

FEDERAL RESERVE BANK
OF NEW YORK

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REVISIONS IN THE REPORT OF CONDITION AND THE REPORT OF INCOME

*To the Chief Executive Officer of the State Member Bank
Addressed, and Others Concerned*

The Board of Governors of the Federal Reserve System, together with the other Federal bank regulatory agencies, have made a number of changes in the two basic financial reports required of banks-- the Report of Condition and the Report of Income filed by all insured commercial banks. These changes will become effective March 31, 1976. The following is quoted from the text of a statement by the Board of Governors announcing the changes:

One objective of the revisions in these reports is to provide the public with improved information as to the financial situation of banks. All parts of the revised reports will be available to the public upon request.

The attached document, mailed to all State member banks, lists the changes being made in each of these reports, and describes the changes in detail. New instructions for completing the revised reports, including definitions for items involved in the revisions, will be mailed to banks after the first of the year.

On December 3 the Federal bank regulators postponed the effective date of the revised reports from December 31, 1975 to March 31, 1976. The postponement means that the year-end 1975 reports of condition and income will be in the current formats.

Proposals for revising the universal Report of Condition and Report of Income were issued for comment October 1, 1975. The revisions that have been adopted, as announced today, were made in the light of comment received, and differ in a number of respects from the October 1 proposals.

Enclosed (for State member banks) is a document describing the details of the changes being made in these reports; copies will be furnished to others upon request directed to our Banking Studies Department. Any questions regarding these changes may be directed to that Department (Tel. No. 212-791-5854).

PAUL A. VOLCKER,
President.

Board of Governors of the Federal Reserve System

REVISIONS IN THE REPORT OF CONDITION AND THE REPORT OF INCOME

Effective with the reports to be submitted for 1976, a number of changes have been made in the Report of Condition and the Report of Income required to be reported by all insured banks to Federal banking supervisory agencies--National banks to the Comptroller of the Currency; State member banks to Federal Reserve Banks; insured nonmember banks to the Federal Deposit Insurance Corporation. These reports required to be submitted by all banks are referred to as the "universal" condition and income reports. In addition, a set of supplements to the Condition and Income Reports will be required from all banks with more than \$300 million in assets reported on their previous year-end fully consolidated condition statement (both domestic and foreign offices).

As the revised requirements on the universal reports and the new large bank supplements become effective only with reporting for 1976, the current formats of the condition and income reports (used for the 1974 reports) will be used by State member banks for the condition report for year-end 1975 and the 1975 income report. However, the schedule of maturity of investment securities, which has in recent years been reported only in June, will also be required with the year-end 1975 condition report.

The present document describes the various changes that have been made in the universal reports that will be made effective for 1976. More detailed definitions and instructions are scheduled to be mailed to banks early in January. The revised universal condition and income reports that are to be made effective in 1976 differ in a few respects from the proposals sent to you on October 1 for comment. The major differences will be noted in the course of the description. Draft versions of the revised report forms are attached for your information.

The final contents and formats of the large bank supplements have not yet been determined. Many constructive comments on these were received from banks and further discussions on them are now underway. Upon the final determination of their contents, they will be described in a subsequent separate statement.

Instructions. A new set of Instructions for the Reports of Condition and Income will be mailed to banks early in January. The main purpose of the reissued Instructions will be to provide definitions for the items involved in the revisions to the reports. In addition, some attempt will be made, on a selective basis, to clarify a few of the definitions where the present wording has been found to be inadequate.

Additions to and changes in the present version of the Instructions will be suitably marked for ready reference.

No attempt will be made in the forthcoming reissue of Instructions to deal with all the definitional problems and questions that have arisen in connection with the present Instructions. However, a more comprehensive review and rewriting of the Instructions is scheduled for 1976.

Disclosure. The universal Report of Condition and all its schedules and all sections of the Report of Income for each insured bank will be made available to the public on request. Requests will be honored both for copies of individual returns and for tapes of the information for all insured commercial banks. As compared to present practice, this represents a change only with respect to the Schedule of Maturity of Investment Securities (Schedule B), to the schedules of Federal funds and securities purchased (sold) under agreements to resell (repurchase), and to time deposits in denomination of \$100,000 and over.

Dollar amounts. In the revised procedures, all dollar amounts will be reported in thousands of dollars, rounded to the nearest thousand. Details will not necessarily add to totals because of this rounding; forced balancing of totals or between total debits and credits will not be required of respondents.

