

NCUA-IR - 81-8 FULL AND FAIR DISCLOSURE REQUIRED 5/82

NATIONAL CREDIT UNION ADMINISTRATION
INTERPRETIVE RULING AND POLICY STATEMENT

DATE: MAY 28, 1982

12 C.F.R. 702.3 -- FULL AND FAIR DISCLOSURE REQUIRED

IRPS 81-8

Interpretive Ruling and Policy Statement

AGENCY: National Credit Union Administration (NCUA)

ACTION: Final action on Interpretive Ruling and Policy Statement

SUMMARY: This Interpretive Ruling and Policy Statement (IRPS) advises credit unions that by adhering to the accounting principles and standards in Section 2000 of the Accounting Manual, they would be in compliance with the full and fair disclosure provisions of 12 C.F.R. Part 702. This IRPS and a companion rulemaking have the effect of eliminating the Accounting Manual for Federal Credit Unions and Data Processing Guidelines for Federal Credit Unions from having the effect of rule. These actions provide credit unions with greater flexibility in the area of recordkeeping.

EFFECTIVE DATE: May 27, 1982

ADDRESS: National Credit Union Administration, 1776 G Street NW, Washington, D.C. 20456.

FOR FURTHER INFORMATION CONTACT: Joseph Visconti or Mike Fischer of the Department of Supervision and Examination, Telephone (202) 357-1065.

SUPPLEMENTAL INFORMATION

The proposal for IRPS 81-8 was issued as a companion action to the proposed deregulation of the Accounting Manual for Federal Credit Unions (Accounting Manual) by removing it from the incorporation by reference provisions of 12 C.F.R. 701.2 (46 Fed. Reg. 48940 October 5, 1981). Because of delays encountered in the distribution of the Accounting Manual, the NCUA Board extended the comment periods on both proposals from November 27, 1981, until April 15, 1982 (47 Fed. Reg. 963 January 8, 1982, and 47 Fed. Reg. 2122 January 14, 1982).

In all, 16 comment letters were received from two trade associations, several credit union leagues, and a number of individual credit unions. Virtually all were supportive of the deregulation effort.

The majority of the comments received agreed that the accounting principles and standards in Section 2000 were sufficient to insure credit union compliance with 12 C.F.R. 702.3 (full and fair disclosure required). However, concern was voiced by several commenters that certain provisions in Section 2030 of the Accounting

Manual contradicted the intent of the deregulatory effort. The commenters pointed out that while that section permits the adoption of alternative accounting principles that conform to generally accepted accounting principles (GAAP), the adoption of those principles is effectively barred by the following statement:

Credit unions may adopt such accounting profession pronouncements provided they are not inconsistent with the principles, standards and procedures set forth herein or statutory or regulatory requirements.

The word "procedures" in this statement implies that the procedures in the Accounting Manual must be employed to ensure compliance with full and fair disclosure. This language in Section 2030 of the Accounting Manual will be changed at the next revision to read:

Credit unions may adopt such accounting profession pronouncements provided they are not inconsistent with statutory or regulatory requirements or the principles and standards set forth herein.

A similar change has been made in paragraph 2 of the IRPS.

Two commenters suggested that credit unions be authorized to defer losses from the sale of mortgage loans and mortgage related securities similar to the treatment of such losses which is permissible for savings and loan associations. The commenters recognized that such deferral is not in conformance with GAAP and is not permitted by Section 2000 of the Accounting Manual. Although the Agency is currently reviewing the issue of loss deferral, it is a separate issue and not a part of this deregulation action.

Two commenters suggested that by changing the account "Reserve for Contingencies" to "Reserve for Loss Contingencies", credit unions are precluded from establishing "an account for general contingencies". In those cases where a credit union wishes to earmark a portion of undivided earnings for capital accumulation or for some other general purpose the amounts so earmarked can be recorded in Account No. 942 -- Appropriated Undivided Earnings. This is a new account which was added in the recent Accounting Manual revision for such uses.

Two commenters suggested that the requirement to discontinue interest accrual and reverse the accrual entry on loans which are delinquent 6 months or more was too stringent. They suggested that the reversal should not occur until the loan is determined to be a loss or until the loan is 12 months delinquent. Appropriate changes to pages 2-12 and 4-79 of the Accounting Manual will be made to accommodate this suggestion.

