

**Supporting Statement for the  
Consolidated Reports of Condition and Income  
(FFIEC 031 and FFIEC 041; OMB No. 7100-0036)**

**Summary**

The Board of Governors of the Federal Reserve System requests approval from the Office of Management and Budget (OMB) to extend for three years, with revision, the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 and FFIEC 041; OMB No. 7100-0036). These data are required of state member banks and are filed on a quarterly basis. The revisions to the Call Reports that are the subject of this request have been approved by the FFIEC. The Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) have also submitted a similar request for OMB review to request this information from banks under their supervision.

The Federal Reserve requires information collected on the Call Reports to fulfill its statutory obligation to supervise state member banks. State member banks are required to file both detailed schedules of assets, liabilities, and capital accounts in the form of a condition report and summary statement as well as detailed schedules of operating income and expense, sources and disposition of income, and changes in equity capital.

The Federal Reserve, the FDIC, and the OCC (the “agencies”) are proposing to implement the following revisions to the Call Report for the June 30, 2013 report date: (1) revise the scope of Schedule RI-A, item 11, Other transactions with parent holding company, (2) revise Schedules RC-C and RC-O for large and highly complex institutions for FDIC insurance assessment purposes, (3) remove prepaid deposit insurance assessments from Schedule RC-F, Other Assets, and (4) remove Tier 3 capital from Schedule RC-R, Regulatory Capital. Effective March 31, 2014, the agencies would discontinue the reporting of noninterest-bearing transactions account of more than \$250,000. The current annual burden for the Call Reports is estimated to be 185,904 hours and the proposed revisions are estimated to increase the annual burden by 134 hours.

**Background and Justification**

Banks that are members of the Federal Reserve System are required by law to file reports of condition with the Federal Reserve System. Section 9(6) of the Federal Reserve Act (12 U.S.C. § 324) states:

... banks ... shall be required to make reports of condition and of the payment of dividends to the Federal Reserve bank of which they become a member. Not less than three of such reports shall be made annually on call of the Federal Reserve bank on dates to be fixed by the Board of Governors of the Federal Reserve System. ...Such reports of condition shall be in such form and shall contain such information as the Board of Governors of the Federal Reserve System may require and shall be published by the reporting banks in such manner and in accordance with such regulations as the said Board may prescribe.

In discharging this statutory responsibility, the Board of Governors, acting in concert with the other federal banking supervisory agencies since 1979 through the FFIEC, requires banks to submit on the quarterly Reports of Condition and Income such financial data as are needed by the Federal Reserve System to: (1) supervise and regulate banks through monitoring of their financial condition, ensuring the continued safety of the public's monies and the overall soundness of the nation's financial structure, and (2) contribute information needed for background for the proper discharge of the Federal Reserve's monetary policy responsibilities. The use of the data is not limited to the federal government, but extends to state and local governments, the banking industry, securities analysts, and the academic community.

### **Description of Information Collection**

The Call Reports collect basic financial data from commercial banks in the form of a balance sheet, income statement, and supporting schedules. The Report of Condition contains supporting schedules that provide detail on assets, liabilities, and capital accounts. The Report of Income contains supporting schedules that provide detail on income and expenses.

Within the Call Report information collection system as a whole, there are two reporting forms that apply to different categories of banks: (1) all banks that have domestic and foreign offices (FFIEC 031), and (2) banks with domestic offices only (FFIEC 041). Prior to March 2001, there were four categories of banks and four reporting forms. The FFIEC 031 was filed by banks with domestic and foreign offices and the FFIEC 032, FFIEC 033, and FFIEC 034 were filed by banks with domestic offices only and were filed according to the asset size of the bank.

There is no other series of reporting forms that collect from all commercial and savings banks the information gathered through the Reports of Condition and Income. There are other information collections that tend to duplicate certain parts of the Call Reports; however, the information they provide would be of limited value as a replacement for the Call Reports. For example, the Federal Reserve collects various data in connection with its measurement of monetary aggregates, of bank credit, and of flow of funds. Reporting banks supply the Federal Reserve with detailed information relating to such balance sheet accounts as balances due from depository institutions, loans, and deposit liabilities. The Federal Reserve also collects financial data from bank holding companies on a regular basis. Such data are presented for the holding company on a consolidated basis, including its banking and nonbanking subsidiaries, and on a parent company only basis.

