

**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 (Board) 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 Board 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 Board, the FDIC, and the OCC (the agencies) propose to revise the Call Reports for the September 30, 2016, or March 31, 2017, report dates, depending on the nature of the proposed reporting change, by (1) deleting certain existing data items, (2) revising certain reporting thresholds and certain existing data items, (3) adding certain new data items, and (4) revising certain instruction sections. The current annual burden for the Call Reports is estimated to be 201,595 hours and the proposed revisions are estimated to decrease the annual burden by 604 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 Board collects various data in connection with its measurement of monetary aggregates, of bank credit, and of flow of funds. Reporting banks supply the Board with detailed information relating to such balance sheet accounts as balances due from depository institutions, loans, and deposit liabilities. The Board 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, Board 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 Board 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 Board, 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**

The FFIEC launched a formal initiative in December 2014 to identify potential opportunities to reduce burden associated with Call Report requirements for community banks. In embarking on this effort, the FFIEC was responding to industry concerns about the cost and burden associated with the Call Report. The FFIEC's formal initiative comprises actions in five areas, which are discussed below. In addition, as a foundation for the actions it is undertaking, the FFIEC has developed a set of guiding principles for use in evaluating potential additions and deletions of Call Report data items and other revisions to the Call Report. In general, any Call Report changes must meet three guiding principles: (1) The data items serve a long-term regulatory or public policy purpose by assisting the FFIEC's member entities in fulfilling their missions of ensuring the safety and soundness of financial institutions and the financial system and the protection of consumer financial rights, as well as entity-specific missions affecting national and state-chartered institutions; (2) The data items to be collected maximize practical utility and minimize, to the extent practicable and appropriate, burden on financial institutions; and (3) Equivalent data items are not readily available through other means.

As a first action under the FFIEC's Call Report burden-reduction initiative, the agencies are publishing this *Federal Register* notice and requesting comment on a number of proposed burden-reducing changes and certain other proposed Call Report revisions identified during their most recent statutorily mandated review of the information collected in the Call Report.<sup>1</sup> Implementation of the revisions identified during that review had been deferred while the agencies adopted changes to the reporting of regulatory capital information in the Call Report to implement the revised regulatory capital rules issued in July 2013 that took effect as of January 1, 2014, and January 1, 2015.<sup>2</sup>

The FFIEC and the agencies also identified and incorporated into this proposal certain other burden-reducing changes to the Call Report in addition to those identified in the most recent statutorily mandated review of the Call Report. The burden-reducing changes included as part of this first action are not intended to be the only group of Call Report revisions designed to lessen reporting burden for reporting institutions and, in particular, for community banks. Additional burden-reducing changes to the Call Report are expected to result from the other actions being taken by the agencies under the FFIEC's Call Report burden-reduction initiative.

As the second action, the agencies have accelerated the start of the next statutorily

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<sup>1</sup> This review is mandated by section 604 of the Financial Services Regulatory Relief Act of 2006 (12 U.S.C. § 1817(a)(11)).

<sup>2</sup> See 78 FR 48932 (August 12, 2013); 79 FR 2527 (January 14, 2014); 79 FR 35634 (June 23, 2014); and 80 FR 5618 (February 2, 2015).

mandated review of the existing Call Report data items, which otherwise would have commenced in 2017. Users of Call Report data items at the FFIEC's member entities are participating in a series of surveys being conducted over an 18-month period that began in mid-July 2015. As an integral part of these surveys, users are being asked to fully explain the need for each Call Report data item, how it is used, the frequency with which it is needed, and the population of institutions from which it is needed. Call Report schedules have been placed into groups and prioritized for review, generally based on perceived burden as cited by banking industry representatives. Based on the results of the surveys, the agencies will identify data items that will be considered for elimination, less frequent collection, or new or upwardly revised reporting thresholds. Burden-reducing reporting changes will be proposed for implementation on a flow basis as they are identified during the sequential reviews of groups of Call Report schedules rather than waiting until the completion of the entire review.

As a third action, the agencies are considering the feasibility and merits of creating a less burdensome version of the quarterly Call Report for institutions that meet certain criteria, which may include an asset-size reporting threshold or activity limitations. For example, a report for eligible institutions could exclude the Call Report schedules and items not applicable to institutions below the specified asset-size threshold. The agencies plan to complete their analysis regarding the concept of such a Call Report by year-end 2015. Any plan for a new version of the Call Report would need to be approved by the FFIEC and implemented by the agencies in compliance with the applicable requirements under the Paperwork Reduction Act (PRA).

A fourth action for the agencies is to better understand, through industry dialogue, the aspects of reporting institutions' Call Report preparation process that are significant sources of reporting burden, including where manual intervention by an institution's staff is necessary to report particular information. As an initial step toward gaining this understanding, representatives from the FFIEC's member entities plan to visit a limited number of institutions that have expressed their willingness to host a visit during the third quarter of 2015. Institution staff would be asked to show how they prepare their Call Reports and explain which schedules or data items take a significant amount of time or manual processes to complete and the reasons for this. Findings from on-site visits would help the agencies determine the nature and form of further banker outreach. The information obtained from these activities would assist the agencies in evaluating whether and how it may be possible to reduce reporting burden by revising or redefining Call Report data items.

As the fifth action, the agencies plan to offer periodic training to bankers via teleconferences and webinars that would explain upcoming reporting changes and could also provide guidance on areas of the Call Report bankers find challenging to complete. These events should benefit institutions by reducing Call Report preparation training costs. The first training session was a banker teleconference on February 25, 2015, that included a presentation on the revised Call Report Schedule RC-R regulatory capital reporting requirements that took effect on March 31, 2015, followed by a question-and-answer session. The slide presentation used during the teleconference, an audio recording of this presentation, and a transcript of the entire teleconference have been posted on the FFIEC's website.

## Overview

The agencies are proposing to implement a number of revisions to the Call Report requirements in September 2016 or March 2017, depending on the nature of the proposed revision. The following proposed Call Report revisions would take effect September 30, 2016:

- Deletions of certain existing data items pertaining to troubled debt restructurings from Schedules RC-C, Part I, and RC-N; loans covered by FDIC loss-sharing agreements from Schedules RC-M and RC-N; and unused commitments to asset-backed commercial paper conduits with an original maturity of one year or less in Schedule RC-R, Part II;
- Increases in existing reporting thresholds for certain data items in Schedules RI-E, RC-D, RC-F, RC-G, and RC-Q and the establishment of a reporting threshold for certain data items in Schedule RC-S;
- An instructional revision addressing the reporting of the custodial bank deduction in Schedule RC-O;
- New and revised data items and information of general applicability, including:
  - Adding contact information for the reporting institution's Chief Executive Officer;
  - Reporting the Legal Entity Identifier for the reporting institution (on the Call Report cover page) if the institution already has one;
  - Creating additional preprinted captions for itemizing and describing components of certain items that exceed reporting thresholds in Schedules RC-F and RI-E; and
  - Eliminating the concept of extraordinary items and revising affected data items in Schedules RI and RI-E; and
- New and revised data items of limited applicability, including:
  - Adding a new item on "dually payable" deposits in foreign branches of U.S. banks to Schedule RC-O on the FFIEC 031 report; and
  - Revising the information reported about the supplementary leverage ratio by advanced approaches institutions in Schedule RC-R, Part I.

The following proposed Call Report revisions would take effect March 31, 2017:

- Deletions of certain existing data items pertaining to other-than-temporary impairments from Schedule RI;
- An instructional revision addressing the reporting of net gains (losses) and other-than-temporary impairments on equity securities that do not have readily determinable fair values on the Call Report income statement;
- New and revised data items of general applicability, including:
  - Increasing the time deposit size threshold used to report certain deposit information from \$100,000 to \$250,000 in Schedules RC-E, RI, and RC-K;
  - Revising the statements used to describe the level of external auditing work performed for the reporting institution during the preceding year in Schedule RC; and
- New and revised data items of limited applicability, including:
  - Moving the existing Memorandum items for the fair value and unpaid principal balance of loans (not held for trading) measured under a fair value option from Schedule RC-C, Part I, to Schedule RC-Q; and
  - Revising the information reported in Schedule RI by certain institutions with total assets of \$100 billion or more on the impact on trading revenues of changes in credit and debit valuation adjustments and adding a new item for gross trading revenue.

## **Discussion of Proposed Call Report Revisions**

### **A. Deletions of Existing Data Items**

Based on the agencies' review of the information that institutions are required to report in the Call Report, the agencies have determined that the continued collection of the following items is no longer necessary and are proposing to eliminate them:

- (1) Schedule RI, Income Statement: Memorandum items 14.a and 14.b, on other-than-temporary impairments;<sup>3</sup>
- (2) Schedule RC-C, Part I, Loans and Leases: Memorandum items 1.f.(2), 1.f.(5), and 1.f.(6) (and 1.f.(7) on the FFIEC 031), on troubled debt restructurings in certain loan categories that are in compliance with their modified terms;
- (3) Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets: Memorandum items 1.f.(2), 1.f.(5), and 1.f.(6) (and 1.f.(7) on the FFIEC 031), on troubled debt restructurings in certain loan categories that are 30 days or more past due or on nonaccrual;
- (4) Schedule RC-M, Memoranda: Items 13.a.(5)(a) through (d) (and (e) on the FFIEC 031), on loans in certain loan categories that are covered by FDIC loss-sharing agreements; and
- (5) Schedule RC-N: Items 11.e.(1) through (4) (and (5) on the FFIEC 031), on loans in certain loan categories that are covered by FDIC loss-sharing agreements and are 30 days or more past due or on nonaccrual.

In addition, when Schedule RC-R, Part II, is completed properly, item 18.b on unused commitments to asset-backed commercial paper conduits with an original maturity of one year or less is not needed because such commitments should already have been reported in item 10 as off-balance sheet securitization exposures. The instructions for item 18.b explain that these unused commitments should be reported in item 10 and that amounts should not be reported in item 18.b. Accordingly, the agencies are proposing to delete existing item 18.b from Schedule RC-R, Part II. Existing item 18.c of Schedule RC-R, Part II, for unused commitments with an original maturity exceeding one year would then be renumbered as item 18.b.

### **B. New Reporting Threshold and Increases in Existing Reporting Thresholds**

In five Call Report schedules, institutions are currently required to itemize and describe each component of an existing item when the component exceeds both a specified percentage of the item and a specified dollar amount.<sup>4</sup> Based on a preliminary evaluation of the existing reporting thresholds, the agencies have concluded that the dollar portion of the thresholds that currently apply to these items can be increased to provide a reduction in reporting burden without a loss of data that would be necessary for supervisory or other public policy purposes. The percentage portion of the existing thresholds would not be changed. Accordingly, the

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<sup>3</sup> Institutions would continue to complete Schedule RI, Memorandum item 14.c, on net impairment losses recognized in earnings. Memorandum item 14.c would be renumbered Memorandum item 14.

<sup>4</sup> The data items for which components in excess of specified reporting thresholds are required to be itemized and described are included in Schedule RI-E, Explanations; Schedule RC-D, Trading Assets and Liabilities; Schedule RC-F, Other Assets; Schedule RC-G, Other Liabilities; and Schedule RC-Q, Assets and Liabilities Measured at Fair Value on a Recurring Basis.

agencies are proposing to raise from \$25,000 to \$100,000 the dollar portion of the threshold for itemizing and describing components of:

- (1) Schedule RI-E, item 1, “Other noninterest income;”
- (2) Schedule RI-E, item 2, “Other noninterest expense;”
- (3) Schedule RC-F, item 6, “All other assets;”
- (4) Schedule RC-G, item 4, “All other liabilities;”
- (5) Schedule RC-Q, Memorandum item 1, “All other assets;” and
- (6) Schedule RC-Q, Memorandum item 2, “All other liabilities.”

The agencies also are proposing to raise from \$25,000 to \$1,000,000 the dollar portion of the threshold for itemizing and describing components of “Other trading assets” and “Other trading liabilities” in Schedule RC-D, Memorandum items 9 and 10.

In addition, because institutions with less than \$1 billion in total assets typically do not provide support for asset-backed commercial paper conduits, the agencies are proposing to exempt such institutions from completing Schedule RC-S, Servicing, Securitization, and Asset Sale Activities, Memorandum items 3.a.(1), 3.a.(2), 3.b.(1), and 3.b.(2), on credit enhancements and unused liquidity commitments provided to asset-backed commercial paper conduits.

### **C. Instructional Revisions**

#### *1. Net Gains (Losses) on Sales of, and Other-Than-Temporary Impairments on, Equity Securities That Do Not Have Readily Determinable Fair Values*

Institutions report investments in equity securities that do not have readily determinable fair values and are not held for trading (and to which the equity method of accounting does not apply) in Schedule RC-F, item 4, and on the Call Report balance sheet in Schedule RC, item 11, “Other assets.” If such equity securities are held for trading, they are reported in Schedule RC, item 5, and in Schedule RC-D, item 9 and Memorandum item 7.b, if applicable. In contrast, investments in equity securities with readily determinable fair values that are not held for trading are reported as available-for-sale securities in Schedule RC, item 2.b, and in Schedule RC-B, item 7, whereas those held for trading are reported in Schedule RC, item 5, and in Schedule RC-D, item 9 and Memorandum item 7.a, if applicable.

