiaries of the bank that are included with the bank in a consolidated tax return. In other words, when a bank has subsidiaries of its own, the bank and its consolidated subsidiaries are treated as one separate taxpayer for purposes of computing the bank's applicable income taxes. This treatment is also applied in determining net deferred tax asset limitations for regulatory capital purposes.

During profitable periods, a bank subsidiary of a holding company that files a consolidated tax return should record current tax expense for the amount that would be due on a separate entity basis. Certain adjustments resulting from the consolidated status may, however, be made to the separate entity calculation as long as these adjustments are made on a consistent and equitable basis. For example, the consolidated group's single surtax exemption may be allocated among the holding company affiliates if such an allocation is equitable and applied consistently. Such allocations should be reflected in the bank's applicable income taxes, rather than as "Other transactions with stockholders (including a parent holding company)" in Schedule RI-A, Changes in Bank Equity Capital.

In addition, bank subsidiaries should first compute their taxes on a separate entity basis without considering the alternative minimum tax (AMT).[1] The AMT should be determined on a consolidated basis, and if it exceeds the regular tax on a consolidated basis, the holding company should allocate that excess to its affiliates on an equitable and consistent basis. The allocation method must be based upon the portion of tax preferences, adjustments, and other items causing the AMT to be applicable at the consolidated level that are generated by the parent holding company and each bank and nonbank subsidiary. In no case should amounts be allocated to bank subsidiaries that have not generated any tax preference or positive tax adjustment items. Furthermore, the AMT allocated to banks within the consolidated group should not exceed the consolidated AMT in any year.

In future years when a consolidated AMT credit carryforward is utilized, the credit must be reallocated to the subsidiary banks. The allocation should be done on an equitable and consistent basis based upon the amount of AMT giving rise to the credit that had been previously allocated. In addition, the amount of AMT credit reallocated to affiliates within the consolidated group should not exceed the consolidated AMT credit in any year. All AMT allocations should be reflected in the bank's applicable income taxes, rather than as "Other transactions with stockholders (including a parent holding company)" in Schedule RI-A, Changes in Bank Equity Capital.

Similarly, bank subsidiaries incurring a loss should record an income tax benefit and receive an equitable refund from their parent, if appropriate. The refund should be based on the amount they would have received on a separate entity basis, adjusted for statutory tax considerations, and shall be made on a timely basis.

An exception to this rule is made when the bank, on a separate entity basis, would not be entitled to a current refund because it has exhausted benefits available through carryback on a separate entity basis, yet the holding company can utilize the bank's tax loss to reduce the consolidated liability for the current year. In this situation, realization of the tax benefit is assured. Accordingly, the bank may

[1] The 2017 federal tax law known as the Tax Cuts and Jobs Act eliminates the corporate AMT for tax years beginning on or after January 1, 2018. The law also provides for the use of existing AMT credits to offset a bank's regular tax liability for tax years beginning in 2018, 2019, and 2020, with any remaining AMT credit carryforwards fully refundable in the tax year beginning in 2021.

Income Taxes (cont.):

recognize a current tax benefit in the year in which the operating loss occurs, provided the holding company reimburses the bank on a timely basis for the amount of benefit recognized. Any such tax benefits recognized in the loss year should be reflected in the bank's applicable income taxes. If timely reimbursement is not made, the bank cannot recognize the tax benefit in the current year. Rather, the tax loss becomes a net operating loss carryforward for the bank.

A parent holding company shall not adopt an arbitrary tax allocation policy within its consolidated group if it results in a significantly different amount of subsidiary bank applicable income taxes than would have been provided on a separate entity basis. If a holding company forgives payment by the subsidiary of all or a significant portion of the current portion of the applicable income taxes computed in the manner discussed above, such forgiveness should be treated as a capital contribution and reported in Schedule RI-A, item 11, "Other transactions with stockholders (including a parent holding company)," and in Schedule RI-E, item 5.

Further, if the subsidiary bank pays an amount greater than its separate entity current tax liability (calculated as previously discussed), the excess should be reported as a cash dividend to the holding company in Schedule RI-A, item 9. Payment by the bank of its deferred tax liability, in addition to its current tax liability, is considered an excessive payment of taxes. As a result, the deferred portion should likewise be reported as a cash dividend. Failure to pay the subsidiary bank an equitable refund attributable to the bank's net operating loss should also be considered a cash dividend paid by the bank to the parent holding company.

Purchase business combinations -- In purchase business combinations (as described in the Glossary entry for "business combinations"), banks shall recognize as a temporary difference the difference between the tax basis of acquired assets or liabilities and the amount of the purchase price allocated to the acquired assets and liabilities (with certain exceptions specified in ASC Topic 740). As a result, the acquired asset or liability shall be recorded gross and a deferred tax asset or liability shall be recorded for any resulting temporary difference.

In a purchase business combination, a deferred tax asset shall generally be recognized at the date of acquisition for deductible temporary differences and net operating loss and tax credit carryforwards of either company in the transaction, net of an appropriate valuation allowance. The determination of the valuation allowance should consider any provisions in the tax law that may restrict the use of an acquired company's carryforwards.

Subsequent recognition (i.e., by elimination of the valuation allowance) of the benefit of deductible temporary differences and net operating loss or tax credit carryforwards not recognized at the acquisition date will depend on the source of the benefit. If the valuation allowance relates to deductible temporary differences and carryforwards of the acquiring company established before the acquisition, then subsequent recognition is reported as a reduction of income tax expense. If the benefit is related to the acquired company's deductible temporary differences and carryforwards, then the benefit is subsequently recognized by first reducing any goodwill related to the acquisition, then by reducing all other noncurrent intangible assets related to the acquisition, and finally, by reducing income tax expense.

Alternative Minimum Tax[1] – Any taxes a bank must pay in accordance with the alternative minimum tax (AMT) shall be included in the bank's current tax expense. Amounts of AMT paid can be carried forward in certain instances to reduce the bank's regular tax liability in future years. The bank may record a deferred tax asset for the amount of the AMT credit carryforward, which shall then be evaluated in the same manner as other deferred tax assets to determine whether a valuation allowance is needed.

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[1] See the footnote on the alternative minimum tax on page A-63.

Income Taxes (cont.):

Other tax effects – A bank may have transactions or items that are reportable in particular items in Schedule RI-A of the Consolidated Report of Income such as "Restatements due to corrections of material accounting errors and changes in accounting principles," and "Other comprehensive income." These transactions or other items may enter into the determination of taxable income in some year (not necessarily the current year), but are not included in the pretax income reflected in Schedule RI of the Consolidated Report of Income. They shall be reported in Schedule RI-A net of related income tax effects. These effects may increase or decrease the bank's total tax liability calculated on its tax returns for the current year or may be deferred to one or more future periods.

For further information, see ASC Topic 740.

Intangible Assets: See "business combinations" and the instructions to Consolidated Report of Condition Schedule RC-M, item 2.

Interest-Bearing Account: See "deposits."

