

**Supporting Statement for
Consolidated Reports of Condition and Income
(Interagency Call Report)
OMB Control No. 1557-0081**

The Office of the Comptroller of the Currency (OCC) 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) under the emergency clearance provisions of OMB's regulations. These reports are required of national banks and Federal savings associations 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 Board of Governors of the Federal Reserve System (Board) have also submitted a similar request for OMB review to request this information from banks under their supervision.

The OCC requires the information collected on the Call Reports to fulfill its statutory obligation to supervise national banks and Federal savings associations. These institutions 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 OCC, Board, and FDIC (the agencies) propose to revise the Call Reports effective for the March 31, 2019, report date to implement the new Current Expected Credit Losses (CECL) accounting standard and associated revisions to provide regulatory capital relief to institutions implementing the standard. In addition, the agencies proposed revisions related to the definition of high volatility commercial real estate (HVCRE) and reciprocal deposits, as required by the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018.

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 under a specified asset size (FFIEC 051).

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.

Proposed Revisions

The agencies are proposing the majority of the reporting revisions to implement the new CECL accounting standard and the agencies' final rule providing regulatory capital relief to institutions that adopt the new CECL accounting standard. The agencies are proposing additional revisions to implement Section 202 and 214 of the Economic Growth, Regulatory Relief, and Consumer Protection Act.

CECL

In June 2016, the FASB issued ASU 2016-13, which introduced CECL for estimating allowances for credit losses and added Topic 326, Credit Losses, to the Accounting Standards Codification (ASC). The new credit losses standard changes several aspects of existing U.S. generally accepted accounting principles (U.S. GAAP) as follows:

Introduction of a new credit loss methodology.

The new accounting standard developed by the FASB has been designed to replace the existing incurred loss methodology in U.S. GAAP. Under CECL, the allowance for credit losses is an estimate of the expected credit losses on financial assets measured at amortized cost, which is measured using relevant information about past events, including historical credit loss experience on financial assets with similar risk characteristics, current conditions, and reasonable and supportable forecasts that affect the collectability of the remaining cash flows over the contractual term of the financial assets. In concept, an allowance will be created upon the origination or acquisition of a financial asset measured at amortized cost. At subsequent reporting dates, the allowance will be reassessed for a level that is appropriate as determined in accordance with CECL. The allowance for credit losses under CECL is a valuation account, measured as the difference between the financial assets' amortized cost basis and the amount expected to be collected on the financial assets, i.e., lifetime expected credit losses.

Reduction in the number of credit impairment models.

Impairment measurement under existing U.S. GAAP has often been considered complex because it encompasses five credit impairment models for different financial assets.¹ In contrast, CECL introduces a single measurement objective to be applied to all financial assets measured at amortized cost, including loans held-for-investment (HFI) and held-to-maturity (HTM) debt securities. CECL does not, however, specify a single method for measuring expected credit losses; rather, it allows any reasonable approach, as long as the estimate of expected credit losses achieves the objective of the FASB's new accounting standard. Under the existing incurred loss methodology, institutions use various methods, including historical loss rate methods, roll-rate methods, and discounted cash flow methods, to estimate credit losses. CECL allows the

¹ Current U.S. GAAP includes five different credit impairment models for instruments within the scope of CECL: ASC Subtopic 310-10, Receivables-Overall; ASC Subtopic 450-20, Contingencies-Loss Contingencies; ASC Subtopic 310-30, Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality; ASC Subtopic 320-10, Investments-Debt and Equity Securities - Overall; and ASC Subtopic 325-40, Investments-Other-Beneficial Interests in Securitized Financial Assets.

continued use of these methods; however, certain changes to these methods will need to be made in order to estimate lifetime expected credit losses.

Purchased credit-deteriorated (PCD) financial assets.

CECL introduces the concept of PCD financial assets, which replaces purchased credit-impaired (PCI) assets under existing U.S. GAAP. The differences in the PCD criteria compared to the existing PCI criteria will result in more purchased loans HFI, HTM debt securities, and available-for-sale (AFS) debt securities being accounted for as PCD financial assets. In contrast to the existing accounting for PCI assets, the new standard requires the estimate of expected credit losses embedded in the purchase price of PCD assets to be estimated and separately recognized as an allowance as of the date of acquisition. This is accomplished by grossing up the purchase price by the amount of expected credit losses at acquisition, rather than being reported as a credit loss expense. As a result, as of the acquisition date, the amortized cost basis of a PCD financial asset is equal to the purchase price of the asset plus the allowance for credit losses, rather than equal to the purchase price as is currently recorded for PCI loans.