However, Federal Reserve reporting forms from banks are frequently obtained on a sample basis rather than from all insured banks. Moreover, these reporting forms are often prepared as of dates other than the last business day of each quarter, which would seriously limit their comparability. Institutions below a certain size are exempt entirely from some Federal Reserve reporting requirements. Data collected from bank holding companies on a consolidated basis reflect an aggregate amount for all subsidiaries within the organization, including banking and nonbanking subsidiaries, so that the actual dollar amounts applicable to any bank subsidiary are not determinable from the holding company reporting forms. Hence, these reporting forms could not be a viable replacement for even a significant portion of the Call Reports since the Federal Reserve, in its role as supervisor of insured state member banks, would be lacking the

data necessary to assess the financial condition of individual insured banks to determine whether there had been any deterioration in their condition.

Beginning March 1998, all banks were required to transmit their Call Report data electronically. Banks do not have to submit hard copy Call Reports to any federal bank supervisory agency unless specifically requested to do so.

## **Proposed Revisions**

### **Reporting Certain Transactions with Stockholders**

The instructions for item 11, “Other transactions with parent holding company,” in Schedule RI-A, Changes in Bank Equity Capital, currently advise institutions to report the net aggregate amount of transactions with the institution’s parent holding company that affect equity capital directly, other than those transactions required to be reported in other items of Schedule RI-A (e.g., cash dividends, sales and retirements of capital stock, and treasury stock transactions). The instructions for item 11 identify two transactions to be reported in this item: capital contributions other than those for which stock has been issued to the parent holding company and dividends to the holding company in the form of property rather than cash.

Although the scope of Schedule RI-A, item 11, is limited to transactions with an institution’s parent holding company, the two types of transactions identified in the instructions for this item can be conducted with an institution’s stockholders other than a parent holding company. In this situation, neither the instructions for item 11 nor the instructions for any of the other items in Schedule RI-A explains where these capital transactions with stockholders other than a parent holding company should be reported within the schedule.

In addition, an institution may from time to time reduce its contributed capital (i.e., surplus) without retiring any of its stock through a return-of-capital transaction in which cash is distributed to the institution’s owners, typically its parent holding company. Such a return-of-capital transaction is separate and distinct from a dividend payment, which reduces retained earnings and is reported in either item 8 or 9 of Schedule RI-A. At present, the instructions for Schedule RI-A do not explicitly identify the item within the schedule in which return-of-capital transactions should be reported. In this regard, Schedule RI-A, item 5, “Sale, conversion, acquisition, or retirement of capital stock, net (excluding treasury stock transactions),” includes the redemption or retirement of perpetual preferred stock or common stock (including stock owned by a parent holding company), but the instructions for this item are silent regarding return-of-capital transactions.

Accordingly, the agencies propose to revise the scope of Schedule RI-A, item 11, to include capital contributions received from stockholders other than an institution’s parent holding company when stock is not issued, property dividends involving stockholders other than a parent holding company, and return-of-capital transactions with all stockholders, including a parent holding company. In addition to revising the instructions for item 11, the caption for this item also would be revised to read “Other transactions with stockholders (including a parent holding company).”

## Reporting Changes on Assessments for Large and Highly Complex Institutions

The FDIC Board of Directors approved a final rule in October 2012 that amended certain aspects of the methodology set forth in the FDIC's assessment regulations (12 CFR Part 327) for determining the deposit insurance assessment rates for large and highly complex institutions.<sup>1</sup> This "large bank pricing rule," originally adopted by the FDIC Board in February 2011,<sup>2</sup> uses a scorecard method to determine a large or highly complex institution's assessment rate. One of the financial ratios used in the scorecard is the ratio of higher-risk assets to Tier 1 capital and reserves. The FDIC's October 2012 assessments final rule, which took effect April 1, 2013, (1) revises the definitions of certain higher-risk assets in the February 2011 assessments rule, specifically leveraged loans, which are renamed "higher-risk commercial and industrial (C&I) loans and securities," and subprime consumer loans, which are renamed "higher-risk consumer loans;" (2) clarifies when an asset must be classified as higher risk; (3) clarifies the way securitizations are identified as higher risk; and (4) further defines terms that are used in the large bank pricing rule. In response to large and highly complex institutions' concerns about their ability to identify loans meeting the subprime and leveraged loan definitions in the FDIC's February 2011 assessments rule, the agencies provided transition guidance for reporting subprime consumer and leveraged loans and securities that took effect with the initial reporting of these data in Schedule RC-O, Other Data for Deposit Insurance and FICO Assessments, as of June 30, 2011. The transition period for identifying and reporting subprime and leveraged loans has been extended over time to April 1, 2013.