Interest Capitalization: See "capitalization of interest costs."

Interest Rate Swaps: See "derivative contracts."

Internal-Use Computer Software: Guidance on the accounting and reporting for the costs of internal-use computer software is set forth in ASC Subtopic 350-40, Intangibles-Goodwill and Other – Internal-Use Software (formerly AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use"). A summary of this accounting guidance follows. For further information, see ASC Subtopic 350-40.

Internal-use computer software is software that meets both of the following characteristics:

(1) The software is acquired, internally developed, or modified solely to meet the bank's internal needs; and

(2) During the software's development or modification, no substantive plan exists or is being developed to market the software externally.

ASC Subtopic 350-40 identifies three stages of development for internal-use software: the preliminary project stage, the application development stage, and the post-implementation/operation stage. The processes that occur during the preliminary project stage of software development are the conceptual formulation of alternatives, the evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives. The application development stage involves the design of the chosen path (including software configuration and software interfaces), coding, installation of software to hardware, and testing (including the parallel processing phase). Generally, training and application maintenance occur during the post-implementation/operation stage. Upgrades of and enhancements to existing internal-use software, i.e., modifications to software that result in additional functionality, also go through the three aforementioned stages of development.

Internal-Use Computer Software (cont.):

Computer software costs that are incurred in the preliminary project stage should be expensed as incurred.

Internal and external costs incurred to develop internal-use software during the application development stage should be capitalized. Capitalization of these costs should begin once (a) the preliminary project stage is completed and (b) management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended. Capitalization should cease no later than when a computer software project is substantially complete and ready for its intended use, i.e., after all substantial testing is completed. Capitalized internal-use software costs generally should be amortized on a straight-line basis over the estimated useful life of the software.

Only the following application development stage costs should be capitalized:

(1) External direct costs of materials and services consumed in developing or obtaining internal-use software;

(2) Payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project (to the extent of the time spent directly on the project); and

(3) Interest costs incurred when developing internal-use software.

Costs to develop or obtain software that allows for access or conversion of old data by new systems also should be capitalized. Otherwise, data conversion costs should be expensed as incurred. General and administrative costs and overhead costs should not be capitalized as internal-use software costs.

During the post-implementation/operation stage, internal and external training costs and maintenance costs should be expensed as incurred.

Impairment of capitalized internal-use computer software costs should be recognized and measured in accordance with ASC Topic 360, Property, Plant, and Equipment (formerly FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets").

The costs of internally developed computer software to be sold, leased, or otherwise marketed as a separate product or process should be reported in accordance with ASC Subtopic 985-20, Software – Costs of Software to Be Sold, Leased or Marketed (formerly FASB Statement No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed"). If, after the development of internal-use software is completed, a bank decides to market the software, proceeds received from the license of the software, net of direct incremental marketing costs, should be applied against the carrying amount of the software.

International Banking Facility (IBF): An International Banking Facility (IBF) is a set of asset and liability accounts, segregated on the books and records of the establishing entity, which reflect international transactions. An IBF is established in accordance with the terms of Federal Reserve Regulation D and after appropriate notification to the Federal Reserve. The establishing entity may be a U.S. depository institution, a U.S. office of an Edge or Agreement corporation, or a U.S. branch or agency of a foreign bank pursuant to Federal Reserve Regulations D and Q. An IBF is permitted to hold only certain assets and liabilities. In general, IBF accounts are limited, as specified in the paragraphs below, to non-U.S. residents of foreign countries, residents of Puerto Rico and U.S. territories and possessions, other IBFs, and U.S. and non-U.S. offices of the establishing entity. For further information, see the Glossary entry for "International Banking Facility (IBF)" in the instructions for the FFIEC 031 and FFIEC 041 Call Reports.

Interoffice Accounts: See "suspense accounts."

Investments in Common Stock of Unconsolidated Subsidiaries: See “equity method of accounting” and “subsidiaries.”

Joint Venture: See "subsidiaries."

Lease Accounting: A lease is an agreement that transfers the right to use land, buildings, or equipment for a specified period of time. This financing device is essentially an extension of credit evidenced by an obligation between a lessee and a lessor.

Standards for lease accounting are set forth in ASC Topic 840, Leases (formerly FASB Statement No. 13, "Accounting for Leases," as amended and interpreted).

Accounting with bank as lessee – Any lease entered into by a lessee bank that meets certain criteria (defined in the following paragraph) shall be accounted for as a property acquisition financed with a debt obligation. The property shall be amortized according to the bank's normal depreciation policy (except, if appropriate, the amortization period shall be the lease term) unless the lease involves land only. The interest expense portion of each lease payment shall be calculated to result in a constant rate of interest on the balance of the debt obligation. In the Consolidated Report of Condition, the property "asset" is to be reported in Schedule RC, item 6, and the liability for capitalized leases in Schedule RC-M, item 5.b, "Other borrowings." In the Consolidated Report of Income, the interest expense portion of the capital lease payments is to be reported in Schedule RI, item 2.c, "Other interest expense,” and the amortization expense on the asset is to be reported in Schedule RI, item 7.b, "Expenses of premises and fixed assets."

If any one of the following criteria is met, a lease must be accounted for as a capital lease:

(1) ownership of the property is transferred to the lessee at the end of the lease term, or

(2) the lease contains a bargain purchase option, or

(3) the lease term represents at least 75 percent of the estimated economic life of the leased property, or

(4) the present value of the minimum lease payments at the beginning of the lease term is 90 percent or more of the fair value of the leased property to the lessor at the inception of the lease less any related investment tax credit retained by and expected to be realized by the lessor.

If none of the above criteria is met, the lease should be accounted for as an operating lease. Normally, rental payments should be charged to expense over the term of the operating lease as they become payable.

NOTE: If a lease involves land only, the lease must be capitalized if either of the first two criteria above is met. Where a lease that involves land and building meets either of these two criteria, the land and building must be separately capitalized by the lessee. The accounting for a lease involving land and building that meets neither of the first two criteria should conform to the standards prescribed by ASC Topic 840.

Accounting for sales with leasebacks – Sale-leaseback transactions involve the sale of property by the owner and a lease of the property back to the seller. If a bank sells premises or fixed assets and leases back the property, the lease shall be treated as a capital lease if it meets any one of the four criteria above for capitalization. Otherwise, the lease shall be accounted for as an operating lease.

Lease Accounting (cont.):

As a general rule, the bank shall defer any gain resulting from the sale. For capital leases, this deferred gain is amortized in proportion to the depreciation taken on the leased asset. For operating leases, the deferred gain is amortized in proportion to the rental payments the bank will make over the lease term. The unamortized deferred gain is to be reported in Schedule RC-G, item 4, "All other liabilities." (Exceptions to the general rule on deferral that permit full or partial recognition of a gain at the time of the sale may occur if the leaseback covers less than substantially all of the property that was sold or if the total gain exceeds the minimum lease payments.)