In general, investments in equity securities that do not have readily determinable fair values are accounted for in accordance with ASC Subtopic 325-20, Investments-Other – Cost Method Investments (formerly Accounting Principles Board Opinion No. 18, “The Equity Method of Accounting for Investments in Common Stock”), but are subject to the impairment guidance in ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Staff Position No. FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments”).

The Call Report instructions for Schedule RI, Income Statement, address the reporting of realized gains (losses), including other-than-temporary impairments, on held to-maturity and available-for-sale securities as well as the reporting of realized and unrealized gains (losses) on trading securities and other assets held for trading. However, the Schedule RI instructions do not

specifically explain where to report realized gains (losses) on sales or other disposals of, and other-than-temporary impairments on, equity securities that do not have readily determinable fair values and are not held for trading (and to which the equity method of accounting does not apply).

The instructions for Schedule RI, item 5.k, “Net gains (losses) on sales of other assets (excluding securities),” direct institutions to “[r]eport the amount of net gains (losses) on sales and other disposals of assets not required to be reported elsewhere in the income statement (Schedule RI).” The instructions for item 5.k further advise institutions to exclude net gains (losses) on sales and other disposals of securities and trading assets. The intent of this wording was to cover securities designated as held-to-maturity, available-for-sale, and trading securities because there are separate specific items elsewhere in Schedule RI for the reporting of realized gains (losses) on such securities (items 6.a, 6.b, and 5.c, respectively). Thus, the agencies are proposing to revise the instructions for Schedule RI, item 5.k, by clarifying that the exclusions from this item of net gains (losses) on securities and trading assets apply to held-to-maturity, available-for-sale, and trading securities and other assets held for trading. At the same time, the agencies are proposing to add language to the instructions for Schedule RI, item 5.k, that explains that net gains (losses) on sales and other disposals of equity securities that do not have readily determinable fair values and are not held for trading (and to which the equity method of accounting does not apply), as well as other-than-temporary impairments on such securities, should be reported in item 5.k. The agencies also are proposing to remove the parenthetical “(excluding securities)” from the caption for item 5.k and add in its place a footnote to this item advising institutions to exclude net gains (losses) on sales of trading assets and held-to-maturity and available-for-sale securities.

## *2. Custodial Bank Deduction*

The agencies propose to revise the instructions for Schedule RC-O, item 11.a, “Custodial bank deduction,” to state that if a custodial bank’s deduction limit as reported in Schedule RC-O, item 11.b, is zero, the custodial bank may leave item 11.a blank rather than calculating and reporting the amount of its deduction.

## **D. New and Revised Data Items and Information of General Applicability**

### *1. Increase in the Time Deposit Size Threshold*

Section 335 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. No. 111-203) permanently increased the standard maximum deposit insurance amount (SMDIA) from \$100,000 to \$250,000 effective July 21, 2010. The SMDIA had been increased temporarily from \$100,000 to \$250,000 by Section 136 of the Emergency Economic Stabilization Act of 2008 (Pub. L. No. 110-343). In response to the increase in the limit of deposit insurance coverage, the reporting of the amount of “Total time deposits of \$100,000 or more” in Memorandum item 2.c of Schedule RC-E, Deposit Liabilities, was revised as of the March 31, 2010, report date. As of that date, institutions began to separately report their “Total time deposits of \$100,000 through \$250,000” (Memorandum item 2.c) and their “Total time deposits of more than \$250,000” (Memorandum item 2.d).

However, the reporting of the quarterly averages, interest expense, and maturity and repricing data for time deposits of \$100,000 or more in Schedules RC-K, RI, and RC E, respectively, have not been updated to reflect the permanent \$250,000 deposit insurance limit. In this regard, in its comment letter to the agencies in response to their first request for comments under the Economic Growth and Regulatory Paperwork Reduction Act of 1996,<sup>5</sup> the American Bankers Association recommended revising the Schedule RC-E deposit reporting items to reflect the new FDIC insurance limit of \$250,000. Accordingly, the agencies are proposing to revise the time deposit size threshold that applies to the reporting of this information to bring it into alignment with the SMDIA. These proposed changes are illustrated in the following table:

<b>Call Report Schedule</b>	<b>Current Item</b>	<b>Proposed Revised Item</b>
Schedule RC-K, Quarterly Averages	Item 11.b, “Time deposits of \$100,000 or more”	Item 11.b, “Time deposits of \$250,000 or less”
	Item 11.c, “Time deposits of less than \$100,000”	Item 11.c, “Time deposits of more than \$250,000”
Schedule RI, Income Statement <sup>6</sup>	Item 2.a.(2)(b), Interest expense on “Time deposits of \$100,000 or more”	Item 2.a.(2)(b), Interest expense on “Time deposits of \$250,000 or less”
	Item 2.a.(2)(c), Interest expense on “Time deposits of less than \$100,000”	Item 2.a.(2)(c), Interest expense on “Time deposits of more than \$250,000”
Schedule RC-E, Deposit Liabilities	Memorandum item 3.a, “Time deposits of less than \$100,000 with a remaining maturity or next repricing date of”	Memorandum item 3.a, “Time deposits of \$250,000 or less with a remaining maturity or next repricing date of”
	Memorandum item 3.b, “Time deposits of less than \$100,000 with a remaining maturity of one year or less”	Memorandum item 3.b, “Time deposits of \$250,000 or less with a remaining maturity of one year or less”
	Memorandum item 4.a, “Time deposits of \$100,000 or more with a remaining maturity or next repricing date of”	Memorandum item 4.a, “Time deposits of more than \$250,000 with a remaining maturity or next repricing date of”
	Memorandum item 4.b, “Time deposits of \$100,000 through \$250,000 with a remaining maturity of one year or less”	Memorandum item 4.b, “Time deposits of more than \$250,000 with a remaining maturity of one
	Memorandum item 4.c,	

<sup>5</sup> See 79 FR 32172 (June 4, 2014).

<sup>6</sup> The item numbers shown for Schedule RI are from the FFIEC 041 report form for institutions with domestic offices only. On the FFIEC 031 report form for institutions with domestic and foreign offices, the item numbers are items 2.a.(1)(b)(2) and 2.a.(1)(b)(3).

	“Time deposits of more than \$250,000 with a remaining maturity of one year or less”	year or less”
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*2. Level of External Auditing Work Performed for the Reporting Institution During the Preceding Year*

Each year in the March Call Report, each institution indicates in Schedule RC, Balance Sheet, Memorandum item 1, the most comprehensive level of auditing work performed by independent external auditors during the preceding calendar year for the institution or its parent holding company. In completing Memorandum item 1, each institution selects from nine statements describing a range of levels of auditing work the one statement that best describes the level of auditing work performed for it. Certain statements from which an institution must choose do not reflect current auditing practices performed in accordance with applicable standards and procedures promulgated by the U.S. auditing standard setters, namely the Public Company Accounting Oversight Board (PCAOB) and the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants. The PCAOB establishes auditing and related professional practice standards to be used in the performance and reporting of audits of the financial statements of public companies. The ASB establishes auditing, attestation, and quality control standards applicable to the performance and issuance of audit and attestation reports for entities that are not public companies, e.g. private companies.

The PCAOB’s Auditing Standard No. 5 (AS 5), *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, became effective for fiscal years ending on or after November 15, 2007, and provides guidance regarding the integration of audits of internal control over financial reporting with audits of financial statements. To further emphasize the integration of these two audits, the PCAOB revised AS 5 in December 2010 by adding a statement that “the auditor cannot audit internal control over financial reporting without also auditing the financial statements.” Those public companies not required to undergo an audit of internal control over financial reporting must have an audit of their financial statements.

The ASB has separately provided similar guidance in *Attestation Section 501 (AT 501), An Examination of an Entity’s Internal Control over Financial Reporting That Is Integrated with an Audit of Its Financial Statements*, which became effective for integrated audits for periods ending on or after December 15, 2008. Consistent with the PCAOB, the ASB states in AT 501 that “[t]he examination of internal control should be integrated with an audit of financial statements” and “[a]n auditor should not accept an engagement to review an entity’s internal control or a written assertion thereon.” Under the ASB’s previous attestation standards, an entity could engage an external auditor to examine and attest to the effectiveness of its internal control over financial reporting without auditing the entity’s financial statements. Thus, at present, unless a private company is required to or elects to have an integrated internal control examination and financial statement audit, the private company may be required to or can choose to have an external auditor perform an audit of its financial statements, but it may not engage an external auditor to perform a standalone internal control examination. More recently, the ASB

concluded that, because engagements performed under AT 501 are required to be integrated with an audit of financial statements, it would be appropriate to move the content of AT 501 from the attestation standards into U.S. generally accepted auditing standards (GAAP). As a consequence, the ASB issued Statement on Auditing Standards No. 130, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements (SAS 130), in October 2015. SAS 130 is effective for integrated audits of private companies for periods ending on or after December 15, 2016, at which time AT 501 will be withdrawn.

The existing wording of statements 1, 2, and 3 of Schedule RC, Memorandum item 1, reads as follows:

- 1 = Independent audit of the bank conducted in accordance with generally accepted auditing standards by a certified public accounting firm which submits a report on the bank.
- 2 = Independent audit of the bank's parent holding company conducted in accordance with generally accepted auditing standards by a certified public accounting firm which submits a report on the consolidated holding company (but not on the bank separately).
- 3 = Attestation on bank management's assertion on the effectiveness of the bank's internal control over financial reporting by a certified public accounting firm.

Because these three statements no longer fully and properly describe the types of external auditing services performed for institutions or their parent holding companies under current professional standards and to enhance the information institutions provide the agencies annually about the level of auditing external work performed for them, the agencies are proposing to replace existing statements 1 and 2 with new statements 1a, 1b, 2a, and 2b and to eliminate existing statement 3. The revised statements would read as follows:

- 1a = An integrated audit of the reporting institution's financial statements and internal control over financial reporting conducted in accordance with the standards of the American Institute of Certified Public Accountants (AICPA) or the Public Company Accounting Oversight Board (PCAOB) by an independent public accountant that submits a report on the institution.
- 1b = An audit of the reporting institution's financial statements conducted in accordance with auditing standards of the AICPA or the PCAOB by an independent public accountant that submits a report on the institution.
- 2a = An integrated audit of the reporting institution's parent holding company's consolidated financial statements and internal control over financial reporting conducted in accordance with the standards of the AICPA or the PCAOB by an independent public accountant that submits a report on the consolidated holding company (but not on the institution separately).<sup>7</sup>
- 2b = An audit of the reporting institution's parent holding company's consolidated financial statements conducted in accordance with the auditing standards of the

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<sup>7</sup> The instructions for statement 2a would indicate this statement also applies to a reporting institution with \$5 billion or more in total assets and a rating lower than 2 under the Uniform Financial Institutions Rating System that is required by Section 36(i)(1) of the Federal Deposit Insurance Act (12 U.S.C. § 1831m(i)(1)) to have its internal control over financial reporting audited at the institution level, but undergoes a financial statement audit at the consolidated holding company level.

AICPA or the PCAOB by an independent public accountant that submits a report on the consolidated holding company (but not on the institution separately).

### *3. Chief Executive Officer Contact Information*

All reporting institutions have been requested to provide “Emergency Contact Information” as part of their Call Report submissions since September 2002. This information request was added to the Call Report so that the agencies could distribute critical, time-sensitive information to emergency contacts at institutions should such a need arise. The primary contact should be a senior official of the institution who has decision-making authority. The primary contact may or may not be the institution’s Chief Executive Officer (CEO). Information for a secondary contact also should be provided if such a person is available at an institution. The emergency contact information is for the confidential use of the agencies and is not released to the public.

The agencies periodically need to communicate with the CEOs of reporting institutions via email, but they currently do not have a complete list of CEO email addresses that would enable an agency to communicate directly to institutions’ CEOs. The CEO communications are initiated or approved by persons at the agencies’ senior management levels and would involve topics including new initiatives, policy notifications, and assessment information. For example, the FDIC initiates distributions of deposit insurance assessment notifications addressed to the CEOs of insured depository institutions, which are posted to each institution’s FDICconnect account. However, in the absence of an up-to-date database of CEO email addresses that can be used for sending assessment notifications, the FDIC currently sends an email to each institution’s FDICconnect user or users and requests that they download the notification and any attachments, and provide them to their CEO.

To streamline the agencies’ CEO communication process, the agencies are proposing to request CEO contact information, including email addresses, in the Call Report separately from, but in a manner similar to, the currently requested “Emergency Contact Information”. As with the “Emergency Contact Information,” the proposed CEO contact information would be for the confidential use of the agencies and would not be released to the public. The agencies intend for CEO email addresses to be used judiciously and only for significant matters requiring CEO-level attention. Having a comprehensive database of CEO contact information, including email addresses, would allow the agencies to communicate important and time-sensitive information directly to CEOs.

