

At Cir 7984

FEDERAL RESERVE BANK  
OF NEW YORK

November 4, 1976

SECURITIES OF MEMBER STATE BANKS  
Amendment to Regulation F To Conform With SEC Rules

To All State Member Banks in the Second Federal Reserve District:

Following is the text of a statement issued October 14 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today amended its Regulation F (Securities of Member State Banks) to make its reporting requirements conform to comparable rules of the Securities and Exchange Commission.

The amendment becomes effective November 15, 1976.

The Board acted under the Depository Institutions Act of 1974 requiring the Board to make its Regulation F conform to like SEC rules unless the Board determines that such changes are unnecessary or inappropriate.

Under the amended Regulation, State member banks that are subject to Regulation F will file expanded quarterly reports to include a condensed balance sheet, a summary statement of changes in financial position, a narrative analysis of results of company operations, and additional financial disclosures deemed appropriate by management. The amended Regulation provides also for certain changes in accounting procedures, including revised reporting treatment of the bank's reserve for loan losses, and repositioning of reports of subordinated debt, unearned income on loans and direct loan financing, and for specified additional information in the annual financial reports of certain larger member banks subject to Regulation F.

The amendment as adopted was substantially similar to changes in Regulation F proposed by the Board in February, except that the due date of the new quarterly report will be 45 days after the end of the quarter, instead of 30 days as proposed.

In submitting the amendment for publication in the *Federal Register*, the Board of Governors made the following additional statement:

By notice of proposed rulemaking of February 26, 1976, appearing in the *Federal Register* (41 Fed. Reg. 8394 (1976)), the Board of Governors, pursuant to its authority under section 12(i) of the Securities Exchange Act of 1934, as amended (15 U.S.C. §781(i)), proposed to revise its regulations governing Securities of Member State Banks (12 CFR §206) in order that they be substantially similar to comparable rules and regulations issued by the Securities and Exchange Commission ("SEC"). The proposed revisions would expand the disclosure required by the quarterly reporting form under Regulation F (Form F-4), require disclosure of selected financial data in notes to annual financial statements of certain registrants, and change the terminology and placement of certain items in financial statements in order to adhere more closely to generally accepted accounting principles and recently revised supervisory Reports of Condition and of Income.

A. As a result of a review of the proposed revision and of the comments received thereon, the following is the only change made regarding the proposed amendments, in addition to clarifying language changes:

The due date for filing a Form F-4 has been changed from the thirtieth day to the forty-fifth day after the end of each of the first three fiscal quarters of each fiscal year. This change, which is consistent with filing requirements set by the SEC with respect to quarterly reports, will allow reporting banks an additional 15 days in which to prepare and submit the expanded Form F-4.

B. The Board received other comments suggesting revisions to the proposed amendments; however, the Board has determined that such revisions are not appropriate because they do not conform to generally accepted financial accounting and reporting practices, would make the proposed amendments not substantially similar to comparable SEC rules or would otherwise not be feasible. Section 12(i) of the Securities Exchange Act of 1934 generally requires the Board to maintain substantial similarity between Regulation F and comparable SEC rules.

Specifically, one commentator suggested that the proposed summarized statement of changes in financial position be stated in terms of average daily balances instead of end-of-quarter figures as the Board proposed. The commentator believes average daily balances would more accurately reflect a bank's change in financial position because substantial fluctuations may occur in a bank's statement of condition from day to day. Although

(OVER)



the suggestion may have merit, the Board believes that adoption of it would not be feasible at this time. A considerable number of member banks registered under Regulation F lack the computer data processing capacity to compute average daily balances. Further development of means of computing average daily financial data by banks would be necessary before the Board should require reporting in terms of average daily balances, and thus the Board rejected this particular suggestion to avoid placing an undue burden on registrants who do not as yet compile such data. Further, the proposed statement of changes in financial position conforms to present financial reporting standards and to SEC regulations.