AFS debt securities.

The new accounting standard also modifies the existing accounting practices for impairment on AFS debt securities. Under this new standard, institutions will recognize a credit loss on an AFS debt security through an allowance for credit losses, rather than a direct write-down as is required by current U.S. GAAP. The recognized credit loss is limited to the amount by which the amortized cost of the security exceeds fair value. A write-down of an AFS debt security's amortized cost basis to fair value, with any incremental impairment reported in earnings, would be required only if the fair value of the AFS debt security is less than its amortized cost basis and either (1) the institution intends to sell the debt security, or (2) it is more likely than not that the institution will be required to sell the security before recovery of its amortized cost basis. Although the measurement of credit loss allowances is changing under CECL, the FASB's new accounting standard does not address when a financial asset should be placed in nonaccrual status. Therefore, institutions should continue to apply the agencies' nonaccrual policies that are currently in place. In addition, the FASB retained the existing write-off guidance in U.S. GAAP, which requires an institution to write off a financial asset in the period the asset is deemed uncollectible.

Institutions must apply ASU 2016-13 in their Call Report submissions in accordance with the effective dates set forth in the ASU, if an institution is required to file such form. For institutions that are public business entities (PBE) and also are Securities and Exchange Commission (SEC) filers, as both terms are defined in U.S. GAAP, the new credit losses standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Thus, for an SEC filer that has a calendar year fiscal year, the standard is effective January 1, 2020, and the institution must first apply the new credit losses standard in its Call Report for the quarter ended March 31, 2020.

For a PBE that is not an SEC filer, the credit losses standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Thus, for a PBE that is not an SEC filer and has a calendar year fiscal year, the standard is effective

January 1, 2021, and the institution must first apply the new credit losses standard in its Call Report for the quarter ended March 31, 2021.

For an institution that is not a PBE, the credit losses standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Thus, for an institution that is not a PBE and has a calendar year fiscal year, the standard is effective January 1, 2022, and the institution must first apply the new credit losses standard in its Call Report for the quarter ended March 31, 2022.

For regulatory reporting purposes, early application of the new credit losses standard is permitted for all institutions for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

Agencies' CECL Rulemaking

In December 2018, the agencies approved a final rule amending their capital rule to address CECL. The final rule included revised terminology for the allowance balance eligible for inclusion in regulatory capital. In addition, the final rule provided a transition adjustment to regulatory capital after an institution adopts CECL. The agencies proposed conforming amendments related to this rule, which affects regulatory capital reporting on Schedule RC-R of the Call Report. The proposed changes would permit institutions to report the regulatory capital transition amounts on Schedule RC-R.

Reciprocal Deposits – Section 202

Section 29 of the FDI Act (12 U.S.C. 1831f), as amended by Section 202 of EGRRCPA, excepts a capped amount of reciprocal deposits from treatment as brokered deposits for qualifying institutions, effective upon enactment. The current Call Report instructions, consistent with the law prior to the enactment of EGRRCPA, treat all reciprocal deposits as brokered deposits. When reporting in the Call Report, institutions should apply the newly defined terms and other provisions of Section 202 to determine whether they and their reciprocal deposits are eligible for the statutory exclusion and report as brokered deposits in Schedule RC-E, and brokered reciprocal deposits in Schedule RC-O, only those reciprocal deposits that are considered brokered reciprocal deposits under the new law.

HVCRE – Section 214

Section 214 of EGRRCPA adds a new Section 51 to the Federal Deposit Insurance Act (FDI Act) governing the risk-based capital requirements for certain acquisition, development, or construction (ADC) loans. EGRRCPA provides that, effective upon enactment, 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, a depository institution is permitted to use the definition of HVCRE ADC Loan in place of the existing definition of HVCRE loan when reporting HVCRE exposures held for sale, held for investment, and held for trading on Schedule RC-R, Regulatory Capital, Part II, Risk-Weighted Assets, in the Call Reports, as well as on Schedule B and Schedule G in the FFIEC 101 for institutions required to file that form.

A. JUSTIFICATION

1. Circumstances and Need:

Institutions submit Consolidated Reports of Condition and Income (Call Report) data to the agencies each quarter for the agencies' use in monitoring the condition, performance, and risk profile of individual institutions and the industry as a whole. Call Report data provide the most current statistical data available for evaluating institutions' corporate applications, identifying areas of focus for on-site and off-site examinations, and monetary and other public policy purposes. The agencies use Call Report data in evaluating interstate merger and acquisition applications to determine, as required by law, whether the resulting institution would control more than ten percent of the total amount of deposits of insured depository institutions in the United States. Call Report data are also used to calculate institutions' deposit insurance and Financing Corporation assessments and national banks' and federal savings associations' semiannual assessment fees.