Changes affecting the Report of Condition. The changes affecting the face and schedules of the Report of Condition reported by all insured banks relate to the following:

- (a) Frequency and date of reporting
- (b) Reserve for loan losses and other reserve items
- (c) Unearned income on loans
- (d) "Capital notes and debentures"
- (e) Corporate stock (investment account)
- (f) Direct lease financing
- (g) Memoranda items on face of the Call Report:
 - 15-day daily averages
- (h) Memoranda items on face of the Call Report:
 - Time deposits in denomination of \$100,000 or more
- (i) Minority interest in consolidated subsidiaries
- (j) Schedule of Loans (Schedule A)--General
- (k) Schedule of Loans (Schedule A)--Detailed breakdowns
- (l) Schedule of remaining maturity of investment securities (Schedule B)
- (m) Schedule of cash and due from banks (currently Schedule D; Schedule C in the revised format)

- (n) Schedule of type of securities held in trading account
- (o) Reorganization of the deposit schedules
- (p) Federal funds and securities under RP's
- (q) Position with own foreign branches

These are described in the following paragraphs.

(a) Frequency and date of reporting. In recent years, a full set of supporting schedules for the Report of Condition has been required only for the June and December calls. In the revised procedures, a full set of all supporting schedules will be required with each call, i.e., four times per year. All reports, including the Spring and Fall calls, will be as of the last day of the quarter. Only in very unusual circumstances would calls be for other than end-of-quarter dates. The time of filing the universal Report of Condition, including all schedules, will remain the same as indicated in present Instructions, i.e., "...with the least possible delay, in no case later than 10 calendar days after receipt of the Call."

(b) Reserve for loan losses and other reserve items. The bad debt reserve set up pursuant to IRS rulings, which in the current condition statement format is reported on line 30 in the statement section on "Reserves on Loans and Securities", is to be reclassified into three parts, in accordance with generally accepted accounting principles. The "valuation" portion of the reserve, i.e., the portion that arose in past statements from charges against income, will appear on the face of the Report of Condition as a deduction from total loans. (See line 9b on the face of the revised Report.) The deferred income tax portion will be reflected in "other liabilities" (see line 7 of Schedule H). The capital reserve portion of the IRS reserve will be included, but not shown separately, in the "undivided profits" account. These reclassifications of the reserve for loan losses will have no effect on Federal Reserve supervisory policy with respect to analysis of condition statements of state member banks for purposes of capital adequacy measurement. Also, this revision in the reporting of the reserve for loan losses will have no effect on banks that are on a cash accounting basis and do not maintain a reserve account with respect to loan losses.

The other items now shown explicitly in the section on "Reserves on Loans and Securities"--line 31 "Other reserves on loans" (i.e., those reserves on loans that are in excess of the allowable IRS reserve for bad debts and that have not been created by changes against Income) and line 32 "Reserves for securities"--will also cease to be specific items on the face of the Call and are to be transferred

either to "Reserve for contingencies and other capital reserves" (line 36) or to "Undivided profits" (line 35).

(c) Unearned income on loans. Any unearned income on loans that is included in the amounts entered for specific loan categories in Schedule A is to be netted against total gross loans in the loan schedule (see line 9 of Schedule A of revised condition statement). Thus, the "total loan" figure carried from Schedule A (line 10) to the face of the Report of Condition (line 9a) will exclude all unearned income. With this change, the memorandum item "Unearned discount...etc." currently on the face of the Condition Statement will be eliminated.

To the extent possible, the preferred treatment is to allocate the unearned income and show the specific loan categories net of such unearned income. Only to the extent that the amounts shown by a reporting bank under the various loan items in Schedule A reflect unearned income on these loans will the bank report on line 9 of the revised Schedule A; if a bank reports each loan line net of unearned income, it will make no entry on line 9.

(d) "Capital notes and debentures." The account referred to on the current Report of Condition as "capital notes and debentures" is recaptioned "Subordinated notes and debentures" and shown between "total liabilities" (exclusive of subordinated notes and debentures) and "equity capital." (See line 31 of the proposed revision of the face of the Call.) This change in placement and terminology is for the purpose of adhering more closely to accepted financial reporting treatment and will have no affect on Federal Reserve supervisory treatment of these notes for purposes of capital adequacy analysis for State member banks. (State member banks are referred to the Board's press release of July 2, 1975 which submitted for bank comment proposed changes in the treatment of subordinated notes and debentures in capital adequacy measurement.)

(e) Corporate stock. Holdings of corporate stock will be reported on a separate line in the revised condition statement rather than as an inset item under "other securities" as at present. Correspondingly, the line "Other securities" will exclude the stock holdings and will be retitled "Other bonds, notes, and debentures." The contents of the line "Corporate stock" will be the same as the contents of the present inset item as defined in the existing Instructions.

(f) Direct lease financing. Direct lease financing, which is currently part of "Other assets" and reported as an interlined item in the Schedule of Other Assets, will be reported in the revised reports as a separate item on the face of the Report of Condition. A definition of the item for purposes of this report will be included in the Instructions to be issued in January.