### *4. Reporting the Legal Entity Identifier*

The Legal Entity Identifier (LEI) is a 20-digit alpha-numeric code that uniquely identifies entities that engage in financial transactions. The recent financial crisis spurred the development of a Global LEI System (GLEIS). Internationally, regulators and market participants have recognized the importance of the LEI as a key improvement in financial data systems. The Group of Twenty (G-20) nations directed the Financial Stability Board (FSB) to lead the coordination of international regulatory work and deliver concrete recommendations on the GLEIS by mid-2012, which in turn were endorsed by the G-20 later that same year. In January

2013, the LEI Regulatory Oversight Committee (ROC), including participation by regulators from around the world, was established to oversee the GLEIS on an interim basis. With the establishment of the full Global LEI Foundation in 2014, the ROC continues to review and develop broad policy standards for LEIs. The OCC, the Board, and the FDIC are all members of the ROC.

The LEI system is designed to facilitate several financial stability objectives, including the provision of higher quality and more accurate financial data. In the United States, the Financial Stability Oversight Council (FSOC) has recommended that regulators and market participants continue to work together to improve the quality and comprehensiveness of financial data both nationally and globally. In this regard, the FSOC also has recommended that its member agencies promote the use of the LEI in reporting requirements and rulemakings, where appropriate.<sup>8</sup>

Effective beginning October 31, 2014, the Board started requiring holding companies to provide their LEI on the cover pages of the FR Y-6, FR Y-7, and FR Y-10 reports<sup>9</sup> only if a holding company already has an LEI. Thus, if a reporting holding company does not have an LEI, it is not required to obtain one for purposes of these Board reports. Additionally, on July 2, 2015, the Board published in the *Federal Register* notice of final approval of a proposal to expand the collection of the LEI to all holding company subsidiary banking and nonbanking legal entities reportable on certain schedules of the FR Y-10 and in one section of the FR Y-6 and FR Y-7 if an LEI has already been issued for the reportable entity. With respect to the Call Report, the agencies are proposing to have institutions provide their LEI on the cover page of the report only if an institution already has an LEI. As with the Board reports, an institution that does not have an LEI would not be required to obtain one for purposes of reporting it on the Call Report.

#### *5. Additional Preprinted Captions for Itemizing and Describing Components of Certain Items That Exceed Reporting Thresholds*

Institutions are required to itemize and describe each component of certain items in five Call Report schedules when the component exceeds both a specified percentage of the item and a specified dollar amount. To simplify and streamline the reporting of these components and thereby reduce reporting burden, preprinted captions have been provided for those components of each of these items that, based on the agencies' review of the components previously reported for these items, institutions most frequently itemize and describe. When a preprinted caption is provided for a particular component of an item, an institution is not required to report the amount of that component when the amount falls below the applicable reporting thresholds.

Based on the most recent review of the component descriptions manually entered by reporting institutions because preprinted captions were not available, the agencies plan to add one new preprinted caption to Schedule RI-E, item 1, "Other noninterest income," two new

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<sup>8</sup> Financial Stability Oversight Council 2015 Annual Report, page 14 ([www.treasury.gov/initiatives/fsoc/studies-reports/Documents/2015%20FSOC%20Annual%20Report.pdf](http://www.treasury.gov/initiatives/fsoc/studies-reports/Documents/2015%20FSOC%20Annual%20Report.pdf)).

<sup>9</sup> FR Y-6, Annual Report of Holding Companies; FR Y-7, Annual Report of Foreign Banking Organizations; and FR Y-10, Report of Changes in Organizational Structure (OMB Control No. 7100-0297).

preprinted captions to Schedule RI-E, item 2, “Other noninterest expense,” and three new preprinted captions to Schedule RC-F, item 6, “All other assets.”<sup>10</sup> The introduction of these new preprinted captions is intended to simplify institutions’ compliance with the requirement to itemize and describe those components of these items that exceed the applicable reporting thresholds (which are being proposed to be revised effective September 30, 2016). The new preprinted caption for “Other noninterest income” is “Income and fees from wire transfers.” The two new preprinted captions for “Other noninterest expense” are “Other real estate owned expenses” and “Insurance expenses (not included in employee benefits, premises and fixed assets expenses, and other real estate owned expenses).” The three new preprinted captions for “All other assets” are “Computer software,” “Accounts receivable,” and “Receivables from foreclosed government-guaranteed mortgage loans.”

## 6. *Extraordinary Items*

In January 2015, the FASB issued ASU No. 2015-01, “Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.” This ASU eliminates the concept of extraordinary items from U.S. generally accepted accounting principles. At present, ASC Subtopic 225-20, Income Statement – Extraordinary and Unusual Items (formerly Accounting Principles Board Opinion No. 30, “Reporting the Results of Operations”), requires an entity to separately classify, present, and disclose extraordinary events and transactions. An event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. For Call Report purposes, if an event or transaction currently meets the criteria for extraordinary classification, an institution must segregate the extraordinary item from the results of its ordinary operations and report the extraordinary item in its income statement in Schedule RI, item 11, “Extraordinary items and other adjustments, net of income taxes.”

ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Thus, for example, institutions with a calendar year fiscal year must begin to apply the ASU in their Call Reports for March 31, 2016, unless it chose to early adopt the ASU. After an institution adopts ASU 2015-01, any event or transaction that would have met the criteria for extraordinary classification before the adoption of the ASU should be reported in Schedule RI, item 5.l, “Other noninterest income,” or item 7.d, “Other noninterest expense,” as appropriate, unless the event or transaction would otherwise be reportable in another item of Schedule RI.

Consistent with the elimination of the concept of extraordinary items in ASU 2015-01, the agencies plan to revise the instructions for Schedule RI, item 11,<sup>11</sup> and remove the term “extraordinary items” from and revise the captions for Schedule RI, item 8, “Income (loss) before income taxes and extraordinary items and other adjustments,” item 10, “Income (loss)

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<sup>10</sup> The addition of one of the new preprinted captions to Schedule RC-F, item 6, is based on the expected usage of a component resulting from the FASB’s issuance of Accounting Standards Update (ASU) No. 2014-14, “Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure,” that is or soon will be in effect for all institutions depending, in part, on their fiscal years.

<sup>11</sup> The outdated reference to the reporting of the cumulative effect of certain changes in accounting principles in the instructions for item 11, which is inconsistent with the guidance in the Call Report Glossary entry for “Accounting Changes,” would be deleted from the instructions.

before extraordinary items and other adjustments,” and item 11, as well as Schedule RI-E, item 3, “Extraordinary items and other adjustments and applicable income tax effect.”<sup>12</sup>

As an interim measure because ASU 2015-01 is already in effect for most institutions, a footnote was added to item 11 on Schedule RI and item 3 on Schedule RI-E on the Call Report forms for March 31, 2016, addressing the elimination of the concept of extraordinary items. The footnote explains that the captions will be revised at a later date and only the results of discontinued operations should be reported in these two items.

## **E. New and Revised Data Items of Limited Applicability**

### *1. Changes to Schedule RC-Q, Assets and Liabilities Measured at Fair Value on a Recurring Basis*

Schedule RC-Q is completed by institutions that had:

- Total assets of \$500 million or more as of the beginning of their fiscal year; or
- Total assets of less than \$500 million as of the beginning of their fiscal year and either:
  - Have elected to report financial instruments or servicing assets and liabilities at fair value under a fair value option with changes in fair value recognized in earnings, or
  - Are required to complete Schedule RC-D, Trading Assets and Liabilities.

Institutions required to complete Schedule RC-Q are currently required to treat securities they have elected to report at fair value under a fair value option as part of their trading securities. As a consequence, institutions must include fair value information for their fair value option securities, if any, in Schedule RC-Q two times: first, as part of the fair value information they report for their “Other trading assets” in item 5.b of the schedule, and then on a standalone basis in item 5.b.(1), “Nontrading securities at fair value with changes in fair value reported in current earnings.” This reporting treatment flows from the existing provision of the Glossary entry for “Trading Account” that, as discussed above, requires an institution that has elected to report securities at fair value under a fair value option to classify the securities as trading securities. However, as further discussed above, the agencies are proposing to remove this requirement because it is not consistent with current U.S. GAAP. As a result, an institution’s fair value option securities can be classified as held-to-maturity, available-for-sale, or trading securities in accordance with the guidance in Topic 320, Investments-Debt and Equity Securities.

In its current form, Schedule RC-Q contains an item for available-for-sale securities along with the items identified above for “Other trading assets,” which includes securities designated as trading securities, and “Nontrading securities at fair value with changes in fair value reported in current earnings.” However, Schedule RC-Q does not include an item for held-to-maturity securities because, given the existing instructional requirements for fair value option securities, the held-to-maturity category includes only securities reported at amortized cost. By removing the requirement to report all fair value option securities within the scope of ASC Topic 320 as trading securities, as proposed earlier in this notice, the agencies are further proposing to

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<sup>12</sup> Items 3.c.(1) and (2) also would be removed from Schedule RI-E.

replace item 5.b.(1) of Schedule RC-Q for nontrading securities accounted for under a fair value option with a new item for any “Held-to-maturity securities” to which a fair value option is applied. In this regard, existing item 1 for “Available-for-sale securities” would be renumbered as item 1.b and fair value information for any fair value option securities designated as “Held-to-maturity securities” would be reported in a new item 1.a of Schedule RC-Q.

In addition, at present, institutions that have elected to measure loans (not held for trading) at fair value under a fair value option are required to report the fair value and unpaid principal balance of such loans in Memorandum items 10 and 11 of Schedule RC C, Part I, Loans and Leases. Because Schedule RC-C, Part I, must be completed by all institutions, Memorandum items 10 and 11 also must be completed by all institutions although only a nominal number of institutions with less than \$500 million in assets have disclosed reportable amounts for any of the categories of fair value option loans reported in the subitems of these two Memorandum items. Accordingly, the agencies are proposing to move Memorandum items 10 and 11 on the fair value and unpaid principal balance of fair value option loans from Schedule RC-C, Part I, to Schedule RC-Q and to designate them as Memorandum items 3 and 4. With only a limited number of institutions with less than \$500 million in assets meeting the criteria for completing Schedule RC-Q, moving Memorandum items 10 and 11 from Schedule RC-C, Part I, to Schedule RC-Q should simplify Schedule RC C, Part I, and thereby mitigate some of the reporting burden associated with Schedule RC-C, Part I.

*2. Revisions to the Reporting of the Impact on Trading Revenues of Changes in Credit and Debit Valuation Adjustments by Institutions with Total Assets of \$100 Billion or More*

Institutions that reported average trading assets of \$2 million or more for any quarter of the preceding calendar year must report a breakdown of their trading revenue (as reported in Schedule RI, item 5.c) by underlying risk exposure in Schedule RI, Memorandum items 8.a through 8.e. The five types of risk exposure are interest rate, foreign exchange, equity security and index, credit, and commodity and other. Institutions required to provide this five-way breakdown of their trading revenue that have \$100 billion or more in total assets must also report the “Impact on trading revenue of changes in the creditworthiness of the bank’s derivative counterparties on the bank’s derivative assets” and the “Impact on trading revenue of changes in the creditworthiness of the bank on the bank’s derivative liabilities” in Schedule RI, Memorandum items 8.f and 8.g, respectively. Memorandum items 8.f and 8.g were intended to capture the amounts included in trading revenue that resulted from calendar year-to-date changes in the reporting institution’s credit valuation adjustments (CVA) and debit valuation adjustments (DVA).

The agencies have found inconsistent reporting of CVAs and DVAs by the institutions completing Memorandum items 8.f and 8.g of Schedule RI, which affects the analysis of reported trading revenues. Some institutions report CVAs and DVAs in these two items on a gross basis while other institutions report these adjustments on a net (of hedging) basis. Furthermore, at present, institutions may report a net CVA and DVA of hedges under only one of the five types of underlying risk exposures (e.g., the overall net CVA and DVA amount is reported entirely with trading revenue from credit exposures) when the net CVA and net DVA

should be properly allocated to each of the five different underlying types of risk exposures.

Consistent reporting of the impact on trading revenue from year-to-date changes in CVAs and DVAs is necessary to ensure the accuracy of the data available to examiners for planning and conducting safety and soundness examinations of institutions' trading activities and to the agencies for their analyses of derivatives and trading activities, and changes therein, at the industry and institution level. Furthermore, proper allocations of CVAs and DVAs (net of hedging) to the appropriate type of underlying risk exposure are necessary to avoid overstating the trading revenue from some types of underlying risk exposure and understating the trading revenue from other types, which may result in examiners and agency analysts reaching improper conclusions about the effectiveness of institutions' trading activities and their management of CVA and DVA risks.

