

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 81-225
November 25, 1981

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

Accrual Reporting Requirement

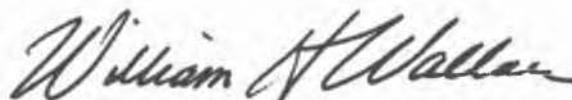
TO ALL STATE MEMBER BANKS IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The Federal Financial Institutions Examination Council has announced the adoption of a reporting requirement for all banks supervised by the Federal bank regulators to file their reports of income and condition on an accrual basis. Printed on the following pages is a copy of the Council's press release dated November 10, 1981, to more fully explain the actions.

Questions regarding the reporting requirement should be directed to Marvin C. McCoy, Extension 6657, or Sammy T. Schulze, Extension 6665, of this Bank's Bank Supervision and Regulations Department.

Additional copies of this circular will be furnished upon request to the Department of Communications, Financial and Community Affairs of this Bank, Extension 6289.

Sincerely yours,



William H. Wallace
First Vice President

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.



Press Release

For immediate release

November 10, 1981

The Federal Financial Institutions Examination Council today announced adoption of a reporting requirement for all banks supervised by the Federal bank regulators to file their reports of income and condition on an accrual basis. The current requirement applies only to banks with more than \$25 million assets.

Separately, the Council recommended to the Federal bank regulatory agencies represented on the Council that they adopt accounting guidelines requiring all Federally supervised banks to maintain their internal accounts on an accrual basis. Currently, the agencies have no general internal accounting requirement.

Both the new accrual reporting requirement and the recommended accounting guidelines -- if the latter are adopted by the individual agencies -- would be implemented in two stages after receipt of appropriate clearances. For banks with assets of more than \$10 million, the new procedures would become effective beginning with transactions and balance sheet positions in 1983. For smaller banks they would become effective for transactions and balance sheet positions in 1985. The Council asked the agencies to act on the recommended guidelines by December 11.

Instructions for filing reports of condition and income will be revised to reflect the new reporting requirements.

Banks with assets of less than \$25 million are now permitted to file their reports of condition and income on a modified cash basis, except for certain items that must be reported by all banks on an accrual basis: installment credit loan

income, bond premium amortization, depreciation of fixed assets, and income taxes. In recent years, new national banks and State chartered nonmember banks have been required to adopt accrual accounting as a condition of chartering or of obtaining FDIC insurance.

The Council's actions were taken after consideration of public comment received on a proposal made in August, in the light of the Council's responsibility to promote uniform and effective supervision of financial institutions. The Council determined that there would be an overriding advantage for both financial institutions and the supervisory agencies in having all banks reporting and accounting on an accrual basis. The Council said that if the nation's banks both reported their income and condition and kept their books on an accrual basis bank management could make more informed operation and policy decisions and the supervisory agencies would be better able to assess the condition of the financial institutions they supervise.

In making its decisions, the Council emphasized that the term "accrual accounting," as used in both the reporting requirement and the recommended accounting guideline, embodies the following three concepts:

- Only material items and accounts need to be handled on an accrual basis. Amounts that are not material to a bank's income and expenses may continue to be accounted for on a cash basis.
- The frequency with which accruals must be made depends largely on the volatility of the account in question. For most smaller institutions monthly accruals would probably provide acceptable results, although this must be determined individually by each institution.
- Reporting or accounting on an accrual basis does not necessarily have any effect on a bank's tax situation. A banking institution may elect to continue reporting for tax purposes on a cash basis in accordance with the rules established by the respective taxing authorities.

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