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FEDERAL RESERVE BANK OF NEW YORK

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August 23, 1968

Proposals for Revision of Bank Condition Reports
and Annual Statements of Income and Dividends

To the Chief Executive Officer
of Each State Member Bank in
the Second Federal Reserve District:

From time to time minor revisions in the Call and Income and Dividend Reports are necessary because of changes in banking practice and in financial conditions. On this occasion, however, the Federal bank supervisory agencies are proposing a more fundamental revision of these reports, following a review of current reporting requirements. The major impetus for this reappraisal stemmed from the various points of noncomparability between the regulatory reports and the requirements with respect to financial disclosure promulgated by the three agencies in compliance with the Securities Acts Amendments of 1964, but it also has been felt that the existing reports have become increasingly deficient in reflecting the activities of banks as business enterprises.

As the result of a detailed study of ways to achieve better and more uniform bank reports, the agencies have drafted a set of proposed changes in the Call and Income and Dividend Reports. A copy of the agencies' proposals is enclosed for your information. The most significant changes envisioned concern accounting principles. Here the proposals advocate a wider application of accrual accounting and a change in the treatment of taxes, valuation reserves, fixed assets, and securities trading accounts. Other proposals call for the consolidation of certain domestic subsidiaries and, in a separate consolidated

(Over)

report, the significant foreign banking activities of larger commercial banks. Some form of public disclosure of the contents of the annual income and dividend reports is also advocated.

We would appreciate receiving any comments that you may have on these proposals and on the associated changes in the reporting forms (detailed in Sections 3 and 4 of the Report). Since it is planned to introduce the changes for the calendar year 1969, and in view of the lead-times necessary in developing procedures for the change-over, it would be appreciated if we could receive your comments on or before September 30, 1968.

ALFRED HAYES
President

Proposals for Revision of Bank Condition Reports and Annual Statements of Income and Dividends

A Report of the Federal Bank Regulatory Agencies
- Office of the Comptroller of the Currency
- Federal Deposit Insurance Corporation
- Federal Reserve Board

August 1968

Section I - Introduction

With a view to achieving greater uniformity with the disclosure requirements issued by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve Board, the three Federal Agencies propose herein a revision of the periodic Call Report of Condition and the related annual Report of Income and Dividends.

Because the two sets of reports have somewhat different backgrounds and serve different purposes, total uniformity in coverage and detail is considered an ideal rather than a feasible reality. It is the objective of the Agencies, however, to develop report formats and instructions that will achieve the greatest degree of uniformity consistent with the purposes to be served.

Disclosure requirements, for which the Agencies have responsibility under the Securities Act of 1964, are intended to provide the intelligent stockholder with the information he should have concerning the reporting bank as a business enterprise. Emphasis is on the determinants of past and prospective earnings performance, with the main focus on full and complete reporting of income, expense, and reconciliation of changes in capital accounts, and on the more volatile elements of banking operations which may influence that performance.

The Call Reports, on the other hand, fulfill a wide variety of statistical, regulatory, and more general public disclosure purposes. The format has been developed over many years of consultation and cooperation among the Federal and State banking agencies, and the emphasis is on the asset and liability items that reflect the performance of major bank services to the public--loans, investments, deposits of various types, and the bank's capital base. Moreover, the detailed unpublished schedules required in connection with the mid-year and year-end Call Report dates have come to provide the only source of benchmarking of other more current but partial periodic reports that constitute the nation's continuing statistical series on banking developments used in financial, economic, and monetary analysis. These detailed schedules are keyed to the major balance sheet items reported in the published Call Report.

While most of the contemplated changes affect the Call Report and Income Statement, some of the proposals contained here also imply the need for revisions in disclosure requirements if the two sets of reports are to be made fully compatible. Proposals for specific changes in the disclosure reports, however, are reserved for a later date. Basic information required will be substantially the same for both sets of reports; the reporting of total resources and of the main subtotals of assets and liabilities will be on an identical basis for the vast majority of reporting banks. Remaining differences will be largely in the unpublished details of the Call Report and in the supporting schedules of the State bank disclosure regulations. In the Call Report, the total footings as well as individual asset and liability items reported by many banks may change significantly, due not so much to the way in which individual items are reported as to changes in underlying accounting concepts.

Section II of this report proposes application of accounting principles to the Call Report and Income Statement that are consistent with the disclosure regulations. These reporting requirements will move the regulatory reports substantially toward commonly accepted accounting principles with regard to accrual accounting, the concept of "true" valuation reserves and fixed asset valuation, standardized rules for consolidation of subsidiaries, accretion of discount on investment securities, separate reporting of bank activities in security trading accounts when significant, and the reporting of tax liabilities on a current basis applicable to current operations and other transactions.

Section III concerns changes in the form of the quarterly Call Report. The revisions proposed relate mainly to published balance sheets rather than to the unpublished supporting schedules where there will be continuing differences with the disclosure regulations. It is proposed that banks with significant foreign branches, Edge Act Agreement Corporations, or both publish dual reports. One report will cover consolidated domestic operations, and the other will combine domestic and foreign operations of the bank as a total business entity.