Because the FDIC's October 2012 assessments final rule amended the definitions of subprime and leveraged loans and securities and renamed these higher-risk asset categories, the agencies propose to make corresponding changes to Memorandum items 7, 8 and 9 of Schedule RC-O. The agencies propose re-captioning Memo items 7 and 8 as "Higher-risk consumer loans' as defined for assessment purposes only in FDIC regulations" and "Higher-risk commercial and industrial loans and securities' as defined for assessment purposes only in FDIC regulations," respectively. The agencies also propose splitting Memo items 7, 8, and 9 two items each, which would enable large and highly complex institutions to report the amount of securitizations of nontraditional 1-4 family residential mortgage loans (Memorandum item 7.b), higher-risk consumer loans (Memorandum item 8.b), and higher-risk C&I loans (Memorandum item 9.b) separately from the three categories of higher-risk loans themselves (Memorandum items 7.a, 8.a, and 9.a). Separate reporting of these three categories of higher-risk securitizations would allow the FDIC to better track and analyze the composition of a bank's higher-risk assets. The agencies also propose that the instructions for these Memorandum items would be revised to incorporate the revised definitions of these higher-risk asset categories in the FDIC's October 2012 assessments final rule, including the clarified definitions of higher-risk securitizations. At present, the amounts that large and highly complex institutions report for "nontraditional 1-4 family residential mortgage loans," "subprime consumer loans," and "leveraged loans and securities" in Memorandum items 7, 8, and 9 of Schedule RC-O are accorded confidential treatment and not made available to the public on an individual institution basis because they are regarded as examination information. In this regard, until data on these higher-risk assets began to be collected directly in the Call Report, the FDIC looked to the examination processes at large

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<sup>1</sup> See 77 FR 66000, October 31, 2012.

<sup>2</sup> See 76 FR 10672, February 25, 2011.

and highly complex institutions as the means for gathering these data and, as a consequence, they have been treated as confidential examination information. The effective date for these revisions would be June 30, 2013, the first report date after the April 1, 2013, effective date of the FDIC's October 2012 assessments final rule.

In addition, the FFIEC and the agencies propose to implement several revisions to the data to be reported in Schedule RC-C and RC-O by large institutions and highly complex institutions to support the FDIC's large bank pricing method for insurance assessments. These revisions, which would take effect June 30, 2013, include a new table of consumer loans by loan type and probability of default band, new data items providing information on loans secured by real estate in foreign offices, revisions of certain existing data items on real estate loan commitments and U.S. government-guaranteed real estate loans to include those in foreign offices, and revisions to the information collected on government-guaranteed assets to include the portion of non-agency residential mortgage-backed securities and loans covered under FDIC loss-sharing agreements.

As defined in the October 2012 assessments final rule, a "higher-risk consumer loan" is a consumer loan where, as of origination (or, if the loan has been refinanced, as of refinance), the probability of default (PD) within two years (the two-year PD) is greater than 20 percent,<sup>3</sup> excluding, however, those consumer loans that meet the definition of a nontraditional 1-4 family residential mortgage loan.<sup>4</sup> Integral to its decision to adopt this definition in the October 2012 assessments final rule was the FDIC's stated intent to collect the outstanding balance of consumer loans, by two-year PD and product type, in the Call Report as a means to determine whether the 20 percent threshold for identifying "higher-risk consumer loans" should be changed. More specifically, the agencies propose that large and highly complex institutions would report in a tabular format the outstanding amount of all consumer loans, including those with a PD below the high-risk threshold, stratified by the 9 consumer loan product types and 12 two-year PD bands. In addition, for each product type, institutions would report the amount of unscorable loans, as defined in the October 2012 assessments final rule, and indicate whether the PDs were derived using scores and default rate mappings provided by a third-party vendor or an internal approach. The 9 proposed consumer loan product types are:

- (1) "Nontraditional 1-4 family residential mortgage loans;"
- (2) "Closed-end loans secured by first liens on 1-4 family residential properties;"
- (3) "Closed-end loans secured by junior liens on 1-4 family residential properties;"
- (4) "Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit;"
- (5) "Credit cards;"
- (6) "Automobile loans;"
- (7) "Student loans;"

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<sup>3</sup> The FDIC's October 2012 assessments final rules sets forth the "General Requirements for PD Estimation" in Section I.A.3 of Appendix C to Subpart A of Part 327 of the FDIC's regulations.

<sup>4</sup> The FDIC's October 2012 assessments final rule defines "nontraditional 1-4 family residential mortgage loans" in Section I.A.4 of Appendix C to Subpart A of Part 327 of the FDIC's regulations. "Nontraditional 1-4 family residential mortgage loans" as defined for assessment purposes only in FDIC regulations" are reported in Schedule RC-O, Memorandum item 7, and includes higher-risk securitizations of such loans.

- (8) “Other consumer loans (including single payment and installment) and revolving credit plans other than credit cards;” and  
(9) “Consumer leases.”