One commenter suggested several changes to Section 5000 to make the Accounting Manual consistent with recent changes to Regulations Z and E. Appropriate changes will be made to the Accounting Manual at a later date.

One commenter requested a further extension of 90 days on the comment period in order to assess the impact on data processing which will result from changes in the Accounting Manual. Although a further extension of the comment period on deregulation of the Accounting Manual is not warranted, the Agency will continue to accept comments and recommendations on any and all parts of the Accounting

Manual. Changes to the Manual will be made on a regular basis and comments and recommendations will be considered at those times.

In a companion action, final rules have been issued that remove the Accounting Manual for Federal Credit Unions (Accounting Manual) and Data Processing Guidelines for Federal Credit Unions (Data Processing Manual) from incorporation by reference in the National Credit Union Administration Rules and Regulations under 12 C.F.R. 701.2 and 12 C.F.R. 701.14.

In October 1981, the Accounting Manual was extensively revised, a summary of the significant changes is attached as Appendix A. Sections 1000, 3000, 4000, 5000, 6000, and 7000 provide guidance and offer suggestions to Federal credit unions for accounting in all areas of operations. The accounting principles and standards that Federal credit unions are expected to follow in maintaining financial records and preparing statements are contained in Section 2000.

The full and fair disclosure provisions of 12 C.F.R. 702.3 define the required level of disclosure needed on financial statements, require Federal credit unions to select an accounting basis that is described in the Accounting Manual, and instruct credit unions to prepare financial statements in the manner prescribed in the Accounting Manual or equivalent financial statements. This statement is to advise Federal credit unions that adherence to the accounting principles and standards in Section 2000 of the Accounting Manual will ensure compliance with the full and fair disclosure provisions of Section 702.3. Of course, alternative accounting principles and guidelines not inconsistent with statutory or regulatory requirements may also satisfy these disclosure requirements. The remainder of the Accounting Manual for Federal Credit Unions presents guidelines and recommended procedures and practices.

There are instructions and discussions in the Accounting Manual that provide guidance for compliance with statutory and regulatory requirements. For example: Section 4000 of the Accounting Manual discusses statutory regular reserve transfer requirements of the Federal Credit Union Act and how the transfer is calculated. The discussions in the Accounting Manual which relate to the Federal Credit Union Act, NCUA Rules and Regulations or any other statutory requirement are only summaries and Federal credit unions should not interpret deregulation of the Accounting Manual as relief from those rules and statutes.

Accordingly, IRPS 81-8 is approved as an Interpretive Ruling and Policy Statement.

Text of Statement of Interpretation and Policy

1. Full and Fair Disclosure

12 C.F.R. 702.3(a) defines full and fair disclosure as the level of disclosure a prudent person would provide to a credit union member, the National Credit Union Administration, or a creditor to fairly inform them of the financial condition and results of operation of the credit union. The accounting principles discussed in Section 2020 of the Accounting Manual provide for a level of disclosure in financial reporting that will meet the requirements of this Section of the regulation. Major concepts of Section 2020 are summarized as follows:

a. **Going Concern Concept** -- Each credit union will normally maintain its accounts as a "going concern" on the basis that its operations will be continued indefinitely. Therefore, assets and liabilities will represent the value to the credit union as a "going concern" and will not be based on liquidation values. Whenever unusual circumstances indicate a limited life for a credit union, e.g., if the credit union goes into a liquidation status, the "going concern" concept will no longer apply. As a result, appropriate modifications will be required to realistically state assets and liabilities and recognize appropriate revenues and expenses. These modifications would include, for example, a re-evaluation of the loan portfolio to recognize possible discounts on sales of loans, an evaluation of the realizable value of fixed assets in liquidation, possible adjustments required in the carrying value of deferred charges and deferred income, etc.

b. **Monetary Basis for Accounting** -- Accounts of each credit union will be stated in terms of the dollar amounts involved at the time transactions occur. The recording of each transaction in terms of dollar units provides the best feasible indicator as to its relative impact on the overall operations of the credit union. It also permits identification of the amount of assets, liabilities, income or expenses represented by the transaction.

c. **Consistency in Accounting From Period to Period** -- Consistent accounting practices will normally be followed by each credit union from one accounting period to the next. However, when a material change in accounting treatment occurs, the facts must be disclosed on credit union financial statements, including the dollar effect upon the balance sheet and the changes in net income for the period.

