

**DEPARTMENT OF THE TREASURY**

**OFFICE OF THE COMPTROLLER OF THE CURRENCY**

**FEDERAL RESERVE SYSTEM**

**FEDERAL DEPOSIT INSURANCE CORPORATION**

**Proposed Agency Information Collection Activities; Comment Request**

**AGENCIES:** Office of the Comptroller of the Currency (OCC), Treasury; Board of Governors of the Federal Reserve System (Board); and Federal Deposit Insurance Corporation (FDIC).

**ACTION:** Joint notice and request for comment.

**SUMMARY:** In accordance with the requirements of the Paperwork Reduction Act of 1995 (44 U.S.C. chapter 35), the OCC, the Board, and the FDIC (the “agencies”) may not conduct or sponsor, and the respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The Federal Financial Institutions Examination Council (FFIEC), of which the agencies are members, has approved the agencies' publication for public comment of proposed revisions to the Consolidated Reports of Condition and Income (Call Report), which are currently approved collections of information. At the end of the

comment period, the comments and recommendations received will be analyzed to determine the extent to which the FFIEC should modify the proposed revisions prior to giving its final approval. The agencies will then submit the revisions to OMB for review and approval.

**DATES:** Comments must be submitted on or before January 7, 2003.

**ADDRESSES:** Interested parties are invited to submit written comments to any or all of the agencies. All comments, which should refer to the OMB control number(s), will be shared among the agencies.

OCC: Comments should be sent to the Public Information Room, Office of the Comptroller of the Currency, Mailstop 1-5, Attention: 1557-0081, 250 E Street, SW., Washington, DC 20219. Due to disruptions in the OCC's mail service since September 11, 2001, commenters are encouraged to submit comments by fax or e-mail. Comments may be sent by fax to (202) 874-4448, or by e-mail to [regs.comments@occ.treas.gov](mailto:regs.comments@occ.treas.gov). You can inspect and photocopy the comments at the OCC's Public Information Room, 250 E Street, SW., Washington, DC 20219. You can make an appointment to inspect the comments by calling (202) 874-5043.

Board: Written comments, which should refer to "Consolidated Reports of Condition and Income, 7100-0036," may be mailed to Ms. Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW.,

Washington, DC 20551. Due to temporary disruptions in the Board's mail service, commenters are encouraged to submit comments by electronic mail to [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov), or by fax to the Office of the Secretary at 202-452-3819 or 202-452-3102. Comments addressed to Ms. Johnson also may be delivered to the Board's mailroom between 8:45 a.m. and 5:15 p.m. weekdays, and to the security control room outside of those hours. Both the mailroom and the security control room are accessible from the Eccles Building courtyard entrance on 20th Street between Constitution Avenue and C Street, NW. Comments received may be inspected in room M-P-500 between 9 a.m. and 5 p.m. on weekdays pursuant to sections 261.12 and 261.14 of the Board's Rules Regarding Availability of Information, 12 CFR 261.12 and 261.14.

FDIC: Written comments should be addressed to Robert E. Feldman, Executive Secretary, Attention: Comments/Legal, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429. All comments should refer to "Consolidated Reports of Condition and Income, 3064-0052." Commenters are encouraged to submit comments by fax or electronic mail [Fax number: (202) 898-3838; Internet address: [comments@fdic.gov](mailto:comments@fdic.gov)]. Comments also may be hand-delivered to the guard station at the rear of the 550 17th Street Building (located on F Street) on business days between 7 a.m. and 5 p.m. Comments may be inspected and photocopied in the FDIC Public Information Center, Room 100, 801 17th Street, NW., Washington, DC, between 9 a.m. and 4:30 p.m. on business days.

A copy of the comments may also be submitted to the OMB desk officer for the agencies: Joseph F. Lackey, Jr., Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 10235, Washington, DC 20503 or electronic mail to [jlackeyj@omb.eop.gov](mailto:jlackeyj@omb.eop.gov).

**FOR FURTHER INFORMATION CONTACT:** Draft copies of the proposed revisions to the Call Report forms may be requested from any of the agency clearance officers whose names appear below.

OCC: Jessie Dunaway, OCC Clearance Officer, or Camille Dixon, (202) 874-5090, Legislative and Regulatory Activities Division, Office of the Comptroller of the Currency, 250 E Street, SW., Washington, DC 20219.

Board: Cynthia M. Ayouch, Board Clearance Officer, (202) 452-2204, Division of Research and Statistics, Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551. Telecommunications Device for the Deaf (TDD) users may call (202) 263-4869.

FDIC: Tamara R. Manly, Management Analyst (Regulatory Analysis), (202) 898-7453, Legal Division, Federal Deposit Insurance Corporation, 550 17th Street NW., Washington, DC 20429.

**SUPPLEMENTARY INFORMATION:** Proposal to revise the following currently approved collections of information:

The effect of the proposed revisions in reporting requirements will vary from bank to bank depending on (1) the bank's involvement with the types of activities or transactions to which proposed new items relate, (2) whether the bank has or has had more than one foreign office, and (3) the number and type of edit exceptions the agencies' validation process identifies in the bank's Call Report. The agencies estimate that, on average for all 8,700 banks, each bank would need approximately an additional 0.5 to 1.5 hours to complete its Call Report each quarter if the revisions were implemented as proposed. However, the proposed revisions may result in a significantly larger increase in burden, perhaps as much as 40 hours, for about 40 banks, including the very largest banks in the U.S. The following burden estimates include the proposed revisions.

*Report Title:* Consolidated Reports of Condition and Income (Call Report)

*Form Number:* FFIEC 031 (for banks with domestic and foreign offices) and FFIEC 041 (for banks with domestic offices only).

*Frequency of Response:* Quarterly.