The 12 proposed two-year PD bands for consumer loans are: (1) less than or equal to 1 percent; (2) 1.01 to 4 percent; (3) 4.01 to 7 percent; (4) 7.01 to 10 percent; (5) 10.01 to 14 percent; (6) 14.01 to 16 percent; (7) 16.01 to 18 percent; (8) 18.01 to 20 percent; (9) 20.01 to 22 percent; (10) 22.01 to 26 percent; (11) 26.01 to 30 percent; and (12) greater than 30 percent.

The proposed addition to Schedule RC-O of tabular data on consumer loans, by two-year PD and product type, represents a further extension of the collection of confidential examination information discussed above, which also will not be made available to the public on an individual institution basis.

In addition, over the past six quarters as the FDIC has worked with the data collected in Schedule RC-O and elsewhere in the Call Report that serve as inputs to the growth adjusted portfolio concentration measure, the higher-risk asset concentration measure, and the loss severity measure used in the scorecard calculations under the large bank pricing rule, certain data gaps have been identified in the data needed to perform these calculations in the manner intended under this rule. Therefore, the agencies propose to add a number of new items to Schedules RC-C and RC-O and revise several existing RC-O Memorandum items to eliminate these data gaps. These proposed changes would apply only to large and highly complex institutions.

On the FFIEC 031 report form, which is applicable to institutions with foreign offices, Schedule RC-C, part I, item 1, “Loans secured by real estate,” does not capture a breakdown of these loans for the consolidated institution by the type of loan and collateral. Such a breakdown is collected for “Loans secured by real estate” in domestic offices. As a consequence, because “Loans secured by real estate” in foreign offices are not reported by type of loan and collateral in Schedule RC-C, part I, the loss severity measure in the large bank pricing rule treats all foreign office real estate loans as “Other loans” and assigning a higher loss rate to these “Other loans” than would otherwise be assigned to them based on their actual type of loan and collateral. The absence of these details on foreign office real estate loans also affects the growth adjusted portfolio concentration measure and the higher-risk asset concentration ratio. Similarly, within Schedule RC-O on the FFIEC 031 report, existing Memorandum items 10.a and 10.b capture data relating to “Commitments to fund construction, land development, and other land loans secured by real estate in domestic offices” while Memorandum items 13.a through 13.d collect data on the portion of certain categories of funded loans secured by real estate in domestic offices that are guaranteed or insured by the U.S. government. Because these Memorandum items also overlook the corresponding unfunded loan commitments and funded loans in foreign offices, the scorecard measures that use these inputs lack the information necessary to accurately calculate the affected ratios. The absence of detailed data on real estate loans in foreign offices affects a minority of the approximately 110 large and highly complex institutions.

To remedy this deficiency in the real estate loan data reported by large and highly complex institutions with foreign offices, the agencies propose to add new items to the FFIEC 031 version of the Call Report effective June 30, 2013, that would provide for the reporting of a

breakdown of the consolidated institution's "Loans secured by real estate" into the same nine types of loans and collateral as those reported for domestic offices only in Schedule RC-C, part I, items 1.a.(1) through 1.e.(2). Schedule RC-C, Part I, on the FFIEC 031 version of the Call Report would be revised to include the nine-category breakdown of loans secured by real estate for the consolidated institution. The Call Report instructions and the FFIEC 031 Call Report form would state that this breakdown is to be provided only by large and highly complex institutions.

Additionally, the scope of Memorandum items 10.a, 10.b, and 13.a through 13.d in Schedule RC-O would be revised to cover the specified unfunded commitments and funded loans in both domestic and foreign offices (i.e., for the consolidated bank). The definitions of the individual asset classes that make up the growth adjusted portfolio concentration measure and the higher-risk asset concentration measure for large and highly complex institutions exclude the maximum amounts recoverable from the U.S. government under guarantee or insurance provisions, including FDIC loss-sharing agreements. In Memorandum items 13.a through 13.g of Schedule RC-O, institutions report for several categories of funded loans the portion of these loans guaranteed or insured by the U.S. government, but they do not include the amount protected by FDIC loss-sharing agreements and, thus, do not precisely mirror the definitions of the individual measures that make up the higher-risk asset concentration measure for large and highly complex institutions. The balance sheet amounts of loans covered by loss-sharing agreements are currently reported in items 13.a.(1) through 13.a.(5) of Schedule RC-M, Memoranda. However, these items disclose only the total amount of these loans and not the portion of the loans that is protected by loss-sharing agreements. Consequently, for scorecard calculation purposes, the FDIC has been assuming that 80 percent of the loan amounts reported in Schedule RC-M are covered by loss-sharing agreements since most loss-sharing agreements cover 80 percent of the loan amounts. However, the actual percentage of loss-share coverage for some loss-share agreements differs. Accordingly, the agencies propose to revise existing Memorandum items 13.a through 13.g of Schedule RC-O so that institutions include, rather than exclude, the portion of specified loan categories covered by FDIC loss-sharing agreements.<sup>5</sup>