Section IV presents proposals for changes in the annual Income and Dividends Statement. The proposals relating to accounting principles and consolidation of subsidiaries apply to the annual statement of bank income as well as to the Call Report. This is essential if comparability with disclosure regulations is to be achieved, and is also necessary to retain compatible reporting bases in the related balance sheet and income accounts. The most significant change in the form of the Income Statement is the requirement that treatment of Federal income taxes parallel the disclosure regulations which prescribe a split between current year tax accruals applicable to net current operating income (above the line) and the tax effect of nonoperating transactions (below the line).

The end result is an Income Report closely comparable to that required by the disclosure regulations but one which presently is not required to be disclosed by most State banks, since the smaller of these institutions are not subject to the provisions of Section 12(g) of the Securities Act. This is regarded by the Federal Agencies as an important gap in the standards of disclosure for bank reports, and therefore it is contemplated that future Income and Dividend Reports for all banks that are members of the Federal Reserve System or Federal Deposit Insurance Corporation be made available in one way or another for public inspection. Any requirements for public inspection would be delayed for one year following introduction of the revised reporting forms, however, thus permitting banks to make the one-time adjustments that may be needed to accord with the new regulations and providing time for the transitional problems of reporting on the new basis to be overcome.

It is the intention of the Federal Banking Agencies to make the changeover to the new reporting format and definitions as of the beginning of 1969. This would mean that all Call Reports in 1969 would be on the new basi and that the Income Report for the year (submitted early in 1970) would be the first to conform to the new regulations. In view of the major character of some of the changes, final sample copies of the new report formats and instructions will be made available for inspection well before they have to be completed.

In order to meet the time schedule outlined, however, all changes must be determined and made final by not later than November 1, 1968. This schedule required receipt of comment from all interested groups and persons on or before September 30.

Section II - Accounting Principles

Accrual Accounting

The accrual method of accounting calls for the recognition and recording of events and conditions as they occur, notwithstanding that the receipt or outlay may take place, in whole or in part, in a preceding or following period. In contrast, the cash method of accounting calls for recording of revenues and expenses on the books of account when received and paid, without regard to the period to which they apply.

Since accrual accounting gives the more meaningful and realistic picture of current operations, accounting authorities have long favored its use. The Federal Banking Agencies, in their disclosure regulations,[1/] have recognized that accrual accounting provides the most meaningful reports to bank shareholders.

Under disclosure regulations every national bank must either accrue instalment loan income or disclose in a footnote to its balance sheet the amount of unearned income on instalment loans carried in its capital accounts. All covered State banks, i.e., those with more than 500 shareholders, are required to prepare their statements on the basis of accrual accounting, and beginning in 1970 all national banks with resources of $25 million or more will report on a full accrual basis.

A corresponding requirement is proposed for the Call and Income and Dividend Reports. It would require, for the purpose of these reports, the conversion of the accounting systems of many commercial banks now on a cash basis to an accrual basis, following the Comptroller's schedule for application to progressively smaller national banks.

Proposals

(1) Every insured commercial bank with total resources of 50 million dollars or more shall prepare its Report of Condition and Report of Income and Dividends for periods after December 31, 1968, on the basis of accrual accounting. Where the results would be only insignificantly different for particular accounts, a cash basis of reporting may be used.

(2) Every insured commercial bank with total resources of 25 million dollars or more shall prepare its Report of Condition and Report of Income and Dividends for periods after December 31, 1969, on the basis of accrual accounting. Where the results would be only insignificantly different for particular accounts, a cash basis of reporting may be used.

1/ Regulation F of the Federal Reserve Board and Part 335 of the FDIC regulations and the Comptroller of the Currency's Uniform Financial Statements and Reports to Stockholders (12 CRF Part 10, 18).

Proposals (Cont.)

(3) Every insured commercial bank shall prepare its Report of Condition and Report of Income and Dividends for periods after December 31, 1968, so that its instalment loan function and related tax provisions are on the basis of accrual accounting, or alternatively, each bank must disclose, in a published memorandum item to its Report of Condition, the amount of unearned income on instalment loans carried in the undivided profits or other capital account.

(4) Trust department income may, at the option of the reporting bank, be reported on a cash basis.

Tax Accounting and Reporting

The earnings statements for the national and State bank disclosure regulations require the computation and deduction of "income taxes applicable to operating earnings" from "operating earnings before income taxes." The result is an after-tax net current operating earnings figure. Next the adjustments for nonoperating additions and deductions are made; the State bank regulations show these both gross and after-tax, while the Comptroller's regulation calls only for the after-tax figure. The "bottom line" in both regulations is the amount "transferred to undivided profits."

The treatment of taxes represents the most important difference between the earnings statement prescribed in the disclosure regulations and the form of the current Report of Income and Dividends. The tax treatment differs in two essential respects: (1) the disclosure regulations require an allocation of taxes between operating (above-the-line) and nonoperating (below-the-line) items, while only a single tax deduction is called for in the present Income statement; (2) the disclosure regulations call for an estimate and deduction of the tax liability applicable to the report year, while the current Income statement allows those banks on a cash basis to deduct the amount of income taxes paid during the report period even though based on net income of the preceding year.

The procedures called for by the Agencies' accounting regulations appear highly preferable, since the result is a more meaningful Income statement and one that more accurately reflects the results of current operations on both a before and after tax basis. Two problems would accompany a change-over in tax treatment to the basis used in the disclosure regulations but both fortunately are associated with the transition and will disappear over time. First, the computation of estimated tax liability for the current year might present some difficulties, especially for smaller banks in the first report year. Second, those banks now on a cash basis would need to take account in the transitional year of both the taxes paid during the report year (on the previous year's income) and the accrued tax liability for the report year.