Another commentator recommended that the proposed revision that would require the reporting of subordinated notes and debentures on Regulation F balance sheets as liabilities rather than as capital accounts be modified to distinguish between different types of subordinated debt instruments. This commentator agreed that subordinated debt on which interest and principal are payable unconditionally should properly be classified as a liability; however, the commentator believes that subordinated debt on which the payment of principal and interest is expressly dependent upon earnings and adequacy of capital should be classified as capital. This suggestion conceivably might be appropriate if there were many outstanding subordinated debt issues payable solely out of an issuer's earnings, as there once were in the 1930's. However, since the incidence of such subordinated issues is rare, if any are outstanding at all, there is no necessity for such a revision to the Board's proposed amendment.

C. The following two matters were mentioned in the *Federal Register* notice of the proposed amendments and are repeated herein to ensure that the effects of certain of the amendments are clearly understood.

1. The amendments to Form F-4 include a provision for balance sheet data as of the end of the most recent quarter and as of the same date in the preceding year. The comparative balance sheet and changes in financial position data required by Form F-4 will not be required for interim periods beginning prior to the effective date of this amendment.

2. As indicated in General Instruction (a)(1) relating to the use of Form F-4, that form is only a guide for use in preparation of quarterly reports. Quarterly reports in other formats, such as reports of condition, may be filed so long as they provide the information required by Regulation F.

Enclosed is a copy of the amendment to Regulation F, effective November 15, 1976, which has been reprinted from the *Federal Register* of October 21, 1976. Copies of the revised Regulation F forms (F-4 and F-9) will be mailed to you as soon as they become available.

Questions on this matter may be directed to our Bank Regulations Department. Additional copies of the amendment will be furnished upon request.

PAUL A. VOLCKER,  
*President.*



Board of Governors of the Federal Reserve System

SECURITIES OF STATE MEMBER BANKS

AMENDMENT TO REGULATION F

Effective November 15, 1976, Regulation F is amended as follows:

1. Section 206.7(c)(10) is amended by adding the following new paragraph:

§ 206.7 Form and content of financial statements.

\* \* \* \* \*  
(c) \* \* \* \* \*  
(10) \* \* \* \* \*

(vii) Disclosure of selected quarterly financial data in notes to financial statements.

**EXEMPTION.** This rule shall not apply to any registrant that does not meet the following conditions:

(A) The bank (1) has securities registered pursuant to section 12(b) of the Securities Exchange Act of 1934 or (2) has securities registered pursuant to section 12(g) of that Act that also (i) are quoted on the National Association of Securities Dealers Automated Quotation System and (ii) meet the requirements for continued inclusion on the list of OTC margin stocks set forth in § 220.8(i) of Regulation T of the Board of Governors of the Federal Reserve System; and

(B) The bank and its consolidated subsidiaries (1) have had a net income after taxes but before extraordinary items and the cumulative effect of a change in accounting, of at least \$250,000 for each of the last three fiscal years; or (2) had total assets of at least \$200,000,000 as of the end of the last fiscal year.

(1) Disclosure shall be made in a note to financial statements of total operating income, income before security gains (losses), income before extraordinary items and cumulative effect of a change in accounting, net income, and per share data based upon such income for each full quarter within the two most recent fiscal years and any subsequent interim period for which income statements are presented.

(2) When the data required by the preceding paragraph above vary from the amounts previously reported on the Form F-4 filed for any quarter, such as would be the case when a pooling of interests occurs or where an error is corrected, reconcile the amounts given with those previously reported describing the reason for the difference.

(3) Describe the effect of any unusual or infrequently occurring items recognized in each full quarter within the two most recent fiscal years and any subsequent interim period for which income statements are presented, as well as the aggregate effect and the nature of year-end or other adjustments that are material to the results of that quarter.

(4) Where this note is part of audited financial statements, it may be designated "unaudited."

**INSTRUCTION:** If the financial statements are covered by an independent public accountant's report, and the note required by the above paragraph (vii) is designated as "unaudited", it shall be presumed that appropriate professional standards and procedures with respect to the data in the note have been followed by the independent accountant who is associated with the unaudited footnote by virtue of reporting on the financial statements in which it is included.

For this Regulation to be complete, retain:  
1) Regulation F pamphlet, effective December 1, 1975.  
2) This slip sheet.