To enhance the quality of the trading revenue information reported by the largest institutions in the U.S., promote consistency across institutions in the reporting of CVAs and DVAs, enable examiners to make more informed judgments about institutions' effectiveness in managing CVA and DVA risks, and provide a more complete picture of reported trading revenue, the agencies are proposing to replace existing Memorandum items 8.f and 8.g of Schedule RI with a tabular set of data items. In this proposed table, those institutions that meet the criteria for completing these two Memorandum items would separately present their gross CVAs and DVAs (Memorandum items 8.f.(1) and 8.g.(1)) and any related CVA and DVA hedging results (Memorandum items 8.f.(2) and 8.g.(2)) by type of underlying risk exposure (columns A through E). The institutions also would report its gross trading revenue (Memorandum item 8.h) by type of underlying risk exposure before including positive or negative net CVAs and net DVAs (columns A through E). For purposes of this proposed tabular set of data items, the agencies are further proposing to require CVA and DVA amounts, as well as their hedges, to be allocated to the type of underlying risk exposure (e.g., interest rates, foreign exchange, and equity) that gives rise to the CVA and the DVA.

In proposing that certain institutions with assets of \$100 billion or more report expanded information on the impact on trading revenues of changes in CVAs and DVAs, related hedging results, and gross trading revenues, the agencies requested comment on the availability of these data by type of underlying risk exposure at those institutions that would be subject to this reporting requirement.

### *3. Dually Payable Deposits in Foreign Branches of U.S. Banks*

Under the Federal Deposit Insurance Act (FDI Act), deposit obligations carried on the books and records of foreign branches of U.S. banks are not considered deposits, unless the funds are payable both in the foreign branch and at an office of the bank in the United States (that is, they are dually payable). In September 2013, the FDIC issued a final rule amending its deposit insurance regulations to clarify that deposits carried on the books and records of a foreign branch of a U.S. bank are not insured deposits even if they are made payable both at that branch and at an office of the bank in any state of the United States.<sup>13</sup> In addition, the final rule provides an exception for Overseas Military Banking Facilities operated under Department of

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<sup>13</sup> See 78 FR 56583 (September 13, 2013).

Defense regulations.

The final rule does not affect the ability of a U.S. bank to make a foreign deposit dually payable. Should a bank do so, its foreign branch deposits would be treated as deposit liabilities under the FDI Act's depositor preference regime in the same way as, and on an equal footing with, domestic uninsured deposits. In general, "depositor preference" refers to a resolution distribution regime in which the claims of depositors have priority over (that is, are satisfied before) the claims of general unsecured creditors. Thus, if deposits held in foreign branches of U.S. banks located outside the United States are made dually payable, that is, made payable at both the foreign office and a branch of the bank located in the United States, the holders of such deposits would receive depositor preference in the event of the U.S. bank's failure.

To enable the FDIC to monitor the volume and trend of dually payable deposits in the foreign branches of U.S. banks, the agencies are proposing to add a new Memorandum item 2 to Schedule RC-E, Part II, on the FFIEC 031 Call Report. The FFIEC 031 is applicable only to banks with foreign offices. The proposed new information on the amount of dually payable deposits at foreign branches of U.S. banks would enable the FDIC to determine, as required by statute, the least costly method of resolving a particular bank if it fails and the potential loss to the Deposit Insurance Fund. This requires the FDIC to plan for the distribution of the proceeds from the liquidation of the failed bank's assets, including consideration not only of insured deposits, but also other deposit liabilities for purposes of depositor preference, such as domestic uninsured deposits and dually payable deposits in foreign branches of the particular U.S. bank, which take priority over general unsecured liabilities.

#### *4. Revisions to Implement the Supplementary Leverage Ratio for Advanced Approaches Institutions*

Schedule RC-R, Part I, Regulatory Capital Components and Ratios, item 45, applies to the reporting of the supplementary leverage ratio (SLR) by advanced approaches institutions.<sup>14</sup> In the sample Call Report forms and the Call Report instruction book for report dates before March 31, 2015, the caption for item 45 and the instructions for this item both indicated that, effective for report dates on or after January 1, 2015, advanced approaches institutions should begin to report their SLR in the Call Report as calculated for purposes of Schedule A, item 98, of the FFIEC 101, Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework.<sup>15</sup> However, the agencies temporarily suspended the collection of Schedule RC-R, Part I, item 45, before it took effect March 31, 2015, due to amendments to the

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<sup>14</sup> In general, an advanced approaches institution (i) has consolidated total assets (excluding assets held by an insurance underwriting subsidiary) on its most recent year-end regulatory report equal to \$250 billion or more; (ii) has consolidated total on-balance sheet foreign exposure on its most recent year-end regulatory report equal to \$10 billion or more (excluding exposures held by an insurance underwriting subsidiary); (iii) is a subsidiary of a depository institution that uses the advanced approaches to calculate its total risk-weighted assets; (iv) is a subsidiary of a bank holding company or savings and loan holding company that uses the advanced approaches to calculate its total risk-weighted assets; or (v) elects to use the advanced approaches to calculate its total risk-weighted assets.

<sup>15</sup> OMB control numbers for the FFIEC 101: For the OCC, 1557-0239; for the Board, 7100-0319; and for the FDIC, 3064-0159.

SLR rule<sup>16</sup> and the need for updates to the associated SLR data collection in the FFIEC 101.

In July 2015, the agencies finalized the most recent revisions to the SLR rule, which requires all advanced approaches institutions to disclose three items: the numerator of the SLR (Tier 1 capital, which is already reported in Call Report Schedule RC-R), the denominator of the SLR (total leverage exposure), and the ratio itself.<sup>17</sup> As part of the revisions to the FFIEC 101, the SLR section of the FFIEC 101 will apply only to top-tier advanced approaches institutions (generally, bank and savings and loan holding companies), and not to their subsidiary depository institutions.<sup>18</sup> Therefore, lower tier advanced approaches depository institutions generally will not report SLR data in the FFIEC 101, and will need to do so in the Call Report, which would satisfy the SLR disclosure requirement in the revised SLR rule.<sup>19</sup>

Thus, the agencies are proposing to add a new item 45.a to Schedule RC-R, Part I, in which an advanced approaches depository institution (regardless of parallel run status) would report total leverage exposure as calculated under the agencies' SLR rule.

The agencies also are proposing to renumber current item 45 of Schedule RC-R, Part I, as item 45.b, to collect an institution's SLR. The ratio to be reported in item 45.b would equal Tier 1 capital reported on Schedule RC-R, Part I, item 26, divided by total leverage exposure reported in proposed item 45.a. Renumbered item 45.b would no longer reference the FFIEC 101 because lower tier depository institutions would no longer be calculating or reporting their SLRs on the FFIEC 101.

### **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

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<sup>16</sup> See 79 FR 57725 (September 26, 2014). The amendments to the SLR rule took effect January 1, 2015.

<sup>17</sup> See 80 FR 41409 (July 15, 2015). The disclosure requirement is set forth in the agencies' regulatory capital rules (12 CFR 3.172 (OCC); 12 CFR 217.172 (Board), and 12 CFR 324.172 (FDIC)).

<sup>18</sup> See 81 FR 22702 (April 18, 2016) as corrected in 81 FR 24940 (April 27, 2016).

<sup>19</sup> Because certain depository institutions are exempt from filing the FFIEC 101, but must still report their SLR numerator, denominator, and ratio, the agencies proposed the depository institution-level collection of SLR data in the Call Report rather than in the FFIEC 101.

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 Board to require these reports from all state member banks. The obligation to respond is mandatory. Most of the information provided on the Call Reports is publicly available. However, the following 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, 14-15, and 18 on schedule RC-O. This information can be exempt from disclosure pursuant to the Freedom of Information Act (FOIA) (5 U.S.C. §§ 552 (b)(4) and (8)) for periods beginning June 30, 2009. The individual respondent information contained in the trust schedule, RC-T are exempt from disclosure (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 (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 September 18, 2015, the agencies, under the auspices of the FFIEC, published an initial notice in the *Federal Register* (80 FR 56539) requesting public comment for 60 days on the extension, with revision, of the Call Reports. The comment period for this notice expired on November 17, 2015. The agencies collectively received comments on the September 2015 proposal from 13 entities: seven banking organizations, four bankers' associations, and two consulting firms. In addition, two banking organizations commented about the burden imposed on them by the Call Report. Furthermore, all four bankers' associations and one consulting firm specifically addressed the community bank Call Report burden-reduction initiative described in the September 2015 proposal, expressing support for this initiative and encouraging the FFIEC and the agencies to pursue the development of a small bank Call Report. One other banking organization provided its recommendation for reducing the information collected in the Call Report, but did not refer to the burden-reduction initiative.

For example, one bankers' association described the FFIEC's formal initiative as "the right answer" for addressing the increased regulatory burden of the Call Report and commended the FFIEC for its consideration of a less burdensome Call Report for community banks. Another bankers' association welcomed the agencies' Call Report streamlining efforts and sought prompt implementation of measures to reduce regulatory burden. The two other bankers' associations commented favorably on the FFIEC's recognition of the reporting burden imposed by the Call Report and encouraged the FFIEC to create a less burdensome Call Report for smaller institutions. They also recommended that the Call Report could be streamlined for smaller institutions because they typically do not engage in many of the activities about which data must be reported in the Call Report.

The FFIEC's 2015 Annual Report describes the status of the actions being undertaken in the five areas within the community bank Call Report burden-reduction initiative as of year-end 2015.<sup>20</sup> In this regard, the annual report notes that the FFIEC's Task Force on Reports (TFOR) "reported to the Council in December 2015 on options for proceeding with a less burdensome Call Report for eligible institutions and other Call Report streamlining methods. The additional feedback about sources of Call Report burden and these options from the TFOR's community banker outreach activities in February 2016 will help inform a subsequent TFOR recommendation to the Council regarding a streamlining proposal for eligible small institutions that can be issued for industry comment in 2016." Thus, the agencies anticipate that they will publish a proposal later this year that will extend the burden-reducing changes to the Call Report beyond those included in the September 2015 proposal and discussed in this notice.

Two bankers' associations presented some additional recommendations to the FFIEC and the agencies in their comments on the September 2015 proposal. These recommendations included establishing "an industry advisory committee to provide the FFIEC with advice and guidance on issues related to FFIEC reports." As one of the actions under the burden-reduction initiative, the FFIEC and the agencies have committed to pursue industry dialogue regarding Call Report matters such as activities enabling the agencies to better understand the burdensome aspects of the Call Report. This is evidenced by community banker outreach activities with small groups of community bankers that were organized by two bankers' associations and conducted via conference call meetings in February 2016. The FFIEC and the agencies believe their existing dialogue with the industry, in addition to the opportunity for public participation in the Call Report revision process, allows ample avenues to provide input concerning revisions to FFIEC reports.

The two associations also recommended that the FFIEC "work to ensure other required regulatory reporting forms are updated simultaneously," which they further described as ensuring consistency between definitions and reporting treatments used in the Call Report and in other regulatory reports that institutions file.<sup>21</sup> The agencies will seek to be more conscious of relationships between the Call Report requirements and other FFIEC regulatory reports, particularly when considering revisions to the data collected in the Call Report.

Another recommendation from the two bankers' associations was for the FFIEC and the agencies to allow sufficient time for institutions to implement any reporting changes. They stated that the proposed effective dates in the September 2015 proposal would not provide sufficient time for implementing the reporting changes. One of the banking organizations expressed a similar concern. The two associations urged the FFIEC and the agencies to implement changes to non-income line items no earlier than a full quarter after the quarter in which the notice requesting OMB approval is published in the *Federal Register*. For data on income and quarterly averages, they suggested that such changes take effect at the beginning of a reporting year.

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<sup>20</sup> FFIEC 2015 Annual Report, pages 16-18 ([www.ffiec.gov/PDF/annrpt15.pdf](http://www.ffiec.gov/PDF/annrpt15.pdf)).

<sup>21</sup> As an example, the associations cited an apparent inconsistency between the definition of "domicile" in the Call Report and certain other regulatory reports.

In recognition of the impact of the September 2015 proposal on institutions from a systems standpoint, the agencies deferred the effective dates for the reporting changes in that proposal to no earlier than September 30, 2016. As will be discussed below with respect to the implementation of the specific proposed Call Report changes that are the subject of this notice, the agencies have sought to set the effective dates for these changes in a manner consistent with the timing suggested by the two bankers' associations. To assist institutions in preparing for the reporting changes in this proposal, drafts of the reporting instructions for the new and revised Call Report items will be made available to institutions on the FFIEC's website when the *Federal Register* notice requesting OMB approval is published.