If the fair value of the property at the time of the sale is less than the book value of the property, the difference between these two amounts shall be recognized as a loss immediately. In this case, if the sales price is less than the fair value of the property, the additional loss shall be deferred since it is in substance a prepayment of rent. Similarly, if the fair value of the property sold is greater than its book value, any loss on the sale shall also be deferred. Deferred losses shall be amortized in the same manner as deferred gains as described above.

For further information, see ASC Subtopic 840-40, Leases – Sale-Leaseback Transactions (formerly FASB Statement No. 28, "Accounting for Sales with Leasebacks").

Accounting with bank as lessor – Unless a long-term creditor is also involved in the transaction, a lease entered into by a lessor bank that meets one of the four criteria above for a capital lease plus two additional criteria (as defined below) shall be treated as a direct financing lease. The unearned income (minimum lease payments plus estimated residual value plus initial direct costs less the cost of the leased property) shall be amortized to income over the lease term in a manner which produces a constant rate of return on the net investment (minimum lease payments plus estimated residual value plus initial direct costs less unearned income). Other methods of income recognition may be used if the results are not materially different.

The following two additional criteria must be met for a lease to be classified as a direct financing lease:

(1) Collectability of the minimum lease payments is reasonably predictable.

(2) No important uncertainties surround the amount of unreimbursable costs yet to be incurred by the lessor under the lease.

When a lessor bank enters into a lease that has all the characteristics of a direct financing lease but where a long-term creditor provides nonrecourse financing to the lessor, the transaction shall be accounted for as a leveraged lease. The lessor's net investment in a leveraged lease shall be recorded in a manner similar to that for a direct financing lease but net of the principal and interest on the nonrecourse debt. Based on a projected cash flow analysis for the lease term, unearned and deferred income shall be amortized to income at a constant rate only in those years of the lease term in which the net investment is positive. In the years in which the net investment is not positive, no income is to be recognized on the leveraged lease.

If a lease is neither a direct financing lease nor a leveraged lease, the lessor bank shall account for it as an operating lease. The leased property shall be reported as "Other assets" and depreciated in accordance with the bank's normal policy. Rental payments are generally credited to income over the term of an operating lease as they become receivable.

Letter of Credit: A letter of credit is a document issued by a bank on behalf of its customer (the account party) authorizing a third party (the beneficiary), or in special cases the account party, to draw drafts on the bank up to a stipulated amount and with specified terms and conditions. The letter of credit is a conditional commitment (except when prepaid by the account party) on the part of the bank to provide payment on drafts drawn in accordance with the terms of the document.

Participations in Acceptances: See "bankers acceptances."

Participations in Pools of Securities: See "repurchase/resale agreements."

Pass-through Reserve Balances: Under the Monetary Control Act of 1980, and as reflected in Federal Reserve Regulation D, both member and nonmember depository institutions may hold the balances they maintain to satisfy reserve balance requirements (in excess of vault cash) in one of two ways: either (1) directly with a Federal Reserve Bank or (2) indirectly in an account with another institution (referred to here as a "correspondent"), which, in turn, is required to pass the reserves through to a Federal Reserve Bank. This second type of account is called a "pass-through account," and a depository institution passing its reserves to the Federal Reserve through a correspondent is referred to here as a "respondent." This pass-through reserve relationship is legally and for supervisory purposes considered to constitute an asset/debt relationship between the respondent and the correspondent, and an asset/debt relationship between the correspondent and the Federal Reserve. The required reporting of the "pass-through reserve balances" reflects this structure of asset/debt relationships.

In the balance sheet of the respondent bank, the pass-through reserve balances are to be treated as a claim on the correspondent (not as a claim on the Federal Reserve) and, as such, are to be reflected in the balance sheet of the Consolidated Report of Condition, Schedule RC, item 1.a, "Noninterest-bearing balances and currency and coin," or item 1.b, "Interest-bearing balances," as appropriate.

In the balance sheet of the correspondent bank, the pass-through reserve balances are to be treated as balances due to respondents and, to the extent that the balances have actually been passed through to the Federal Reserve, as balances due from the Federal Reserve. The balances due to respondents are to be reflected in the balance sheet of the Consolidated Report of Condition, Schedule RC, item 13.a, "Deposits in domestic offices," and in Schedule RC-E, Deposit Liabilities, item 4. The balances due from the Federal Reserve are to be reflected on the balance sheet in Schedule RC, item 1.b, "Interest-bearing balances."

The reporting of pass-through reserve balances by correspondent and respondent banks differs from the required reporting of excess balance accounts by participants and agents, which is described in the Glossary entry for “excess balance accounts.”

Perpetual Preferred Stock: See "preferred stock."

Preauthorized Transfer Account: See "deposits."

Preferred Stock: Preferred stock is a form of ownership interest in a bank or other company which entitles its holders to some preference or priority over the owners of common stock, usually with respect to dividends or asset distributions in a liquidation.

Limited-life preferred stock is preferred stock that has a stated maturity date or that can be redeemed at the option of the holder. It excludes those issues of preferred stock that automatically convert into perpetual preferred stock or common stock at a stated date.

Perpetual preferred stock is preferred stock that does not have a stated maturity date or that cannot be redeemed at the option of the holder. It includes those issues of preferred stock that automatically convert into common stock at a stated date.

Premiums and Discounts: A premium arises when a bank purchases a security, loan, or other asset at a price in excess of its par or face value, typically because the current level of interest rates for such assets is less than its contract or stated rate of interest. The difference between the purchase price and par or face value represents the premium, which all banks are required to amortize.

A discount arises when a bank purchases a security, loan, or other asset at a price below its par or face value, typically because the current level of interest rates for such assets is greater than its contract or stated rate of interest. A discount is also present on instruments that do not have a stated rate of interest such as U.S. Treasury bills and commercial paper. The difference between par or face value and the purchase price represents the discount that all banks are required to accrete.

Premiums and discounts are accounted for as adjustments to the yield on an asset over the life of the asset. A premium must be amortized and a discount must be accreted from date of purchase to maturity, not to call or put date. The preferable method for amortizing premiums and accreting discounts involves the use of the interest method for accruing income on the asset. The objective of the interest method is to produce a constant yield or rate of return on the carrying value of the asset (par or face value plus unamortized premium or less unaccreted discount) at the beginning of each amortization period over the asset's remaining life. The difference between the periodic interest income that is accrued on the asset and interest at the stated rate is the periodic amortization or accretion. However, a straight-line method of amortization or accretion is acceptable if the results are not materially different from the interest method.

A premium or discount may also arise when the reporting bank, acting either as a lender or a borrower, is involved in an exchange of a note for assets other than cash and the interest rate is either below the market rate or not stated, or the face amount of the note is materially different from the fair value of the noncash assets exchanged. The noncash assets and the related note shall be recorded at either the fair value of the noncash assets or the market value of the note, whichever is more clearly determinable. The market value of the note would be its present value as determined by discounting all future payments on the note using an appropriate interest rate, i.e., a rate comparable to that on new loans of similar risk. The difference between the face amount and the recorded value of the note is a premium or discount. This discount or premium shall be accounted for as an adjustment of the interest income or expense over the life of the note using the interest method described above.

