

## SUPPLEMENTAL INSTRUCTIONS

### June 2009 Call Report Forms

Sample Call Report forms for June 2009 are available on the FFIEC's Web site ([http://www.ffiec.gov/ffiec\\_report\\_forms.htm](http://www.ffiec.gov/ffiec_report_forms.htm)). An instruction book update for June 2009 is expected to be available on this Web site by July 1, 2009. Call Report forms, including the cover (signature) page, and instructional materials can be both printed and downloaded from the FFIEC's Web site. In addition, banks that use Call Report software generally can print paper copies of blank forms from their software. Please ensure that the person responsible for preparing Call Reports at your bank has been notified about the electronic availability of the June 2009 report forms and instruction book update as well as these Supplemental Instructions.

### Submission of Completed Reports

Each bank's Call Report data must be submitted to the FFIEC's Central Data Repository (CDR), an Internet-based system for data collection (<https://cdr.ffiec.gov/cdr/>), using one of the two methods described in the banking agencies' cover letter for the June 30, 2009, report date. For technical assistance with submissions to the CDR, please contact the CDR Help Desk by telephone at (888) CDR-3111, by fax at (703) 774-3946, or by e-mail at [CDR.Help@ffiec.gov](mailto:CDR.Help@ffiec.gov).

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

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

### Amending Previously Submitted Report Data

Should your bank find that it needs to revise previously submitted Call Report data for quarters beginning September 30, 2005, please make the appropriate changes to the data, ensure that the revised data passes the FFIEC-published validation criteria, and submit the revised data file to the CDR using one of the two methods described in the banking agencies' cover letter for the June 30, 2009, report date. Should your bank need to amend its Call Report data for June 30, 2005, or an earlier date, please contact your Call Report analyst at the FDIC (for national banks and FDIC-supervised banks) or your Federal Reserve District Bank (for state member banks) for instructions on how to submit amendments to prior period data.

### FDIC Special Assessment

On May 22, 2009, the FDIC Board of Directors adopted a final rule establishing a 5 basis point special assessment on each insured depository institution's total assets minus Tier 1 capital as of June 30, 2009. However, the special assessment will be capped at 10 basis points times an institution's domestic deposits as of June 30, 2009. For Call Report purposes, each institution should account for this special assessment in accordance with generally accepted accounting principles. Accordingly, an institution should accrue a liability and an estimated loss (expense) from a loss contingency for the special assessment in the quarter ending June 30, 2009, unless the institution had determined when it prepared its Call Report for March 31, 2009, that the

conditions for accrual under FASB Statement No. 5, *Accounting for Contingencies*, had been met as of that report date.

Thus, the estimated amount of the special assessment – based on the final rule adopted by the FDIC Board on May 22, 2009 – should be accrued as a liability (Schedule RC-G, item 1.b, “Other expenses accrued and unpaid”) and an expense (Schedule RI, item 7.d, “Other noninterest expense”) in the quarter ending June 30, 2009. The accrual of this expense should not be delayed until the third quarter of 2009 even though the assessment is not payable until September 30, 2009. If an institution had accrued its best estimate of the liability for the special assessment and the related expense – based on the special assessment interim rule adopted by the FDIC Board on February 27, 2009 – in the quarter ending March 31, 2009, it should adjust its previous accrual – based on the final rule – in the quarter ending June 30, 2009.

### **Other-Than-Temporary Impairment**

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

On January 12, 2009, the FASB issued FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*. This FSP amended EITF Issue No. 99-20 to align its impairment guidance with the guidance in paragraph 16 of FASB Statement No. 115 and related implementation guidance. The FSP is effective for “interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted.” All banks, both public *and* nonpublic, that hold beneficial interests that fall within the scope of EITF Issue No. 99-20 must adopt FSP EITF 99-20-1 for Call Report purposes in accordance with the FSP’s effective date. Thus, both public and nonpublic banks should have applied this FSP beginning in their December 31, 2008, Call Reports. Banks should not apply the guidance in this FSP to the September 30, 2008, or earlier reporting periods.