In addition, the growth adjusted portfolio concentration measure, as defined in the large bank pricing rule, includes non-agency residential mortgage-backed securities (reported in items 4.a.(3) and 4.b.(3), columns A and D, of Schedule RC-B, Securities), excluding the portion guaranteed or insured by the U.S. government (e.g., under FDIC loss-sharing agreements). However, the amount of the U.S. government-guaranteed or -insured portion of such securities is not currently collected in the Call Report. To eliminate this data deficiency, the agencies propose to add a new Memorandum item 13.h to Schedule RC-O to collect this missing information on non-agency residential mortgage-backed securities from large institutions only. These proposed revisions to Memorandum item 13 would take effect June 30, 2013.

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<sup>5</sup> Memorandum item 13.a would continue to be completed by large and highly complex institutions, while Memorandum items 13.b through 13.g would continue to be completed by large institutions only.

## **Noninterest-bearing Transaction Accounts of More than \$250,000**

In their February 2013 *Federal Register* notice, the agencies stated that they would continue to collect Memorandum items 5.a and 5.b of Schedule RC-O on the amount and number of noninterest-bearing transaction accounts of more than \$250,000 for which temporary unlimited deposit insurance coverage ended on December 31, 2012. The agencies had interest in monitoring the behavior of these deposit accounts following the change in insurance coverage, which could be fulfilled through institutions' continued reporting of these Memorandum items. The agencies stated that they would review the reported information and reconsider its collection when the number of accounts and amount of deposits stabilizes.

The March 2013 Call Report data on noninterest-bearing transaction accounts of more than \$250,000 have recently become available, which will allow the agencies to track any initial movements of these funds and accounts since year-end 2012. Nevertheless, whether migrations of these balances and accounts among individual insured institutions and within the entire depository institution system will begin or continue to occur, including monitoring whether any initial declines in noninterest-bearing transaction accounts of more than \$250,000 are temporary, remains to be seen. The behavior of these deposit accounts following their reduction in deposit insurance coverage also will inform any future deliberations about temporary increases in deposit insurance and their subsequent effects. Nevertheless, to provide certainty to institutions about the extent to which they will need to continue supplying data on the amount and number on noninterest-bearing transaction accounts of more than \$250,000, the agencies have agreed to terminate the collection of Memorandum items 5.a and 5.b after the December 31, 2013, report date.

### **Prepaid Deposit Insurance Assessments**

In November 2009, the FDIC Board of Directors approved a final rule requiring insured depository institutions to prepay 13 quarters of estimated risk-based deposit insurance assessments to strengthen the cash position of the Deposit Insurance Fund.<sup>6</sup> These assessments were prepaid on December 30, 2009. As required by the final rule, the FDIC will be returning each institution's remaining prepaid assessment, if any, on June 28, 2013. As a consequence, as of June 30, 2013, each institution will have a zero balance for prepaid deposit insurance assessments. Thus, item 6.f, "Prepaid deposit insurance assessments," of Call Report Schedule RC-F, Other Assets, would no longer be necessary as of the June 30, 2013, report date and would be removed from the schedule as of that date. The caption for item 6.f would be revised to read "Not applicable."

### **Tier 3 Capital**

In August 2012, the agencies published a joint final rule revising their market risk capital rules effective January 1, 2013.<sup>7</sup> The joint final rule modified the definition of a covered position, revised the calculation of the measure for market risk, and eliminated Tier 3 capital. Thus, Schedule RC-R, Regulatory Capital, item 19, "Tier 3 capital allocated for market risk," is no longer necessary and would be removed from the schedule effective June 30, 2013. The

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<sup>6</sup> See 74 FR 59056, November 17, 2009.

<sup>7</sup> See 77 FR 53060, August 30, 2012.



caption for item 19 would be revised to read “Not applicable.”

### **Time Schedule for Information Collection**

The Call Reports are collected quarterly as of the end of the last calendar day of March, June, September, and December. Less frequent collection of Call Reports would reduce the Federal Reserve’s ability to identify on a timely basis those banks that are experiencing adverse changes in their condition so that appropriate corrective measures can be implemented to restore their safety and soundness. State member banks must submit the Call Reports to the appropriate Federal Reserve Bank within 30 calendar days following the as-of date; a five-day extension is given to banks with more than one foreign office.