For further information, see ASC Subtopic 835-30, Interest – Imputation of Interest (formerly APB Opinion No. 21, "Interest on Receivables and Payables").

Private Company: A private company is a business entity that is not a public business entity. For further information, see the Glossary entry for "public business entity."

Public Business Entity: Accounting Standards Update No. 2013-12, "Definition of a Public Business Entity," added this term to the Master Glossary in the Accounting Standards Codification. The definition states that a business entity, such as bank or savings association, that meets any one of five specified criteria is a public business entity for reporting purposes under U.S. GAAP. This also applies for Call Report purposes. In contrast, a private company is a business entity that is not a public business entity. An institution that is a public business entity is not permitted to apply private company accounting alternatives when preparing its Call Report.

As defined in the ASC Master Glossary, a business entity is a public business entity if it meets any one of the following criteria:

- It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).

Purchased Credit-Impaired Loans and Debt Securities (cont.):

ASC Subtopic 310-30 does not prohibit an institution from placing a purchased credit-impaired loan accounted for individually, a pool of purchased credit-impaired loans with common risk characteristics, or a purchased credit-impaired debt security in nonaccrual status. Because a loan (including a loan aggregated with other loans with common risk characteristics) or debt security accounted for in accordance with ASC Subtopic 310-30 has evidence of deterioration of credit quality since origination, an acquiring institution must determine upon acquisition whether it is appropriate to recognize the accretable yield as income over the life of the loan, pool of loans, or debt security using the interest method. In order to apply the interest method, the institution must have sufficient information to reasonably estimate the amount and timing of the cash flows expected to be collected on the loan, loan pool, or debt security. Thus, when the amount and timing of the cash flows cannot be reasonably estimated at acquisition, the institution should place the purchased credit-impaired loan, pool, or debt security in nonaccrual status and then apply the cost recovery method or cash basis income recognition to the asset. (For purchased credit-impaired loans with common risk characteristics that are aggregated and accounted for as a pool, the determination of nonaccrual or accrual status should be made at the pool level, not at the individual loan level.) In addition, if a purchased credit-impaired loan or debt security is acquired primarily for the rewards of ownership of the underlying collateral, accrual of income is inappropriate and the loan or debt security should be placed in nonaccrual status. The amount of a purchased credit-impaired loan, pool of loans, or debt security in nonaccrual status should be reported in the appropriate items of Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, column C.

When accrual of income on a purchased credit-impaired loan accounted for individually or a purchased credit-impaired debt security is appropriate (either at acquisition or at a later date when the amount and timing of the cash flows can be reasonably estimated), the delinquency status of the individual asset should be determined in accordance with its contractual repayment terms for purposes of reporting the amount of the loan or debt security as past due in the appropriate items of Schedule RC-N, column A or B. When accrual of income on a pool of purchased credit-impaired loans with common risk characteristics is appropriate, delinquency status should be determined individually for each loan in the pool in accordance with the individual loan's contractual repayment terms for purposes of reporting the amount of individual loans within the pool as past due in the appropriate items of Schedule RC-N, column A or B.

ASC Subtopic 310-30 prohibits an institution from "carrying over" or creating loan loss allowances in the initial accounting for purchased credit-impaired loans. This prohibition applies to the purchase of an individual impaired loan, a pool or group of impaired loans, and impaired loans acquired in a business combination. However, for a purchased credit-impaired loan accounted for individually (and not accounted for as a debt security), if upon subsequent evaluation it is probable based on current information and events that an institution will be unable to collect all cash flows expected at acquisition (plus additional cash flows expected to be collected arising from changes in estimate after acquisition), the purchased credit-impaired loan should be considered impaired for purposes of establishing an allowance pursuant to ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, "Accounting for Contingencies") or ASC Subtopic 310-10, Receivables – Overall (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan"), as appropriate. For purchased credit-impaired loans with common risk characteristics that are aggregated and accounted for as a pool, this impairment analysis should be performed subsequent to acquisition at the pool level as a whole and not at the individual loan level. An institution should include post-acquisition allowances on purchased credit-impaired loans and pools of purchased credit-impaired loans in the overall allowance for loan and lease losses it reports in Schedule RC, item 4.c, and Schedule RI-B, Part II, item 7.

In Schedule RC-C, Part I, Loans and Leases, an institution should report the amount of a purchased credit-impaired loan in the appropriate loan category (items 1 through 9). Neither the accretable yield nor the nonaccretable difference associated with a purchased credit-impaired loan should be reported as unearned income in Schedule RC-C, Part I, item 11. In addition, an institution should report in

Purchased Credit-Impaired Loans and Debt Securities (cont.):
Schedule RC-C, Part I, Memorandum items 7.a and 7.b, in the June and December reports only the outstanding balance and amount, respectively, of all purchased credit-impaired loans reported as held for investment in Schedule RC-C, Part I. An institution also should report the outstanding balance and amount of those held-for-investment purchased credit-impaired loans reported in Schedule RC-C, Part I, Memorandum items 7.a and 7.b, that are past due 30 through 89 days and still accruing, past due 90 days or more and still accruing, or in nonaccrual status as of the report date in Schedule RC-N, Memorandum items 9.a and 9.b, column A, B, or C, respectively, in the June and December reports only in accordance with the past due and nonaccrual guidance provided above in this Glossary entry.

For further information, refer to ASC Subtopic 310-30.

Put Option: See "derivative contracts."

Real Estate ADC Arrangements: See "acquisition, development, or construction (ADC) arrangements."

Real Estate, Loan Secured By: See "loan secured by real estate."

Reciprocal Balances: Reciprocal balances arise when two depository institutions maintain deposit accounts with each other; that is, when a reporting bank has both a due to and a due from balance with another depository institution.

For purposes of the balance sheet of the Consolidated Report of Condition, reciprocal balances between the reporting bank and other depository institutions may be reported on a net basis when a right of setoff exists. See the Glossary entry for "offsetting" for the conditions that must be met for a right of setoff to exist.

Renegotiated Troubled Debt: See "troubled debt restructurings."

Repurchase/Resale Agreements: A repurchase agreement is a transaction involving the "sale" of financial assets by one party to another, subject to an agreement by the "seller" to repurchase the assets at a specified date or in specified circumstances. A resale agreement (also known as a reverse repurchase agreement) is a transaction involving the "purchase" of financial assets by one party from another, subject to an agreement by the "purchaser" to resell the assets at a specified date or in specified circumstances.

As stated in the AICPA's Audit and Accounting Guide for Banks and Savings Institutions, dollar repurchase agreements (also called dollar rolls) are agreements to sell and repurchase similar but not identical securities. The dollar roll market consists primarily of agreements that involve mortgage-backed securities (MBS). Dollar rolls differ from regular repurchase agreements in that the securities sold and repurchased, which are usually of the same issuer, are represented by different certificates, are collateralized by different but similar mortgage pools (for example, single-family residential mortgages), and generally have different principal amounts.