The ideal treatment would call for a one-time charge of the taxes paid in the report year on the previous year's income directly against capital accounts, with the taxes applicable to the operating and below-the-line income for the report year deducted in the body of the earnings statement. But special provisions for a deferred application of capital reductions might be necessary for some banks.

Proposal

(1) The tax treatment called for in the national and State bank disclosure regulations should be used in the Report of Income and Dividends. This treatment requires that the reported tax liability be brought to a current basis, and that the tax liability be allocated between operating and below-the-line income.

(2) The preferred handling of the transition of cash-basis banks to the new tax treatment involves a direct charge against capital for the taxes paid during the report year on the prior year's income and deduction of estimated tax liability for the report year from operating and below-the-line income. Each agency would evolve its own treatment of the transitional double-tax problem.

Valuation Reserves

At present, the Call Report and the disclosure regulations differ on the concept of valuation reserves; similarly, reporting under the disclosure regulations for national banks and for State banks are somewhat at variance. The following proposals are designed to establish uniformity in this area. They will result in a general rise in the reported holdings of loans and securities and a corresponding increase in capital accounts at many banks. This treatment will also reduce the impact of transfers to and from valuation reserves on net income in the Income and Dividends Report.

"True" valuation reserve accounting is required for both national and State banks under the disclosure regulations. However, national banks now have the option of reporting such "true" reserves either as a liability or as a deduction from assets. State banks must follow the latter method. The requirement that "excess" valuation (contingency) reserves must be reported as a segregated portion of capital accounts is consistent with disclosure reports.

Proposal

Call Report instructions should be revised to conform to disclosure regulations in this area. This would require a tightening up in Call Report instructions to apply the more logical "true" valuation concept to loans and investments.

Proposal (Cont.)

Condition reports would then normally reflect only the bad debt reserves on loans based on the Treasury formula as a disclosed deduction from gross loans in the balance sheet. Any exceptions would require a demonstration by a reporting bank that the "excess" represents "true" valuation reserves based on the risk in that bank's loan portfolio. In the investment area, using this same test for "true" valuation reserves would eliminate virtually all existing security valuation reserves since commercial banks' securities consist almost exclusively of investment grade issues. Valuation reserves in excess of "true" valuation reserves based on credit risk will be shown as a segregated portion of capital accounts called "Supplemental valuation reserves on loans and securities."

In order to achieve complete uniformity in this area, consideration should be given to amending the national bank disclosure requirements to require that "true" valuation reserves be deducted from assets.

Valuation of Fixed Assets

Condition reports require only that fixed assets be reported at book value while the disclosure regulations require a depreciated cost carrying basis and such a basis may call for a restatement of some fixed assets. Uniformity in reporting among banks in this area seems a highly desirable objective.

Proposal

Fixed assets acquired after the effective date of these new requirements should be carried in condition reports on the basis of cost less depreciation. Prescribed methods of depreciation should follow Internal Revenue rulings. Required revaluation of existing fixed assets, as in the State bank disclosure regulations, could be burdensome to some banks. Such revaluation is desirable from the standpoint of disclosure, and is encouraged.

Accretion of Discount

Present regulatory rulings permit or even encourage the adjustment of investments bought at a discount by systematically accruing such discount to current income and to the book value of the security over the life of the security. This appears to be a desirable objective, since it has the effect of reflecting in current operating income a rate of return based on purchased yield. Some banks may feel strongly that securities appreciation through bond discount accretion - even that resulting from the abnormally deep discount at which low coupon bonds are bought - should not be reflected in bank statements; it seems undesirable to prohibit this traditional banking practice.

Proposal

Revised instructions for Call and Income Reports should encourage but not require accretion of discount. A memorandum item in Income Reports would be added to show the effect (before taxes) of accretion or lack thereof.

Trading Account Securities

Both national and State bank accounting regulations require a separate account in the balance sheet for trading account securities. The earnings statement in both regulations also calls for net trading account income to be reported separately. In the Report of Condition and the Report of Income and Dividends, trading account holdings are included with investment accounts and trading account income is combined with investment income. The combination of trading account securities with investment account securities, in a Condition report as of a certain date, can distort the investment account position for particular banks.

Banks with trading accounts are properly sensitive about the need to keep day-to-day market positions confidential. It does not seem, however, that inclusion of a trading account item in the Call Report would breach the required confidentiality. First, all types of securities held in the trading account--Governments, Federal Agencies and municipals--would be merged into a single figure for publication purposes. Second, reported data would be on a settlement rather than a commitment basis and effective trading positions would not be reflected. Third, publication would not be required until 15 days after the report date.

The Internal Revenue Service allows banks to value their inventory at (1) cost, (2) cost or market, whichever is lower, or (3) market value, provided the method selected conforms to that used in the book of accounts, and this seems an appropriate procedure also for the Call Report. Any benefit gained from imposition of alternative(2), which is the more restrictive requirement now called for in State bank disclosures reporting, would be minimal.

Proposals

(1) A new item, "Trading account securities," should be added to the Report of Condition. The account may be valued on the same basis as is used for tax purposes.

Proposals (Cont.)