d. **Timely Recognition in Accounting Records** -- Accounting transactions will be recorded on a timely basis so that all material information applicable to each accounting period will be shown in the records. To properly recognize in accounting records and financial reports the reasonable value of assets, liabilities, and shareholders' equity, each credit union will make provision for estimated losses to be sustained in the collection or conversion of loans and other assets by charges against current expenses. Estimated amounts will be used in accruing income or expenses if actual amounts are not known and cannot be readily determined. Differences between the actual and estimated amounts will be absorbed in the operations of the subsequent accounting period unless they are so large that they seriously distort net income.

e. **Materiality** -- Material facts, individually and cumulatively, relating to credit union financial activity must be recognized in the accounts of a credit union and reported on its financial statements. A statement, fact, or item is material if, giving full consideration to the surrounding circumstances as they exist at the time, it is of such a nature that its disclosure, or the method of treating it, would be likely to influence or to "make a difference" in the judgment and conduct of a reasonable person. The accumulation of many small items each of which in itself would not be "material", would be "material" if the overall effect would tend to influence the judgment and conduct of a reasonable person.

f. **Conservative Accounting** -- Each credit union will maintain its accounting records on a conservative basis. It will make reasonable provisions in the accounts, based on its best judgment, for potential losses on recorded assets and the settlement of contingent liabilities. It will neither overstate nor understate materially its assets,

liabilities, revenues or expenses.

g. Internal Control -- Each credit union will adopt appropriate measures of internal control to improve the dependability of its accounting records.

h. Complete Recording of Income and Expenses -- All income, expenses, gains and losses will be recorded in income and expense accounts and shown on the Statement of Income prepared for the accounting period. Income and expense accounts will include actual and estimated loan losses, as well as entrance fees, late charges and other assessments against members.

i. Accounting and Dividend Periods -- Credit union accounting periods may be monthly, quarterly, semiannually, or annually depending on the period selected by the credit union to close its books. Each credit union must close its books at least annually. It is recommended that Federal credit unions close the books at the end of each regular share account dividend period unless dividends are paid more frequently than monthly. Provision must be made for statutory reserve transfers and adjustments to meet valuation allowance requirements when a credit union elects not to close the books at the end of any dividend period except where such dividend period is more frequent than monthly.

j. Fiscal Year -- The fiscal year of all Federal credit unions will begin January 1 and end December 31. This is a requirement of Section 110 of the Federal Credit Union Act.

2. Alternative Accounting Principles Available

Within the accounting principles authorized by NCUA for use by credit unions, various alternatives are provided for adoption at the option of any credit union for certain types of transactions. These alternatives are designed to provide the flexibility required for meaningful accounting under a variety of circumstances that may be encountered by credit unions of different size and scope of operations. Absolute uniformity is not required so long as each credit union conforms its accounting to the authorized accounting principles and standards.

The American Institute of Certified Public Accountants (AICPA), the Financial Accounting Standards Board (FASB), and their committees establish generally accepted accounting principles (GAAP), accounting guidelines, and preferred accounting treatment for various activities. Credit unions should refer to such accounting profession pronouncements particularly where an activity is not addressed in the Accounting Manual or other NCUA publications. Credit unions may adopt such accounting profession pronouncements provided they are not inconsistent with statutory or regulatory requirements or the principles and standards set forth in Section 2000 of the Accounting Manual.

3. Selection of an Accounting Basis

12 C.F.R. 702.3(b)(2)(i) requires Federal credit unions to select an accounting basis as provided in the Accounting Manual. The requirements of the Accounting Bases are discussed in Section 2020 of the manual. Credit unions must use the accrual or modified cash basis of accounting. The accrual basis is the method of accounting under which liabilities and expenses are recorded when incurred whether or not

paid, and income is recorded when earned whether or not received. Under the modified cash basis, transactions are recorded when funds are received or disbursed except as described below. Provision must be made to reflect: liabilities not paid when due; dividends and interest refunds applicable to, but not paid in an accounting period; deferred credits and charges applicable to future accounting periods; estimated losses that may be sustained on loans and other risk assets; and depreciation on fixed assets. The NCUA Board encourages all Federal credit unions to adopt the accrual basis of accounting because that method more precisely matches costs with income in accounting cycles and provides for more timely recognition of changes to assets and liabilities. It is also recognized by the NCUA Board that the accrual method may be unnecessarily burdensome for many smaller Federal credit unions. Thus, adoption of the accrual basis of accounting should be subject to the following considerations:

- a. The adoption of the accrual basis of accounting is strongly recommended for credit unions with assets of \$2 million or more.
- b. Credit union accounting should be maintained on the accrual basis by all other credit unions for which such basis is deemed practicable by the board of directors.
- c. Where the accrual basis is followed, a cash basis of accounting and reporting may be applied to particular accounts where the results would be only insignificantly different from the accrual basis. For this purpose "insignificantly" refers to differences which would not be considered important for a proper evaluation of the condition of, or operation of, the credit union.
- d. Credit unions for which adoption of the accrual basis is not practicable will use a modified cash basis of accounting.

At the \$2 million asset range, operations are generally sufficient in scope to require relatively advanced management techniques such as budgeting and asset/liability management. To be effective, these techniques require financial data and records which fully reflect the results of financial transactions in appropriate accounting periods. Accordingly, the NCUA Board considers accrual accounting to be a requisite of sound operations and not an unnecessary burden.

4. Use and Content of Financial Statements

12 C.F.R. 702.3(b)(2)(ii) requires the use of financial statements or equivalent format described in the Accounting Manual. Section 2080 of the Accounting Manual sets forth the conditions necessary to produce financial statements that will meet the full and fair disclosure requirements of the regulation. Major conditions are as follows:

a. Purpose of Financial Statements

The financial statements of Federal credit unions provide the vehicle for accomplishing the most important external function of the accounting process; that of presenting fairly the financial position of the credit union at a particular date and the results of operations for a particular period in accordance with generally accepted accounting principles and the principles prescribed in Section 2000 of the Accounting Manual. The financial statements are needed to permit management to

make sound decisions and effectively manage the credit union and to show how management has carried out its stewardship to shareholders. In order to provide for full and fair disclosure on financial statements all assets, liabilities, reserves, and retained earnings, including valuation allowance accounts as may be necessary to present fairly the credit union's financial position; and all income and expenses necessary to present fairly the results of the credit union's operations for the period covered by the report must be disclosed.

b. Frequency of Financial Statements

As required by Article VIII, Section 5(d) of the Federal Credit Union Bylaws, a Statement of Financial Condition and Statement of Income must be prepared monthly. To provide for full and fair disclosure of financial condition, a Statement of Changes in Equity should be prepared quarterly or at the end of a regular share account dividend period, if the dividend period is longer than quarterly. Credit unions following the accrual basis of accounting should prepare a Statement of Changes in Financial Position on an annual basis.

c. Chart of Accounts

For purposes other than reporting to the National Credit Union Administration, any credit union may utilize a different system for numbering its General Ledger accounts than the system discussed in Section 4000 of the Accounting Manual. Any such alternate system adopted must [permit] permit the classification of transactions in at least the detail required to properly complete the financial report Forms FCU 109A, FCU 109B, FCU 109C, FCU 109D, and FCU 109E. These forms constitute the majority of the semiannual call report submitted by federally insured credit unions to NCUA under the provisions of 12 C.F.R. 701.13 and 12 C.F.R. 741.7 of the NCUA Rules and Regulations. The required account numbers for these forms are described in Section 4000 of the Accounting Manual. The account numbers are also printed on the financial reporting forms.

Sections 1000, 3000, 4000, 5000, 6000, and 7000 of the Accounting Manual are instructional in nature and designed to assist credit unions to maintain accurate records and prepare financial statements which fully disclose their financial condition. While the procedures in these sections are optional, adherence to the principles and standards discussed in Section 2000 will ensure compliance with the full and fair disclosure requirements of Part 702 of the NCUA Rules and Regulations. Alternate procedures and principles not inconsistent with statutory or regulatory requirements may also satisfy compliance with Part 702.

By the National Credit Union [Administration] Administration Board, May 20, 1982.

ROSEMARY BRADY
Secretary of the NCUA Board

APPENDIX A -- OUTLINE OF REVISIONS TO THE ACCOUNTING
MANUAL FOR FEDERAL CREDIT UNIONS

SECTION 1000 -- GENERAL INSTRUCTIONS

Reference to the Condensed Version of the Accounting Manual for Federal Credit

Unions has been deleted since that publication has been cancelled. New sections on Specialized Accounting and Operational Procedures, and Managerial Accounting are introduced.