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2. Section 206.44 is revoked in its entirety and the following is substituted therefor:

**§ 206.44 Form for quarterly report of bank (Form F-4).**

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FORM F-4

QUARTERLY REPORT

PART A—SUMMARIZED STATEMENT OF INCOME

Item	3 months ending _____		Fiscal year to date months ending _____	
	19—	19—	19—	19—
	(current year)	(prior year)	(current year)	(prior year)
(Name of bank)				
(City and State)				
1. Operating income:				
(a) Interest and fees on loans.....				
(b) Interest on balances with banks.....				
(c) Interest and dividends on securities.....				
U.S. Treasury securities.....				
Obligations of other U.S. Government agencies and corporations.....				
Obligations of States and political subdivisions.....				
Other securities.....				
(d) Other operating income.....				
(e) Total operating income.....				
2. Operating expenses:				
(a) Salaries and employee benefits.....				
(b) Interest expense.....				
(c) Provision for loan losses.....				
(d) Other operating expenses.....				
(e) Total operating expenses.....				
3. Income before income taxes and securities gains (losses).....				
4. Applicable income taxes.....				
5. Income before securities gains (losses).....				
6. Net securities gains (losses), less related tax effect.....				
7. Net income:				
Earnings per common share:				
Income before securities gains (losses).....				
Net income.....				
Cash dividends declared per common share.....				

PART B. BALANCE SHEET

Furnish, insofar as practicable in the manner presented below, data as at the end of the latest fiscal quarter and for the end of the corresponding quarter for the preceding fiscal year.

	As of _____ 19— (current year)	As of _____ 19— (prior year)
Assets:		
1. Cash and due from banks.....		
2. Investment securities:		
(a) U.S. Treasury securities.....		
(b) Obligations of other U.S. Government agencies and corporations.....		
(c) Obligations of States and political subdivisions.....		
(d) Other securities.....		
3. Trading account securities.....		
4. Federal funds sold and securities purchased under agreements to resell.....		
5. Loans:		
Less: reserve for possible loan losses.....		
Loans, net.....		
6. Direct lease financing.....		
7. Bank premise and equipment.....		
8. Real estate owned other than bank premises.....		
9. Investment in unconsolidated subsidiaries and associated companies.....		
10. Customers' acceptance liability.....		
11. Other assets.....		
12. Total assets.....		
Liabilities and capital:		
13. Deposits:		
(a) Demand deposits in domestic offices.....		
(b) Savings deposits in domestic offices.....		
(c) Time deposits in domestic offices.....		
(d) Deposits in foreign offices.....		
14. Federal funds purchased and securities sold under agreements to repurchase.....		



PART B. BALANCE SHEET (Continued)

- 15. Other liabilities for borrowed money .....
- 16. Bank's acceptance outstanding .....
- 17. Mortgage indebtedness .....
- 18. Other liabilities .....
- 19. Total liabilities (excluding subordinated notes and debentures) .....
- 20. Subordinated notes and debentures .....
- 21. Equity capital:
  - (a) Capital stock:
    - Common stock .....
    - Preferred stock .....
  - (b) Surplus .....
  - (c) Undivided profits .....
  - (d) Reserve for contingencies and other capital reserves .....
- 22. Total equity capital .....
- 23. Total liabilities and equity capital (items 19, 20 and 22) .....

<sup>1</sup> Disclosure of comparative balance sheet data shall not be required for interim periods beginning prior to effective date of this amendment.

PART C.—Changes in financial position

	Fiscal year to date ( months ending _____ ) <sup>1</sup>	
	19__ (current year)	19__ (prior year)
<b>Sources of funds:</b>		
Operations:		
Net income .....		
Charges to income not affecting funds .....		
Total funds provided by operations .....		
Equity funds—sale proceeds .....		
Subordinated notes and debentures—sale proceeds .....		
Increase (decrease) in liabilities <sup>2</sup> .....		
Total .....		
<b>Applications of funds:</b>		
Payment of dividends .....		
Purchase of property and equipment .....		
Increase (decrease) in assets <sup>2</sup> .....		
Total .....		