On April 9, 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2). This FSP amended the other-than-temporary impairment guidance in several standards (including FASB Statement No. 115, FSP FAS 115-1 and FAS 124-1, and EITF Issue No. 99-20) that applies to investments in debt securities. FSP FAS 115-2 does not apply to investments in securities that meet the definition of an equity security in FASB Statement No. 115. Under FSP FAS 115-2, if a bank intends to sell a debt security or it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis, an other-than-temporary impairment has occurred and the entire difference between the security’s amortized cost basis and its fair value at the balance sheet date must be recognized in earnings. In these cases, the fair value of the debt security would become its new amortized cost basis. The FSP also provides that if the present value of cash flows expected to be collected on a debt security is less than its amortized cost basis, a credit loss exists. In this situation, if a bank does not intend to sell the security and it is not more likely than not that the bank will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, an other-than-temporary impairment has occurred. The amount of the total other-than-temporary impairment related to the credit loss must be recognized in earnings, but the amount of the total impairment related to other factors must be recognized in other comprehensive income, net of applicable taxes.

FSP FAS 115-2 is effective for interim and annual reporting periods ending after June 15, 2009. Early adoption of this FSP is permitted for periods ending after March 15, 2009, provided FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying*

*Transactions That Are Not Orderly*, and, if applicable, FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, are adopted at the same time. Banks are expected to adopt FSP FAS 115-2 for Call Report purposes in accordance with the FSP's effective date.

In addition, banks should review any debt securities held at the beginning of the interim period in which the FSP is adopted (e.g., as of April 1, 2009, if the FSP is adopted for the period ending June 30, 2009; as of January 1, 2009, if the FSP is adopted for the period ending March 31, 2009) for which other-than-temporary impairment losses have been previously recognized. If a bank does not intend to sell such a debt security and it is not more likely than not that the bank will be required to sell the debt security before recovery of its amortized cost basis, the bank should recognize the cumulative effect of initially applying FSP FAS 115-2 as an adjustment to the interim period's opening balance of retained earnings, net of applicable taxes, with a corresponding adjustment to accumulated other comprehensive income. The cumulative effect on retained earnings must be calculated by comparing the present value of the cash flows expected to be collected on the debt security with the security's amortized cost basis as of the beginning of the interim period of adoption. This calculation should be made in accordance with the guidance in the FSP. In order to disclose the cumulative effect, if any, of initially applying FSP FAS 115-2 (regardless of whether the FSP is adopted in the first or second quarter of 2009), banks should report the amount of the net-of-tax adjustment to the opening balance of retained earnings as of the beginning of the interim period of adoption in Schedule RI-A, item 2, "Restatements due to corrections of material accounting errors and changes in accounting principles," and in Schedule RI-E, item 4.a, "Cumulative effect of the initial application of FSP FAS 115-2 on other-than-temporary impairment," and include an offsetting adjustment in Schedule RI-A, item 10, "Other comprehensive income."

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

In addition, for regulatory capital purposes, any other-than-temporary impairment losses on both held-to-maturity and available-for-sale debt securities related to factors other than credit loss that are reported, net of applicable taxes, in Schedule RC, item 26.b, "Accumulated other comprehensive income," should be included in Schedule RC-R, item 2, together with the net unrealized gains (losses) on available-for-sale securities that are reported in item 2. Furthermore, when risk-weighting a held-to-maturity debt security for which an other-than-temporary impairment loss related to factors other than credit loss was previously recognized in other comprehensive income, include the carrying value of the debt security, as described above, in column A of Schedule RC-R, item 35. Then, include the pre-tax amount of this impairment loss that has not yet been accreted from accumulated other comprehensive income to the carrying value of the security as a negative number in column B of Schedule RC-R, item 35, and include the amortized cost of the security, as defined in FSP FAS 115-2, in the appropriate risk-weight category column of item 35 (provided the security is not a purchased subordinated security that is not eligible for the ratings-based approach). Under FSP 115-2, amortized cost is the security's previous amortized cost as of the date of the most recently recognized other-than-temporary impairment loss less the amount of impairment loss recognized in earnings adjusted for subsequent accretion of interest income and payments received on the security.