*Affected Public:* Business or other for-profit.

**For OCC:**

*OMB Number:* 1557-0081.

*Estimated Number of Respondents:* 2,200 national banks.

*Estimated Time per Response:* 43.29 burden hours.

*Estimated Total Annual Burden:* 381,000 burden hours.

**For Board:**

*OMB Number:* 7100-0036.

*Estimated Number of Respondents:* 978 state member banks.

*Estimated Time per Response:* 49.50 burden hours.

*Estimated Total Annual Burden:* 193,644 burden hours.

**For FDIC:**

*OMB Number:* 3064-0052.

*Estimated Number of Respondents:* 5,480 insured state nonmember banks.

*Estimated Time per Response:* 33.91 burden hours.

*Estimated Total Annual Burden:* 743,393 burden hours.

The estimated time per response for the Call Report is an average, which varies by agency because of differences in the composition of the banks under each agency's supervision (e.g., size distribution of institutions, types of activities in which they are engaged, and number of banks with foreign offices). For the Call Report, the time per response for a bank is estimated to range from 15 to 600 hours, depending on individual circumstances.

**General Description of Reports**

These information collections are mandatory: 12 U.S.C. 161 (for national banks), 12 U.S.C. 324 (for state member banks), 12 U.S.C. 1817 (for insured state nonmember

commercial and savings banks, and for all banks for deposit information). Except for selected items, this information collection is not given confidential treatment. Small businesses (i.e., small banks) are affected.

## **Abstract**

Banks file Call Reports with the agencies each quarter for the agencies' use in monitoring the condition, performance, and risk profile of reporting banks and the industry as a whole. In addition, Call Reports provide the most current statistical data available for evaluating bank corporate applications such as mergers, for identifying areas of focus for both on-site and off-site examinations, and for monetary and other public policy purposes. Call Reports are also used to calculate all banks' deposit insurance and Financing Corporation assessments and national banks' semiannual assessment fees.

## **Current Action**

### **I. Overview**

The agencies' request for comment addresses a number of different types of changes to the Call Report requirements. These changes relate to the content of the Call Report itself, the submission deadline for certain banks, and the agencies' process for validating and releasing the data that banks report. First, the agencies are proposing several revisions to the content of the Call Report that are focused on improving the information

they collect from banks that engage in certain specific activities. This focus means that the proposed new or revised Call Report items that pertain to each of these activities will be applicable to small percentages of banks rather than to most or all banks. The agencies also would clarify an instruction and the scope of one group of items. This first group of proposed revisions, which would take effect as of March 31, 2003, include:

- adding five items dealing with accrued fees and finance charges on credit card accounts, allowances for uncollectible accrued fees and finance charges, and charge-offs of such accrued amounts, which would be reported by banks with a significant volume of credit card activity;
- breaking down the existing item in the securitization schedule (Schedule RC-S) for seller-provided credit enhancements to the bank's securitization structures (other than credit-enhancing interest-only strips) into separate items for those enhancements that are in the form of on-balance sheet assets and those enhancements that are in some other form;
- splitting the current income statement (Schedule RI) item for income from insurance activities into separate items for insurance underwriting income and income from other insurance activities;
- adding a yes/no question asking whether any of the bank's Internet Web sites has transactional capability, i.e., allows the bank's customers to execute transactions on their accounts;
- eliminating the exemption from disclosing the fair values of derivative contracts for banks with less than \$100 million in assets in Schedule RC-L – Derivative and

Off-Balance Sheet Items, because accounting standards require derivatives to reported on the balance sheet as assets or liabilities at fair value;

- changing the income statement (Schedule RI) item in which banks report any provisions for allocated transfer risk, which also affects the reconciliation of the allowance for loan and lease losses in Schedule RI-B, part II, and a related disclosure in the explanations schedule (Schedule RI-E);
- creating a supplement to the Call Report, in which the agencies, in response to a future event giving rise to an immediate and critical need for specific information, would be authorized to collect a limited amount of data from certain banks;
- clarifying the instructions to describe the limited circumstances in which loans may be reported as held for trading purposes; and
- explaining on both the report form and in the instructions that, for the Memorandum items in the insurance assessments schedule (Schedule RC-O) on the number and amount of deposit accounts by size of account, the dollar amount for the size of an account (currently \$100,000) represents the deposit insurance limit in effect on the report date.

Second, the agencies are proposing to shorten the Call Report submission deadline for certain banks with foreign offices so that the same submission deadline applies to all banks. In general, banks with more than one foreign office currently are permitted to take an additional 15 days beyond the standard 30 days applicable to all other banks for filing their Call Reports. The agencies are proposing a reduction in the filing period to 30 days effective June 30, 2003, for banks with more than one foreign office. In a related

change, the agencies are proposing to authorize the FDIC, in connection with its responsibility to set insurance premium assessment rates semiannually, to obtain certain deposit data from those banks with foreign offices whose March 2003 Call Reports have not been filed within the standard 30-day filing period. The FDIC would contact these banks in early May 2003 and direct them to disclose to the agency the amounts then available from their Call Report preparation process for two Call Report items: total domestic office deposits and estimated uninsured deposits.

Third, beginning perhaps as early as the March 31, 2003, Call Reports, the agencies would begin to make individual bank Call Reports available to the public on the FDIC's Web site as soon as the data validation process for a bank's report had been completed. At present, all of the Call Reports for a specific report date are released to the public simultaneously some 60-75 days after the quarter-end report date. Under this proposal, after the edit exceptions, if any, in an individual bank's Call Report have been resolved and the analysis of the report has been completed, the report will be made publicly available. This will make individual bank data available to the public on a more timely basis than at present.