Aggregate data are published in the *Federal Reserve Bulletin* and the *Annual Statistical Digest*. Additionally, data are used in the *Uniform Bank Performance Report (UBPR)* and the *Annual Report of the FFIEC*. Individual respondent data, excluding confidential information, are available to the public from the National Technical Information Service in Springfield, Virginia, upon request approximately twelve weeks after the report date. Data are also available from the FFIEC Central Data Repository Public Data Distribution (CDR PDD) website (<https://cdr.ffiec.gov/public/>). Data for the current quarter are made available, shortly after a bank’s submission, beginning the first calendar day after the report date. Updated or revised data may replace data already posted at any time thereafter.

### **Legal Status**

The Board’s Legal Division has determined that Section 9 of the Federal Reserve Act (12 U.S.C. § 324) authorizes the Federal Reserve to require these reports from all state member banks. The Board’s Legal Division has determined that the following data items are confidential: (1) the FDIC deposit insurance assessment information reported in response to item 2.g on Schedule RI-E, (2) the prepaid deposit insurance assessments information reported in response to item 6.f on schedule RC-F, and (3) the information regarding other data for deposit insurance and FICO assessments reported in respond to memorandum items 6-9 and 14-15 on schedule RC-O. This information can be exempt from disclosure pursuant to the Freedom of Information Act (5 U.S.C. §§ 552 (b)(4) and (8)) for periods beginning June 30, 2009. The Board’s Legal Division also determined that the individual respondent information contained in the trust schedule, RC-T are exempt from disclosure pursuant to the Freedom of Information Act (5 U.S.C. §§ 552(b)(4) and (8)) for periods prior to March 31, 2009. Finally, Column A and memorandum item 1 to Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets are exempt from disclosure pursuant to the Freedom of Information Act (5 U.S.C. §§ 552(b)(4) and (8)) for periods prior to March 31, 2001.

### **Consultation Outside the Agency and Discussion of Public Comments**

On February 21, 2013, the agencies, under the auspices of the Federal Financial Institutions Examination Council (FFIEC), published an initial notice in the *Federal Register* (78 FR 12141) requesting public comment for 60 days on the extension, with revision, of the Call Reports. The comment period for this notice expired on April 22, 2013. The agencies

collectively received comments from 33 entities: 20 banking organizations, seven bankers' associations, four consumer advocacy organizations, one life insurers' association, and one government agency. Many of the comments received opposed one or more of the proposed changes, although some supported one or more of these changes.

In a joint letter, three bankers' associations commented on several aspects of the Schedule RC-O reporting changes applicable to large and highly complex institutions. These commenters generally supported the proposed revisions, but recommended some modifications as discussed below.

First, these associations recommended clarification of the definition of "higher-risk commercial and industrial loans and securities" in the draft of the revised Call Report instructions for Schedule RC-O, Memorandum item 9, to exclude loans to individuals for commercial, industrial, and professional purposes. The bankers' associations also commented that commercial loans of at least \$5 million to individuals to finance material acquisitions, buyouts, or capital distributions are exceedingly rare, so excluding loans to individuals from being reported as "higher-risk C&I loans and securities" will not have a noticeable impact on the aggregate amount of such higher-risk assets. Adding an exclusion for loans to individuals for commercial, industrial, and professional purposes to the draft revised Memorandum item 9 instructions would be consistent with the existing instructions for reporting leveraged loans and securities in Memorandum item 9. The agencies plan to clarify the draft revised Memorandum item 9.

The bankers' associations also commented that it is unclear how an institution could evaluate loans to proprietorships and partnerships against the definition of "higher-risk C&I loans and securities," asserting that the financial statements of such firms do not include the data needed to calculate the leverage and materiality tests included in the definition. However, because "higher-risk C&I loans and securities," as defined, include certain loans with an original amount of at least \$5 million, the agencies do not agree with this assertion and would expect that institutions, when lending such an amount to a commercial borrower, including a sole proprietorship or partnership, would regularly obtain financial statements that include the necessary data to determine debt levels and calculate debt-to-EBITDA<sup>8</sup> ratios. The decision to exclude loans to individuals for commercial, industrial, and professional purposes from "higher-risk C&I loans and securities" was based upon the fact that EBITDA cannot be calculated for an individual; however, this is not the case for a commercial borrower operating as a sole proprietorship or partnership. Therefore, the definition of higher-risk C&I loans will not exclude loans to sole proprietorships and partnerships.