## Repurchase Agreement Sweep Accounts

On February 2, 2009, the FDIC issued a final rule (12 CFR § 360.8) establishing its practices for determining deposit and other liability balances at a failed insured depository institution (<http://www.fdic.gov/regulations/laws/federal/2009/09FinalAD26.pdf>). The final rule defines the term “sweep account,” provides examples of sweep accounts subject to the rule, including repurchase agreement sweep accounts (repo sweeps), and explains how the FDIC will treat each of these sweep arrangements in the event of an institution’s failure. Disclosure requirements take effect July 1, 2009, that require each institution to prominently disclose in writing to sweep account customers whether their swept funds are deposits as defined in Section 3(l) of the Federal Deposit Insurance Act.

When an institution properly executes a repo sweep, the sweep customer either becomes the legal owner of identified assets subject to a repurchase agreement or obtains a perfected security interest in those assets as of the end of the institution’s day. If properly executed, the FDIC will recognize the sweep customer’s ownership or security interest in the identified assets if the institution fails. However, when repo sweeps are improperly executed by an institution so that the customer obtains neither an ownership interest nor a perfected security interest in the applicable assets, the institution should report the swept funds as deposit liabilities, not as repurchase agreements, in its Call Reports. Consistent with the disclosure requirements for sweep accounts, institutions should ensure that they report improperly executed repo sweeps as deposits for Call Report purposes beginning July 1, 2009.

## Treasury Department’s Capital Purchase Program

On October 14, 2008, the U.S. Treasury Department announced a Capital Purchase Program (CPP) under the Troubled Asset Relief Program mandated by the Emergency Economic Stabilization Act of 2008 (<http://www.treas.gov/press/releases/hp1207.htm>). The CPP is designed to encourage U.S. financial institutions to build capital to buttress the financial strength of the banking system, increase the flow of financing to U.S. businesses and consumers, and support the U.S. economy. Under this program, the Treasury will purchase up to \$250 billion of securities issued by qualifying financial institutions.

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

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

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

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

### **Business Combinations and Noncontrolling (Minority) Interests**

In December 2007, the FASB issued Statement No. 141 (Revised), *Business Combinations* (FAS 141(R)), and Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (FAS 160). Under FAS 141(R), all business combinations, including combinations of mutual entities, are to be accounted for by applying the acquisition method. FAS 160 defines a noncontrolling interest, also called a minority interest, as the portion of equity in a bank's subsidiary not attributable, directly or indirectly, to the parent bank. FAS 160 requires a bank to clearly present in its consolidated financial statements the equity ownership interest in and the financial statement results of its subsidiaries that are attributable to the noncontrolling ownership interests in these subsidiaries.

FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Similarly, FAS 160 is effective for fiscal years beginning on or after December 15, 2008. Thus, for banks with calendar year fiscal years, these two accounting standards take effect in 2009. Banks must apply these standards for Call Report purposes in accordance with their effective dates. The Call Report instruction book update for June 2009 includes a revised Glossary entry for "Business Combinations" that incorporates the provisions of FAS 141(R) as well as other conforming changes to the instructions.

### **Measurement of Fair Values in Stressed Market Conditions**

The valuation of various assets and liabilities on the balance sheet – including trading assets and liabilities, available-for-sale securities, loans held for sale, assets and liabilities accounted for under the fair value option (which is discussed in the following section), and foreclosed assets – involves the use of fair values. During periods of market stress, the fair values of some financial instruments and nonfinancial assets may decline.

Institutions are reminded that the objective of a fair value measurement is to determine the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the balance sheet date under current market conditions. 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 transaction (e.g., a forced liquidation or distress sale). This fair value objective is applicable to all fair value measurements and is consistent with FASB Statement No. 157, *Fair Value Measurements* (FAS 157), which is discussed in the following section.

On September 30, 2008, the SEC's Office of the Chief Accountant and the FASB staff jointly issued clarifications that address several fair value measurement questions that have arisen in the current market environment (<http://www.fasb.org/news/2008-FairValue.pdf>). These clarifications are based on the fair value measurement guidance in FAS 157. Banks should consider these clarifications when measuring fair value for Call Report purposes.