<sup>1</sup> Disclosure of comparative source and application of funds data shall not be required for interim periods beginning prior to effective date of this amendment.

<sup>2</sup> Sources and applications of funds items shall be shown separately by amounts when they exceed 5 percent of the average of total funds provided during the respective reported periods.

Pursuant to the requirements of the Securities Exchange Act of 1934, the bank has duly caused this quarterly report to be signed on its behalf by the undersigned, thereunto duly authorized.

-----  
(Name of bank)

Date -----

By -----  
(Name and title of signing officer)



## GENERAL INSTRUCTIONS

(a) *Use of Form F-4.* (1) Form F-4 is a guide for use in preparation of quarterly reports to be filed with the Board. (2) The interim report shall be filed not later than 45 days after the end of each of the first three fiscal quarters of each fiscal year. No report need be filed for the fourth quarter of any fiscal year.

(b) *Persons for whom the information is to be given.* The required information is to be given as to the registrant bank or, if the bank files consolidated financial statements with the annual reports filed with the Board, it shall cover the bank and its consolidated subsidiaries. If the information is given as to the bank and its consolidated subsidiaries, it need not be given separately for the bank.

(c) *Presentation of information.* The form calls only for the items of information specified. It is not necessary to furnish a formal financial statement presentation. The information is not required to be audited (see § 206.7(b) of this Part). The report may carry a notation to that effect and any other qualification considered necessary or appropriate. Amounts may be stated in thousands of dollars if a notation to that effect is made.

(d) *Incorporation by reference to published statements.* If the bank makes available to its stockholders or otherwise issues or publishes, within the period prescribed for filing the report, a financial statement containing the information required by this form, such information may be incorporated by reference to such published statement if copies thereof are filed as an exhibit to this report.

(e) *Extraordinary items and cumulative effects of changes in accounting principles.* If present with respect to any interim period reported herein, extraordinary items and cumulative effect of a change in accounting principles less applicable income tax effect shall be appropriately segregated and included in the determination of net income. (See Form F-9B, Statement of Income.)

(f) *Acquisitions.* (1) If the bank has entered into a business combination with another bank or other related business treated for accounting purposes as a pooling of interests, the results of operations reported in this report—for both the current year and the preceding year—should reflect the combined results of the pooled entities. Disclosure of the separate results of the combined entities for periods prior to the combination should be given in a footnote with appropriate explanation. (2) In case the bank has acquired a significant amount of assets in a transaction treated for accounting purposes as a purchase, during any of the periods covered by the report, the effect thereof on revenue and net income, in total and per share, should be disclosed in a footnote.

(g) *Management's analysis of quarterly income statements.* The bank shall provide a narrative analysis of the results of operations explaining the reasons for material changes in the amount of revenue and expense items between the most recent quarter and the quarter immediately preceding it, between the most recent quarter and the same calendar quarter in the preceding year, and, if applicable, between the current year

to date and the same calendar period in the preceding year. Explanations of material changes should include, but not be limited to, changes in the various elements which determine revenue and expense levels. In addition, the analysis should include an explanation of the effect of any changes in accounting principles and practices or in the method of their application that have a material effect on net income as reported.

(h) *Other financial information.* The bank may furnish any additional information related to the periods being reported on which, in the opinion of management, is of significance to investors, such as the seasonality of the bank's business, major uncertainties currently facing the bank, significant accounting changes under consideration and the dollar amount of standby letters of credit. In addition, the bank shall indicate whether any Form F-3 was required to be filed reporting any material unusual charges or credits to income during the most recently completed fiscal quarter or whether any Form F-3 was required to be filed during that period reporting a change in independent accountants.

(1) The financial information to be included in this report should be prepared in conformity with the accounting principles and practices reflected in the financial statements included in the annual report filed with the Board for the preceding fiscal year, except for any subsequent regulatory revisions and changes required to be reported by § 206.7(c) (5) of this Part.