Finally, the agencies' currently plan to implement a new business model for collecting and validating Call Reports in March 2004. In connection with the introduction of this new business model, the agencies are proposing that a bank's Call Report must pass all validity edits and must include an explanatory comment addressing each quality edit exception identified in the bank's report in order for the agencies to

accept the bank's Call Report submission. Otherwise, the bank's report will not be accepted and the bank will need to make appropriate corrections to its report data, add any required explanatory comments, and resubmit its data file by the submission deadline.

*Type of Review:* Revision of a currently approved collection.

The proposed revisions to the Call Report have been approved for publication by the FFIEC. Unless otherwise indicated, the agencies would implement these proposed Call Report changes as of the March 31, 2003, report date. Nonetheless, as is customary for Call Report changes, banks are advised that, for the March 31, 2003, report date only, reasonable estimates may be provided for any new or revised item taking effect as of that date for which the requested information is not readily available. The specific wording of the captions for the new and revised Call Report items discussed in this proposal and the numbering of these items in the report forms should be regarded as preliminary.

The agencies note that on July 12, 2002, they requested comment on the addition of a proposed new Call Report schedule that would collect data on consumer loans in subprime lending programs beginning March 31, 2003 (67 FR 46250). The agencies are currently reviewing the comments received on this separate proposal.

## **II. Discussion of Proposed Revisions**

### A. Charge-offs of Accrued Fees and Finance Charges on Credit Card Accounts

Many institutions engaged in credit card lending have adopted the practice of “purifying” charge-offs for financial reporting purposes. “Purification” refers to the practice of reversing uncollectible accrued fees and finance charges against earnings rather than accounting for them as charge-offs against the allowance for loan and lease losses. This practice obscures charge-off ratios (i.e., charge-offs divided by loan balances) because the charged-off amount does not include the accrued fees and finance charges while the aggregate loan balance does include them. Thus, the transparency of financial reports is diminished.

Further, the effect of this practice on credit card lending institutions' financial statements has become more material as the level of accrued but uncollected finance charges and fees have become more significant during the past several years. Most if not all of the accrued fees and finance charges reversed under the purification practice are included in credit card loan balances, or in other words, have been capitalized into the credit card loan balances.

The proposed additional Call Report items will collect information on reversals of credit card fees and finance charges that are not reported as charge-offs against the loan loss allowance. The proposed additions will also collect information on the outstanding amount of fees and finance charges included in credit card receivables and the related allowance, whether it is a component of the allowance for loan and lease losses or a

separate contra-asset account. These new items will cover both bank-owned portfolios and securitized portfolios of credit cards. The five proposed items would be included as memorandum items in Schedule RI-B, parts I and II, Schedule RC-C, part I, and Schedule RC-S. Additionally, these proposed changes to the Call Report include clarifications to the instructions for four items: Schedule RC-S, items 1, 5.a, and 8, column C, and Schedule RI, item 1.a.(3)(a) on the FFIEC 041 (item 1.a.(1)(d)(1) on the FFIEC 031). The proposed items with their instructions and the instructional clarifications are presented at the end of this section.

The proposed changes will improve financial reporting transparency for losses on credit card accounts and permit Call Report users to calculate loss rates for credit card loan receivables that are comparable across credit card lending institutions. Users of Call Report data will have more complete loss information relating to credit card fees and finance charges that are written off as uncollectible. Furthermore, the changes will provide better information regarding the composition of and level of credit risk in credit card loan receivables that the institution manages both for its own account and in securitizations. The items regarding outstanding credit card fees and finance charges will provide useful information to facilitate the agencies' supervision of credit card lending activities.

The proposed new items would be completed only by those banks that:

- (1) either individually or on a combined basis with their affiliated depository institutions, report outstanding credit card receivables that exceed, in the aggregate, \$500 million

as of the report date. Outstanding credit card receivables will be measured as the sum of Schedule RC-C, part I, item 6.a (column B on the FFIEC 041, column A on the FFIEC 031); Schedule RC-S, item 1, column C; and Schedule RC-S, item 6.a, column C. (Include comparable data on managed credit card receivables for any affiliated savings association.)

or

(2) are credit card specialty banks as defined for purposes of the Uniform Bank Performance Report (UBPR). According to the UBPR Users Guide, credit card specialty banks are currently defined as those that exceed 50% for the following two criteria:

- (a) Credit Cards plus Securitized and Sold Credit Cards divided by Total Loans plus Securitized and Sold Credit Cards.
- (b) Total Loans plus Securitized and Sold Credit Cards divided by Total Assets plus Securitized and Sold Credit Cards.

Based on these reporting criteria, the agencies estimate that fewer than 100 banks will be subject to this proposed new reporting requirement.

The proposed new items, with their instructions, are as follows:

- (1) Schedule RI-B, part I, Memorandum item 3, "Uncollectible credit card fees and finance charges reversed against income (i.e., not included in charge-offs against the allowance for loan and lease losses)." Report the amount of credit card fees and finance charges that the bank reversed against either interest and fee income or a separate contra-asset account during the calendar year-to-date. Exclude from this

item credit card fees and finance charges reported as charge-offs against the allowance for loan and lease losses in Schedule RI-B, part I, item 5.a, column A.