On April 9, 2009, the FASB issued FASB Staff Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). This FSP provides additional guidance on determining fair value in accordance with FAS 157 when the volume and level of activity have significantly decreased when compared with normal

market activity for an asset or liability (or similar assets or liabilities). According to FSP FAS 157-4, a significant decrease in the volume and level of activity for the asset or liability is an indication that transactions or quoted prices may not be determinative of fair value because in such market conditions there may be increased instances of transactions that are not orderly. In those circumstances, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value in accordance with Statement 157.

FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption of this FSP is permitted for periods ending after March 15, 2009, provided FSP FAS 115-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which is discussed in an earlier section of these Supplemental Instructions, and, if applicable, FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, are adopted at the same time. Banks are expected to adopt FSP FAS 157-4 for Call Report purposes in accordance with the FSP's effective date.

### **Fair Value Measurement and Fair Value Option**

FASB Statement No. 157, *Fair Value Measurements* (FAS 157), issued in September 2006, defines fair value, establishes a framework for measuring the fair value of assets and liabilities based on a three-level hierarchy, and expands disclosures about fair value measurements. The FASB's three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting bank has the ability to access at the measurement date (e.g., the Call Report date). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

According to FAS 157, observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. In contrast, unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

FAS 157 is effective for fiscal years beginning after November 15, 2007, and, with certain exceptions, is to be applied prospectively. However, on February 12, 2008, the FASB issued FASB Staff Position No. FAS 157-2, which delays the effective date of FAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for all nonfinancial assets and nonfinancial liabilities, except for those items that are recognized or disclosed at fair value on a recurring basis, i.e., at least annually, in the financial statements. However, this delay does not apply to entities that have issued interim or annual financial statements or Call Reports that include the application of the measurement and disclosure provisions of FAS 157. Banks must adopt FAS 157 for Call Report purposes in accordance with the standard's effective date, including the delayed effective date for eligible nonfinancial assets and nonfinancial liabilities. Thus, a bank with a calendar year fiscal year should have adopted FAS 157 as of January 1, 2008, and as of January 1, 2009, for eligible nonfinancial assets and nonfinancial liabilities subject to the delay mentioned above.

FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), issued in February 2007, allows banks to report certain financial assets and liabilities at fair value with the changes in fair value included in earnings. In general, a bank may elect the fair value option for an eligible financial asset or liability when it first recognizes the instrument on its balance sheet or enters into an eligible firm commitment. A bank's decision to elect the fair value option for an eligible item is irrevocable. Because FAS 159 creates a fair value option, a bank is not required to adopt FAS 159 for Call Report purposes. A bank that elects the fair value option is expected to apply sound risk management and control practices to the assets and liabilities that will be accounted for at fair value under the option. The bank is also expected to meet the principles and objectives of FAS 159 when applying the fair value option.

The agencies continue to consider the regulatory capital implications of the use of a fair value option, including the fair value option in FASB Statement No. 155 on certain hybrid financial instruments (FAS 155) and FASB

Statement No. 156 on servicing assets and liabilities (FAS 156). Except as discussed below, changes in the fair value of assets and liabilities to which a fair value option is applied that are recognized in earnings should be reflected in Tier 1 capital, pending further guidance from the agencies. For a liability to which a fair value option is applied, banks should consider the effect of a change in their own creditworthiness on the fair value of the liability. The agencies have determined that banks should exclude from Tier 1 capital the cumulative change in the fair value of liabilities accounted for under a fair value option that is included in retained earnings (Schedule RC, item 26.a) and is attributable to changes in the bank's own creditworthiness. For regulatory capital purposes, this excluded portion of the change in fair value is, in essence, an adjustment to the bank's reported retained earnings and should be reported in Schedule RC-R, item 7.b, so that it is taken into account in determining the Tier 1 capital subtotal (reported in Schedule RC-R, item 8) that is used to determine the regulatory capital limits on such items as servicing assets, deferred tax assets, and credit-enhancing interest-only strips.

### **FASB Interpretation No. 48 on Uncertain Tax Positions**

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), was issued in June 2006 as an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. Under FIN 48, the term "tax position" refers to "a position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities." FIN 48 further states that a "tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets."