### § 206.71 [Amended]

3. Section 206.71 is amended as follows:

a. The balance sheet format denoted "A. Balance Sheet" (Form F-9A) is revoked and the following format is substituted therefor:

#### A. BALANCE SHEET

##### ASSETS

1. Cash and due from banks.....
2. Investment securities:
  - (a) U.S. Treasury securities.....
  - (b) Obligations of other U.S. Government agencies and corporations .....
  - (c) Obligations of States and political subdivisions.....
  - (d) Other securities.....
3. Trading account securities.....
4. Federal funds sold and securities purchased under agreements to resell....
5. Loans .....
- Less: reserve for possible loan losses...
- Loans, net.....
6. Direct lease financing.....
7. Bank premise and equipment.....
8. Real estate owned other than bank premises .....
9. Investment in unconsolidated subsidiaries and associated companies.....
10. Customers' acceptance liability.....
11. Other assets.....
12. Total assets.....



LIABILITIES AND CAPITAL

13. Deposits:
  - (a) Demand deposits in domestic offices -----
  - (b) Savings deposits in domestic offices -----
  - (c) Time deposits in domestic offices -----
  - (d) Deposit in foreign offices -----
14. Federal funds purchased and securities sold under agreements to repurchase -----
15. Other liabilities for borrowed money -----
16. Bank's acceptance outstanding -----
17. Mortgage indebtedness -----
18. Other liabilities -----
19. Total liabilities (excluding subordinated notes and debentures) -----
20. Subordinated notes and debentures -----
21. Equity capital:
  - (a) Capital stock:
    - Common stock -----
    - Preferred stock -----
  - (b) Surplus -----
  - (c) Undivided profits -----
  - (d) Reserve for contingencies and other capital reserves -----
22. Total equity capital -----
23. Total liabilities and equity capital (Items 19, 20 and 22) -----

b. The instructions concerning "Loans" included in the Form F-9A Balance Sheet are renumbered and new subparagraphs (5) (a) and (b) and a new Note have been added, as follows:

5. *Loans.* (a) (1) State the aggregate gross value of all other loans including (a) acceptances of other banks and commercial paper purchased in the open market; (b) acceptance executed by or for the account of the reporting bank and subsequently acquired by it through purchase or discount; (c) customers' liability to the reporting bank on drafts paid under letters of credit for which the bank has not been reimbursed; and (d) "cotton overdrafts" or "advances," and commodity or bill-of-lading drafts payable upon arrival of goods against which drawn, for which the reporting bank has given deposit credit to customers.

(2) Include (a) paper rediscounted with the Federal Reserve or other banks; and (b) paper pledged as collateral to secure bills payable, as marginal collateral to secure bills rediscounted, or for any other purpose.

(3) Do not include contracts of sale or other loans indirectly representing bank premises or other real estate; these should be included in "bank premises" or "other real estate."

(4) Do not deduct bona fide deposits accumulated by borrowers for the payment of loans if such deposits do not immediately reduce the unpaid balance of the loan.

(5) Deduct unearned income on loans.

(b) *Less: Reserve for Possible Loan Losses.* State the balance of the loan loss allowance account at the end of the fiscal year. Include in this allowance only the valuation portion that has been established through charges against income.

**NOTE:** For banks on reserve method of accounting for loan losses, the single value reserve account representing the amount calculated pursuant to IRS regulations will be

reclassified into three existing components: (1) valuation portion; (2) contingency portion; and (3) deferred tax portion.

*Valuation portion.* If prior to January 1, 1969, a bank did not distinguish the different parts of the reserve for loan losses, the total balance in the reserve for loan losses at January 1, 1969, is considered to have been entirely a valuation reserve. Such balance is increased by the amount of provision for loan losses charged to income in each period since December 31, 1968, and the amount of the loan recoveries in each period since December 31, 1968, and reduced by the loan losses charged to reserve for loan losses in each period since December 31, 1968. The resulting balance is the valuation portion of the reserve which is required to be deducted from total loans in the Report of Condition. Only the valuation portion of the reserve for loan losses is available for absorbing loan losses.

*Contingency portion.* The cumulative amount equivalent to the difference between transfers to the bad debt reserve calculated pursuant to IRS regulations, and the provisions for loan losses charged against income in each report period since December 31, 1968. Such amount, net of applicable income tax reduction benefit, should be included in the "undivided profits" account.