General rule – Consistent with ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended), repurchase and resale agreements involving financial assets (e.g., securities and loans), including dollar repurchase agreements, are either reported as (a) secured borrowings and loans or (b) sales and forward repurchase commitments based on whether the transferring ("selling") institution maintains control over the transferred assets. (See the Glossary entry for "transfers of financial assets" for further discussion of control criteria.)

<u>Repurchase/Resale Agreements (cont.):</u>

If a repurchase agreement both entitles and obligates the "selling" bank to repurchase or redeem the transferred assets from the transferee ("purchaser"), the "selling" bank should report the transaction as a secured borrowing if and only if the following conditions have been met:

(1) The assets to be repurchased or redeemed are the same or "substantially the same" as those transferred, as defined by ASC Topic 860.

(2) The "selling" institution has the ability to repurchase or redeem the transferred assets on substantially the agreed terms, even in the event of default by the transferee ("purchaser"). This ability is presumed to exist if the "selling" bank has obtained cash or other collateral sufficient to fund substantially all of the cost of purchasing replacement assets from others.

(3) The agreement is to repurchase or redeem the transferred assets before maturity, at a fixed or determinable price.

(4) The agreement is entered into concurrently with the transfer.

Participations in pools of securities are to be reported in the same manner as security repurchase/resale transactions.

<u>Repurchase agreements reported as secured borrowings</u> – If a repurchase agreement qualifies as a secured borrowing, the "selling" institution should report the transaction as indicated below based on whether the agreement involves a security or some other financial asset.

(1) Securities "sold" under agreements to repurchase are reported in Schedule RC, item 14.b, "Securities sold under agreements to repurchase."

(2) Financial assets (other than securities) "sold" under agreements to repurchase are reported as follows:

(a) If the repurchase agreement has an original maturity of one business day (or is under a continuing contract) and is in immediately available funds, it should be reported in Schedule RC, item 14.a, "Federal funds purchased."
(b) If the repurchase agreement has an original maturity of more than one business day or is not in immediately available funds, it should be reported in Schedule RC-M, item 5.b.

In addition, the "selling" institution may need to record further entries depending on the terms of the agreement. If the "purchaser" has the right to sell or repledge noncash assets, the "selling" institution should recategorize the transferred financial assets as "assets receivable" and report them in Schedule RC, item 11, "Other assets." Otherwise, the financial assets should continue to be reported in the same asset category as before the transfer (e.g., securities should continue to be reported in Schedule RC, item 2, "Securities," or item 5, "Trading assets," as appropriate).

<u>Resale agreements reported as secured borrowings</u>. Similarly, if a resale agreement qualifies as a secured borrowing, the "purchasing" institution should report the transaction as indicated below based on whether the agreement involves a security or some other financial asset.

(1) Securities "purchased" under agreements to resell are reported in Schedule RC, item 3.b, "Securities purchased under agreements to resell."

(2) Financial assets (other than securities) "purchased" under agreements to resell are reported as follows:

(a) If the resale agreement has an original maturity of one business day (or is under a continuing contract) and is in immediately available funds, it should be reported in Schedule RC, item 3.a, "Federal funds sold."

Repurchase/Resale Agreements (cont.):

(b) If the resale agreement has an original maturity of more than one business day or is not in immediately available funds, it should be reported in Schedule RC, item 4.b, "Loans and leases held for investment."

In addition, the "purchasing" institution may need to record further entries depending on the terms of the agreement. If the "purchasing" institution has the right to sell the noncash assets it has "purchased" and sells these assets, it should recognize the proceeds from the sale and report its obligation to return the assets in Schedule RC, item 20, "Other liabilities." If the "selling" institution defaults under the terms of the repurchase agreement and is no longer entitled to redeem the noncash assets, the "purchasing" bank should recognize these assets on its own balance sheet (e.g., securities should be reported in Schedule RC, item 2, "Securities," or item 5, "Trading assets," as appropriate) and initially measure them at fair value. However, if the "purchasing" bank has already sold the assets it has "purchased," it should derecognize its obligation to return the assets. Otherwise, the "purchasing" bank should not recognize the transferred financial assets (i.e., the financial assets "purchased" under the resale agreement) on its balance sheet.

Repurchase/resale agreements reported as sales – If a repurchase agreement does not qualify as a secured borrowing under ASC Topic 860, the selling bank should account for the transaction as a sale of financial assets and a forward repurchase commitment. The selling bank should remove the transferred assets from its balance sheet, record the proceeds from the sale of the transferred assets (including the forward repurchase commitment), and record any gain or loss on the transaction. Similarly, if a resale agreement does not qualify as a borrowing under ASC Topic 860, the purchasing bank should account for the transaction as a purchase of financial assets and a forward resale commitment. The purchasing bank should record the transferred assets on its balance sheet, initially measure them at fair value, and record the payment for the purchased assets (including the forward resale commitment).

Reserve Balances, Pass-through: See "pass-through reserve balances."

Retail Sweep Arrangements: See "deposits."

Revenue from Contracts with Customers: ASC Topic 606, Revenue from Contracts with Customers, when it becomes effective as a result of Accounting Standards Update (ASU) 2014-09, provides guidance on how an entity should recognize revenue from these transactions. The core principle of Topic 606 is that an entity should recognize revenue at an amount that reflects the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer as part of the entity's ordinary activities. ASU 2014-09 also added Topic 610, Other Income, to the ASC. Topic 610 applies to income recognition that is not within the scope of Topic 606, other Topics (such as Topics 840 and 842 on leases, as applicable), or other revenue or income guidance. Topic 610 applies to an institution's sales of repossessed nonfinancial assets, such as other real estate owned (OREO). See the Glossary entry for "foreclosed assets" for guidance on the accounting and reporting for the sale of OREO and other repossessed nonfinancial assets.

ASC Topic 606 specifically excludes financial instruments and other contractual rights or obligations within the scope of Topic 310, Receivables; Topic 320, Investments – Debt Securities; Topic 321, Investments – Equity Securities; Topic 815, Derivatives and Hedging; Topic 860, Transfers and Servicing, and certain other ASC Topics. Therefore, many common revenue streams in the financial

[1] For institutions that are public business entities, as defined under U.S. GAAP, the new standard is effective for fiscal years beginning after December 15, 2017, including interim reporting periods within those fiscal years. For institutions that are not public business entities (i.e., that are private companies), the new standard is effective for fiscal years beginning after December 15, 2018, and interim reporting periods within fiscal years beginning after December 15, 2019. Early application of the new standard is permitted. See the Glossary entries for "public business entity" and "private company" for the definitions of these terms.