## **Discussion of Proposed Call Report Revisions**

### **A. Deletions of Existing Data Items**

Based on the agencies' review of the information that institutions are required to report in the Call Report, the agencies determined that the continued collection of the following items is no longer necessary and proposed to eliminate them:

- (1) Schedule RI, Income Statement: Memorandum items 14.a and 14.b, on other-than-temporary impairments;
- (2) Schedule RC-C, Part I, Loans and Leases: Memorandum items 1.f.(2), 1.f.(5), and 1.f.(6) (and 1.f.(7) on the FFIEC 031), on troubled debt restructurings in certain loan categories that are in compliance with their modified terms;
- (3) Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets: Memorandum items 1.f.(2), 1.f.(5), and 1.f.(6) (and 1.f.(7) on the FFIEC 031), on troubled debt restructurings in certain loan categories that are 30 days or more past due or on nonaccrual;
- (4) Schedule RC-M, Memoranda: Items 13.a.(5)(a) through (d) (and (e) on the FFIEC 031), on loans in certain loan categories that are covered by FDIC loss-sharing agreements; and
- (5) Schedule RC-N: Items 11.e.(1) through (4) (and (5) on the FFIEC 031), on loans in certain loan categories that are covered by FDIC loss-sharing agreements and are 30 days or more past due or on nonaccrual.

In addition, the agencies proposed to eliminate Schedule RC-R, Part II, Risk-Weighted Assets, item 18.b, on unused commitments to asset-backed commercial paper conduits with an original maturity of one year or less. Because the Schedule RC-R instructions state that such commitments should be reported in item 10 as off-balance sheet securitization exposures, item 18.b is not needed. Upon the elimination of item 18.b, existing item 18.c of Schedule RC-R, Part II, for unused commitments with an original maturity exceeding one year would be renumbered as item 18.b.

The agencies received comments from two consulting firms and one banking organization regarding these proposed deletions. The banking organization stated that these revisions would have no impact on its reporting. One consulting firm agreed with all of the proposed deletions except the one involving information on other-than-temporary impairment (OTTI) losses in Schedule RI, Memorandum items 14.a and 14.b. The firm believes the deletion of the two OTTI items will eliminate important information about the performance of

institutions' securities portfolios and how they recognize OTTI. While the agencies acknowledge that this proposal would result in the loss of information on the total year-to-date amount of OTTI losses and the portion of these losses recognized in other comprehensive income, institutions would continue to report the portion of OTTI losses recognized in earnings. It is this portion of OTTI losses that is of greatest interest and concern to the agencies. Because some or all of each OTTI loss must be recognized in earnings, when an institution reports a substantial amount of OTTI losses in earnings, it is this item that serves as a red flag for further supervisory follow-up by an institution's primary federal regulator (or, if applicable, its state supervisor). Additionally, the portion of OTTI losses that passes through other comprehensive income and accumulates in other comprehensive income is excluded from regulatory capital for the vast majority of institutions.

One consulting firm expressed concern about the proposed deletion of Memorandum items on troubled debt restructurings in certain loan categories in Schedules RC-C, Part I, and RC-N. This firm stated that this information is important for understanding the specific nature of troubled loans relative to restructured loans and suggested that the loan categories being deleted may need to be added back to the Call Report if there is a significant economic downturn. The agencies note that each of the loan categories proposed for deletion is a subset of the larger loan category "All other loans," which institutions would continue to report. Furthermore, the amount of troubled debt restructurings in each of these subset categories is reported only when it exceeds 10 percent of the total amount of troubled debt restructurings in compliance with their modified terms (Schedule RC-C, Part I) or not in compliance with their modified terms (Schedule RC-N), as appropriate. Thus, the total amount of an institution's troubled debt restructurings, both those in compliance with their modified terms and those that are not, would continue to be reported.

After considering these comments, all of the items proposed for deletion would be removed from the Call Report effective September 30, 2016, except for the deletion relating to other-than-temporary impairments, which would take effect March 31, 2017.

## **B. New Reporting Threshold and Increases in Existing Reporting Thresholds**

In five Call Report schedules, institutions are currently required to itemize and describe each component of an existing item when the component exceeds both a specified percentage of the item and a specified dollar amount. Based on a preliminary evaluation of the existing reporting thresholds, the agencies concluded that the dollar portion of the thresholds that currently apply to these items can be increased to provide a reduction in reporting burden without a loss of data that would be necessary for supervisory or other public policy purposes. The percentage portion of the existing thresholds would not be changed. Accordingly, the agencies proposed to raise from \$25,000 to \$100,000 the dollar portion of the threshold for itemizing and describing components of:

- (1) Schedule RI-E, item 1, "Other noninterest income;"
- (2) Schedule RI-E, item 2, "Other noninterest expense;"
- (3) Schedule RC-F, item 6, "All other assets;"
- (4) Schedule RC-G, item 4, "All other liabilities;"
- (5) Schedule RC-Q, Memorandum item 1, "All other assets;" and
- (6) Schedule RC-Q, Memorandum item 2, "All other liabilities."

The agencies also proposed to raise from \$25,000 to \$1,000,000 the dollar portion of the threshold for itemizing and describing components of “Other trading assets” and “Other trading liabilities” in Schedule RC-D, Memorandum items 9 and 10.

In addition, because institutions with less than \$1 billion in total assets typically do not provide support for asset-backed commercial paper conduits, the agencies proposed to exempt such institutions from completing Schedule RC-S, Servicing, Securitization, and Asset Sale Activities, Memorandum items 3.a.(1), 3.a.(2), 3.b.(1), and 3.b.(2), on credit enhancements and unused liquidity commitments provided to asset-backed commercial paper conduits.

The agencies received comments from two bankers’ associations, two consulting firms, and two banking organizations regarding the proposed changes involving reporting thresholds. One banking organization supported the higher thresholds, stating that raising the thresholds would reduce reporting burden, but the other said that this change would not have an impact on its reporting. The two bankers’ associations expressed support for the targeted approach to increasing the reporting thresholds, but observed that an increase from \$25,000 to \$100,000 for six items would do little to reduce reporting burden for most institutions. The associations recommended that the FFIEC consider increasing the percentage portion of the reporting threshold from the present three percent to five to seven percent of the total amount of an income statement item for which components must be itemized and described. At present, the percentage portion of the reporting threshold applicable to reporting components of “Other noninterest income” and “Other noninterest expense” in Schedule RI-E is three percent.

Because of the interaction between the dollar and percentage portions of the reporting thresholds on the total amount of an item that is subject to component itemization and description, the agencies acknowledge that the proposed increase in the dollar portion of the reporting threshold from \$25,000 to \$100,000 may not benefit all institutions, particularly larger institutions. While these threshold changes may not reduce reporting burden for all institutions, they will not increase the amount of information to be reported by any institution. In addition, as stated in the September 2015 proposal, the agencies are conducting the statutorily mandated review of the existing Call Report data items, which may result in additional new or upwardly revised reporting thresholds.

One consulting firm supported the increase in the dollar portion of the reporting threshold for Schedules RC-F, RC-G, and RC-Q, but recommended retaining the \$25,000 threshold for the “Other noninterest income” and “Other noninterest expense” in Schedule RI-E. The consulting firm commented that, for smaller banks, information on the components of these noninterest items “is an important indicator of the activity of the bank, its style and management ability” and “provide[s] regulators with a clearer insight into the activities of a bank.” This firm also observed that the component information is or should be captured in institutions’ internal accounting systems. The agencies recognize that the proposed increase in the dollar portion of the threshold for reporting components of other noninterest income and expense will result in a reduced number of their components being itemized and described in Call Report Schedule RI-E, particularly by smaller institutions. However, in carrying out their on- and off-site supervision of individual institutions, the agencies are able to follow up directly with an individual institution when the level and trend of noninterest income and expense, and other elements of net income

(or loss), that are reflected in its Call Reports raise questions about the quality of, and the factors affecting, the institution's reported earnings. The agencies do not believe the proposed increase in the dollar portion of the reporting thresholds in Schedule RI-E will impede their ability to evaluate institutions' earnings.

Another consulting firm questioned the proposed increase from \$25,000 to \$1,000,000 in the dollar portion of the threshold for itemizing and describing components of "Other trading assets" and "Other trading liabilities" in Schedule RC-D, Memorandum items 9 and 10. In addition to meeting the dollar portion of the threshold, a component must exceed 25 percent of the total amount of "Other trading assets" or "Other trading liabilities" in order to be itemized and described in Memorandum item 9 or 10, respectively. The agencies further note that these two memorandum items are to be completed only by institutions that reported average trading assets of \$1 billion or more in any of the four preceding calendar quarters. Thus, at \$1,000,000, the proposed higher dollar threshold for component itemization and description in Memorandum items 9 and 10 of Schedule RC-D would represent one tenth of one percent of the amount of average trading assets that an institution must have in order to be subject to the requirement to report components of its other trading assets and liabilities that exceed the reporting threshold. As a result, the agencies believe that raising the dollar portion of the threshold for reporting components of Memorandum items 9 and 10 of Schedule RC-D to \$1,000,000 will continue to provide meaningful data while reducing burden for institutions that must complete these items.

After considering the comments about the proposed new and increased reporting thresholds, the agencies propose to implement these changes effective September 30, 2016.<sup>22</sup>

### **C. Instructional Revisions**

#### *1. Reporting Home Equity Lines of Credit that Convert from Revolving to Non-revolving Status*

Institutions report the amount outstanding under revolving, open-end lines of credit secured by 1-4 family residential properties (commonly known as home equity lines of credit or HELOCs) in item 1.c.(1) of Schedule RC-C, Part I, Loans and Leases. Closed-end loans secured by 1-4 family residential properties are reported in Schedule RC-C, Part I, item 1.c.(2)(a) or (b), depending on whether the loan is a first or a junior lien.<sup>23</sup>

A HELOC is a line of credit secured by a lien on a 1-4 family residential property that generally provides a draw period followed by a repayment period. During the draw period, a borrower has revolving access to unused amounts under a specified line of credit. During the repayment period, the borrower can no longer draw on the line of credit, and the outstanding principal is either due immediately in a balloon payment or is repaid over the remaining loan

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<sup>22</sup> Although the proposed reporting threshold changes would take effect as of September 30, 2016, institutions may choose, but are not required, to continue using \$25,000 as the dollar portion of the threshold for reporting components of the specified items in the five previously identified schedules rather than the higher dollar thresholds.

<sup>23</sup> Information also is separately reported for open-end and closed-end loans secured by 1-4 family residential properties in Schedule RI-B, Part I, Charge-offs and Recoveries on Loans and Leases; Memorandum items in Schedule RC-C, Part I; Schedule RC-D; Schedule RC-M; and Schedule RC-N.

term through monthly payments. Because the Call Report instructions do not address the reporting treatment for a home equity line of credit when it reaches its end-of-draw period and converts from revolving to nonrevolving status, the agencies noted in their September 2015 proposal that they have found diversity in how these credits are reported in Schedule RC-C, Part I.

To address this absence of instructional guidance and promote consistency in reporting, the agencies proposed to clarify the instructions for reporting loans secured by 1-4 family residential properties by specifying that after a revolving open-end line of credit has converted to non-revolving closed-end status, the loan should be reported as closed-end in Schedule RC-C, Part I, item 1.c.(2)(a) or (b), as appropriate. In their September 2015 proposal, the agencies also requested comment on whether an instructional requirement to recategorize HELOCs as closed-end loans for Call Report purposes would create difficulties for institutions' loan recordkeeping systems.

The agencies received comments from two bankers' associations, one consulting firm, and one banking organization regarding the proposed instructional clarification for HELOCs. The consulting firm agreed with this clarification because of the consistency in reporting that it would provide. The two bankers' associations stated that they appreciated the proposed clarification, but noted that "material definitional changes would require a whole recoding of these credits." The associations observed that the proposed clarification would likely have implications for other regulatory requirements such as the Comprehensive Capital Analysis and Review, which evaluates the capital planning processes and capital adequacy of the largest U.S.-based bank holding companies. They also described two situations involving HELOCs for which further guidance would be needed if the proposed instructional change were to be implemented and encouraged the agencies to provide examples with the instructions for reporting HELOCs.

The banking organization opposed the proposed instructional clarification for HELOCs and requested that it be withdrawn, citing several difficulties it would encounter in preparing its Call Report if the clarification were made. These difficulties include identifying when a HELOC has begun the repayment period and the lien position of a HELOC at that time because the bank's loan system for HELOCs has not been set up to generate this information. The banking organization requested that the agencies provide time for systems reprogramming if the proposed instructional clarification were to be adopted.

Based on the issues raised in the comments received on the proposed HELOC instructional clarification, the agencies are giving further consideration to this proposal, including its effect on and relationship to other regulatory reporting requirements. Accordingly, the agencies are not proceeding with this proposed instructional clarification at this time and the existing instructions for reporting HELOCs in item 1.c.(1) of Schedule RC-C, Part I, will remain in effect. Once the agencies complete their consideration of this instructional matter and determine whether and how the Call Report instructions should be clarified with respect to the reporting of revolving open-end lines of credit that have converted to non-revolving closed-end status, any proposed instructional clarification will be published in the *Federal Register* for comment.