Second, the three associations recommended that large and highly complex institutions with foreign offices report the proposed breakdown of their "loans secured by real estate" for the consolidated institution (i.e., for both domestic and foreign offices) in Schedule RC-C, Part I, rather than in new Memorandum items in Schedule RC-O as had been proposed. All institutions with foreign offices file the FFIEC 031 version of the Call Report and they currently report a nine-category breakdown of their loans secured by real estate in domestic offices, but at present they report only the total amount of loans secured by real estate for the consolidated institution.

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<sup>8</sup> EBITDA is defined as earnings before interest, taxes, depreciation, and amortization.

The associations asserted that requiring only those institutions with foreign offices that are large or highly complex institutions to include the real estate breakdown in Schedule RC-C, Part I, could be dealt with instructionally and would not cause confusion since special instructions are already in place to explain which subsets of institutions are required to report certain types of loan data in Schedule RC-C, Part I. The agencies agree with the associations' recommendation. Accordingly, Schedule RC-C, Part I, on the FFIEC 031 version of the Call Report would be revised to include the nine-category breakdown of loans secured by real estate for the consolidated institution. The Call Report instructions and the FFIEC 031 Call Report form would state that this breakdown is to be provided only by large and highly complex institutions.

Third, the three bankers' associations recommended that the two-year probability of default table in proposed Schedule RC-O, Memorandum item 19,<sup>9</sup> combine Memorandum items 19.d and 19.e for revolving, open-end loans secured by first and junior liens, respectively, on 1-4 family residential properties and extended under lines of credit into a single item, rather than requiring large and highly complex institutions to report these categories of loans separately. The associations stated that because Schedule RC-C, part I, Loans and Leases, does not currently require institutions to separately report first and junior lien revolving credits, institutions' reporting systems are not currently designed to separately identify these credits. As a consequence, the associations questioned the merits of imposing such a systems change on institutions given the cost and burden that would be involved. The agencies agree with the associations' recommendation and would revise the two-year probability of default table so that large and highly complex institutions would report the two-year probability of default for all revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit without regard to their lien position.<sup>10</sup>

Fourth, the three associations' comment letter stated that, based on the provisions of the FDIC's October 2012 assessments final rule, large and highly complex institutions expected that Schedule RC-O would be revised to require them to report higher-risk securitizations separately from nontraditional 1-4 family residential mortgage loans, higher-risk consumer loans, and higher-risk C&I loans. The associations indicated that large and highly complex institutions would prefer to report these higher-risk securitizations separately from the three categories of higher-risk loans. The associations further believe that the separate reporting of higher-risk securitizations would allow the FDIC and the other banking agencies to examine the validity of the associations' previous argument that the structure of a securitization should be considered when determining whether a securitization is truly higher-risk. The agencies agree that reporting higher-risk securitizations separately from higher-risk loans, as recommended by the associations, would be beneficial. Accordingly, the agencies would split Memorandum items 7, 8, and 9 of Schedule RC-O into two items each.

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<sup>9</sup> As described above, the nine-category breakdown of loans secured by real estate for the consolidated institution, which initially had been designated Memorandum item 18 of Schedule RC-O, would be moved from Schedule RC-O to Schedule RC-C, part I, item 1, column A, on the FFIEC 031 version of the Call Report. As a result, the two-year probability of default table, which initially had been designated Memorandum item 19 of Schedule RC-O, would be renumbered as Memorandum item 18 of Schedule RC-O in the Call Report forms for June 30, 2013.

<sup>10</sup> The combined items would be designated as renumbered Memorandum item 18.d in the Call Report forms for June 30, 2013. As a result of this change, the Schedule RC-O Memorandum items that initially had been numbered 19.f through 19.k would be renumbered as Memorandum items 18.e through 18.j.

Fifth, Schedule RC-O, Memorandum items 10.a and 10.b, provide certain data on unfunded commitments for construction, land development, and other land loans secured by real estate (construction loans) while Memorandum items 13.a through 13.d collect data on the U.S. government-guaranteed or -insured portion of four categories of funded loans secured by real estate. The agencies proposed to revise these existing Schedule RC-O Memorandum items on the FFIEC 031 version of the Call Report by expanding their scope to include commitments and loans in both foreign and domestic offices rather than only domestic offices. The three bankers' associations agreed that this proposed change would enable large and highly complex institutions with foreign offices to "report more accurately the balances needed for Large Bank Pricing," but their letter stated that these institutions would not have sufficient time to be prepared to report as of June 30, 2013, their commitments to fund construction loans in foreign offices, the portion of such unfunded commitments that are guaranteed or insured by the U.S. government, and the portion of the four categories of funded real estate loans in foreign offices that are guaranteed or insured by the U.S. government. The agencies acknowledge that large and highly complex institutions with foreign offices may need additional time to comply with the expanded scope of Memorandum items 10.a, 10.b, and 13.a through 13.d of Schedule RC-O. Accordingly, the reporting of foreign office data in these Memorandum items would be optional for June 30, 2013, and required beginning September 30, 2013.<sup>11</sup> A large or highly complex institution that opts not to report the foreign office data in Memorandum items 10.a, 10.b, and 13.a through 13.d of Schedule RC-O when it initially files its Call Report for June 30, 2013, would be permitted, but not required, to amend the amounts originally reported in these Schedule RC-O Memorandum items for June 30 after it has the systems in place to gather the necessary foreign office data.