*Deferred tax portion.* The amount of deferred tax related to the contingency portion described above constitutes the deferred income tax portion and should be reported in "Other liabilities."

**NOTE:** In the rare circumstances where the cumulative provisions for loan losses charged against income have exceeded cumulative transfers to the bad debt reserve account calculated pursuant to IRS regulations in the period since December 31, 1968, the entire balance of the reserve for loan losses is considered a valuation reserve.

c. The Statement of Changes in Capital Accounts format denoted "C. Statement of Changes in Capital Accounts" is revoked and the following format is substituted therefor:



C. STATEMENT OF CHANGES IN CAPITAL ACCOUNTS

Increase (decrease)	Preferred stock \$ par	Common stock \$ par	Surplus	Undivided profits	Reserve for contingencies and other capital reserves
1. Net income transferred to undivided profits.....					
2. Preferred stock and common stock sold (par or face value).....					
3. Stock issued incident to mergers and acquisitions.....					
4. Premium on capital stock sold.....					
5. Additions to, or reductions in, surplus, undivided profits, and reserves incident to mergers.....					
6. Cash dividends declared on preferred stock.....					
7. Cash dividends declared on common stock.....					
8. Stock dividends issued, _____ shares at par value.....					
9. All other increases (decreases) <sup>1</sup> .....					
10. Net increase (decrease) for the year.....					
11. Balance at beginning of year <sup>2</sup> .....					
12. Balance at end of year.....					

<sup>1</sup> State separately any material amounts, indicating clearly the nature of the transaction out of which the item arose.  
<sup>2</sup> If the statement is filed as part of an annual or other periodic report and the balances at the beginning of the period differ from the closing balances as filed for the previous fiscal period, state in a footnote the difference and explain.

d. Schedule III—Other Loans in Form F-9 (D) is revoked and the following guideline format is substituted therefor:

SCHEDULE III—OTHER LOANS	Book value
Type	
Loans in domestic offices:	
Real estate loans:	
Insured or guaranteed by the U.S. Government or its agencies.....	
Other.....	
Loans to financial institutions.....	
Loans for purchasing or carrying securities (secured or unsecured).....	
Loans to farmers.....	
Commercial and industrial loans.....	
Loans to individuals for household, family, and other personal expenditures.....	
All other loans (including overdrafts).....	
Loans in foreign offices:	
Total loans, gross.....	
Less: Unearned income on loans.....	
Total other loans reported in balance sheet.....	

NOTE.—“Schedule A—Loans” of the supervisory Report of Condition submitted for the same yearend date may be incorporated by reference provided copies are filed with the report.

e. Schedule VII—Reserve for Possible Loan Losses in Form F-9(D) is revoked and the following guideline format is substituted therefor:

SCHEDULE VII—RESERVE FOR POSSIBLE LOAN LOSSES <sup>1</sup>	Amount
Item:	
Balance at beginning of period.....	
Recoveries credited to reserve.....	
Additions due to mergers and absorptions <sup>2</sup> .....	
Provision for loan losses from income statement.....	
Losses charged to reserve.....	
Balance at end of period <sup>3,4</sup> .....	

<sup>1</sup> Do not include any entries pertaining to reserve accounts established by segregations of the bank's undivided profits account. See instructions to item 22, equity capital, of form F-9A.

<sup>2</sup> Describe briefly in a footnote any such addition.

<sup>3</sup> Describe briefly in a footnote the basis used in determining the amount accumulated in the allowance at the end of the period.

<sup>4</sup> Indicate in a footnote whether the bank's reserve for bad debts computed for Federal income tax return purposes is at the maximum allowable pursuant to the Treasury tax formula. In addition, set forth a summary reconciliation of any material difference between the reserve for possible loan losses reported herein and the reserve for bad debts computed for Federal income tax return purposes.

Effective date: This regulation shall become effective November 15, 1976.

By order of the Board of Governors, October 8, 1976.

THEODORE E. ALLISON,  
Secretary of the Board.

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