Revenue from Contracts with Customers (cont.):
sector, such as interest income, fair value adjustments, gains and losses on sales of financial instruments, and loan origination fees, are not within the scope of ASC Topic 606. However, the provisions of ASC Topic 606 may affect the timing for the recognition of, and the presentation of, those revenue streams within the scope of this accounting standard, such as certain fees associated with credit card arrangements, underwriting fees and costs, and deposit-related fees.

To achieve the core principle described above when accounting for transactions within the scope of ASC Topic 606, an institution should apply the following steps as set forth in Topic 606:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the institution satisfies a performance obligation.

For further guidance on applying these steps, refer to ASC Topic 606.

Savings Deposits: See "deposits."

Securities Activities: Institutions should categorize their investments in debt securities and certain equity securities (i.e., those equity securities with readily determinable fair values) as trading, available-for-sale, or held-to-maturity consistent with ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," as amended). Management should periodically reassess its security categorization decisions to ensure that they remain appropriate.

Securities that are intended to be held principally for the purpose of selling them in the near term should be classified as trading assets. Trading activity includes active and frequent buying and selling of securities for the purpose of generating profits on short-term fluctuations in price. Securities held for trading purposes must be reported at fair value, with unrealized gains and losses recognized in current earnings and regulatory capital. Institutions may also elect to report debt securities within the scope of ASC Topic 320 at fair value in accordance with ASC Subtopic 825-10, Financial Instruments – Overall (formerly FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities"). Debt securities for which the fair value option is elected should be classified as trading assets with unrealized gains and losses recognized in current earnings and regulatory capital. In general, the fair value option may be elected for an individual debt security only when it is first recognized and the election is irrevocable. Institutions must report whether they utilize the fair value option to measure any of their assets or liabilities in Schedule SU, item 3, and if so, they must complete the appropriate subitems of item 3.

Securities Borrowing/Lending Transactions: Securities borrowing/lending transactions are typically initiated by broker-dealers and other financial institutions that need specific securities to cover a short sale or a customer's failure to deliver securities sold. A transferee ("borrower") of securities generally is required to provide "collateral" to the transferor ("lender") of securities, commonly cash but sometimes other securities or standby letters of credit, with a value slightly higher than that of the securities "borrowed."

Most securities borrowing/lending transactions do not qualify as sales under ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended), because the agreement entitles and obligates the securities lender to repurchase or redeem the transferred assets before their maturity. (See the Glossary entry for "transfers of financial assets" for further discussion of sale criteria.) When such transactions do not qualify as sales, securities lenders and borrowers should account for the transactions as secured borrowings in which cash (or securities that the holder is permitted by contract or custom to sell or repledge) received as "collateral" by the securities lender is considered the amount borrowed and the securities "loaned" are considered pledged as collateral against the amount borrowed. The "loaned" securities should continue to be reported on the securities lender's balance sheet as available-for-sale securities, held-to-maturity securities, or trading assets, as appropriate. "Loaned" securities that are reported as available-for-sale or held-to-maturity securities in Schedule RC-B, Securities, should also be reported as "Pledged securities" in Memorandum item 1 of that schedule.

If the securities borrowing/lending transaction meets the criteria for a sale under ASC Topic 860, the lender of the securities should remove the securities from its balance sheet, record the proceeds from the sale of the securities (including the forward repurchase commitment), and recognize any gain or loss on the transaction. The borrower of the securities should record the securities on its balance sheet at fair value and record the payment for the purchased assets (including the forward resale commitment).

Securities, Participations in Pools of: See "repurchase/resale agreements."

Servicing Assets and Liabilities: The accounting and reporting standards for servicing assets and liabilities are set forth in ASC Subtopic 860-50, Transfers and Servicing – Servicing Assets and Liabilities (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended by FASB Statement No. 156, "Accounting for Servicing of Financial Assets," and FASB Statement No. 166, "Accounting for Transfers of Financial Assets"), and ASC Topic 948, Financial Services-Mortgage Banking (formerly FASB Statement No. 65, "Accounting for Certain Mortgage Banking Activities," as amended by Statement No. 140). A summary of the relevant sections of these accounting standards follows. For further information, see ASC Subtopic 860-50, ASC Topic 948, and the Glossary entry for "transfers of financial assets."

Servicing of mortgage loans, credit card receivables, or other financial assets includes, but is not limited to, collecting principal, interest, and escrow payments from borrowers; paying taxes and insurance from escrowed funds; monitoring delinquencies; executing foreclosure if necessary; temporarily investing funds pending distribution; remitting fees to guarantors, trustees, and others providing services; and accounting for and remitting principal and interest payments to the holders of beneficial interests in the financial assets. Servicers typically receive certain benefits from the servicing contract and incur the costs of servicing the assets.

Servicing is inherent in all financial assets; it becomes a distinct asset or liability for accounting purposes only in certain circumstances as discussed below. Servicing assets result from contracts to service financial assets under which the benefits of servicing (estimated future revenues from contractually specified servicing fees, late charges, and other ancillary sources) are expected to more than adequately compensate the servicer for performing the servicing. Servicing liabilities result from contracts to service financial assets under which the benefits of servicing are not expected to

Servicing Assets and Liabilities (cont.):

adequately compensate the servicer for performing the servicing. Contractually specified servicing fees are all amounts that, per contract, are due to the servicer in exchange for servicing the financial asset and would no longer be received by a servicer if the beneficial owners of the serviced assets or their trustees or agents were to exercise their actual or potential authority under the contract to shift the servicing to another servicer. Adequate compensation is the amount of benefits of servicing that would fairly compensate a substitute servicer should one be required including the profit that would be demanded by a substitute servicer in the marketplace.

A bank must recognize and initially measure at fair value a servicing asset or a servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in either of the following situations:

(1) The bank's transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset that meets the requirements for sale accounting; or

(2) An acquisition or assumption of a servicing obligation that does not relate to financial assets of the bank or its consolidated affiliates included in the Consolidated Reports of Condition and Income being presented.

If a bank sells a participating interest in an entire financial asset, it only recognizes a servicing asset or servicing liability related to the participating interest sold.

A bank that transfers its financial assets to an unconsolidated entity in a transfer that qualifies as a sale in which the bank obtains the resulting securities and classifies them as debt securities held-to-maturity in accordance with ASC Topic 320, Investments–Debt Securities (formerly FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities"), may either separately recognize its servicing assets or servicing liabilities or report those servicing assets or servicing liabilities together with the assets being serviced.

A bank should account for its servicing contract that qualifies for separate recognition as a servicing asset or servicing liability initially measured at fair value regardless of whether explicit consideration was exchanged. A bank that transfers or securitizes financial assets in a transaction that does not meet the requirements for sale accounting under ASC Topic 860 and is accounted for as a secured borrowing with the underlying assets remaining on the bank's balance sheet must not recognize a servicing asset or a servicing liability.

