Supporting Statement for the
Consolidated Reports of Condition and Income
(FFIEC 031, FFIEC 041, and FFIEC 051; 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 revise the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031, FFIEC 041, and FFIEC 051; OMB No. 7100-0036) under the emergency clearance provisions of OMB's regulations. These reports 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 the information collected on the Call Reports to fulfill its statutory obligation to supervise state member banks. State member banks are required to file 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, FDIC, and OCC (the agencies) propose to revise the Call Reports effective for reports reflecting the June 30, 2018, report date by adjusting the definitions of reciprocal brokered deposits and brokered deposits, adding data items related to reciprocal deposits, and revising the definition of high volatility commercial real estate (HVCRE) exposures that institutions use to calculate risk-weighted assets and, hence, risk-based capital ratios. The current annual burden for the Call Reports is estimated to be 163,571 hours and the proposed revisions are estimated to increase the annual burden by 229 hours.

Background and Justification

Banks that are members of the Federal Reserve System are required by section 9(6) of the Federal Reserve Act (12 U.S.C. 324) to file reports of condition with the Board. The Board, acting in concert with the other federal banking supervisory agencies through the FFIEC since 1979, requires banks to submit on the quarterly Call Reports such financial data as are needed by the Federal Reserve System to 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 for the proper discharge of the Federal Reserve's monetary policy responsibilities. The data, which generally is made publicly available by the agencies, is used not only by the federal government, but also by state and local governments, the banking industry, securities analysts, and the academic community.

Description of Information Collection

The Call Reports, which consist of the Reports of Condition and Income, 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 three reporting forms that apply to different categories of banks: (1) all banks that have domestic and foreign offices (FFIEC 031), (2) banks with domestic offices only (FFIEC 041), and (3) banks with domestic offices only and total assets less than $1 billion (FFIEC 051).[1]

There is no other series of reporting forms that collect this information from all commercial and savings banks. Although there are other information collections that are similar to certain items on the Call Reports, the information they collect 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, bank credit, and flow of funds. Reporting banks supply the Board with detailed information relating to balance sheet accounts such as balances due from depository institutions, loans, and deposit liabilities. These collections of information, however, are frequently obtained on a sample basis rather than from all insured banks. Moreover, these reports are often prepared as of dates other than the last business day of each quarter, which would seriously limit their comparability. Additionally, institutions below a certain size are exempt entirely from some Board reporting requirements.

The Board also collects financial data from bank holding companies on a regular basis. Such data frequently are presented for the holding company on a consolidated basis, including its banking and nonbanking subsidiaries, and on a parent company only basis. Data collected from bank holding companies on a consolidated basis reflect aggregate amounts for all subsidiaries within the organization, including banking and nonbanking subsidiaries, so that the actual dollar amounts applicable to any banking subsidiary would not be determinable from the holding company reporting information. Hence, these reporting forms are not 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 lack the data necessary to assess the financial condition of individual banks to determine whether there had been any deterioration in their condition.

Banks are 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.

[1] 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 according to the asset size of the bank. Prior to March 2017, there were two categories of banks and two reporting forms. The FFIEC 031 was filed by banks with domestic and foreign offices and the (2) the FFIEC 041 was filed by banks with domestic offices only.

Proposed Revisions

The agencies propose under the emergency clearance provisions of OMB's regulations to revise the Call Reports effective beginning with the June 30, 2018, report date. The agencies have determined that (1) the collection of information within the scope of this request is needed prior to the expiration of time periods established under 5 CFR 1320.10, (2) this collection of information is essential to the mission of the agencies, and (3) the agencies cannot reasonably comply with the normal clearance procedures because an unanticipated event has occurred and the use of normal clearance procedures is reasonably likely to prevent or disrupt the collection of information.

These revisions arise from Congressional enactment of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA). Section 202 of EGRRCPA requires the FDIC to adjust the definition of reciprocal brokered deposits and brokered deposits reported on the Call Report. Section 214 of EGRRCPA requires the agencies to revise the definition of high volatility commercial real estate (HVCRE) exposures that banks use to calculate risk-weighted assets and, hence, risk-based capital ratios. These provisions became effective automatically when the law was signed on May 24, 2018.

The agencies must receive data from the quarterly Call Reports as part of their shared missions of ensuring the safety and soundness of financial institutions and the financial system and the protection of consumer financial rights as well as agency-specific missions affecting national and state-chartered institutions, including the administration of federal deposit insurance. The next reports are due at the end of July 2018 through early August 2018, based on information as of June 30, 2018. In order for the agencies to implement sections 202 and 214 as required by law, the agencies cannot comply with the normal clearance process and still receive the June 30, 2018, financial data in a timely manner.

Reciprocal Deposits

Section 202 of EGRRCPA amends section 29 of the Federal Deposit Insurance Act (FDI Act) (12 U.S.C. 1831f) to exclude a capped amount of reciprocal deposits from treatment as brokered deposits for qualifying institutions. Section 202 also defines "reciprocal deposits" to mean "deposits received by an agent institution through a deposit placement network with the same maturity (if any) and in the same aggregate amount as covered deposits placed by the agent institution in other network member banks." The terms "agent institution," "deposit placement network," "covered deposit," and "network member bank," all of which are used in the definition of "reciprocal deposit," also are defined in section 202.