2. Use of Information Collected:

Institutions submit Consolidated Reports of Condition and Income (Call Report) data to the agencies each quarter for the agencies' use in monitoring the condition, performance, and risk profile of individual institutions and the industry as a whole. Call Report data provide the most current statistical data available for evaluating institutions' corporate applications, identifying areas of focus for on-site and off-site examinations, and monetary and other public policy purposes. The agencies use Call Report data in evaluating interstate merger and acquisition applications to determine, as required by law, whether the resulting institution would control more than ten percent of the total amount of deposits of insured depository institutions in the United States. Call Report data are also used to calculate institutions' deposit insurance and Financing Corporation assessments and national banks' and federal savings associations' semiannual assessment fees.

3. Use of Technology to Reduce Burden:

All banks and savings associations are subject to an electronic filing requirement for Call Reports. Institutions may use information technology to the extent feasible to maintain required records.

4. Efforts to Identify Duplication:

This information is unique because no other report or a series of reports provides all the Call Report data in a consistent and timely manner.

5. Minimizing the Burden on Small Entities:

The agencies attempt to limit the information collected to the minimum information needed to evaluate the condition of an institution, regardless of size. The FFIEC 051 is specifically designed to collect information relevant to the agencies' supervision of small entities, and eliminates many data items that are not relevant to, or less useful in, supervising smaller banks.

6. Consequences of Less Frequent Collection:

The Federal financial regulatory agencies must have condition and income data at least quarterly to properly monitor individual bank and industry trends and to comply with a statutory requirement to obtain four reports of condition per year. 12 U.S.C. § 1817(a)(3). Less frequent collection of this information would impair the agencies' ability to monitor financial institutions and could delay regulatory response.

7. Special circumstances necessitating collection inconsistent with 5 CFR part 1320:

There are no special circumstances.

8. Consultation with Persons Outside the OCC:

The OCC, along with the FDIC and Board, requested comment for 60 days on the proposed changes through a notice published in the *Federal Register* on September 28, 2018. See 83 FR 49160.

The agencies received comments on the proposals covered in the notice from two entities, a bankers' association and a bank. The commenters recommended clarifications to the language used in the notice and associated reporting instructions, as well as clarifying edits to the proposed revised reporting forms. Specifically, the agencies made the following revisions to the information collection in response to these comments:

- Revised Schedule RC-F, Item 1, footnote 2, to remove reference to amortized cost.
- Revised language in instructions regarding amortized cost of PCD assets.
- Revised Schedule RC-R, Part II, for reporting of PCD assets on a net basis.

9. Payment or Gift to Respondents:

No payments or gifts will be given to respondents.

10. Confidentiality:

Except for selected data items, the Call Report is not given confidential treatment.

11. Information of a Sensitive Nature:

No information of a sensitive nature is requested.

12. Estimate of Annual Burden:

Estimated Number of Respondents: 1,207 national banks and federal savings associations.

Estimated Time per Response: 45.76 burden hours per quarter to file.

Estimated Total Annual Burden: 220,929 burden hours to file.

The OCC estimates the cost of the hour burden to respondents as follows:

220,929 hours @ \$117/hour = \$25,848,693

The hourly rate is based on data from May 2017 for wages (by industry and occupation) from the U.S. Bureau of Labor Statistics (BLS) for depository credit intermediation (NAICS 522100). To estimate compensation costs associated with the rule, we use \$117 per hour. This estimate is based on the average of the 90th percentile for seven occupations, adjusted for inflation, plus an additional 34.2 percent to cover private sector benefits.

13. Capital, Start-up, and Operating Costs:

Not applicable.

14. Estimates of Annualized Cost to the Federal Government:

Not applicable.

15. Change in Burden

<u>Former burden:</u>	232,836 burden hours.
<u>New burden:</u>	220,929 burden hours.
<u>Change:</u>	- 11,907 burden hours.

The burden per quarter is 45.76 hours for the OCC (totaling 220,929 hours per year). The change from the prior burden amount represents a savings of 925 hours related to the proposed reporting revisions and a reduction of 10,982 hours due to 60 fewer institutions filing the Call Report.

Not applicable.

17. Exceptions to Expiration Date Display:

None.

18. Exceptions to Certification:

None.

B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.