- (2) Schedule RI-B, part II, Memorandum item 1, "Separate valuation allowance for uncollectible credit card fees and finance charges." Report the amount of any valuation allowance or contra-asset account that the bank maintains separate from the allowance for loan and lease losses to account for uncollectible credit card fees and finance charges. Because this amount is separate from the amount included in Schedule RC, item 4.c, and Schedule RI-B, part II, item 7, this Memorandum item is only applicable for those banks that maintain an allowance or contra-asset account separate from the allowance for loan and lease losses.
- (3) Schedule RI-B, part II, Memorandum item 2, "Amount of allowance for loan and lease losses attributable to credit card fees and finance charges." Report in this item the amount of the allowance for loan and lease losses that is attributable to outstanding credit card fees and finance charges. This amount should have been included within the amount reported in Schedule RC, item 4.c, and Schedule RI-B, part II, item 7.
- (4) Schedule RC-C, part I, Memorandum item 6, "Outstanding credit card fees and finance charges." Report the amount of fees and finance charges included in the amount of credit card receivables reported in Schedule RC-C, part I, item 6.a (column A on the FFIEC 031; column B on the FFIEC 041).
- (5) Schedule RC-S, Memorandum item 4, "Outstanding credit card fees and finance charges." Report the amount of fees and finance charges included in the credit card

receivables that the bank has reported as securitized and sold in Schedule RC-S, item 1, column C.

As proposed, these five new items would be added to four separate schedules. However, as indicated above, the agencies will collect this information from a limited number of banks, i.e., banks with a significant volume of credit card lending. The agencies therefore request comment on whether it would be preferable to group these items together in a separate Call Report schedule that would be completed only by these credit card banks rather than having the five items appear at scattered locations in the Call Report.

The proposed clarifications to existing instructions are as follows:

- (1) Schedule RI, item 1.a.(3)(a) on the FFIEC 041, item 1.a.(1)(d)(1) on the FFIEC 031, "Interest and fee income on credit cards." The following sentence would be added to the instructions for this item: Include in this item, as a reduction of income, the amount of uncollectible credit card fees and finance charges the bank has reversed against interest and fee income and the amount charged to earnings for additions to any contra-asset account for uncollectible credit card fees and finance charges that the bank maintains and reports separately from its allowance for loan and lease losses.
- (2) Schedule RC-S, item 1, "Outstanding principal balance of assets sold and securitized by the reporting bank with servicing retained or with recourse or other seller-provided credit enhancements." The following sentence would be added to the instructions for this item: For credit card receivables, include in column C any fees and finance

charges capitalized into the credit card receivable balances that the reporting bank has securitized and sold.

- (3) Schedule RC-S, item 5.a, "Charge-offs" [on assets sold and securitized with servicing retained or with recourse or other seller-provided credit enhancements (calendar year-to-date)]. The following sentence would be added to the instructions for this item: Include in column C charge-offs or reversals of uncollectible credit card fees and finance charges that had been capitalized into the credit card receivable balances that have been securitized and sold.
- (4) Schedule RC-S, item 8.a, "Charge-offs" [on loan amounts included in interests reported as securities in item 6.a (calendar year-to-date)]. The following sentence would be added to the instructions for this item: Include in column C the amount of credit card fees and finance charges written off as uncollectible that were attributable to the credit card receivables included in ownership interests reported as securities in item 6.a, column C.

B. Breakdown of Seller-provided Credit Enhancements to the Bank's Securitization Structures

Banks currently report the maximum amount of credit exposure from seller-provided credit enhancements to securitization structures (other than credit-enhancing interest-only strips, which are reported separately) in Schedule RC-S, item 2.b. These credit enhancements include both on-balance sheet assets (such as subordinated securities, spread accounts, and cash collateral accounts) and enhancements that are not

assets (such as recourse liabilities and standby letters of credit). When credit enhancements are in the form of assets, credit losses on the securitized loans result in reduced cash inflows to the asset holder. In contrast, when seller-provided credit enhancements take some other form, cash outflows from the seller are required to cover credit losses on the securitized loans. In addition, under the agencies' risk-based capital standards that were revised as of January 1, 2002, seller-provided credit enhancements that are on-balance sheet assets are "residual interests" subject to a dollar-for-dollar capital charge unless they qualify for the ratings-based approach. The capital charge for enhancements that are not assets generally is capped at 8 percent of the assets enhanced.

To distinguish between the amount of a bank's seller-provided credit enhancements that are on-balance sheet assets (other than credit-enhancing interest-only strips) and those that are not, item 2.b would be split into two items. This proposed revision will enable the agencies to better understand the types of credit support that banks are providing to their securitizations, including which types are typically used for different types of securitized loans. In revised item 2.b, banks would disclose the carrying value of "Subordinated securities and other residual interests" carried as on-balance sheet assets that have been retained in connection with the securitization structures reported in Schedule RC-S, item 1. In new item 2.c, "Standby letters of credit and other enhancements," banks would disclose the unused portion of standby letters of credit and the maximum contractual amount of recourse or other credit exposure not in the form of an on-balance sheet asset that have been provided or retained in connection with the securitization structures reported in Schedule RC-S, item 1.

### C. Income from Insurance Activities

In Schedule RI, item 5.h, "Insurance commissions and fees," banks report their income from insurance and reinsurance underwriting, sales of insurance and annuities, insurance agency and brokerage operations, and management fees for insurance products. The risks arising from insurance and reinsurance underwriting are significantly different from those arising from other insurance activities. Given this distinction in risk, the agencies are proposing to split the current single income statement item for insurance-related income into two items so that underwriting income can be separately identified. This will enable the agencies to more clearly identify institutions engaged in underwriting and to better monitor the results of these underwriting activities.

In new item 5.h.(1), "Insurance and reinsurance underwriting income," banks would report all income from insurance and reinsurance underwriting, including the amount of premiums earned by property-casualty insurers and the amount of premiums written by life and health insurers. This item would also include the bank's proportionate share of the income or loss before extraordinary items and other adjustments from its investments in equity method investees that are principally engaged in insurance and reinsurance underwriting.