## *2. Reporting Treatment for Securities for Which a Fair Value Option is Elected*

The Call Report Glossary entry for “Trading Account” currently states that “all securities within the scope of the Financial Accounting Standards Board’s (FASB) Accounting Standards Codification (ASC) Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, “Accounting for Certain Investments in Debt and Equity Securities”), that a bank has elected to report at fair value under a fair value option with changes in fair value reported in current earnings should be classified as trading securities.” This reporting treatment was based on language contained in Financial Liabilities,” but that language was not codified when Statement No. 159 was superseded by current ASC Topic 825, Financial Instruments. Accordingly, the agencies proposed to revise the Glossary entry language quoted above by replacing “should be classified” with “may be classified.” The agencies also proposed to include comparable language in the Glossary entry for “Securities Activities.”

The agencies received comments from two bankers’ associations and one consulting firm regarding the proposed instructional revision for the classification of securities for which the fair value option is elected. The consulting firm welcomed the proposal. The two bankers’ associations stated that they understood the purpose of the proposed instructional revision, but they requested further clarification of the reporting treatment for “securities for which an institution has elected to use the trading measurement classification,” i.e., fair value through earnings.

The agencies have reconsidered this proposed instructional revision in light of the comments received, including the requested further clarification. Based on this reconsideration, the agencies have decided not to implement the proposed instructional revision and to retain the existing Call Report instructions directing institutions to classify securities reported at fair value under a fair value option as trading securities.

## *3. Net Gains (Losses) on Sales of, and Other-Than-Temporary Impairments on, Equity Securities That Do Not Have Readily Determinable Fair Values*

As noted in the September 2015 proposal,<sup>13</sup> the Call Report instructions for Schedule RI, Income Statement, address the reporting of realized gains (losses), including other-than-temporary impairments, on held-to-maturity and available-for-sale securities as well as the reporting of realized and unrealized gains (losses) on trading securities and other assets held for trading. However, the Schedule RI instructions do not specifically explain where to report realized gains (losses) on sales or other disposals of, and other-than-temporary impairments on, equity securities that do not have readily determinable fair values and are not held for trading (and to which the equity method of accounting does not apply).

The instructions for Schedule RI, item 5.k, “Net gains (losses) on sales of other assets (excluding securities),” direct institutions to “[r]eport the amount of net gains (losses) on sales and other disposals of assets not required to be reported elsewhere in the income statement (Schedule RI).” The instructions for item 5.k further advise institutions to exclude net gains (losses) on sales and other disposals of securities and trading assets. The intent of this wording was to cover securities designated as held-to-maturity, available-for-sale, and trading securities

because there are separate specific items elsewhere in Schedule RI for the reporting of realized gains (losses) on such securities (items 6.a, 6.b, and 5.c, respectively). Thus, the agencies proposed to revise the instructions for Schedule RI, item 5.k, by clarifying that the exclusions from this item of net gains (losses) on securities and trading assets apply to held-to-maturity, available-for-sale, and trading securities and other assets held for trading. The agencies also proposed to add language to the instructions for Schedule RI, item 5.k, that explains that net gains (losses) on sales and other disposals of equity securities that do not have readily determinable fair values and are not held for trading (and to which the equity method of accounting does not apply), as well as other-than-temporary impairments on such securities, should be reported in item 5.k. In addition, the agencies proposed to remove the parenthetical “(excluding securities)” from the caption for item 5.k on the Call Report forms and to add in its place a footnote to this item advising institutions to exclude net gains (losses) on sales of trading assets and held-to-maturity and available-for-sale securities.

The agencies received no comments on these proposed changes to the instructions and report form caption for Schedule RI, item 5.k. Accordingly, the agencies propose to implement these changes effective for reporting purposes in the first quarter of 2017.

#### *4. Custodial Bank Deduction*

One banking organization that meets the definition of a custodial bank for deposit insurance assessment purposes<sup>24</sup> submitted a comment on the September 2015 proposal in which it proposed a revision to the reporting of custodial bank data in Schedule RC-O that had not been included in that proposal. The banking organization recommended that a custodial bank that reports that its custodial bank deduction limit is zero in Schedule RC-O, item 11.b, should not need to calculate and report its custodial bank deduction in Schedule RC-O, item 11.a, because no amount can be deducted. The banking organization stated that this proposed revision “would eliminate unnecessary time and effort.”

The agencies agree with the banking organization’s proposal. Accordingly, the agencies will revise the instructions for Schedule RC-O, item 11.a, “Custodial bank deduction,” to state that if a custodial bank’s deduction limit as reported in Schedule RC-O, item 11.b, is zero, the custodial bank may leave item 11.a blank rather than calculating and reporting the amount of its deduction. This instructional revision would take effect September 30, 2016.

### **D. New and Revised Data Items and Information of General Applicability**

#### *1. Increase in the Time Deposit Size Threshold*

Section 335 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. No. 111-203) permanently increased the standard maximum deposit insurance amount (SMDIA) from \$100,000 to \$250,000 effective July 21, 2010. The SMDIA had been increased temporarily from \$100,000 to \$250,000 by Section 136 of the Emergency Economic Stabilization Act of 2008 (Pub. L. No. 110-343). In response to the increase in the limit of deposit insurance coverage, the reporting of the amount of “Total time deposits of \$100,000 or

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<sup>24</sup> See 12 CFR 327.5(c)(1).

more” in Memorandum item 2.c of Schedule RC-E, Deposit Liabilities, was revised as of the March 31, 2010, report date. As of that date, institutions began to separately report their “Total time deposits of \$100,000 through \$250,000” (Memorandum item 2.c) and their “Total time deposits of more than \$250,000” (Memorandum item 2.d).

However, the reporting of the quarterly averages, interest expense, and maturity and repricing data for time deposits of \$100,000 or more in Schedules RC-K, RI, and RC-E, respectively, have not been updated to reflect the permanent \$250,000 deposit insurance limit. In this regard, in its comment letter to the agencies in response to their first request for comments under the Economic Growth and Regulatory Paperwork Reduction Act of 1996, the American Bankers Association recommended revising the Schedule RC-E deposit reporting items to reflect the new FDIC insurance limit of \$250,000. Accordingly, the agencies proposed to revise the time deposit size threshold that applies to the reporting of this information to bring it into alignment with the SMDIA. These proposed changes are illustrated in the following table:

<b>Call Report Schedule</b>	<b>Current Item</b>	<b>Proposed Revised Item</b>
Schedule RC-K, Quarterly Averages	Item 11.b, “Time deposits of \$100,000 or more”	Item 11.b, “Time deposits of \$250,000 or less”
	Item 11.c, “Time deposits of less than \$100,000”	Item 11.c, “Time deposits of more than \$250,000”
Schedule RI, Income Statement	Item 2.a.(2)(b), Interest expense on “Time deposits of \$100,000 or more”	Item 2.a.(2)(b), Interest expense on “Time deposits of \$250,000 or less”
	Item 2.a.(2)(c), Interest expense on “Time deposits of less than \$100,000”	Item 2.a.(2)(c), Interest expense on “Time deposits of more than \$250,000”
Schedule RC-E, Deposit Liabilities	Memorandum item 3.a, “Time deposits of less than \$100,000 with a remaining maturity or next repricing date of”	Memorandum item 3.a, “Time deposits of \$250,000 or less with a remaining maturity or next repricing date of”
	Memorandum item 3.b, “Time deposits of less than \$100,000 with a remaining maturity of one year or less”	Memorandum item 3.b, “Time deposits of \$250,000 or less with a remaining maturity of one year or less”
	Memorandum item 4.a, “Time deposits of \$100,000 or more with a remaining maturity or next repricing date of”	Memorandum item 4.a, “Time deposits of more than \$250,000 with a remaining maturity or next repricing date of”
	Memorandum item 4.b, “Time deposits of \$100,000 through \$250,000 with a remaining maturity of one year or less”	Memorandum item 4.b, “Time deposits of more than \$250,000 with a

	Memorandum item 4.c, “Time deposits of more than \$250,000 with a remaining maturity of one year or less”	remaining maturity of one year or less”
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The agencies received comments on the proposed increase in the time deposit size threshold for the identified items in Schedules RI, RC-K, and RC-E from four banking organizations, one consulting firm, and two bankers’ associations. Three banking organizations and the two bankers’ associations supported the proposed increase and further recommended adjusting the deposit size threshold used for certain other data items in Schedule RC-E or combining certain Schedule RC-E deposit items. Specifically, the commenters suggested addressing the reporting of brokered deposit information in Memorandum items 1.c.(1), 1.c.(2), 1.d.(1), 1.d.(2), and 1.d.(3); the reporting of total time deposits in Memorandum items 2.b and 2.c; and the reporting of Individual Retirement Accounts (IRAs) and Keogh Plan accounts in Memorandum item 2.e. In its comments on the time deposit proposal, the fourth banking organization described the systems changes it would need to make to accommodate the proposed change in the reporting of interest expense on and the quarterly averages for time deposits.

In response to these comments, the agencies have reviewed their collection and use of brokered deposit information reported in Memorandum items 1.c.(1), 1.c.(2), 1.d.(1), 1.d.(2), and 1.d.(3), and have determined that these items can be revised to reflect only the \$250,000 deposit size threshold. Accordingly, the agencies propose to combine Memorandum items 1.c.(1), “Brokered deposits of less than \$100,000,” and 1.c.(2), “Brokered deposits of \$100,000 through \$250,000 and certain brokered retirement deposit accounts,” and to collect only “Brokered deposits of \$250,000 or less (fully insured brokered deposits).”<sup>25</sup> Further, the agencies propose to combine Memorandum item 1.d.(1), “Brokered deposits of less than \$100,000 with a remaining maturity of one year or less,” and Memorandum item 1.d.(2), “Brokered deposits of \$100,000 through \$250,000 with a remaining maturity of one year or less,” and to collect only “Brokered deposits of \$250,000 or less with a remaining maturity of one year or less.”<sup>26</sup> Current Memorandum item 1.d.(3), “Brokered deposits of more than \$250,000 with a remaining maturity of one year or less,” would be retained without change.

The agencies have also reviewed their collection and use of the deposit information reported in Memorandum item 2.b, “Total time deposits of less than \$100,000”; Memorandum item 2.c, “Total time deposits of \$100,000 through \$250,000”; and Memorandum item 2.e, “Individual Retirements Accounts (IRAs) and Keogh Plan accounts of \$100,000 or more included in Memorandum items 2.c and 2.d above.”<sup>27</sup> The agencies have determined that the information reported in Memorandum items 2.b and 2.e is necessary for the calculation of the small-denomination time deposits component of the monetary aggregate M2. The small-denomination time deposits component of M2 consists of certain time deposits at banks and thrifts with balances less than \$100,000. In this regard, the small-denomination time deposits component of M2 excludes IRA and Keogh Plan account balances at depository institutions

<sup>25</sup> This item would be designated Memorandum item 1.c.

<sup>26</sup> This item would be designated Memorandum item 1.d.(1).

<sup>27</sup> Memorandum item 2.d collects data on “Total time deposits of more than \$250,000.”

because heavy penalties for pre-retirement withdrawals make these balances too illiquid to be included in the monetary aggregates. Because Memorandum item 2.b includes IRA and Keogh Plan account balances held in time deposits of less than \$100,000, the data reported in Memorandum item 2.e is used in conjunction with the data reported in Memorandum item 1.a, “Total Individual Retirement Accounts (IRAs) and Keogh Plan accounts,” to determine IRA and Keogh Plan account balances of less than \$100,000, which are netted from Memorandum item 2.b for M2 calculation purposes. Given the aforementioned need for the continued collection of total time deposits of less than \$100,000 in Memorandum item 2.b, the agencies have determined that the information reported in Memoranda item 2.c on total time deposits of \$100,000 through \$250,000 remains necessary in order for the agencies to measure total time deposits within the FDIC deposit insurance limit of \$250,000.

The proposed changes to Schedules RC-K, RI, and RC-E shown in the table above as well as the proposed combining of Memorandum items 1.c.(1) and 1.c.(2) and Memorandum items 1.d.(1) and 1.d.(2) in Schedule RC-E would take effect March 31, 2017.

## *2. Level of External Auditing Work Performed for the Reporting Institution During the Preceding Year*

Each year in the March Call Report, each institution indicates in Schedule RC, Balance Sheet, Memorandum item 1, the most comprehensive level of auditing work performed by independent external auditors during the preceding calendar year for the institution or its parent holding company. In completing Memorandum item 1, each institution selects from nine statements describing a range of levels of auditing work the one statement that best describes the level of auditing work performed for it. Certain statements from which an institution must choose do not reflect current auditing practices performed in accordance with applicable standards and procedures promulgated by the U.S. auditing standard setters, namely the Public Company Accounting Oversight Board (PCAOB) and the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants.

The PCAOB’s Auditing Standard No. 5 (AS 5), *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, became effective for fiscal years ending on or after November 15, 2007, and provides guidance regarding the integration of audits of internal control over financial reporting with audits of financial statements for public companies. To further emphasize the integration of these two audits, the PCAOB revised AS 5 in December 2010 by adding a statement that “the auditor cannot audit internal control over financial reporting without also auditing the financial statements.” Those public companies not required to undergo an audit of internal control over financial reporting must have an audit of their financial statements.

