

NOTE: Strike the instructions for "Amended Reports" and "Scope of the 'Consolidated Bank'" at the bottom of page 6, strike the three lines of instructions before "Accrual Basis Reporting" on the top of page 11, remove pages 7 through 10 (dated 6-96), and replace them with these revised pages.

Amended Reports

A bank's primary federal bank supervisory authority may require the filing of amended Reports of Condition and Income 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 Reports of Condition and Income, 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 which is defined in FASB Concepts Statement No. 2 as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

For report dates prior to March 31, 1995, if a bank's deposit totals reported in Schedule RC-E, (part I on the FFIEC 031), Memorandum item 4, accrued interest payable reported in Schedule RC-G, item 1.a, or any of the amounts reported in Schedule RC-O, items 1 through 10, are amended, the bank is encouraged to contact the FDIC's Assessments Hotline at (800) 759-6596 to ensure that the deposit insurance assessment for the period affected by the amendment is adjusted accordingly.

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

In their Reports of Condition and Income 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 generally accepted accounting principles. All significant majority-owned subsidiaries shall be consolidated unless the subsidiary is covered by one of the exceptions listed in the "Exclusions from the Coverage of the Consolidated Report" section below. (See the Glossary entry for "subsidiaries" for the definition of "significant subsidiary.") Accordingly, the Consolidated Reports of Condition and Income shall consolidate the operations of:

- (1) the bank's head office;
- (2) all branches of the bank, domestic and foreign;
- (3) any International Banking Facility (IBF) established by the bank;
- (4) all majority-owned Edge and Agreement subsidiaries, including their IBFs, their foreign and domestic branches, and their significant subsidiaries;
- (5) all majority-owned foreign banks held directly by the reporting bank pursuant to Section 25 of the Federal Reserve Act;
- (6) all other majority-owned subsidiaries that are "significant," including domestic subsidiaries that are commercial banks, savings banks, or savings and loan associations that must file separate Reports of Condition and Income (or separate reports of a comparable nature) with any state or federal financial institutions supervisory authority; and
- (7) all nonsignificant majority-owned subsidiaries that the bank has elected to consolidate on a consistent basis in both the Report of Condition and the Report of Income.

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 Schedule RC-M, item 8.b. (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 held on a temporary basis -- If control of a majority-owned subsidiary by the parent bank is likely to be temporary or does not rest with the parent bank because of legal or other reasons (e.g., the subsidiary is in bankruptcy), the subsidiary is not to be consolidated for purposes of the report. Thus, the bank's investments in such subsidiaries are not eliminated in consolidation but will be reflected in the reports in the balance sheet item for "Investments in unconsolidated subsidiaries and associated companies" (Schedule RC, item 8) and other transactions of the bank with such subsidiaries will be reflected in the appropriate items of the reports in the same manner as transactions with unrelated outside parties. Additional guidance on this topic is provided in accounting standards, including Financial Accounting Standards Board Statement No. 94 and SEC Staff Accounting Bulletin No. 92.

Trust accounts -- For purposes of the Reports of Condition and Income, the reporting bank's trust department is not to be consolidated into the reporting bank's balance sheet or income statement. Thus, assets held in or administered by the bank's trust department and the income earned on such assets are excluded from the consolidated reports 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 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 Report of Condition as deposit liabilities of the bank.

RULES OF CONSOLIDATION

For purposes of these reports, all offices (i.e., branches, subsidiaries, and IBFs) that are within the scope of the consolidated bank as defined above are to be reported on a consolidated basis. Unless the report form captions or the line item 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 Consolidated Reports of Condition and Income. (For example, eliminate in the consolidation (1) loans made by 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.)

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.

Minority interests -- A minority interest arises when the reporting bank owns less than 100 percent of the stock of a consolidated subsidiary. The minority interest consists of the shares of stock not owned by the reporting bank. Report minority interests in the reporting bank's consolidated subsidiaries in Schedule RC, item 20, "Other liabilities," and identify these interests in Schedule RC-G of the Report of Condition. Report income (or loss) associated with such minority interests in "Other noninterest expense" in Schedule RI of the Report of Income.