SECTION 2000 -- ACCOUNTING PRINCIPLES AND STANDARDS FOR FEDERAL CREDIT UNIONS

Section 2020.10, "Accounting Basis," recommends the adoption of the accrual basis of accounting for all credit unions particularly for those with assets of \$2 million or more.

Section 2020.11, "Accounting and Dividend Periods," recommends that FCUs close the books at the end of each dividend period unless the dividend period is more frequent than monthly.

Section 2030, "Accounting Profession Pronouncements," has been added to recognize the existence of generally accepted accounting principles (GAAP) and other recognized accounting guidelines. This section indicates that credit unions should rely on GAAP when the Manual does not address a specific activity.

Section 2050.1.7.1 requires the accrual of dividends whenever dividend rates are specified or contracted for in advance.

Section 2060.4, "Reserve for Loss Contingencies," is the new account title for the previous "Reserve for Contingencies." This section specifies that loss contingency expenses will not be charged directly to Reserves for Loss Contingencies.

Section 2070.1.12, "NCUA Insurance Guaranty," defines the topic, and states that a guaranty will not be recorded as income.

Section 2070.2.4, "Accrued Interest on Loans Included in Valuation Allowance," provides that interest will not be accrued on loans that are 6 months or more delinquent.

Section 2080.5, "Notes to Financial Statements," is a new section that states the purpose of and requirements for such notes.

Section 2080.10, "Chart of Accounts," is a new section that was added to require the use of Section 4000's Chart of Accounts for reporting to the National Credit Union Administration.

SECTION 3000 -- FINANCIAL REPORTS

Section 3020, "Frequency of Report Requirements," has been revised to eliminate the reference to the Statistical Report which has been cancelled. It also eliminates any references to the Statement of Changes in Undivided Earnings and the Statement of Changes in Equity, since these have been consolidated into a "Statement of Changes In Equity."

Section 3050.3, "Supporting Schedules for Financial Statements," is a new section for the new form FCU 109C that is used to provide notes to the financial statements. Following this section are completed sample financial statements.

Section 3050.5, "Statement of Changes in Equity," provides the new consolidated statement of changes for all undivided earnings and reserve accounts.

Section 3050.6, "Statement of Changes in Financial Position," includes the completely revised statement to provide more detailed information about the credit union's sources and uses of funds for the current year.

Section 3050.7.1, "Illustration of the Use of Notes to the Financial Statements," provides illustrated financial statements with their accompanying notes, providing examples of how notes can be prepared.

SECTION 4000 -- GENERAL LEDGER ACCOUNTS

Section 4030.2.9, "Conversion to the Accrual Basis of Accounting," is a new discussion on how to convert to the Accrual Basis of Accounting.

Section 4030.2.10, "Transactions after Conversion," is a new section that provides instructions on the use of some of the accrued income and expense accounts.

Section 4040, "Chart of General Ledger Accounts," provides a complete listing of all of the new General Ledger Accounts that are used in this manual.

Section 4050.4, "Asset Accounts (700 Series)," was revised to expand the listing of investment asset accounts. Thus, the accrued income asset accounts were moved to the 780 account numbered series. Investment Asset Accounts now spread from Account No. 740 to 759, the latter being the Allowance for Losses On Investments, which was formerly Account No. 749. Common Trust Investments (Account No. 743) now includes Mutual Fund Investments.

Section 4050.5, "Liability Accounts (800 Series)," under Dividends Payable (Account No. 820) previously required that all dividend periods must be established so that the last dividend period of any calendar year end on December 31. Dividend periods will no longer be limited to the December 31st requirement, provided that the cost of the dividends is accrued through December 31 by recording the dividend expense and the corresponding accrued liability.

Section 4050.6, "Savings and Equity Accounts," has been amended to permit reference to share accounts as savings rather than equity. The discussion included in the Regular Reserve (Account No. 931) reflects the reduced transfer requirements of P. L. 95-22 of April 1977. The Reserve for Loss Contingencies (Account No. 933), (formerly the Reserve for Contingencies) has been revised to limit the establishment of such a reserve to probable losses that are known and determinable in amount. A new account, Appropriated Undivided Earnings (Account No. 942), was established for the purpose of allocating undivided earnings for planned expenditures or liabilities.