(2) "Trading account income" should be itemized as a subitem of "Other current operating revenue" in the Report of Income and Dividends.

(3) The mid-year and end-of-year Reports of Condition should include an unpublished schedule showing the breakdown of trading account securities by type of security as they appear in the Call Report. This schedule will allow continuation of time series on commercial bank holdings of various types of securities, and will facilitate analysis of the composition of trading accounts.

Consolidation of Domestic Subsidiaries

If uniformity in bank reporting is to be realized, the general principles of consolidation as they now apply to disclosure Reports should be carried over to the Condition and Income and Dividends Reports. This would permit comparisons of reports of banks conducting some portions of their business through subsidiaries with reports of other banks conducting the same operations within the bank. Consolidation will also disclose significant facts to public users of the reports.

While the statistical effect of consolidation of various types of domestic subsidiaries operated by banks would be minor in the aggregate, the effect could be substantial in individual bank data used in research applications, in sampling programs, for benchmark data for domestic banking series, or in relating condition items to regulatory requirements such as deposit assessments, reserve requirements, or loan limitations. On balance it is felt that the benefits of consolidation outweigh the drawbacks, and consolidation of certain specified domestic subsidiaries and all "significant" subsidiaries in the Call Report is recommended.

Proposal

The Call Report and Income statement should require full consolidation of specified types of majority-owned domestic subsidiaries. These would include, bank premises and safe deposit subsidiaries. In addition all other subsidiaries meeting the following significance test should also be consolidated.

Wherever an investment in a majority-owned subsidiary represents 5 per cent or more of either equity capital accounts or gross income of the parent banking organization, consolidation should be required. This same test presently applies in both national and State bank disclosure regulations.

Consolidation of Foreign Branches and Edge Act Subsidiaries

The assets and liabilities of foreign branches and Edge Act subsidiaries are excluded from the present Call Report. The present Call reflects domestic activities only and is the basis for supervisory assessments, the benchmarking of statistical series on national monetary and credit data, and domestic banking comparisons. It is apparent, therefore, that the domestic Call Report is essential and must be continued. At the same time, it is recognized that the domestic Call Report alone is becoming increasingly inadequate in terms of public disclosure and accurate reporting of the overall activities of some banks. The present report substantially understates the assets and liabilities of international banks and does not agree with the reports required by the disclosure regulations.

Foreign operations are carried on only by the larger U.S. banks and virtually all of these already publish consolidated quarterly statements. Therefore, it would appear that a requirement for consolidation of foreign activities would not be unduly burdensome: the significance test proposed below will avoid undue disclosure by any one bank.

Proposals

(1) All banks (50 at present) with foreign branches or Edge Act subsidiaries should be required to submit and publish a supplemental Report of Condition in which these international offices would be consolidated with the domestic bank's operations. In addition these banks would continue to submit a domestic offices only Call Report as heretofore. This domestic report would remain the "official" Call Report. The supporting schedules on the back of this report, included at year-end and June Calls, would reflect only domestic operations.

(2) In order to permit comparisons of domestic operations, banks with significant international activities (not more than 15 at present) should be required to publish balance sheet data on two bases--including and excluding such foreign activities. The banks so required are those whose net foreign assets add an amount equal to 2 per cent or more of the bank's total domestic assets, or those whose total deposit liabilities at foreign branches are equal to 2 per cent or more of the bank's domestic deposits. Foreign bank subsidiaries would not be consolidated, nor would subsidiaries of subsidiaries.

(3) Net earnings from foreign branches and Edge Act subsidiaries should continue to be included in the "Other current operating revenue" account of the Report of Income and Dividends.

Section III - Changes in Balance Sheet Form

ASSETS	Dollars	Cts.
1. Cash and due from banks (including $________) unposted debits		
2. U. S. Treasury securities		
3. Securities of other U. S. Government agencies and corporations		
4. Obligations of States and political subdivisions		
5. Other securities (including $________ corporate stocks)		
6. Trading account securities		
7. Federal funds sold and securities purchased under agreements to resell		
8. (Other*) Loans and discounts (less $________ bad debt reserves)		
9. Bank premises, furniture and fixtures, and other assets representing bank premises		
10. Real estate owned other than bank premises		
11. Investments in subsidiaries not consolidated		
12. Customer's acceptances outstanding		
13. Other assets		
14. Total assets		

* The word "other" will be excluded from national bank reports.

Item I, "Cash and due from banks (includes $________ unposted debits).

a. Title change, as above, agrees with both national and State bank disclosure regulations, except for the parenthetical item. Call report account is now, "Cash, balances with other banks, and cash items in process of collection."

b. "Unposted debits," i.e., checks in transit within the bank or among the branches of the bank which have been added to a depositor's account but not deducted from the drawer's account, will be shown as an inset item.

c. Instructions for the Call Report will require the netting of interbank reciprocal time deposits in line with the disclosure regulations. Reciprocal demand deposits are currently netted for the disclosure regulation, the Call and Regulation D.

<u>Items 2, 3, 4 and 5</u> relating to investment securities.

a. "U.S. Treasury securities" is being substituted for "United States Government obligations" and "Securities of other U.S. Government agencies and corporations" for "Securities of Federal agencies and corporations."