After initially measuring a servicing asset or servicing liability at fair value, a bank should subsequently measure each class of servicing assets and servicing liabilities using either the amortization method or the fair value measurement method. The election of the subsequent measurement method should be made separately for each class of servicing assets and servicing liabilities. A bank must apply the same subsequent measurement method to each servicing asset and servicing liability in a class. Each bank should identify its classes of servicing assets and servicing liabilities based on (a) the availability of market inputs used in determining the fair value of servicing assets and servicing liabilities, (b) the bank's method for managing the risks of its servicing assets or servicing liabilities, or (c) both. Different elections can be made for different classes of servicing. For a class of servicing assets and servicing liabilities that is subsequently measured using the amortization method, a bank may change the subsequent measurement method for that class of servicing by making an irrevocable decision to elect the fair value measurement method for that class at the beginning of any fiscal year. Once a bank elects the fair value measurement method for a class of servicing, that election must not be reversed.

Under the amortization method, all servicing assets or servicing liabilities in the class should be amortized in proportion to, and over the period of, estimated net servicing income for assets (servicing revenues in excess of servicing costs) or net servicing loss for liabilities (servicing costs in excess of servicing revenues). The servicing assets or servicing liabilities should be assessed for impairment or

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.c, "All other intangible 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.c, 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.

Trade Date and Settlement Date Accounting (cont.):
from the asset category in which it was recorded, and the proceeds receivable resulting from the sale shall be reported in Schedule RC-F, item 6, "All other assets." Any gain or loss resulting from such transaction shall also be recognized on the trade date. On the settlement date, disbursement of the payment or receipt of the proceeds will eliminate the respective "All other liabilities" or "All other assets" entry resulting from the initial recording of the transaction.

Under settlement date accounting, assets purchased are not recorded until settlement date. On the trade date, no entries are made. Upon receipt of the assets on the settlement date, the asset is reported in the proper asset category and payment is disbursed. The selling bank, on the trade date, would make no entries. On settlement date, the selling bank would reduce the appropriate asset category and reflect the receipt of the payment. Any gain or loss resulting from such transaction would be recognized on the settlement date.

Trading Account: Trading activities typically include (a) regularly underwriting or dealing in securities; interest rate, foreign exchange rate, commodity, equity, and credit derivative contracts; other financial instruments; and other assets for resale, (b) acquiring or taking positions in such items principally for the purpose of selling in the near term or otherwise with the intent to resell in order to profit from short-term price movements, and (c) acquiring or taking positions in such items as an accommodation to customers or for other trading purposes.

For purposes of the Consolidated Reports of Condition and Income, all debt securities within the scope of ASC Topic 320, Investments-Debt Securities (formerly FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities"), that a bank has elected to report at fair value under a fair value option with changes in fair value reported in current earnings should be classified as trading securities. In addition, for purposes of these reports, banks may classify assets (other than debt securities within the scope of ASC Topic 320 for which a fair value option is elected) and liabilities as trading if the bank applies fair value accounting, with changes in fair value reported in current earnings, and manages these assets and liabilities as trading positions, subject to the controls and applicable regulatory guidance related to trading activities. For example, a bank would generally not classify a loan to which it has applied the fair value option as a trading asset unless the bank holds the loan, which it manages as a trading position, for one of the following purposes: (1) for market making activities, including such activities as accumulating loans for sale or securitization; (2) to benefit from actual or expected price movements; or (3) to lock in arbitrage profits.

All trading assets should be segregated from a bank's other assets and reported in Schedule RC, item 5, "Trading assets."

A bank's failure to establish a separate account for assets that are used for trading purposes does not prevent such assets from being designated as trading for purposes of these reports. For further information, see ASC Topic 320.

All trading account assets should be reported at their fair value as defined by ASC Topic 820, Fair Value Measurement (formerly FASB Statement No. 157, "Fair Value Measurements"), with unrealized gains and losses recognized in current income. When a security or other asset is acquired, a bank should determine whether it intends to hold the asset for trading or for investment (e.g., for securities, available-for-sale or held-to-maturity). A bank should not record a newly acquired asset in a suspense account and later determine whether it was acquired for trading or investment purposes. Regardless of how a bank categorizes a newly acquired asset, management should document its decision.

All trading liabilities should be segregated from other transactions and reported in Schedule RC, item 15, "Trading liabilities." The trading liability account includes the fair value of derivative contracts held for trading that are in loss positions and short positions arising from sales of securities and other assets that the bank does not own. (See the Glossary entry for "short position.") Trading account liabilities should be reported at fair value as defined by ASC Topic 820 with unrealized gains and losses recognized in current income in a manner similar to trading account assets.

Trading Account (cont.):
Given the nature of the trading account, transfers into or from the trading category should be rare. Transfers between a trading account and any other account of the bank must be recorded at fair value at the time of the transfer. For a security transferred from the trading category, the unrealized holding gain or loss at the date of the transfer will already have been recognized in earnings and should not be reversed. For a security transferred into the trading category, the unrealized holding gain or loss at the date of the transfer should be recognized in earnings.

Transaction Account: See "deposits."

Transactions Between Entities under Common Control: See "business combinations."

Transfers of Financial Assets: The accounting and reporting standards for transfers of financial assets are set forth in ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended by FASB Statement No. 156, "Accounting for Servicing of Financial Assets," FASB Statement No. 166, "Accounting for Transfers of Financial Assets," and certain other standards). Banks must follow ASC Topic 860 for purposes of these reports. ASC Topic 860 limits the circumstances in which a financial asset, or a portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset or when the transferor has continuing involvement with the transferred financial asset. ASC Topic 860 also defines a "participating interest" (which is discussed more fully below) and establishes the accounting and reporting standards for loan participations, syndications, and other transfers of portions of financial assets. A summary of these accounting and reporting standards follows. For further information, see ASC Topic 860.

A financial asset is cash, evidence of an ownership interest in another entity, or a contract that conveys to the bank a contractual right either to receive cash or another financial instrument from another entity or to exchange other financial instruments on potentially favorable terms with another entity. Most of the assets on a bank's balance sheet are financial assets, including balances due from depository institutions, securities, federal funds sold, securities purchased under agreements to resell, loans and lease financing receivables, and interest-only strips receivable.[1] However, servicing assets are not financial assets. Financial assets also include financial futures contracts, forward contracts, interest rate swaps, interest rate caps, interest rate floors, and certain option contracts.

A transferor is an entity that transfers a financial asset, an interest in a financial asset, or a group of financial assets that it controls to another entity. A transferee is an entity that receives a financial asset, an interest in a financial asset, or a group of financial assets from a transferor.

In determining whether a bank has surrendered control over transferred financial assets, the bank must first consider whether the entity to which the financial assets were transferred would be required to be consolidated by the bank. If it is determined that consolidation would be required by the bank, then the transferred financial assets would not be treated as having been sold in the bank's Consolidated Reports of Condition and Income even if all of the other provisions listed below are met.[2]

Determining Whether a Transfer Should be Accounted for as a Sale or a Secured Borrowing – A transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset in which the transferor surrenders control over those financial assets shall be accounted for as a sale if and only if all of the following conditions are met:

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[1] ASC Topic 860 defines an interest-only strip receivable as the contractual right to receive some or all of the interest due on a bond, mortgage loan, collateralized mortgage obligation, or other interest-bearing financial asset.