In new item 5.h.(2), "Income from other insurance and reinsurance activities," banks would report income from insurance agency and brokerage operations (including

sales of annuities and supplemental contracts); service charges, commissions, and fees from the sale of insurance (including credit life insurance), reinsurance, and annuities; and management fees from separate accounts, deferred annuities, and universal life products. This item would also include the bank's proportionate share of the income or loss before extraordinary items and other adjustments from its investments in equity method investees that are principally engaged insurance activities other than insurance underwriting.

The agencies request comment on whether the instructional language in the two preceding paragraphs clearly describes insurance activities, including underwriting, and the types of income to be reported in each item.

#### D. Transactional Capability of Bank Web Sites

An increasing number of banks' Internet Web sites allow customers to execute transactions on their accounts at the bank. These transactional Web sites present greater security risks to a bank than sites that provide only information to customers and the public. For examination planning and risk scoping purposes and to monitor industry trends in this area, the agencies are proposing to add a yes/no question to the Call Report (as new item 8 of Schedule RC-M) asking "Do any of the bank's Internet Web sites have transactional capability, i.e., allow the bank's customers to execute transactions on their accounts through the Web site."

#### E. Disclosure of the Fair Value of Derivative Contracts

Schedule RC-L, item 15, collects data on the fair values of derivatives, with gross positive and negative fair values reported separately by type of exposure for contracts held for trading (items 15.a.(1) and (2)) and for those held for purposes other than trading (items 15.b.(1) and (2)). At present, banks with domestic offices only and less than \$100 million in assets are exempt from this disclosure requirement. This exemption originated when derivative contracts were considered off-balance sheet items and predates FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133), which took effect in 2001. FAS 133 requires all derivatives to be measured at fair value and reported on the balance sheet as assets or liabilities. Because banks with less than \$100 million in assets that have derivatives now have to regularly determine their fair value for balance sheet purposes, these banks have the information necessary to disclose the fair value of their derivatives in Schedule RC-L. Accordingly, the agencies are proposing to eliminate this disclosure exemption. The fair value data on derivatives will complement the data that banks with less than \$100 million in assets currently report on the notional amount of their derivative contracts. The number of banks in this size range that have derivative contracts and will therefore be affected by this proposed change is less than 200.

#### F. Provisions for Allocated Transfer Risk

Prior to 2001, the Call Report income statement (Schedule RI) included a specific line item for "Provision for allocated transfer risk," but amounts were reported in this item only infrequently and only by a small number of banks. This separate item was removed from the face of the income statement in 2001 and banks were instructed to include these provisions in "Other noninterest expense" on Schedule RI (item 7.d). However, in reviewing the continuing merits of this instructional change, the agencies found that institutions exposed to transfer risk generally view these provisions more like provisions for loan losses than a noninterest expense. As a result, the agencies concluded that it would be preferable for banks to include the "Provision for allocated transfer risk" with the "Provision for loan and lease losses" in item 4 on the Call Report income statement and are proposing to make this change.

In addition, in order for the end-of-period allowance in the reconciliation of the "Allowance for loan and lease losses" in Schedule RI-B, part II, to equal the loan loss allowance on the balance sheet (Schedule RC, item 4.c), which excludes the "Allocated transfer risk reserve," the instructions for Schedule RI-B, part II, will also be revised. More specifically, the instructions for Schedule RI-B, part II, item 6, "Adjustments," will direct banks to report as a negative number in item 6 the amount of any "Provision for allocated transfer risk" included in the amount of "Provision for loan and lease losses" reported in item 4 of the income statement (Schedule RI). Additionally, as with all items reported in Schedule RI-B, part II, item 6, "Adjustments," the amount of any "Provision for allocated transfer risk" would need to be itemized and described in item 6 of the explanations schedule (Schedule RI-E).

### G. Call Report Supplement for Future Data Needs

The agencies are proposing to obtain authority to collect a supplement to the Call Report so that, should there be an immediate need for the agencies to collect certain critical information from a segment of the banking industry, the necessary items could be collected on this supplement to the Call Report at the earliest practicable date. Such a need could arise, for example, because of a statutory change or an unexpected market event or change in credit conditions that has a material effect on certain institutions. While the Paperwork Reduction Act has emergency procedures for obtaining authority to collect information on a one-time basis, the agencies believe it would be preferable to take a proactive approach and establish in advance of a possible critical future data need their authority to collect such data. The agencies further note that the Board currently has [comparable authority to collect a supplement to the FR Y-9C bank holding company report](#).

The agencies would expect to use their authority to collect a Call Report supplement infrequently. Furthermore, to ensure that the exercise of this authority is subject to proper oversight and control, the agencies would require the members of the Federal Financial Institutions Examination Council to approve the specific use of the supplement. Thus, the Examination Council's Reports Task Force would not have the delegated authority to institute a data collection using the Call Report supplement.

For purposes of obtaining the authority for this supplement for future data needs, the agencies estimate that the burden of any data collection using this supplement would be imposed on no more than 10 percent of the banks under each agencies' supervision. In addition, the estimated reporting burden imposed on these banks in connection with reporting the requested data on the supplement would not exceed one hour per quarter. As a consequence, the burden of any specific supplemental items that the Examination Council would approve for collection under this authority in the future could not exceed the approved burden estimates. The burden estimates disclosed above for the three agencies include the estimated burden of this proposed supplement.

#### H. Loans Held for Trading Purposes

The General Instructions for Schedule RC-C, Part I – Loans and Leases, advise banks to exclude from Schedule RC-C "all loans and leases held for trading purposes" and to report them instead as "Trading assets" on the Call Report balance sheet (Schedule RC, item 5) and in Schedule RC-D – Trading Assets and Liabilities, if this latter schedule is applicable. However, the instructions for the balance sheet item for "Trading assets" and for Schedule RC-D do not explicitly refer to loans (and leases) as trading assets, nor does the Glossary entry for "Trading Account." Accordingly, questions have been raised concerning the circumstances in which it may be appropriate to categorize certain loans (and leases) as trading assets. Trading assets are carried on the balance sheet at fair value, with changes in fair value (unrealized holding gains and losses) recognized in earnings.