The Attorney General's opinion, in the fall of 1966, appears to have placed a direct U.S. guarantee behind agency securities and certificates of participation. It seems appropriate, however, to maintain two separate categories of Government securities and to label the first "U.S. Treasury securities," while strengthening the label of the second category as indicated. Schedule B, to be collected once a year (as of June), provides a complete breakdown of the par value of all issues included in these two categories. The actual shift of securities from one classification to another under this proposal is minimal. It involves moving bank holdings of D.C. Stadium bonds, certain Merchant Marine issues, and FHA debentures from "U.S. Government obligations" to "Securities of other U.S. Government agencies and corporations."

It is recommended that the prescribed balance sheet in both the national and State bank disclosure regulations be modified to reflect this same change.

The proposed two-fold classification of U.S. securities should prove to be useful and workable--a line drawn at any other point would lead to continuing classification problems.

The two accounts for U.S. securities will appear successively, with the accounts, "Obligations of States and political subdivisions" and "Other securities (including $________ corporate stock)" then following immediately.

<u>Item 6</u>, "Trading account securities."

It seems desirable to segregate securities held by banks as a part of their underwriting and sales activities from those held in investment accounts in view of the differing objectives in holding the two types of assets. Therefore, trading account holdings will be removed from the investment accounts and placed in a separate category. An unpublished memorandum schedule will show the holding by type of security on the major call dates twice a year.

Item 7, "Federal funds sold and securities purchased under agreements to resell."

Both the Comptroller's regulation and the Report of Condition now have this account and it is recommended that the same account be added to both State bank disclosure regulation balance sheets as a separate account outside the loan schedule.

Item 8, "[Other] Loans and discounts."

No change for the Call Report. Use of the parentheses in connection with the word "other" indicates exclusion of the word from national bank reports.

Both State bank disclosure regulations and the Report of Condition require the deduction of loan loss reserves from gross loans. The Comptroller's regulation allows the reporting bank to show loan loss reserves either as a deduction from gross loans or as a liability item. It is recommended that the Comptroller's regulation be amended to require deduction from gross loans. The amount of the reserve item will be required to be published in future calls; at present this is optional.

Items 9 and 10

These relate to comparable items in the present Call Report and no change is indicated except as might result from consolidation of premises subsidiaries.

Item 11, "Investments in subsidiaries not consolidated."

This is a new addition to the face of the Report of Condition and seems desirable in view of the increasing complexity of banking activities. Both State and national bank accounting regulations include the item in their prescribed balance sheet. The new requirements for consolidation, discussed previously, will of course determine the contents of this account.

Items 12, 13 and 14

No change is proposed from comparable items in the present Call Report.

Liabilities

15. Demand deposits of individuals, partnerships, and corporations			
16. Time and savings deposits of individuals, partnerships, and corporations			
17. Deposits of United States Government			
18. Deposits of States and political subdivisions			
19. Deposits of foreign governments and official institutions			
20. Deposits of commercial banks			
21. Certified and officers' checks, etc			
22. Total deposits			
(a) Total demand deposits			
(b) Total time and savings deposits			
23. Federal funds purchased and securities sold under agreements to repurchase			
24. (Other*) Liabilities for borrowed money			
25. Mortgage indebtedness			
26. Acceptances executed and outstanding			
27. Other liabilities			
28. Total liabilities			
29. Minority interest in consolidated subsidiaries			

* The word "other" will be excluded from national bank reports.

Items 15-22, "Deposit categories."

No change is proposed for the Call Report. It is recognized that the array of deposit items required is undesirably complex, but there appear to be good reasons in terms of public disclosure and analytic use for each of the categories listed.

The Comptroller's disclosure regulation calls for a single two-part breakdown; demand deposits and time deposits. State bank regulations require a four-way classification; domestic demand deposits, domestic savings deposits, domestic time deposits, and foreign deposits.

The current Call Report classification includes seven deposit accounts: Individuals, Partnerships, and Corporations demand, Individuals, Partnerships, and Corporations time, U.S. Government, State and local Governments, Foreign Governments and official institutions, Commercial banks, and Certified and officers' checks. The total deposits figure is then split between total demand and total time deposits.

After considerable deliberation and study it was decided the existing Call Report deposit categories should be retained and should continue to differ from the deposit items in the disclosure regulations. This particular difference does not lead to incompatibility as between reports, since the reported totals would be identical for all banks except those with foreign branches, which will be compatible in the consolidated balance sheet statement. Call Report data would simply supplement the disclosure information.

Item 23, "Federal funds purchased and securities sold under agreements to repurchase."

This item now appears in the Call Report. The Comptroller's regulation requires two separate items for the same account. The State bank disclosure regulations place both Federal funds purchased and securities sold under repurchase agreements in the "Other liabilities for borrowed money" account. It is recommended that the disclosure regulations be modified to agree with the Call.

Item 24, "[Other] Liabilities for borrowed money."

No change for the Call Report. Use of parentheses in connection with the word "other" indicate exclusion of the word from national bank reports.

With the content change in the disclosure reports noted in Item 23, the contents of this item would be the same as the Call Report. The Comptroller's regulation uses "Funds borrowed" for the account heading.

Item 25, "Mortgage indebtedness."

Mortgage liabilities are now carried as an inset item in the "Other liabilities" account. A separate mortgage account is proposed for the Call Report, as is the case in the disclosure regulations. It should be noted that, with mandatory consolidation of bank premises subsidiaries, amounts reported under this item will be considerably more inclusive than before.