SECTION 5000 -- GENERAL ACCOUNTING AND OPERATING PROCEDURES

Section 5030.1.5.1, "Termination of a Joint Account," is an expanded version of this topic which is based on a current NCUA legal opinion.

Section 5040.2.1, "Pledge of Shares," includes legal interpretations on the subject and provides sample wording and advice that can be followed when initiating a

pledge.

Section 5040.4.1, "Applying for the Loan," incorporates the new "Application for Loan" form NCUA 6001.

Section 5040.5.2.4 provides a new discussion of the board of directors' authority to establish interest rates based on various classifications of loans.

Section 5040.5.7 provides a new discussion of the assessment and administration of late charges.

Section 5040.5.8 provides a new narrative outline on the loan security reporting requirements of Federal Reserve Board Regulation G, "Securities Credit By Persons Other Than Banks, Brokers and Dealers."

Section 5050.1.1, "Balancing Out Teller's Funds," contains new instructions for credit union operating personnel on how to balance a cash drawer.

Section 5050.1.1.2, "Check Endorsements," is a new discussion on the various types of check endorsements, and the basis for each.

Section 5050.1.5, "Balancing Teller's Cash Receipts and Disbursements Using On-line Computer Terminals," is a new subsection that was added to provide teller instructions when using an on-line computer terminal.

Section 5050.1.6, "Receipts and Disbursements Using Automatic Transfer Accounts and NOW Accounts," is a new discussion that addresses credit union disbursements via an automatic transfer or Negotiable Order of Withdrawal Account.

Section 5050.2.8, "Change Funds and Monetary Reserve Requirements of Regulation D," provides a clarification that change funds are included in the definition of "vault-cash" in satisfying the monetary reserve requirements of Regulation D.

Section 5060.5, emphasizes providing necessary detail in support of bank reconcilements.

Section 5060.11, "Preparing the Schedule of Delinquent Loans," includes a new discussion on the preparation of form FCU 118LC, Schedule of Delinquent Lines of Credit.

Section 5070.1, "End of Accounting Period," urges the closing of the credit union's books at the end of each dividend period.

Section 5070.2, "Interest Refunds," reflects Change No. 39 to the NCUA Rules and Regulations which authorizes refunds of interest that vary according to different classes of loans.

Section 5080, "Subsidiary Recordkeeping," is a consolidation of former references to subsidiary recordkeeping.

Section 5080.5, "Other Subsidiary Records for Other General Ledger Accounts,"

emphasizes the need to maintain subsidiary ledgers when there are two or more separate items supporting one General Ledger Account.

Section 5090.2, "Direct Deposit of Federal Recurring Payments," is a new subsection which provides instructions for handling those payments including the use of a preselected date when the deposit is credited to the member's account.

Section 5090.4, "Payroll Deduction Plans," provides a new discussion on providing disclosure information regarding the operation of payroll deduction plans.

Section 5090.8, "Distribution of Statements of Account," provides an expanded discussion regarding distribution of members' accounts in consideration of the Federal Reserve Board's Regulation Z requirements.

Section 5090.8.1, "No Mail Accounts," provides credit union officials and operating personnel with instructions for handling members' "no mail" accounts.

Section 5090.9, "Regulation E," provides a discussion of statement distribution requirements and composition of the statement based on this Federal Reserve Board regulation.

Section 5100.3, "Automatic Teller Machine (ATM)," discusses the advantages of such machines in view of the services that they can provide.

Section 5120.2, "Allowance For Depreciation," provides new acceptable depreciation ranges for depreciable assets.

Section 5140, "Internal Controls," includes expanded comments on the maintenance of administrative and accounting controls that comprise a good system of internal control.

Section 5140.4, "Management Official Interlocks," is a discussion of the Depository Institution Management Interlocks Act and the related requirements of Part 711 of the NCUA Rules and Regulations.

Section 5150, "Share, Share Draft and Share Certificate Accounts," is a consolidation of the P. L. 95-22 authority for variable share accounts as expressed in the former "1978 Interim Dividend Guidelines for FCUS" and current NCUA Rules and Regulations.

Section 5160, "Dividends," is an expansion of the "1978 Interim Guidelines for FCUs and the instructions found in the previous version of the Accounting Manual for FCUS.