The agencies have reviewed the accounting literature for guidance on the financial statement presentation and disclosure of loans designated as held for trading. This review included consideration of Financial Accounting Standards Board (FASB) No. 65, *Accounting for Certain Mortgage Banking Activities* (FAS 65), as amended; FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (FAS 91), as amended; FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115); the FASB staff's Implementation Guide for FAS 115; and chapters 5, 6, and 8 of the current (May 2000) edition of *Audit and Accounting Guide – Banks and Savings Institutions* (Audit Guide), published by the American Institute of Certified Public Accountants.

In particular, paragraph 6.74 of the Audit Guide's chapter on loans explains that "management's disclosure in the summary of significant accounting policies should include the basis of accounting for loans and lease financings, both held in a portfolio and held for sale." In the two introductory paragraphs of the loan chapter's section entitled "Accounting and Financial Reporting" (paragraphs 6.48 and 6.49), the Audit Guide describes the basis of reporting for "portfolio" loans and "held-for-sale" loans, neither of which is the market (fair) value reporting basis applicable to trading assets. Paragraph 6.01 of the Audit Guide notes that banks "sell loans or portions of loans, and securitize loans" and states that these two activities are discussed in chapter 8, but does not mention loans held for trading purposes. A review of chapter 8, "Mortgage Banking

Activities and Loan Sales," also reveals no references to loans held for trading purposes or carried at market (fair) value.

Question 35 in the FASB staff's Implementation Guide for FAS 115 asks whether an institution that acquires a security without the intent to sell it in the near term may classify the security in the trading category. The staff answered this question in the affirmative, stating that the "[c]lassification of a security as trading is not precluded simply because the enterprise does not intend to sell it in the near term." However, Appendix C (paragraph 137) of FAS 115 defines both "security" and "debt security" for purposes of this accounting standard. The definition of the term "debt security" states that "loans receivable arising from consumer, commercial, and real estate lending activities of financial institutions are examples of receivables that do not meet the definition of *security*; thus, those receivables are not debt securities (unless they have been securitized, in which case they would meet the definition)." Therefore, loans do not fall within the scope of FAS 115.

Given the relatively extensive amount of guidance in the accounting literature on accounting for loans as "portfolio" loans and "held-for-sale" loans, but the sparse guidance on loans "carried at market value" or designated as trading assets, the agencies believe that, under generally accepted accounting principles, it is appropriate in only limited circumstances for banks to designate loans as held for trading and account for them at fair value, with changes in fair value recognized in earnings. In this regard, the agencies do not believe that the trading classification option accorded securities at

acquisition by the FASB's response to Question 35 in the FAS 115 Implementation Guide should be extended to loans.

Accordingly, the agencies propose to provide guidance for regulatory reporting purposes on the use of the trading account designation for loans by revising the Glossary entry for "Trading Account" in the Call Report instructions. Conforming changes would be made elsewhere in the instructions where appropriate. A new second paragraph of the "Trading Account" Glossary entry would read as follows:

There is a rebuttable presumption that loans and leases (hereafter, loans) should not be reported as trading assets. In order to overcome this presumption for particular loans, a bank must demonstrate, from the pattern and practice of its activity, that it is acquiring these loans principally for the purpose of selling them in the near term with the objective of generating profits on short-term differences in price. Thus, such loans are held for only a short period of time (generally not months or years). This presumption is not overcome if a bank acquires loans (through origination or purchase) with the intent or expectation that they may or will be sold at some date in the future. In addition, loans acquired and held for securitization purposes should not be reported as trading assets, but should be reported as loans held for sale.

#### I. Number and Amount of Deposit Accounts

Schedule RC-O, Memorandum item 1, collects information on the number and amount of deposit accounts of (a) \$100,000 or less and (b) more than \$100,000. This information provides the basis for calculating "simple estimates" of the amount of insured and uninsured deposits. The captions for these memorandum items explicitly refer to \$100,000, which is the current deposit insurance limit. Given the purpose of these memorandum items, the dollar amount cited in the caption would need to be changed if the deposit insurance limit were to change, which Congress is considering. To ensure that the dollar amount cited in the caption changes automatically as a function of the deposit insurance limit in effect on the report date, the caption for Memorandum item 1 would be footnoted to state that the specific dollar amounts used as the basis for reporting the number and amount of deposit accounts in Memorandum items 1.a and 1.b reflect the deposit insurance limits in effect on the report date. The instructions for this Memorandum item would be similarly clarified.

#### J. Reduction in the Filing Period for Banks with More than One Foreign Office

Banks are required to submit their Call Reports electronically so that the reported data are received by the banking agencies' electronic collection agent no later than 30 days after the quarter-end report date, e.g., by July 30 for the June 30 report. This 30-day filing period applies to nearly all banks. However, fewer than one half of one percent of all banks are permitted an additional 15 days to file their Call Report data, e.g., by August 14 for the June 30 report. The approximately 40 banks that are eligible for this lengthier filing period are institutions that have more than one foreign office, other than a

"shell" branch or an International Banking Facility. Of these banks, nearly half have only 2 foreign offices and just 6 have more than 20 foreign offices. The 9 largest banks with more than one foreign office each have more than \$100 billion in total assets, with the assets of the remaining banks ranging down to less than \$5 billion.