Item 26, "Acceptances executed and outstanding."

No change from present Call Report item.

Item 27, "Other liabilities."

Mortgages payable will be removed from this account, as noted above. "Accrued taxes and other expenses," which appear as a separate item in the State bank disclosure regulations, should be placed in the "Other liabilities" account.

Item 28, "Total liabilities."

This item will appear as in the present Call Report.

Item 29, "Minority interests in consolidated subsidiaries."

In line with the proposals regarding consolidation above, this account will be added to the Report of Condition. It appears in both disclosure regulations.

Capital Accounts

30. Capital notes and debentures, total........................			
(specify interest rate and maturity of each issue outstanding)			
31. Equity capital, total........................			
Preferred stock-total par value........................			
(No. shares outstanding__________)			
Common stock-total par value........................			
(No. shares authorized__________)			
(No. shares outstanding__________)			
32. Surplus........................			
33. Undivided profits........................			
34. Supplemental valuation reserves on loans and securities........................			
35. Reserve for contingencies and other capital reserves........................			
36. Total capital accounts........................			
37. Total liabilities and capital accounts........................			

MEMORANDA

1. Average of total deposits for the 15 calendar days ending with call date........................			
2. Average of total loans for the 15 calendar days ending with call date........................			
3. Unearned discount on instalment loans included in capital accounts........................			

Items 30-36, "Capital Accounts."

The Call Report form will provide for the rate, maturity, and the amount outstanding of each capital note and debenture issue as is now required in national bank disclosure regulations. In line with State bank disclosure regulations, the total of equity capital will be shown. As discussed earlier, a new item, "Supplemental valuation reserves on loans and securities," will be added to the capital account section following "Undivided profits." Also, as noted above, a new memorandum item has been added for publication to show the amount of unearned income included in capital accounts by those banks which do not account for instalment loan income on the accrual basis.

Section A.—SOURCES AND DISPOSITION OF INCOME

1. CURRENT OPERATING REVENUE:

   (a) Interest and fees on loans
   (b) Income on Federal funds sold and securities purchased under agreements to resell
   (c) Interest and dividends on investments (exclude trading account income)
      1. U.S. Treasury securities
      2. Securities of other U.S. Government agencies and corporations
      3. Obligations of States and political subdivisions
      4. Other securities
   (d) Trust department income
   (e) Service charges on deposit accounts
   (f) Other service charges, collection and exchange charges, commissions, and fees
   (g) Other current operating revenue (itemize net income on trading account, net earnings from foreign branches and Edge Act subsidiaries, and any other amount accounting for over 25 per cent of the total.)
   (h) Total current operating revenue

2. CURRENT OPERATING EXPENSE:

   (a) Salaries and wages of officers and employees (number on payroll at the end of period______)
   (b) Pensions and other employee benefits
   (c) Interest on deposits
   (d) Expense of Federal funds purchased and securities sold under agreements to repurchase
   (e) Interest on borrowed money (include interest on capital notes and debentures)
   (f) Occupancy expense of bank premises, net
      Gross occupancy expense $__________
      Less rental income $__________
   (g) Furniture and equipment, depreciation, rental costs, servicing, uncapitalized cost, etc.
   (h) Other current operating expenses (itemize amounts over 25 per cent of the total)
   (i) Total current operating expense

3. NET CURRENT OPERATING EARNINGS (item 1(h) minus item 2(i)

4. INCOME TAXES APPLICABLE TO NET CURRENT OPERATING EXPENSE

5. NET OPERATING EARNINGS AFTER APPLICABLE TAXES (item 3 minus item 4)

Item 1(a) "Interest and fees on loans."

Changes in this revenue item in the Income and Dividends Report center largely on treatment of the various types of charges made by banks in connection with credit-card and related activities and on the treatment of income from commitment fees on loans the bank did not eventually make. The existing items in the Income statement for "Service charges and other fees on loans" will be combined with "Interest and discount on loans" as in disclosure reports. All fees and charges related to the handling of accounts actually carried in bank loan portfolios will be included in this item.

Item 1(b) "Income from Federal funds sold and securities purchased under agreements to resell."

Complete comparability of income statements among the agencies can be obtained only by inclusion of a separate item for income earned on Federal funds and repurchase agreement transactions (following the Call Report treatment). The disclosure reports might be modified accordingly for uniformity.

Item 1(c) "Interest and dividends on investments (exclude trading account income)."

Items for reporting of income on investments in the Income and Dividends Report follow the treatment for the Report of Condition. This requires the addition of two interest categories: interest on "Securities of other U.S. Government agencies and corporations," and interest on "Obligations of States and political subdivisions." Interest and dividends on securities in trading accounts will be excluded from these items and reported separately as an inset to "Other current operating revenue." It is recommended that similar changes be made in the disclosure reports.

Item 1(d) "Trust Department income."
Item 1(e) "Service charges on deposit accounts."

No change from present report items.

Item 1(f) "Other service charges, collection and exchange charges, commissions and fees."

This item, now in Income reports but not in disclosure reports, should be retained in the revised Income report. Addition of a similar item in disclosure reports is recommended. Charges paid by merchants on credit-card transactions have many of the characteristics of service fees, but are also closely related to similar factors that are an element in the interest charges on certain types of consumer loans. The distinction between service charges on loans and "Other service charges" is based on whether the bank carried the related loan account. Such percentage charges to merchants are clearly "service charges" when the bank does not carry the credit on its books.