In particular, an "agent institution" is an FDIC-insured depository institution that meets at least one of the following criteria:

- The institution is well-capitalized <u>and</u> has a composite condition of "outstanding" or "good" when most recently examined under section 10(d) of the FDI Act (12 U.S.C. 1820(d)),
- The institution has obtained a waiver from the FDIC to accept, renew, or roll over brokered deposits pursuant to section 29(c) of the FDI Act (12 U.S.C. 1831f(c)), or

- The institution does not receive reciprocal deposits in an amount that is greater than a "special cap" (discussed below).

Under the "general cap" set forth in section 202, an agent institution may classify reciprocal deposits up to the lesser of the following amounts as non-brokered reciprocal deposits:

- $5 billion or
- An amount equal to 20 percent of the agent institution's total liabilities.

Any amount of reciprocal deposits in excess of the "general cap" would be treated as, and should be reported in the Call Report as, brokered deposits.

A "special cap" applies if an agent institution is either not "well-rated" or not well-capitalized. In this situation, the institution may classify reciprocal deposits as non-brokered in an amount up to lesser of the "general cap" or the average amount of reciprocal deposits held at quarter-end during the last four quarters the institution was well-capitalized and in "outstanding" or "good" condition.

The current Call Report instructions, consistent with the law prior to the enactment of EGRRCPA, treat all reciprocal deposits as brokered deposits. The FDIC proposes to allow institutions to report pursuant to the new law for the June 30, 2018, Call Report by applying the newly defined terms and other provisions of section 202 of EGRRCPA to determine whether an institution and its reciprocal deposits are eligible for the statutory exclusion from being treated as brokered deposits. Qualifying institutions may use available information to then reasonably estimate and report as brokered deposits (in Schedule RC-E, Memorandum items 1.b through 1.d), and reciprocal brokered deposits (in Schedule RC-O, item 9 and, if applicable, item 9.a), only those reciprocal deposits that are still considered brokered deposits under the new law.

Alternatively, when reporting as of June 30, 2018, institutions may continue to report reciprocal deposits in Schedules RC-E and RC-O consistent with the current Call Report instructions (i.e., those instructions in effect prior to passage of EGRRCPA).

The agencies propose to issue additional instructions regarding the application of section 202 to reciprocal deposits for purposes of reporting in the Call Report effective for the September 30, 2018, report date, including revising the existing instructions for the brokered deposit items in Schedule RC-E and the reciprocal brokered deposit items in Schedule RC-O to conform to the new law. In addition, the agencies propose to add a new Memorandum item 1.g to Schedule RC-E effective for the September 30, 2018, report date in which institutions would report their "Total reciprocal deposits" (as of the report date) in accordance with the definition of this term in section 202. For the September 30, 2018, report date only, the agencies further propose to add a new Memorandum item 1.h to Schedule RC-E in which institutions would report on a one-time basis their "Total reciprocal deposits as of June 30, 2018." These proposed additions would be made to the FFIEC 031, FFIEC 041, and FFIEC 051 Call Reports.

Because the measurement of an institution's "special cap" is based in part on the average amount of reciprocal deposits held at quarter-end during the last four quarters the institution was well-capitalized and in "outstanding" or "good" condition, the amounts of "Total reciprocal deposits" reported in proposed new Schedule RC-E, Memorandum item 1.g, for those four quarter-end report dates would be an input to the calculation of the "special cap" by an institution that no longer meets both of these conditions. The FDIC would also be able to use the reported amounts of "Total reciprocal deposits" to verify the institution's determination of its "special cap." With section 202 effective upon enactment, the Call Report for June 30, 2018, did not include a data item in which institutions would report the quarter-end amount of their "Total reciprocal deposits" as of that report date. The proposed one-time only Memorandum item 1.h of Schedule RC-E would provide this amount (in the Call Report for September 30, 2018) to institutions and the FDIC should an institution become either not "well-rated" or not well-capitalized at a future date when the four-quarter look-back period used to calculate its "special cap" would include June 30, 2018.

From a supervisory perspective, a funding concentration could arise if a significant amount of an institution's deposits comes from reciprocal deposits obtained through a single deposit placement network, regardless of whether the reciprocal deposits are treated as brokered under section 202. The FDIC's examination staff reviews funding concentrations on an institution-by-institution basis. In this regard, to the extent that reciprocal deposits depend upon the existence of a network, these deposits are vulnerable to the financial health of the network. If the network were to fail or exclude an institution from continued use of the network because of deterioration in its condition, the institution could experience liquidity problems. An institution that is a member of a deposit placement network could attract deposits in excess of the deposit insurance limit from customers with whom the institution has no customer relationships. By using the network to place the uninsured portion of these deposits with other institutions and receive equal amounts of insured deposits in return, the institution could use reciprocal deposits to grow rapidly, but it may have more funds than it can prudently lend or otherwise invest. By collecting data on an institution's "Total reciprocal deposits," as proposed, the identification of significant changes in the reported amounts of such deposits at an institution from would trigger supervisory follow-up.