Intrabank transactions -- (For banks with foreign offices.) While all intrabank transactions are to be excluded from the consolidated Reports of Condition and Income, a few intrabank items that are eliminated in consolidation are required to be identified and reported. For example,

- (1) Schedule RC-H of the Report of Condition requires the reporting of:
 - (a) the net amount of "due from" or "due to" balances between domestic offices and foreign offices of the consolidated bank, and
 - (b) the net amount of "due from" or "due to" balances between domestic offices of the reporting bank and the IBF of the domestic offices of the reporting bank.
- (2) Schedule RI-D of the Report of Income requires the reporting of intrabank interest charges between types of offices of the bank.

Deposit insurance and FICO assessments -- For domestic offices of the reporting bank and for insured branches in Puerto Rico and U.S. territories and possessions, all deposits of subsidiaries that are consolidated and, therefore, eliminated from reported deposits (Schedule RC, item 13.a or 13.b, as appropriate) must be reported in Schedule RC-O, item 4.a or 4.b, as appropriate. Similarly, the interest accrued and unpaid on these deposits, which is eliminated in consolidation from reported other liabilities (Schedule RC, item 20), must be reported in Schedule RC-O, item 4.c.

Cutoff dates for consolidation -- All branches must be consolidated as of the report date. For purposes of consolidation, the date of 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.

REPORTING BY TYPE OF OFFICE (For banks with foreign offices)

Some information in the Reports of Condition and Income is to be reported by type of office (e.g., for domestic offices, for foreign offices, or for IBFs) as well as for the consolidated bank. Where information is called for by type of office, the information reported shall be the office component of the consolidated item unless otherwise specified in the line item instructions (e.g., as in the case of certain items in Schedule RI-D of the Report of Income). That is, as a general rule, the office information shall be reported at the same level of consolidation as the fully consolidated statement, shall reflect only transactions with parties outside the scope of the consolidated bank, and shall exclude all transactions between offices of the consolidated bank as defined above.

In addition to the type-of-office components of the corresponding consolidated bank items, some supporting schedules also require the reporting of the net amount of certain intrabank transactions that are eliminated from the Report of Condition.

PUBLICATION REQUIREMENTS FOR THE REPORT OF CONDITION

Federal requirements for a bank to publish the balance sheet of the Report of Condition in a newspaper have been repealed. Thus, national banks are no longer subject to a publication requirement. However, state-chartered banks should consult with their state banking authorities concerning the continued applicability of any state publication requirements.

RELEASE OF INDIVIDUAL BANK REPORTS

All schedules of the Reports of Condition and Income submitted by each reporting bank, including the optional narrative statement at the end of the Report of Condition, will be made available to the public upon request by the federal bank supervisory agencies with the exception of column A, "Past due 30 through 89 days and still accruing," and all of Memorandum item 1, "Restructured loans and leases included in Schedule RC-N above," of Schedule RC-N.

APPLICABILITY OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES TO REGULATORY REPORTING REQUIREMENTS

For recognition and measurement purposes, the regulatory reporting requirements applicable to Reports of Condition and Income (Call Report) shall conform to generally accepted accounting principles (GAAP). Nevertheless, because the Call Report is a bank-level report, each bank (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. Furthermore, when reporting events and transactions not covered in principle by Call Report instructions or authoritative GAAP standards, banks are encouraged to discuss the event or transaction with their primary federal bank supervisory agency.

Regardless of whether a bank discusses a reporting issue with its supervisory agency, when a bank's supervisory agency's interpretation of how GAAP should be applied to a specified event or transaction (or series of related events or transactions) differs from the bank's interpretation, the supervisory agency may require the bank to reflect the event(s) or transaction(s) in its Reports of Condition and Income 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 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 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 1993 Interagency Policy Statement on this subject, the separate entity method of accounting for income taxes of bank subsidiaries of holding companies in the Glossary entry for "Income Taxes," the push down accounting rules in the Glossary entry for "Business Combinations," and the treatment of property dividends in the Glossary entry for "Dividends."

There may be areas in which a bank 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 GAAP standards. Selected sections of the 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 bank accounting.