Item 1(g) "Other current operating revenue (itemize amount over 25 per cent of total and net income on trading account)."

Net earnings from foreign branches and Edge Act subsidiaries will be included in this category and itemized as will trading department income.

Item 1(h) "Total current operating revenue."

This item will appear as in the present report.

Item 2(a) "Salaries and wages of officers and of employees (number on payroll at the end of period)."

These compensation items will be consolidated since the distinction between these two personnel categories made by individual banks differ widely. This item will comprise the same items as must be included for income tax purposes in form W2 as current income. An inset item on the total number of officers and employees is useful for statistical purposes and will continue to be reported even though no comparable item is included in disclosure reports.

The existing item for directors' fees now reported separately on Income Reports will be eliminated and included in "Other operating expenses."

Item 2(b) "Pensions and other employee benefits."

This item would differ from the disclosure regulations in that bonuses will be excluded and combined with the salaries and wages item above. Most contributions to profit-sharing plans will be included in this item, but that part of such contributions which is included in employees' W2 forms will be reported in item 2(a) above. Both disclosure regulations now have a mixture of items containing elements of income taxable to employees and so-called fringe benefits and should be revised to conform to this recommended form.

Item 2(c) "Interest on deposits."

No change from present Income Report item. It is noted that this item relates to interest on deposits in domestic offices only.

Item 2(d) "Expense of Federal funds purchased and securities sold under agreements to repurchase."

As noted under 1(b) above this form will achieve comparability between agency reports.

Item 2(e) "Interest on borrowed money (includes interest on capital notes and debentures)."

This item will be amended to include interest on capital notes and debentures now included with dividends on capital. This follows present national bank disclosure treatment. Interest on capital notes and debentures is a separate expense item on the State bank disclosure form which could also be combined with the interest expense item for complete uniformity.

Item 2(f) "Occupancy expense of bank premises, net."

This item has been supported by Schedule E "Occupancy expense of bank premises." Collection of this detailed schedule will be dropped. Instead, two inset items "Gross occupancy expense" and "Less rental income" will be added on the face of the report to derive the extended net item. Similar inset items are recommended for inclusion in the disclosure reports.

Item 2(g) "Furniture and equipment, depreciation, rental costs, servicing, uncapitalized costs, etc."

This figure will be reported gross rather than net of rental and service fees as at present. Although superficially similar to the netting of occupancy expense, it is analytically inappropriate. Service fees, particularly computer service fees, contain a large element of salary and overhead expense not included in the equipment cost item. Distinction between rental income on equipment and income from service fees charged was not deemed practical due to the imputed elements of personal service (a computer operator for example) in such rentals. Also, rental income as such would generally be quite small. In addition, the distinction between equipment service fees and other service fees (i.e., discount charged for billing services under some credit card plans) required to be reported under 1(f) "Other service charges" would be difficult.

Item 2(h) "Other current operating expenses (itemize amounts over 25 per cent)."
Item 2(i) "Total current operating expense."

No change from present reports except with respect to directors fees as noted above.

Item 3 "Net current operating earnings."

This item will appear as in the present report.

Item 4 "Income taxes applicable to net current operating earnings."
Item 5 "Net operating earnings after applicable taxes."

The proposed change in treatment in this area is covered in detail under Accounting Principles. Because of the time limitations and the complexity of some of the judgements to be made it may be necessary to estimate the breakdown of tax liabilities between those applicable to current operating earnings and nonoperating transactions.

	Gross	Less Tax Effect
6. OTHER ADDITIONS:		
(a) Profits on securities sold or redeemed		
(b) Transfers from valuation reserves		
(c) Loan recoveries		
(d) All other (itemize large amounts)		
(e) Total additions		
7. OTHER DEDUCTIONS:		
(a) Net losses on securities sold		
(b) Transfers to valuation reserves		
(c) Charge-offs on loans		
(d) All other (itemize large amounts)		
(e) Total deductions		
8. NET ADDITION (DEDUCTION) [item 6(e) minus item 7(e)]		
9. TRANSFERRED TO UNDIVIDED PROFITS		

Item 6 "Other additions."
Item 7 "Other deductions"(nonoperating transactions).

The number of items in the schedule of "nonoperating" additions and deductions in the Income statement will be reduced to conform to the disclosure regulations. Thus, items for security recoveries will be included with all other recoveries and security charge-offs prior to sale will be combined under all other losses. The four items for transfers to and from valuation reserves for loans and for securities will be combined into two items, covering transfers to and transfers from both such reserves. Under the much more restrictive requirements for setting up and maintaining such reserves, it is expected that transfers will be reduced to a minimum and that very few "true" security valuation reserves will be maintained. Separate items will continue to be shown for recoveries on loans and for charge-offs on loans applicable to the current year's income statement.

A two-column presentation for these "nonoperating" items will show the transactions gross and less the estimated tax effect of such transactions and follows the disclosure treatment. This change is discussed in detail in the Accounting Principles Section. The item reflecting the total provision for income tax will be eliminated from the face of the report. A separate supporting schedule will secure detail on the total tax provision, on the breakdown between State and Federal income taxes, and on adjustments from prior years taxes paid.

<u>Item 6(b)</u> "Transfers from valuation reserves."