According to FIN 48, a bank should initially recognize the effects of a tax position in its financial statements when, based on the technical merits, it is more likely than not (i.e., a likelihood of more than 50 percent) that the position will be sustained upon examination by the taxing authority, including the resolution of any related appeals or litigation. The more-likely-than-not evaluation must consider the facts, circumstances, and information available at the report date. When a tax position meets the more-likely-than-not recognition threshold, it should initially and subsequently be measured as the largest amount of tax benefit greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. FIN 48 also provides guidance on subsequent recognition, derecognition, and measurement of tax positions, including the effect of changes in judgment, and on the recognition of interest and penalties. The June 2007 Call Report instruction book update included a revised Glossary entry for "Income Taxes" that includes guidance on FIN 48.

Banks must adopt FIN 48 for Call Report purposes in accordance with the interpretation's effective date. As originally issued, FIN 48 was effective for fiscal years beginning after December 15, 2006. However, for eligible nonpublic enterprises, the FASB Board has decided to defer the effective date of FIN 48 to the annual financial statements for fiscal years beginning after December 15, 2008. A nonpublic enterprise is eligible for this deferral provided it (a) has not issued a full set of annual financial statements incorporating the recognition, measurement, and disclosure requirements of FIN 48 and (b) is not a subsidiary of a public enterprise. A nonpublic enterprise that meets these conditions is eligible for the deferral even if it issued interim or quarterly financial information in 2007 that reflected the adoption of FIN 48.

Thus, eligible nonpublic banks must adopt FIN 48 for Call Report purposes for annual periods beginning after December 15, 2008, based on their respective fiscal years. For example, an eligible nonpublic bank with a calendar year fiscal year must adopt FIN 48 as of January 1, 2009, but is not required to reflect the effect of its adoption of FIN 48 for Call Report purposes until it prepares its Call Report for the December 31, 2009, report date. An eligible nonpublic bank that applied the recognition and measurement provisions of FIN 48 in its Call Reports for 2007 report dates can either: (a) choose not to adopt the effective date deferral and continue to apply FIN 48 in its Call Reports going forward; or (b) choose to adopt the effective date deferral and its December 2007 Call Report should have been prepared without reflecting the application of FIN 48. As noted above, a nonpublic bank that is a subsidiary of a public company does not meet the eligibility conditions for the deferral of the effective date of FIN 48 and at present should be preparing its Call Reports in accordance with FIN 48.

## Regular Quarterly Deposit Insurance Assessments

As a result of amendments to the FDIC's assessment regulations (12 CFR Part 327) in November 2006, the FDIC changed its process for collecting regular quarterly deposit insurance assessments, moving from collecting these assessments prospectively to collecting them in arrears. Accordingly, each bank should accrue an estimate of its regular assessment expense each quarter, net of any remaining available assessment credit that will be applied to the maximum extent allowed by statute (up to 90 percent for assessment periods in 2009), to that quarter's assessment. The net assessment payable and net assessment expense, if any, should be reported in Schedule RC-G, item 1.b, "Other expenses accrued and unpaid," and in Schedule RI, item 7.d, "Other noninterest expense," respectively. For example, for its June 30, 2009, Call Report, a bank should estimate its net deposit insurance assessment payable and its net assessment expense based on its June 30, 2009, assessment base and its expected assessment rate, less any allowable assessment credit, even though the bank will not pay the assessment for the second quarter of 2009 until September 30, 2009.

Banks should note that the FDIC has not changed the way Financing Corporation (FICO) payments are charged or collected, i.e., prospectively every quarter. Nevertheless, the FDIC collects deposit insurance assessments and FICO payments simultaneously each quarter. The one-time assessment credit cannot be applied to reduce FICO payments.