The number of banks with between \$5 and \$100 billion in total assets that do not have more than one foreign office exceeds the number in this size range that have more than one foreign office. The banks in this former group are required to submit their Call Reports within 30 days after quarter-end, while the banks in the latter group have the additional 15-day filing period available to them.

The longer filing period for banks with more than one foreign office delays the availability to the agencies, as well as to banks and the general public, of timely data on the condition and performance of the banking industry and the direction in which various indicators, such as deposit flows and earnings, are moving. Critical to the agencies' analyses of the industry are the data from the largest banks, nearly all of which have 45 days in which to file their Call Reports because they have more than one foreign office. With more timely receipt of Call Report data from all institutions, the agencies can identify the risks in the banking industry sooner and provide the results of their analyses back to bankers and the marketplace earlier when the data may be more useful for decision-making purposes. The importance of making information available to the marketplace within shorter timeframes can be seen in the Securities and Exchange Commission's decision on August 27, 2002, to accelerate the filing deadlines for the

quarterly and annual reports that are required from larger public companies under the federal securities laws.

Accordingly, the agencies are proposing to eliminate the additional 15-day period that banks with more than one foreign office have for filing their Call Reports, effective with the reports for June 30, 2003. Thus, the submission deadline for the second quarter 2003 Call Reports for all banks would be July 30, 2003.

The agencies acknowledge that banks with foreign offices are asked to report a larger amount of data in their Call Reports than banks without foreign offices are required to provide in their reports. The agencies also recognize, from comments received on previous proposals to reduce the filing period for banks with more than one foreign office and from more recent conversations with bankers, that shortening this period will impose additional costs on the affected institutions. These banks will need to implement changes in their systems and quality review processes to ensure that their publicly-available Call Report data continue to be of high quality despite the reduced amount of time for completing these reports. Therefore, the agencies believe that scheduling the effective date for the reduction in the filing period to be June 30, 2003, rather than March 31, 2003, the quarter when changes in Call Report requirements are customarily implemented, will provide a more reasonable amount of time for affected banks to update their systems and processes in a manner that considers both the burden of this change and the benefit of expedited collection of the data.

### K. Early Collection of Deposit Items from Certain Banks with Foreign Offices

The FDIC is required to maintain the deposit insurance funds that it administers at a minimum level known as the Designated Reserve Ratio, which is set at 1.25 percent of estimated insured deposits.<sup>1</sup> The insurance fund ratios are calculated by dividing the insurance fund level by the estimated amount of insured deposits. The FDIC Board of Directors is required semiannually to set assessment rates for the premiums to be paid by insured depository institutions to ensure that the insurance fund ratios are maintained at the Designated Reserve Ratio. To do this effectively and without burdening institutions with unnecessary insurance premiums, the FDIC needs a timely and reliably estimated measure of insurance fund ratios, particularly when those levels are likely to be near or below the statutory target of 1.25 percent.

Among the information that banks report in the Call Report is the amount of total deposits in domestic offices (Schedule RC, item 13.a) and the estimated amount of uninsured deposits (Schedule RC-O, Memorandum item 2). These amounts are used to calculate the insurance fund ratio. For most banks, Call Reports must be received not later than 30 days after the end of the quarter. However, for banks with more than one foreign office, which includes most of the largest banks in the United States, the Call Report must be received not later than 45 days after quarter-end until the proposed elimination of this extended filing period takes effect in June 2003 as discussed above. About 40 banks are eligible for this 45-day submission period.

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<sup>1</sup> See Section 7(b)(2)(A)(iv)(1) of the Federal Deposit Insurance Act (12 U.S.C. 1817(b)(2)(A)(iv)(1)).

Because of the timing of the semiannual assessment rate-setting schedule and the proposed June 2003 effective date for the elimination of the extended filing period, the FDIC may need insured deposit data from the banks that have 45 days in which to file their March 2003 Call Report earlier than the May 15, 2003, submission deadline for these banks. To meet statutory and regulatory timeframes, which currently require the FDIC Board to announce the semiannual assessment rate schedules on approximately May 15 and November 15 each year, the Board must meet to decide on the rate schedule for the next semiannual period in early May and November. If any of the banks with more than one foreign office files its March 2003 Call Report near the 45-day submission deadline of May 15, 2003, then the most reliable estimate of the amount of insured deposits available to the FDIC Board when it sets assessment rates for the next semiannual period early in those months will include Call Report data that is approximately 4 1/2 months old, i.e., data as of the preceding December 31.

Using 4 1/2-month old data is problematic for the FDIC when there is a reasonable likelihood that an insurance fund ratio, such as the Bank Insurance Fund ratio, could fall below its 1.25 percent Designated Reserve Ratio, which is a distinct possibility any time that a fund ratio is near that target ratio. If the data that the FDIC Board uses to determine an insurance fund ratio suggests that the ratio has fallen below the Designated Reserve Ratio, the Board may determine that it is necessary to charge institutions higher insurance premiums to increase assessment revenue and bring the fund ratio ratio back up to its statutory requirement.

Using incomplete Call Report data also could lead the FDIC Board to make improper pricing decisions about insurance premiums. The data on domestic office deposits and estimated uninsured deposits received from institutions that file their Call Reports within 30 days of the March 31, 2003, report date may not be representative of the overall industry-wide trend for that date. Accordingly, the absence of the March 31, 2003, data from institutions that file their reports within 45 days after this dates could contribute to a decision by the FDIC Board that results in an overpricing or underpricing of assessment rates.