The ASB provided similar guidance in *Attestation Section 501 (AT 501), An Examination of an Entity’s Internal Control over Financial Reporting That Is Integrated with an Audit of Its Financial Statements*, which became effective for integrated audits of private companies for periods ending on or after December 15, 2008. Consistent with the PCAOB, the ASB stated in AT 501 that “[t]he examination of internal control should be integrated with an audit of financial statements” and “[a]n auditor should not accept an engagement to review an

entity's internal control or a written assertion thereon." Under the ASB's previous attestation standards, an entity could engage an external auditor to examine and attest to the effectiveness of its internal control over financial reporting without auditing the entity's financial statements. Thus, at present, unless a private company is required to or elects to have an integrated internal control examination and financial statement audit, the private company may be required to or can choose to have an external auditor perform an audit of its financial statements, but it may not engage an external auditor to perform a standalone internal control examination. More recently, the ASB concluded that, because engagements performed under AT 501 are required to be integrated with an audit of financial statements, it would be appropriate to move the content of AT 501 from the attestation standards into U.S. generally accepted auditing standards. As a consequence, the ASB issued Statement on Auditing Standards No. 130, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements (SAS 130), in October 2015. SAS 130 is effective for integrated audits of private companies for periods ending on or after December 15, 2016, at which time AT 501 will be withdrawn.

The existing wording of statements 1, 2, and 3 of Schedule RC, Memorandum item 1, reads as follows:

- 1 = Independent audit of the bank conducted in accordance with generally accepted auditing standards by a certified public accounting firm which submits a report on the bank.
- 2 = Independent audit of the bank's parent holding company conducted in accordance with generally accepted auditing standards by a certified public accounting firm which submits a report on the consolidated holding company (but not on the bank separately).
- 3 = Attestation on bank management's assertion on the effectiveness of the bank's internal control over financial reporting by a certified public accounting firm.

Because these three statements no longer fully and properly describe the types of external auditing services performed for institutions or their parent holding companies under current professional standards and to enhance the information institutions provide the agencies annually about the level of external auditing work performed for them, the 2 with new statements 1a, 1b, 2a, and 2b and to eliminate existing statement 3. The revised statements would read as follows:

- 1a = An integrated audit of the reporting institution's financial statements and its internal control over financial reporting conducted in accordance with the standards of the American Institute of Certified Public Accountants (AICPA) or the Public Company Accounting Oversight Board (PCAOB) by an independent public accountant that submits a report on the institution.
- 1b = An audit of the reporting institution's financial statements only conducted in accordance with the auditing standards of the AICPA or the PCAOB by an independent public accountant that submits a report on the institution.
- 2a = An integrated audit of the reporting institution's parent holding company's consolidated financial statements and its internal control over financial reporting conducted in accordance with the standards of the AICPA or the PCAOB by an independent public accountant that submits a report on the consolidated holding company (but not on the institution separately).
- 2b = An audit of the reporting institution's parent holding company's consolidated financial statements only conducted in accordance with the auditing standards of the AICPA or

the PCAOB by an independent public accountant that submits a report on the consolidated holding company (but not on the institution separately).

The agencies received comments on the proposed revisions to the statements about level of auditing external worked performed for an institution from one banking organization and two bankers' associations. One banking organization stated that it did not oppose the proposed revision. The two bankers' associations stated that they did not object to this change, but requested that the definition of "integrated" be clarified and expanded. The agencies will provide additional explanatory information about the meaning of an "integrated audit" in the revised instructions for Schedule RC, Memorandum item 1. This proposed reporting change would take effect March 31, 2017.

### *3. Chief Executive Officer Contact Information*

All reporting institutions have been requested to provide "Emergency Contact Information" as part of their Call Report submissions since September 2002. This information request was added to the Call Report so that the agencies could distribute critical, time-sensitive information to emergency contacts at institutions should such a need arise. The primary contact should be a senior official of the institution who has decision-making authority. The primary contact may or may not be the institution's Chief Executive Officer (CEO). Information for a secondary contact also should be provided if such a person is available at an institution. The emergency contact information is for the confidential use of the agencies and is not released to the public.

The agencies periodically need to communicate with the CEOs of reporting institutions via e-mail, but they currently do not have a complete list of CEO e-mail addresses that would enable an agency to communicate directly to institutions' CEOs. The CEO communications are initiated or approved by persons at the agencies' senior management levels and would involve topics including new initiatives, policy notifications, and assessment information.

To streamline the agencies' CEO communication process, the agencies proposed to request CEO contact information, including e-mail addresses, in the Call Report separately from, but in a manner similar to, the currently requested "Emergency Contact Information." As with the "Emergency Contact Information," the proposed CEO contact information would be for the confidential use of the agencies and would not be released to the public. The agencies intend for CEO e-mail addresses to be used judiciously and only for significant matters requiring CEO-level attention. Having a comprehensive database of CEO contact information, including e-mail addresses, would allow the agencies to communicate important and time-sensitive information directly to CEOs.

One banking organization commented on the proposed reporting of CEO contact information, stating that it was not opposed to this proposal. The agencies propose to implement the collection of this information as of the September 30, 2016, report date.

#### *4. Reporting the Legal Entity Identifier*

The Legal Entity Identifier (LEI) is a 20-digit alpha-numeric code that uniquely identifies entities that engage in financial transactions. The recent financial crisis spurred the development of a global LEI system. The LEI system is designed to facilitate several financial stability objectives, including the provision of higher quality and more accurate financial data. In the United States, the Financial Stability Oversight Council (FSOC) has recommended that regulators and market participants continue to work together to improve the quality and comprehensiveness of financial data both nationally and globally. In this regard, the FSOC also has recommended that its member agencies promote the use of the LEI in reporting requirements and rulemakings, where appropriate.

Effective in 2014 and 2015, the Board began collecting LEIs from holding companies and certain holding company subsidiary banking and nonbanking legal entities in the FR Y-6, FR Y-7, and FR Y-10 reports only if a holding company or subsidiary entity already has an LEI. With respect to the Call Report, the agencies proposed to have institutions provide their LEI on the cover page of the report only if an institution already has an LEI. As with the Board reports, an institution that does not have an LEI would not be required to obtain one for purposes of reporting it on the Call Report.

One banking organization commented on the proposed LEI reporting, stating that it was not opposed to this proposal as long as an institution without an LEI would not be required to obtain one for Call Report purposes. The agencies propose to implement the collection of LEIs on the Call Report cover page only from institutions that already have LEIs as of the September 30, 2016, report date. The LEI must be a currently issued, maintained, and valid LEI, not an LEI that has lapsed.

#### *5. Additional Preprinted Captions for Itemizing and Describing Components of Certain Items That Exceed Reporting Thresholds*

As mentioned above, institutions are required to itemize and describe each component of certain items in five Call Report schedules when the component exceeds both a specified percentage of the item and a specified dollar amount. To simplify and streamline the reporting of these components and thereby reduce reporting burden, preprinted captions have been provided for those components of each of these items that, based on the agencies' review of the components previously reported for these items, institutions most frequently itemize and describe. When a preprinted caption is provided for a particular component of an item, an institution is not required to report the amount of that component when the amount falls below the applicable reporting thresholds.

Based on the most recent review of the component descriptions manually entered by reporting institutions because preprinted captions were not available, the agencies stated in their September 2015 proposal that they were planning to add one new preprinted caption to Schedule RI-E, item 1, "Other noninterest income," two new preprinted captions to Schedule RI-E, item 2, "Other noninterest expense," and three new preprinted captions to Schedule RC-F, item 6, "All other assets." The introduction of these new preprinted captions is intended to simplify

institutions' compliance with the requirement to itemize and describe those components of these items that exceed the applicable reporting thresholds (which are being revised effective September 30, 2016). The new preprinted caption for "Other noninterest income" is "Income and fees from wire transfers." The two new preprinted captions for "Other noninterest expense" are "Other real estate owned expenses" and "Insurance expenses (not included in employee benefits, premises and fixed assets expenses, and other real estate owned expenses)." The three new preprinted captions for "All other assets" are "Computer software," "Accounts receivable," and "Receivables from foreclosed government-guaranteed mortgage loans."

Two banking organizations commented on the introduction of new preprinted captions, but raised no objection. The agencies propose to add the preprinted captions to the Call Report effective September 30, 2016.

#### *6. Extraordinary Items*

In January 2015, the FASB issued ASU No. 2015-01, "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." This ASU eliminates the concept of extraordinary items from U.S. generally accepted accounting principles. Until the effective date of this ASU, an entity was required under ASC Subtopic 225-20, Income Statement – Extraordinary and Unusual Items (formerly Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations"), to separately classify, present, and disclose extraordinary events and transactions. An event or transaction was presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. For Call Report purposes, if an event or transaction met the criteria for extraordinary classification, an institution had to segregate the extraordinary item from the results of its ordinary operations and report the extraordinary item in its income statement in Schedule RI, item 11, "Extraordinary items and other adjustments, net of income taxes."

ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Thus, for example, an institution with a calendar year fiscal year had to begin applying the ASU in its Call Report for March 31, 2016, unless it chose to early adopt the ASU. After an institution adopts ASU 2015-01, any event or transaction that would have met the criteria for extraordinary classification before the adoption of the ASU should be reported in Schedule RI, item 5.1, "Other noninterest income," or item 7.d, "Other noninterest expense," as appropriate, unless the event or transaction would otherwise be reportable in another item of Schedule RI.

Consistent with the elimination of the concept of extraordinary items in ASU 2015-01, the agencies stated in the September 2015 proposal that they planned to revise the instructions for Schedule RI, item 11, and remove the term "extraordinary items" from and revise the captions for Schedule RI, item 8, "Income (loss) before income taxes and extraordinary items and other adjustments," item 10, "Income (loss) before extraordinary items and other adjustments," and item 11, as well as Schedule RI-E, item 3, "Extraordinary items and other adjustments and applicable income tax effect."

As an interim measure because ASU 2015-01 is already in effect for most institutions, a footnote was added to item 11 on Schedule RI and item 3 on Schedule RI-E on the Call Report forms for March 31, 2016, addressing the elimination of the concept of extraordinary items. The footnote explains that the captions will be revised at a later date and only the results of discontinued operations should be reported in these two items.

The agencies received no comments on the planned changes related to extraordinary items. Accordingly, effective September 30, 2016, the captions for Schedule RI, items 8, 10, and 11, would be revised to say “Income (loss) before income taxes and discontinued operations,” “Income (loss) before discontinued operations,” and “Discontinued operations, net of applicable income taxes,” respectively. Similarly, the caption for Schedule RI-E, item 3, would be revised to say, “Discontinued operations and applicable income tax effect.”

## **E. New and Revised Data Items of Limited Applicability**

### *1. Changes to Schedule RC-Q, Assets and Liabilities Measured at Fair Value on a Recurring Basis*

Schedule RC-Q is completed by institutions that had total assets of \$500 million or more as of the beginning of their fiscal year and by smaller institutions that either are required to complete Schedule RC-D, Trading Assets and Liabilities, or have elected to report financial instruments or servicing assets and liabilities at fair value under a fair value option.

Institutions that complete Schedule RC-Q are currently required to treat securities they have elected to report at fair value under a fair value option as part of their trading securities. As a consequence, institutions include fair value information for their fair value option securities, if any, in Schedule RC-Q two times: first, as part of the fair value information they report for their “Other trading assets” in item 5.b of the schedule, and then on a standalone basis in item 5.b.(1), “Nontrading securities at fair value with changes in fair value reported in current earnings.” This reporting treatment flows from the existing provision of the Glossary entry for “Trading Account” that requires an institution that has elected to report securities at fair value under a fair value option to classify the securities as trading securities. However, as discussed above, the agencies proposed in their September 2015 proposal to remove this requirement, which would have permitted an institution to classify fair value option securities as held-to-maturity, available-for-sale, or trading securities.

In its current form, Schedule RC-Q contains an item for available-for-sale securities along with the items identified above for “Other trading assets,” which includes securities designated as trading securities, and “Nontrading securities at fair value with changes in fair value reported in current earnings.” However, given the existing instructional requirements for fair value option securities, Schedule RC-Q does not include an item for reporting held-to-maturity securities because only securities reported at amortized cost are included in this category of securities. By proposing to remove the requirement to report fair value option securities as trading securities, the agencies also proposed in their September 2015 proposal to eliminate item 5.b.(1) of Schedule RC-Q for nontrading securities accounted for under a fair

value option and add a new item to Schedule RC-Q to capture data on “Held-to-maturity securities” to which a fair value option is applied.