[2] The requirements in ASC Subtopic 810-10, Consolidation – Overall (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)"), should be applied to determine when a variable interest entity should be consolidated. For further information, refer to the Glossary entry for "variable interest entity."

Troubled Debt Restructurings (cont.):

A credit analysis should be performed for a TDR loan in conjunction with its restructuring to determine its collectibility and estimated credit loss. When available information confirms that a specific TDR loan, or a portion thereof, is uncollectible, the uncollectible amount should be charged off against the allowance for loan and lease losses at the time of the restructuring. As is the case for all loans, the credit quality of restructured loans should be regularly reviewed. The institution should periodically evaluate the collectibility of the TDR loan so as to determine whether any additional amounts should be charged to the allowance for loan and lease losses or, if the restructuring involved an asset other than a loan, to another appropriate account.

Once an obligation has been restructured in a TDR, it continues to be considered a TDR until paid in full or otherwise settled, sold, or charged off (or meets the conditions discussed below under "Accounting for a Subsequent Restructuring of a Troubled Debt Restructuring"). The loan must be reported in the appropriate loan category in Schedule RC-C, Part I, items 1 through 9, and in the appropriate loan category in:

- Schedule RC-C, Part I, Memorandum item 1, if it is in compliance with its modified terms, or
- Schedule RC-N, items 1 through 7, and Memorandum item 1, if it is not in compliance with its modified terms.

However, for a loan that is a TDR (for example, because of a modification that includes a reduction in principal), if the restructuring agreement specifies a contractual interest rate that is a market interest rate at the time of the restructuring and the loan is in compliance with its modified terms, the loan need not continue to be reported as a troubled debt restructuring in Schedule RC-C, Part I, Memorandum item 1, in calendar years after the year in which the restructuring took place. A market interest rate is a contractual interest rate that at the time of the restructuring is greater than or equal to the rate that the institution was willing to accept for a new loan with comparable risk. To be considered in compliance with its modified terms, a loan that is a TDR must be in accrual status and must be current or less than 30 days past due on its contractual principal and interest payments under the modified repayment terms.

Accounting for a Subsequent Restructuring of a TDR – When a loan has previously been modified in a TDR, the lending institution and the borrower may subsequently enter into another restructuring agreement. The facts and circumstances of each subsequent restructuring of a TDR loan should be carefully evaluated to determine the appropriate accounting by the institution under U.S. GAAP. Under certain circumstances it may be acceptable not to account for the subsequently restructured loan as a TDR. The banking agencies will not object to an institution no longer treating such a loan as a TDR if at the time of the subsequent restructuring the borrower is not experiencing financial difficulties and, under the terms of the subsequent restructuring agreement, no concession has been granted by the institution to the borrower. To meet these conditions for removing the TDR designation, the subsequent restructuring agreement must specify market terms, including a contractual interest rate not less than a market interest rate for new debt with similar credit risk characteristics and other terms no less favorable to the institution than those it would offer for such new debt. When determining whether the borrower is experiencing financial difficulties, the institution's assessment of the borrower's financial condition and prospects for repayment after the restructuring should be supported by a current, well-documented credit evaluation performed at the time of the restructuring. When assessing whether a concession has been granted by the institution, the agencies consider any principal forgiveness on a cumulative basis to be a continuing concession. Accordingly, a TDR loan with any principal forgiveness would retain the TDR designation after subsequent restructurings.

If at the time of the subsequent restructuring the institution appropriately demonstrates that a loan meets the conditions discussed above, the impairment on the loan need no longer be measured as a TDR (i.e., as an impaired loan) in accordance with ASC Topic 310 and the Glossary entry for "loan impairment" and the loan need no longer be disclosed as a TDR in the Call Report, except as noted

Troubled Debt Restructurings (cont.):
below. Accordingly, going forward, loan impairment should be measured under ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, "Accounting for Contingencies"). Even though the loan need no longer be measured for impairment as a TDR or disclosed as a TDR, the recorded investment in the loan should not change at the time of the subsequent restructuring (unless cash is advanced or received). In this regard, when there have been charge-offs prior to the subsequent restructuring, consistent with longstanding Call Report instructions, no recoveries should be recognized until collections on amounts previously charged off have been received. Similarly, if interest payments were applied to the recorded investment in the TDR loan prior to the subsequent restructuring, the application of these payments to the recorded investment should not be reversed nor reported as interest income at the time of the subsequent restructuring.

If the TDR designation is removed from a loan that meets the conditions discussed above and the loan is later modified in a TDR or individually evaluated and determined to be impaired, then the impairment on the loan should be measured under ASC Topic 310 and the Glossary entry for “loan impairment” and, if appropriate, the loan should be disclosed as a TDR.

For a subsequently restructured TDR loan on which there was principal forgiveness and therefore does not meet the conditions discussed above, the impairment on the loan should continue to be measured as a TDR (i.e., as an impaired loan) in accordance with ASC Topic 310 and the Glossary entry for “loan impairment.”

Trust Preferred Securities: As bank investments, trust preferred securities are hybrid instruments possessing characteristics typically associated with debt obligations. Although each issue of these securities may involve minor differences in terms, under the basic structure of trust preferred securities a corporate issuer, such as a bank holding company, first organizes a business trust or other special purpose entity. This trust issues two classes of securities: common securities, all of which are purchased and held by the corporate issuer, and trust preferred securities, which are sold to investors. The business trust’s only assets are deeply subordinated debentures of the corporate issuer, which the trust purchases with the proceeds from the sale of its common and preferred securities. The corporate issuer makes periodic interest payments on the subordinated debentures to the business trust, which uses these payments to pay periodic dividends on the trust preferred securities to the investors. The subordinated debentures have a stated maturity and may also be redeemed under other circumstances. Most trust preferred securities are subject to mandatory redemption upon the repayment of the debentures.

Trust preferred securities meet the definition of a security in ASC Topic 320, Investments-Debt Securities (formerly FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities"). Because of the mandatory redemption provision in the typical trust preferred security, investments in trust preferred securities would normally be considered debt securities for financial accounting purposes. Accordingly, regardless of the authority under which a bank is permitted to invest in trust preferred securities, banks should report these investments as debt securities for purposes of these reports (unless, based on the specific facts and circumstances of a particular issue of trust preferred securities, the securities would be considered equity rather than debt securities under ASC Topic 320). If not held for trading purposes, an investment in trust preferred securities issued by a single U.S. business trust should be reported in Schedule RC-B, item 6.a, “Other domestic debt securities.” If not held for trading purposes, an investment in a structured financial product, such as a collateralized debt obligation, for which the underlying collateral is a pool of trust preferred securities issued by U.S. business trusts should be reported in Schedule RC-B, item 5.b, “Structured financial products.”

U.S. Banks: See "banks, U.S. and foreign."