(g) Memoranda items on face of the Call Report: 15-day daily averages. The current Report of Condition calls for 15-day daily averages for two items--total deposits and total loans. In the revised condition statement, averages are to be required for seven items and the 15-day requirement will also be changed. With respect to the items required, such averages will be asked for the following items (all of which are on the face of the report):

- (1) Cash and due from banks
- (2) Federal funds sold and securities purchased under agreements to resell
- (3) Total loans (other than Fed funds, etc.)
- (4) Time deposits in denomination of \$100,000 or more
- (5) Total deposits
- (6) Federal funds purchased and securities sold under agreements to repurchase
- (7) Other liabilities for borrowed money

(Of these, items (1), (4), (6), and (7) were not mentioned in the October 1 proposals.)

With respect to the averaging method, the current report calls for 15-day averages; in the revised report, banks will be given the option of reporting a 15-day or 30-day (or calendar month) average for the required items until the December 31, 1976 Call. For that Call, and thereafter, banks would report a 30-day average. (The option and the change to a 30-day averaging period were not included in the October 1 proposals.)

For large banks, a more extensive list of items may be required to be averaged as part of the large bank supplements to be issued later in 1976.

(h) Memoranda items on the face of the Call Report: Time deposits in denomination of \$100,000 or more. In the present report of condition, State member banks are required to report twice a year in Schedule K the aggregate amount outstanding of time deposits in denomination of \$100,000 or more, broken down between those issued to individuals, partnerships and corporations, and those issued to others. In the revised report, this information will be reported quarterly as a memorandum item on the face of the Call Report, broken down into two component types of deposits--(a) CD's in denomination of \$100,000 or more, and (b) Other time deposits in amounts of \$100,000 or more--rather than into types of depositors. (This breakdown was not contained in the October 1 proposals.)

(i) Minority interest in consolidated subsidiaries, which is usually of small magnitude, is to be removed from a specific line on the face of the Condition Report and, for purposes of this Report, will be reported as part of other liabilities (line 29) on the face of the Condition Report and be shown as a specific item in the Schedule of Other Liabilities.

(j) Schedule of Loans (Schedule A)--General. Schedule A, which has been required only on the June and December calls, will be required for all four Call reports under the revised procedures. The Instructions and definitions for several of the items in Schedule A will be rewritten for the interim Instructions.

(k) Schedule of Loans (Schedule A)--Detailed breakdowns. There are some changes in detail in the classifications used in the loan schedule under the revised reporting requirements. Under "real estate loans", "construction and land development loans that are secured primarily by real estate" are to be reported separately from all the other types of real estate loans (see line 1a of Schedule A). Construction loans to business that are not primarily secured by real estate will continue to be reported under "Commercial and industrial loans" (line 5 of Schedule A). The current breakdown between FHA-insured and VA-guaranteed loans secured by 1-4 family properties is eliminated in the revised format. (This elimination was not contained in the October 1 proposals.)

Under "loans to financial institutions", more detail is called for, as follows" (a) real estate investment trusts and mortgage companies; (b) domestic commercial banks; (c) foreign banks; (d) other depository institutions; and (e) other financial institutions.

(l) Schedule of remaining maturity of Investment Securities (Schedule B). This schedule is subject to the following changes in the revised condition statement:

1. An additional line will be added to the schedule calling for maturity breakdown for "Other bonds, notes, and debentures", i.e., for debt securities other than the Federal and state and local securities already covered in the schedule;

2. The Schedule will be required quarterly as part of the Condition Statement rather than only with the June Call as is the current procedure;

3. The Schedule will be made available by the agencies to the public on request.

(m) Schedule of cash and due from banks (currently Schedule D; Schedule C in the revised format). There will be added to this schedule inset items calling for the amount of interest bearing deposits included in "Other balances with banks in the United States" and in "Balances with banks in foreign countries." (This change was not included in the October 1 proposals.)

(n) Schedule of type of securities held in trading account. This schedule, which is part of Schedule K in the current report format and was shown as Schedule D in the October 1 proposals, will be eliminated from the universal Report of Condition. However, it will be added, in some form, to the large bank supplements.

(o) Reorganization of the deposit schedules. In the new format, detail on Demand Deposits and on Time and Savings Deposits, currently shown in two separate schedules, are combined into a single Schedule E. The new format also provides for the separate reporting for savings deposits held by individuals, businesses, and other holders (see column b); this reflects recent changes in Regulation D that permit commercial banks to accept corporate savings deposits. Aside from this new detail on savings deposits, the new Schedule E format does not require any information not contained in the current deposit schedules.