Section 5190.3.3, "Microfiched or Microfilmed Records," is a new presentation on the use of current microfilming processes for the storage and maintenance of the vital records of the credit union.

Section 5200.1.1, "Essentials Needed For Offering the Sale Of, And Cashing Of, Money Orders and Checks," provides a listing of the items needed for this members' service.

Section 5200.6, "Group Purchasing and Insurance Activities," addresses the

problem of computing the amount of direct and indirect costs in providing a service.

Section 5210, "Third Party Payments," provides a consolidated summary of a credit union's authority to make payments to third parties on behalf of credit union members.

Section 5210.1.2, "Electronic Funds Transfer Act," provide a definition of an electronic funds transfer and provides a summary of some of the Act's provisions.

Section 5210.1.3, "Automatic Clearing House," provides a brief discussion of the purpose and operations of such a facility.

Section 5220, "Delinquency Control," provides advice for credit union managers for the implementation and administration of an effective collection program. It expresses the need, benefits and elements of delinquency control. Method "D" for delinquency computation was deleted since it allowed delinquent interest payments to be counted as satisfying the note's repayment terms.

Section 5220.2.8.15, "Ethical Loan Collection Practices," provides an outline of collection procedures that can be used while preserving courtesy and respect for the borrower. Observance of these procedures will assist the credit union in avoiding unnecessary law suits from unfair debt collection practices.

Section 5230, "Reserve Requirements," provides a discussion on regular reserve transfer requirements.

Section 5230.1.3, "Split-Rate Transfers," provides a discussion on how split-rate transfers to reserves are computed. There will be occasions when a credit union has satisfied the requirements of one transfer rate and can thus drop to a lower rate of transfer during the same accounting period. This subsection provides an example of such a computation.

Section 5240, "Liquidity Reserve Computation," provides a discussion on the requirements of liquidity reserves in connection with Part 742 of the NCUA Rules and Regulations.

Section 5240.2, "Regulation D," provides summary of this Federal Reserve Board regulation, which addresses transaction accounts and nonpersonal time deposits and their monetary reserving requirements.

Section 5250, "Correspondent Credit Unioning," provides a new discussion on this program and the requirements and procedures to be followed.

Section 5260, "Safe Deposit Box Service," provides an outline of the precautions, safeguards and internal controls which must be considered.

Section 5270, "Federal Funds Transactions," includes a discussion of the authority for Federal credit unions to participate in the Federal Funds market.

Section 5280.1, "Political Contributions By Federal Credit Unions," is a new discussion on the subject.

SECTION 6000 -- SPECIALIZED ACCOUNTING AND OPERATIONAL

PROCEDURES

This section covers topics primarily related to the larger credit unions having more complex operations. Operational and accounting procedures are provided for such activities as: share drafts; credit card programs; investment in credit union service corporations; fixed assets; branch offices; offices on Department of Defense facilities; leases; and the purchase sale and pledge of eligible obligations. Guidance is also provided on a broad range of topics including: pension plans; real estate lending; long-term investments; treasury tax and loan accounts; public unit accounts; corporate central credit unions; and membership in the Central Liquidity Facility.

This is an entirely new major section of the Accounting Manual for Federal Credit Unions. It recognizes the use and application of current generally accepted accounting principles (GAAP) in regard to credit union programs or services. This section represents a special effort to update credit union accounting practices so that they will be more in tune with GAAP as set forth by the American Institute of Certified Public Accountants.

SECTION 7000 -- MANAGERIAL ACCOUNTING

This section describes the budgetary process including the planning function, budget preparation, financial control and evaluation. Various techniques of asset/liability management are discussed and examples of the spread analysis and allocation-of-funds methods are illustrated. A listing of ratios which can be used to measure liquidity, capital adequacy and profitability are provided.

SECTION 8000 -- APPENDICES

Section 8000 includes tables that are used in other sections of this Manual. New tables that have been added are: Table 8-2 Present Value of \$1 Per Period; Table 8-3 Present Value of \$1; Table 8-4 Future Value of an Annuity of \$1 Per Period; Table 8-5 Future Value of \$1; and Table 8-8 Mortgage Yield Conversion Table. Table 8-7 Dividend Table has been revised. Table 8-6 Level Payment Delinquency Table for Loans has been expanded to cover loans for 360 months and interest rates of 15%, 18% and 21% APR.