In addition, at present, institutions that have elected to measure loans (not held for trading) at fair value under a fair value option are required to report the fair value and unpaid principal balance of such loans in Memorandum items 10 and 11 of Schedule RC-C, Part I, Loans and Leases. Because Schedule RC-C, Part I, must be completed by all institutions, Memorandum items 10 and 11 also must be completed by all institutions although only a nominal number of institutions with less than \$500 million in assets have disclosed reportable amounts for any of the categories of fair value option loans reported in the subitems of these two Memorandum items. Accordingly, to mitigate some of the reporting burden associated with Schedule RC-C, Part I, the agencies proposed to move Memorandum items 10 and 11 on the fair value and unpaid principal balance of fair value option loans from Schedule RC-C, Part I, to Schedule RC-Q and to designate them as Memorandum items 3 and 4.

The agencies received comments from two bankers’ associations seeking further clarification of the proposed reporting of held-to-maturity securities, available-for-sale securities, and securities for which a trading measurement classification has been elected in Schedule RC-Q. As stated above, the agencies reconsidered, and decided not to implement, the proposed instructional revision that would no longer have required an institution to classify fair value option securities as trading securities. Based on this decision, the agencies also will not implement the proposed elimination of the existing Schedule RC-Q item for nontrading securities accounted for under a fair value option and their proposed addition to the schedule of a new item for held-to-maturity securities.

The agencies received no comments on the proposal to move the Memorandum items in Schedule RC-C, Part I, on the fair value and unpaid principal balance of fair value option loans to Schedule RC-Q, where they would be designated as Memorandum items 3 and 4. Therefore, the agencies propose to proceed with this change effective March 31, 2017.

*2. Revisions to the Reporting of the Impact on Trading Revenues of Changes in Credit and Debit Valuation Adjustments by Institutions with Total Assets of \$100 Billion or More*

Institutions that reported average trading assets of \$2 million or more for any quarter of the preceding calendar year must report a breakdown of their trading revenue (as reported in Schedule RI, item 5.c) by underlying risk exposure in Schedule RI, Memorandum items 8.a through 8.e. The five types of risk exposure are interest rate, foreign exchange, equity security and index, credit, and commodity and other. Institutions required to provide this five-way breakdown of their trading revenue that have \$100 billion or more in total assets must also report the “Impact on trading revenue of changes in the creditworthiness of the bank’s derivative counterparties on the bank’s derivative assets” and the “Impact on trading revenue of changes in the creditworthiness of the bank on the bank’s derivative liabilities” in Schedule RI, Memorandum items 8.f and 8.g, respectively. Memorandum items 8.f and 8.g were intended to capture the amounts included in trading revenue that resulted from calendar year-to-date changes

in the reporting institution's credit valuation adjustments (CVA) and debit valuation adjustments (DVA).

The agencies have found inconsistent reporting of CVAs and DVAs by the institutions completing Memorandum items 8.f and 8.g of Schedule RI, which affects the analysis of reported trading revenues. For example, some institutions report CVAs and DVAs in these two items on a gross basis while other institutions report these adjustments on a net (of hedging) basis.

Consistent reporting of the impact on trading revenue from year-to-date changes in CVAs and DVAs is necessary to ensure the accuracy of the data available to examiners for planning and conducting safety and soundness examinations of institutions' trading activities and to the agencies for their analyses of derivatives and trading activities, and changes therein, at the industry and institution level.

To enhance the quality of the trading revenue information reported by the largest institutions in the United States, promote consistency across institutions in the reporting of CVAs and DVAs, enable examiners to make more informed judgments about institutions' effectiveness in managing CVA and DVA risks, and provide a more complete picture of reported trading revenue, the agencies proposed in their September 2015 proposal to replace existing Memorandum items 8.f and 8.g of Schedule RI with a tabular set of data items. As proposed by the agencies, institutions meeting the criteria for completing Memorandum items 8.f and 8.g would begin to separately present their gross CVAs and DVAs (Memorandum items 8.f.(1) and 8.g.(1)) and any related CVA and DVA hedging results (Memorandum items 8.f.(2) and 8.g.(2)) in the table by type of underlying risk exposure (columns A through E). These institutions also would report their gross trading revenue by type of underlying risk exposure before including positive or negative net CVAs and net DVAs in columns A through E of a proposed new Memorandum item 8.h, "Gross trading revenue." For purposes of this proposed tabular set of data items, the September 2015 proposal would have required CVA and DVA amounts, as well as their hedges, to be allocated to the type of underlying risk exposure (e.g., interest rates, foreign exchange, and equity) that gives rise to the CVA and the DVA.

In proposing that certain institutions with assets of \$100 billion or more report expanded information on the impact on trading revenues of changes in CVAs and DVAs, related hedging results, and gross trading revenues, the agencies requested comment on the availability of these data by type of underlying risk exposure.

The agencies received comments on this trading revenue proposal from one consulting firm and two bankers' associations. The consulting firm welcomed the proposal. The bankers' associations commented that the agencies' proposed approach for reporting the impact on trading revenues of changes in CVAs and DVAs differs from currently have the capability to calculate this information by type of underlying risk exposures." The associations stated that building and testing the systems and processes necessary to enable banks to report the trading revenue information in the manner proposed by the agencies would require a delay in the implementation date of not less than one year beyond the effective date proposed by the agencies for the initial reporting of this information. The associations also requested that the agencies provide greater

clarity and specificity in the instructions for the proposed expansion of trading revenue information by type of underlying risk exposure.

To address the bankers' associations' comments, the agencies have revised their proposal to eliminate the reporting by type of underlying risk exposure. As revised, institutions required to complete Schedule RI, Memorandum items 8.f and 8.g (i.e., institutions that reported average trading assets of \$2 million or more for any quarter of the preceding calendar year and have \$100 billion or more in total assets), would separately present the year-to-date changes in gross CVAs and DVAs in new Memorandum items 8.f.(1) and 8.g.(1), respectively, and any related year-to-date CVA and DVA hedging results in Memorandum items 8.f.(2) and 8.g.(2), respectively. The instructions for these items would explain that when CVA and DVA are components in a bilateral valuation adjustment calculation for a derivatives counterparty, the year-to-date change in the gross CVA component and the gross DVA component for that counterparty should be reported in items 8.f.(1) and 8.g.(1), respectively.

Institutions required to complete Memorandum items 8.f and 8.g also would report as "Gross trading revenue" in new Memorandum item 8.h the year-to-date results of their trading activities before the impact of any year-to-date changes in valuation adjustments, including, but not limited to, CVA and DVA. The amount reported as gross trading revenue in Memorandum item 8.h plus or minus all year-to-date changes in valuation adjustments should equal Schedule RI, item 5.c, "Trading revenue."

The agencies propose to implement Memorandum items 8.f and 8.g and new Memorandum item 8.h of Schedule RI, as revised in response to comments received, in the Call Report for March 31, 2017.

### *3. Dually Payable Deposits in Foreign Branches of U.S. Banks*

Under the Federal Deposit Insurance Act (FDI Act), deposit obligations carried on the books and records of foreign branches of U.S. banks are not considered deposits, unless the funds are payable both in the foreign branch and at an office of the bank in the United States (that is, they are dually payable). In September 2013, the FDIC issued a final rule amending its deposit insurance regulations to clarify that deposits carried on the books and records of a foreign branch of a U.S. bank are not insured deposits even if they are made payable both at that branch and at an office of the bank in any state of the United States. In addition, the final rule provides an exception for Overseas Military Banking Facilities operated under Department of Defense regulations.

The final rule does not affect the ability of a U.S. bank to make a foreign deposit dually payable. Should a bank do so, its foreign branch deposits would be treated as deposit liabilities under the FDI Act's depositor preference regime in the same way as, and on an equal footing with, domestic uninsured deposits. In general, "depositor preference" refers to a resolution distribution regime in which the claims of depositors have priority over (that is, are satisfied before) the claims of general unsecured creditors. Thus, if deposits held in foreign branches of U.S. banks located outside the United States are made dually payable, that is, made payable at

both the foreign office and a branch of the bank located in the United States, the holders of such deposits would receive depositor preference in the event of the U.S. bank's failure.

To enable the FDIC to monitor the volume and trend of dually payable deposits in the foreign branches of U.S. banks, the agencies proposed to add a new Memorandum item 2 to Schedule RC-E, Part II, Deposits in Foreign Offices, on the FFIEC 031 Call Report. The FFIEC 031 is applicable only to banks with foreign offices. The proposed new information on the amount of dually payable deposits at foreign branches of U.S. banks would enable the FDIC to determine, as required by statute, the least costly method of resolving a particular bank if it fails and the potential loss to the Deposit Insurance Fund. This requires the FDIC to plan for the distribution of the proceeds from the liquidation of the failed bank's assets, including consideration not only of insured deposits, but also other deposit liabilities for purposes of depositor preference, such as domestic uninsured deposits and dually payable deposits in foreign branches of the particular U.S. bank, which take priority over general unsecured liabilities.

The agencies received no comments on the proposed reporting of dually payable deposits at foreign branches of U.S. banks. The collection of this data item would be implemented as of September 30, 2016, but it would be added to the FFIEC 031 Call Report as Memorandum item 4 of Schedule RC-O, Other Data for Deposit Insurance and FICO Assessments, rather than as Memorandum item 2 of Schedule RC-E, Part II.

#### *4. Revisions to Implement the Supplementary Leverage Ratio for Advanced Approaches Institutions*

Schedule RC-R, Part I, Regulatory Capital Components and Ratios, item 45, applies to the reporting of the supplementary leverage ratio (SLR) by advanced approaches institutions. In the sample Call Report forms and the Call Report instruction book for report dates before March 31, 2015, the caption for item 45 and the instructions for this item both indicated that, effective for report dates on or after January 1, 2015, advanced approaches institutions should begin to report their SLR in the Call Report as calculated for purposes of Schedule A, item 98, of the FFIEC 101, Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework. However, the agencies suspended the collection of Schedule RC-R, Part I, item 45, before it took effect March 31, 2015, due to amendments to the SLR rule and the need for updates to the associated SLR data collection in the FFIEC 101.

In July 2015, the agencies finalized the most recent revisions to the SLR rule, which requires all advanced approaches institutions to disclose three items: the numerator of the SLR (Tier 1 capital, which is already reported in Call Report Schedule RC-R), the denominator of the SLR (total leverage exposure), and the ratio itself. As part of the proposed revisions to the FFIEC 101, the SLR section of the FFIEC 101 will apply only to top-tier advanced approaches institutions (generally, bank and savings and loan holding companies), and not to their subsidiary depository institutions. Therefore, lower tier advanced approaches depository institutions generally will not report SLR data in the FFIEC 101, but will need to do so in the Call Report, which would satisfy the SLR disclosure requirement in the revised SLR rule.

Thus, the agencies proposed to add a new item 45.a to Schedule RC-R, Part I, in which an advanced approaches depository institution (regardless of parallel run status) would report total leverage exposure as calculated under the agencies' SLR rule.

The agencies also proposed to renumber current item 45 of Schedule RC-R, Part I, as item 45.b, to collect an institution's SLR. The ratio to be reported in item 45.b would equal Tier 1 capital reported on Schedule RC-R, Part I, item 26, divided by total leverage exposure reported in proposed item 45.a. Renumbered item 45.b would no longer reference the FFIEC 101 because lower tier depository institutions would no longer be calculating or reporting their SLRs in the FFIEC 101.

The agencies received one comment from a consulting firm that welcomed the reinstatement of SLR information in the Call Report. The reporting of SLR information in items 45.a and 45.b of Call Report Schedule RC-R would take effect September 30, 2016.

On July 13, 2016, the agencies published a final notice in the *Federal Register* (81 FR 45357).

### Estimate of Respondent Burden

The current annual reporting burden for the Call Report is estimated to be 201,595 hours and would decrease to 200,991 hours as shown in the following table. The average estimated hours per response for Call Report filers would decrease from 60.07 hours to 59.89 hours due to the proposed changes. These reporting requirements represent 1.6 percent of the total Federal Reserve paperwork burden.

<b>FFIEC 031 and FFIEC 041</b>	<i>Number of respondents<sup>28</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<b>Current</b>	839	4	60.07	201,595
<b>Proposed</b>	839	4	59.89	<u>200,991</u>
<i>Change</i>				( 604)

The current total annual cost to state member banks is estimated to be \$10,714,774 and with the proposed revisions would decrease to \$10,682,672.<sup>29</sup> This estimate represents costs

<sup>28</sup> Of these respondents, 632 respondents are considered a small entity as defined by the Small Business Administration (i.e., entities with \$550 million or less in total assets) [www.sba.gov/contracting/getting-started-contractor/make-sure-you-meet-sba-size-standards/table-small-business-size-standards](http://www.sba.gov/contracting/getting-started-contractor/make-sure-you-meet-sba-size-standards/table-small-business-size-standards).

<sup>29</sup> Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at \$17, 45% Financial Managers at \$65, 15% Lawyers at \$66, and 10% Chief Executives at \$89). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages May 2015*, published March 30, 2016 [www.bls.gov/news.release/ocwage.t01.htm](http://www.bls.gov/news.release/ocwage.t01.htm). Occupations are defined using the BLS Occupational Classification System, [www.bls.gov/soc/](http://www.bls.gov/soc/).

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.

### **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.