(p) Federal funds and securities under RP's. In the current Report of Condition, Schedule K requires the June and December reporting of detail on "Federal funds sold and securities purchased under agreements to resell" in terms of the other participant - i.e., with domestic commercial banks, with brokers and dealers in securities, and with others. In the revised universal Report of Condition, this requirement will be continued in Schedule D and will be quarterly. In addition, the same detail will also be required for the liability item, "Federal funds purchased and securities sold under agreements to repurchase." (The latter requirement was not included in the October 1 proposals.)

(q) Position with own foreign branches. Net due from or net due to own foreign branches, currently interlined as appropriate in either the Schedule of Other Assets or the Schedule of Other Liabilities, are to be made explicit pre-printed entries in these schedules in the revised format. (See line 2 of Schedule F and line 2 of Schedule G.) In addition, two memoranda lines will be added to these schedules to show the gross due from and gross due to foreign branches. The revised instructions will provide definitions of these gross measures.

Changes affecting the Report of Income: The changes affecting the Report of Income submitted by all insured banks relate to the following:

- (a) Frequency and date of reporting
- (b) Presentation of taxes and net income concepts
- (c) Recording of "extraordinary items"
- (d) Detail on taxes
- (e) Interest on U.S. Government obligations
- (f) Income from direct lease financing
- (g) Other operating income
- (h) Interest income from holdings of bank deposits
- (i) Interest expenses on deposits
- (j) Employee expenses
- (k) Other operating expenses
- (l) Minority interest in consolidated subsidiaries
- (m) Reserves for loan losses
- (n) Section on changes in capital

(a) Frequency and date of reporting. The Report of Income will be reported semi-annually by all insured banks not classified as "large" banks (i.e., banks with less than \$300 million in total assets) and quarterly by "large" banks (i.e., banks with total assets of \$300 million or more). The reports will be for calendar periods. Large banks reporting quarterly will report both the current reporting quarter and cumulative year-to-date. Smaller banks reporting only semi-annually will report just the year-to-date figures. The time of filing the "universal" Reports of Income, including all sections, will remain the same as indicated in present Instructions, i.e., "...with the least possible delay, in no case later than 30 days after the end of the report period."

(b) Presentation of taxes and net income concepts. The October 1 proposals included a change in format with respect to income before securities gains and losses, securities gains and losses, income after securities gains and losses, and applicable taxes. These proposed changes have been withdrawn and the revised universal Report of Income will retain the current format for these items.

(c) Recording of "extraordinary items." The recording of "extraordinary items" will be more specifically segregated. A bank having such items (which are expected to be rare occurrences) will use the lined area found at the bottom of the face of the revised Report of Income and will provide detail in a memorandum item in Section E.

(d) Detail on taxes. The October 1 proposals would have changed the presentation of income taxes. These proposals have been withdrawn. A breakdown of income taxes applicable to net income after security gains and losses and including extraordinary items between Federal and State and local tax components will continue to be reported, as is currently done, as memoranda items on the back of the report form.

(e) Interest on U.S. Government obligations. The October 1 proposals did not contain separate reporting for interest on Treasury securities and interest on obligations of other U.S. Government agencies and corporations. The revised Report of Condition will contain separate lines for these, as is the case in the current report format.

(f) Income from direct lease financing. This income will be reported as a separate item in the revised report rather than as part of "other income". (This parallels the separate reporting of such financing on the revised Report of Condition.)

(g) Other operating income. The details of other operating income will be shown in a separate section rather than being interlined in Section A.

(h) Interest income from holdings of bank deposits. This income will be shown as a pre-printed item in the schedule of "Other operating income." (This was not part of the October 1 proposals.)

(i) Interest expenses on deposits. The revised report will require a separation of interest expense on time deposits between those on certificates of deposit in denominations of \$100,000 or more and those on all other deposits (lines 2b and 2c). (The comparable balance sheet breakdown will also be available on the Report of Condition.)

(j) Employee expenses. Salaries and other employee benefits will be combined into a single item (line 2a).

(k) Other operating expenses. The details of other operating expenses will be shown in a separate section rather than being interlined in Section A.

(l) Minority interest in consolidated subsidiaries. For purposes of the Income Report, this item will be reported as a specific item under "Other operating expenses" rather than being shown as an allocation of net income.

(m) Reserve for loan losses and provision for loan losses. The schedule for "Reserve for loan losses" (Section C) will relate only to "valuation" reserves, in line with the changes in accounting for loan loss reserves discussed above in connection with the Report of Condition. New guidelines for the determination of appropriate current provision for loan loss, which will be described in the revised Instructions, shift the emphasis to management discretion and away from formula-based minimums. No changes have been made in guidelines with respect to accrual vs. cash accounting for loan losses.

(n) Section on changes in capital. Section B dealing with changes in capital will have a restructured format.