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

FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158), issued in September 2006, requires a bank that sponsors a single-employer defined benefit postretirement plan, such as a pension plan or health care plan, to recognize the funded status of each such plan on its balance sheet. An overfunded plan is recognized as an asset while an underfunded plan is recognized as a liability. As of the end of the fiscal year when a bank initially applies FAS 158, the postretirement plan amounts recognized on the bank's balance sheet before applying FAS 158 must be adjusted to recognize gains or losses, prior service costs or credits, and transition assets or obligations that have not yet been included in the net periodic benefit cost of its plans. These adjustment amounts are recognized directly in equity capital as components of the ending balance of accumulated other comprehensive income (AOCI), net of tax. Thereafter, a bank must recognize certain gains and losses and prior service costs or credits that arise during each reporting period, net of tax, as a component of other comprehensive income (OCI) and, hence, AOCI. Postretirement plan amounts carried in AOCI are adjusted as they are subsequently recognized in earnings as components of the plans' net periodic benefit cost. For further information on accounting for defined benefit postretirement plans, banks should refer to FAS 158; FASB Statement No. 87, *Employers' Accounting for Pensions* (FAS 87); and FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (FAS 106).

Currently, FAS 87 and FAS 106 permit banks that sponsor single-employer defined benefit postretirement plans to choose to measure plan assets and obligations either as of the end of the fiscal year or as of a date not more than three months before the end of the fiscal year. FAS 158 eliminates this choice by generally requiring that, for fiscal years ending after December 15, 2008, plan assets and obligations must be measured as of the end of the fiscal year.

Banks that sponsor single-employer defined benefit postretirement plans must adopt FAS 158 for Call Report purposes in accordance with the standard's effective date and transition provisions with respect to both funded status and measurement date. In the fiscal year that the measurement date provisions of FAS 158 are initially applied, banks should report the adjustment of the opening balance of retained earnings and any adjustment of the opening balance of AOCI in Schedule RI-A, item 2, "Restatements due to corrections of material accounting errors and changes in accounting principles," and should disclose this total amount in Schedule RI-E, item 4.

In addition, according to an interim decision announced by the banking agencies on December 14, 2006, banks should reverse the effects on AOCI of FAS 158 for regulatory capital purposes, including for purposes of reporting and measuring the numerators and denominators for the leverage and risk-based capital ratios. The intent of the reversal is to neutralize the effect on AOCI of the application of FAS 158 on regulatory capital. Banks should exclude from regulatory capital any amounts recorded in AOCI resulting from the initial and subsequent



application of both the funded status and measurement date provisions of FAS 158. For Call Report purposes, these excluded amounts should be reported in item 4 of Schedule RC-R, Regulatory Capital, together with the accumulated net gains (losses) on cash flow hedges. If the sum of the amounts included in AOCI (Schedule RC, item 26.b) for defined benefit postretirement plans under FAS 158 and for cash flow hedges represents a net gain (i.e., a net increase) in reported equity capital, this sum should be reported as a positive value in item 4 of Schedule RC-R. If the sum represents a net loss (i.e., a decrease) in reported equity capital, it should be reported as a negative number in item 4 of Schedule RC-R.

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

### Other Reporting Matters

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

- Accounting for share-based payments under FASB Statement No. 123 (Revised 2004), *Share-Based Payment* – Supplemental Instructions for December 31, 2006 ([http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200612.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200612.pdf))
- Tobacco Transition Payment (Buyout) Program – Supplemental Instructions for March 31, 2006 ([http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200603.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200603.pdf))
- Commitments to originate and sell mortgage loans – Supplemental Instructions for March 31, 2006 ([http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200603.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200603.pdf)) and June 30, 2005 ([http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200506.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200506.pdf))
- FASB Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities* – Supplemental Instructions for June 30, 2005 ([http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst\\_200506.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200506.pdf))
- Reporting of funds invested through Bentley Financial Services, Inc. – Supplemental Instructions for June 30, 2003 ([http://www.ffiec.gov/PDF/FFIEC\\_forms/FFIEC031\\_041\\_suppinst0603.pdf](http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst0603.pdf))

**Call Report Software Vendors**

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

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

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

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

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

IDOM, Inc.  
One Gateway Center, 24th Floor  
Newark, New Jersey 07102  
Telephone: (973) 648-0900  
www.idomusa.com

Information Technology, Inc.  
1345 Old Cheney Road  
Lincoln, Nebraska 68512  
Telephone: (402) 423-2682  
www.itiwnet.com

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