HVCRE

Section 214 of EGRRCPA adds a new section 51 to the FDI Act governing the risk-based capital requirements for certain acquisition, development, or construction (ADC) loans. EGRRCPA provides that the agencies may only require a depository institution to assign a heightened risk weight to an HVCRE exposure if such exposure is an "HVCRE ADC Loan," as defined in section 214 of EGRRCPA. Accordingly, an institution is permitted to risk weight at 150 percent only those commercial real estate exposures it believes meet the statutory definition of an "HVCRE ADC Loan."

When reporting HVCRE exposures in the Call Report regulatory capital schedule (Schedule RC-R) as of June 30, 2018, and subsequent report dates, institutions may use available information to reasonably estimate and report only "HVCRE ADC Loans" held for sale and held for investment in Schedule RC-R, Part II, items 4.b and 5.b, respectively. Any "HVCRE ADC Loans" held for trading would be reported in Schedule RC-R, Part II, item 7. The portion of any "HVCRE ADC Loan" that is secured by collateral or has a guarantee that qualifies for a risk weight lower than 150 percent may continue to be assigned a lower risk weight when completing

Schedule RC-R, Part II. Institutions may refine their estimates of "HVCRE ADC Loans" in good faith as they obtain additional information, but they will not be required to amend Call Reports previously filed for report dates on or after June 30, 2018, as these estimates are adjusted.

Alternatively, institutions may continue to report and risk weight HVCRE exposures in a manner consistent with the current Call Report instructions for Schedule RC-R, Part II, until the agencies take further action.

Time Schedule for Information Collection and Publication

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 available to banks with more than one foreign office.

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

Legal Status

The Board is authorized to collect information on the Call Reports from state member banks pursuant to section 9 of the Federal Reserve Act, which requires state member banks to file reports of condition and of the payment of dividends with the Federal Reserve (12 U.S.C. 324). The obligation for state member banks to respond is mandatory.

Most of the information provided on the Call Reports is made public. 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 response to memorandum items 6-9, 14-15, and 18 on schedule RC-O. It is possible to reverse engineer an institution's Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity (CAMELS) rating based on the data reported under the FDIC deposit insurance assessment data item and the prepaid deposit insurance assessments data item. If this information were publicly available, it would be possible to determine the state member bank's CAMELS rating. As a result, this information is exempt from disclosure under (b)(8), which specifically exempts from disclosure information "contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of an agency responsible for the regulation or supervision of financial institutions" (5 U.S.C. 552(b)(8)). Additionally, this information can be kept confidential under section (b)(4) of the Freedom of Information Act (5 U.S.C. 552(b)(4)). The release of this information and information regarding other data for deposit insurance and FICO assessments reported in response to memorandum items 6-9, 14-15, and 18 on schedule RC-O would likely cause substantial harm to the competitive position of the institution from whom the information was obtained if it was released.

Consultation Outside the Agency

The Board coordinated and consulted with the FDIC and OCC in proposing these revisions. The agencies will follow this request for emergency processing with a request under normal clearance procedures, during which comments will be solicited for the typical 60-day and 30-day periods. All comments received on paperwork burden, whether during the 60-day or 30-day comment periods, will be considered in finalizing the collection.

Estimate of Respondent Burden

The current annual reporting burden for the Call Report is estimated to be 163,571 hours and would increase to 163,800 hours as shown in the following table. The average estimated hours per response for Board Call Report filers would increase from 49.93 hours to 50.00 hours due to the proposed changes. The estimated burden per response for the quarterly filings of the Call Report is an average that varies by agency because of differences in the composition of the institutions under each agency's supervision (e.g., size distribution of institutions, types of activities in which they are engaged, and existence of foreign offices). These reporting requirements represent 1.5 percent of the total Federal Reserve paperwork burden.

FFIEC 031, FFIEC 041, and FFIEC 051	*Number of respondents*[2]	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
Current	819	4	49.93	163,571
Proposed	819	4	50.00	163,800
Change				229

[2] Of these respondents, 561 are considered small entities as defined by the Small Business Administration (i.e., entities with less than $550 million in total assets) www.sba.gov/document/support--table-size-standards.

The current total annual cost to all state member banks is estimated to be $9,168,155 and with the proposed revisions would increase to $9,180,990.[3] This estimate represents costs associated with recurring salary and employee benefits, and expenses associated with software, data processing, and bank records that are not used internally for management purposes but are necessary to complete the Call Reports.

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 cost to the Federal Reserve System for collecting and processing the FFIEC 031, FFIEC 041, and FFIEC 051 is estimated to be $1,871,500 per year.

[3] 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 $18, 45% Financial Managers at $69, 15% Lawyers at $68, and 10% Chief Executives at $94). 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 2017*, published March 30, 2018, www.bls.gov/news.release/ocwage.t01.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.