Consolidation of transfers from valuation reserves for securities and for loans will conform to disclosure reports.

<u>Item 6(d)</u> "All other."

The inclusion of security recoveries will conform to disclosure reports.

<u>Item 7(b)</u> "Transfers to valuation reserves."

Consolidation of transfers to valuation reserves for securities and for loans will conform to disclosure reports.

<u>Item 7(d)</u> "All other."

Inclusion of charge-offs on securities prior to sale will conform to disclosure reports.

<u>Item 9</u> "Transferred to undivided profits."

"Net income" from the existing report will become "Transferred to undivided profits."

<u>The schedule for dividends paid</u> will be eliminated from the face of the report. Items will be added to the schedule of changes in capital accounts to show dividends on common stock and on preferred stock. Interest on capital notes and debentures will be included in expenses as noted above.

SECTION B--CHANGES IN CAPITAL ACCOUNTS DURING 1969			
1. TRANSFERRED TO UNDIVIDED PROFITS (item 9 from income statement)........			
2. OTHER INCREASES IN CAPITAL ACCOUNTS:			
(a) Common stock (par value) sold (excluding $________ common stock dividends issued)........			
(b) Common stock (par value) exchanged for stock of other banks incident to mergers, etc........			
(c) Preferred stock or capital notes and debentures sold (par or face value)........			
(d) Premium on new capital issued........			
(e) Addition to surplus, undivided profits and reserves incident to mergers, etc........			
(f) All other increases in capital accounts (itemize)........			
....			
(g) Total other increases in capital account........			
3. OTHER DECREASES IN CAPITAL ACCOUNTS:			
(a) Dividends declared and payable on common stock........			
(b) Dividends declared and payable on preferred stock........			
(c) Preferred stock or capital notes and debentures retired (par or face value)........			
(d) Premium paid on preferred stock retired........			
(e) Reduction in surplus, undivided profits and reserves incident to merger, etc........			
(f) All other decreases in capital accounts (itemize)........			
....			
(g) Total other decreases in capital accounts...			
4. NET CHANGE IN TOTAL CAPITAL ACCOUNTS (item 1 plus 2g minus item 3g); indicate net decrease by minus sign or in red. This must agree with the net change at Item 6 of Section C			

As noted above two items under other decreases in capital accounts will be added to the present schedule of changes in capital accounts to show dividends on common stock and dividends on preferred stock. For the first year there will be itemized amounts for some banks under other increases and other decreases to (1) show the transfer of amounts representing supplemental valuation reserves to capital, (2) itemize the adjustment for tax payments, and (3) reflect changes resulting from application of the new reporting requirements. Beyond the provision for showing dividends paid and for itemizing these one-time charges no other changes in this section are proposed.

SECTION C--CAPITAL ACCOUNTS AT END OF PRECEDING AND CURRENT YEAR

No change from present report

SECTION D--RESERVE FOR BAD DEBTS AND OTHER VALUATION RESERVES

No change from present report

SECTION F--MEMORANDA

1. Total Federal, State and local income tax liability for current year (must agree with item 4 plus the difference between columns 1 and 2 at item 6e less the difference between columns 1 and 2 at item 7e)..........			
(a) Federal income tax liability..........			
(b) State and local income tax liability..........			
2. Recoveries of previous years income taxes reflected in item 6(d)..........			
3. Payments reflecting adjustments to previous year taxes included in item 7(d)..........			
4. Amount of accretion of discount on securities reflected in income items 1(c)1 to 1(c)4..........			
5. If discount on securities had not been accreted state amount that could have been included in income items 1(c)1 to 1(c)4..........			

A. Is report for full 12-month period as called for? (If not, indicate period covered)..........

B. If this bank absorbed any banks during this period, list the banks (figures should reflect full year operations for these banks).

....

....

I,.......... .... of the above-
(Name of officer authorized to sign report) (Title)
named bank, hereby certify that the foregoing statement is true, to the best of my knowledge and belief.

____________________ ____________________

(Date) (Signature of officer authorized to sign report

Section E of the present report will be eliminated.

Section F A new section will be added to include memoranda items relating to the effect of accretion (or nonaccretion) of security discount mentioned in the discussion of Accounting Principals and to provide detail income tax payments needed for analytical purposes.

Other Proposals

(1) A special supplement to the 1969 Report of Income should be provided for reconciliation of accounts for which special adjustments would be required to conform to the new accounting requirements. The schedule should show the effect on current income of conversion to accrual accounting for taxes and perhaps for other income and expense items, a reconciliation of changes in capital and valuation reserves resulting from required changes in valuation reserve accounts and any other special adjustments which might be made to conform to the new reporting requirements.

(2) Each of the Federal Agencies now has a different requirement for time allowed for preparation and submission of the form. A uniform provision that would allow a reasonable time for submission of the more complex revised Call and I & D Reports would be 15 days after announcement of the call date or end of report period. The publication requirement for the Call should be met within 20 days after the call date.

(3) There are various acceptable ways of reporting income accruing to minority interests in consolidated subsidiaries. A fully consolidated income and expense presentation might be offset by specific items for minority interest in the income, expense and non-operating transaction schedules or by accumulation of such income to the minority interest item in the balance sheet with no specific reference in the income statement. It is proposed some flexibility in reporting should be allowed since the amounts involved would be relatively small.