Sixth, in their joint comment letter, the three bankers' associations encouraged the agencies to discontinue collecting RC-O Memorandum items 5.a and 5.b because the need to monitor the volume of deposits covered by the temporary unlimited deposit insurance is no longer relevant. The associations also noted the reporting burden associated with these Memorandum items and stated that the agencies can analyze other deposit data collected in the Call Report to monitor significant deposit runoff. The agencies recognize that there is ongoing burden associated with the continued collection of data on the amount and number of noninterest-bearing transaction accounts of more than \$250,000. In this regard, the agencies' burden estimates for the Call Report, which are disclosed earlier in this notice, continue to include the estimated burden of these two Schedule RC-O Memorandum items. Nevertheless, to provide certainty to institutions about the extent to which they will need to continue supplying data on the amount and number on noninterest-bearing transaction accounts of more than \$250,000, the agencies have agreed to terminate the collection of Memorandum items 5.a and 5.b after the December 31, 2013, report date.

Therefore, after considering the comments the agencies received, the FFIEC and the agencies are proceeding at this time only with a few of the proposed Call Report revisions. Certain modifications have been made to the reporting changes in response to comments received. As for the other new data items that had been proposed to be added to the Call Report

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<sup>11</sup> Large and highly complex institutions with foreign offices would continue to be required to report domestic office data in Memorandum items 10.a, 10.b, and 13.a through 13.d of Schedule RC-O in their Call Reports for June 30, 2013.

effective June 30, 2013 (and one new item proposed to be collected annually beginning December 31, 2013), the FFIEC and the agencies are continuing to evaluate these proposed new Call Report items in light of the comments received. When the FFIEC and the agencies have decided whether and how to proceed with these other proposed new data items, a separate *Federal Register* notice would be published and, if applicable, submissions by the agencies would be made to OMB.

### Estimate of Respondent Burden

The current annual reporting burden for the Call Report is estimated to be 185,904 hours and would increase to 187,820 hours as shown in the following table. The average estimated hours per response for Call Report filers would increase from 55.66 hours to 55.70 hours due to the proposed changes. This reporting requirement represents 1.44 percent of the total Federal Reserve paperwork burden.

	<i>Number of respondents<sup>12</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<b>Current</b>	835	4	55.66	185,904
<b>Proposed</b>	843	4	55.70	187,820
<i>Change</i>				1,916

The current total annual cost to state member banks is estimated to be \$9,276,610 and with the proposed revisions would increase to \$9,372,218.<sup>13</sup> This estimate represents costs associated with recurring salary and employee benefits, and expenses associated with software, data processing, and bank records that are not used internally for management purposes but are necessary to complete the Call Reports.

With respect to the changes that are the subject of this submission, banks would incur a capital and start-up cost component, but the amount would vary from bank to bank depending upon its individual circumstances and the extent of its involvement, if any, with the particular type of activity or product about which information would begin to be collected. An estimate of this cost component cannot be determined at this time.

<sup>12</sup> Of these respondents, 413 are small entities as defined by the Small Business Administration (i.e., entities with less than \$175 million in total assets) [www.sba.gov/contractingopportunities/officials/size/table/index.html](http://www.sba.gov/contractingopportunities/officials/size/table/index.html)

<sup>13</sup> Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rate (30% Office & Administrative Support at \$18, 45% Financial Managers at \$59, 15% Lawyers at \$63, and 10% Chief Executives at \$85). Hourly rate for each occupational group are the median hourly wages (rounded up) from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2012, [www.bls.gov/news.release/ocwage.nr0.htm](http://www.bls.gov/news.release/ocwage.nr0.htm) Occupations are defined using the BLS Occupational Classification System, [www.bls.gov/soc/](http://www.bls.gov/soc/).

## **Sensitive Questions**

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

## **Estimate of Cost to the Federal Reserve System**

The current annual cost to the Federal Reserve System for collecting and processing the Call Reports are estimated to be \$1,500,837 per year. This amount includes the routine annual cost of personnel, printing, and computer processing, as well as internal software development cost for maintaining and modifying existing operating systems used to edit and validate submitted data.