Thus, the FDIC proposes to obtain information on the level of domestic office deposits and estimated uninsured deposits from certain institutions on or about May 1, 2003, which is approximately two weeks before the date by which these institutions are required to submit this information in their Call Reports. This information-gathering effort would be accomplished via telephone calls from the FDIC to appropriate staff at these institutions, who would then supply the requested information over the telephone, by e-mail, or by fax. At that stage in their Call Report preparation process, the FDIC expects that these institutions will already have at least preliminary numbers for these two deposit items. Based on historical experience, fewer than 20 institutions with multiple foreign offices would be directed to provide the FDIC with the amounts then available for these two items from their Call Report preparation process. The preliminary information reported by these institutions will not be provided to the public. Nevertheless, with this information, the FDIC staff will be able to more confidently

advise the FDIC Board of the insurance fund ratios in early May 2003 and thereby avoid mispricing decisions.

The FDIC has separately requested and received approval from OMB pursuant to OMB's emergency processing procedures to collect information in early November 2002 on domestic office deposits and estimated uninsured deposits as of September 30, 2002, from not more than 20 large banks with multiple foreign offices. (OMB Control No. 3064-0144, which expires December 31, 2002.) (See 67 Fed. Reg. 60684, September 26, 2002.) Under these emergency processing procedures, however, OMB's approval of the FDIC's proposal enables the FDIC to contact these institutions on a one-time basis in early November 2002. Accordingly, the FDIC is now seeking the authority to collect these two items on a preliminary basis in May 2003 from not more than 20 banks with multiple foreign offices. The FDIC would exercise this authority only if the insurance fund ratio as of May 31, 2003, is expected to be at or near the Designated Reserve Ratio level of 1.25 percent.

#### L. Earlier Release of Individual Bank Call Reports

At present, the agencies wait until they have completed the data validation process for all 8,500 banks that file Call Reports before the Call Reports for a particular quarter-end report date are made available to the public. This simultaneous release of all bank Call Reports occurs some 60-75 days after the report date. However, the data validation process for most bank Call Reports is generally completed at a much earlier

date. By delaying the release of these reports, the information about a bank's condition and performance contained in its most recent quarter-end report is less useful to the public than if the report data had been made available at an earlier date.

Because the usefulness of a bank's report data goes hand-in-hand with the timeliness of the data, the agencies are proposing to change their release date for individual bank Call Reports. Under this proposal, beginning perhaps as early as the Call Reports for March 31, 2003, the agencies would begin to make each bank's Call Report available to the public on the FDIC's Internet Web site ([www.fdic.gov](http://www.fdic.gov)) as soon as they complete the data validation process for that bank's report. This would mean that, after any edit exceptions identified in a bank's Call Report have been resolved and the analysis of the report has been completed, the public would be able to access the report (except for any confidential information). As a result, individual bank data would be available to the public on a more timely basis than at present.

#### M. Criteria for Acceptance of Call Reports

On August 1, 2002, the FFIEC, on behalf of the agencies, issued a Request for Proposal for the design and implementation of a new business model for processing Call Reports with a target effective date of March 2004. A principal feature of this new model would be a central data repository to collect, validate, manage and distribute Call Report information. As part of the introduction of this new business model, the agencies would change the manner in which Call Reports would be edited.

Currently, after the agencies receive a bank's electronically submitted Call Report, the report is subjected to numerous edit checks to assess the accuracy and reasonableness of the data the bank has submitted. Validity edits verify the accuracy of reported data, e.g., whether the individual items in a report schedule add up to the reported total and whether an item reported in one schedule agrees with the amount reported for the same item in another schedule. Validity edits include both mathematical and logical tests. Quality edits test the reasonableness of data and include tests against historical performance and other relational tests, e.g., whether the amount reported for a year-to-date item is greater than or equal to the amount reported for the same item in the previous quarter and whether the fair value reported for a category of securities falls within a specified range of the amortized cost reported for these securities.

If this validation process identifies any edit exceptions in a bank's report, an agency Call Report analyst normally contacts the bank and explains the edit exceptions detected in the bank's report. The bank then reviews the reported data associated with these edit exceptions and provides the Call Report analyst with any necessary corrections and/or describes the underlying facts and circumstances that explain why the data are correct as reported. The agencies' follow-up with a bank on edit exceptions typically occurs by telephone and takes place anywhere from one day to three or four weeks after a bank has submitted its report.

Under the new business model, the validation process will take place in conjunction with a bank's submission of its Call Report data to the agencies. The central

data repository will contain all of the edit criteria and formulas, where they would be publicly available. This will enable the edits to be incorporated into the Call Report software a bank uses to prepare and submit its report to the agencies, which means that edit exceptions will be identified while a bank is completing its report. The bank will then be able to correct its report data to eliminate any validity edit exceptions. The bank will also be provided a method for supplying explanatory comments concerning any quality edit exceptions.

Once the central data repository is implemented, which is targeted for March 2004, the agencies are proposing that they will not accept a bank's Call Report submission if it contains any validity edit exceptions and lacks explanatory comments for any quality edit exceptions. Because a bank will be aware of any edit exceptions while its staff is completing its Call Report, the bank's follow-up on these exceptions will be immediate rather than after-the-fact as it is under the agencies' current approach to data validation. Thus, although the agencies are proposing to change the manner in which banks provide information to respond to edit exceptions identified in their Call Reports, including requiring the submission of explanatory comments concerning quality edit exceptions, this change should produce a net decrease in reporting burden on banks by reducing subsequent questions from the agencies. Furthermore, it should result in quicker validation, acceptance, disclosure and use of individual bank Call Report data.

In anticipation of this change in the data validation process, the agencies note that they have established a single set of validation criteria and have published the criteria for

the March, June and September 2002 Call Report data on the FFIEC web site for banks' reference and use. The agencies also have made this material available to the Call Report software vendors. Beginning in September 2002, some Call Report software products will include a feature that enables a bank, at its option, to provide explanatory comments for edit exceptions to the banking agencies.

### **III. Request for Comment**

Public comment is requested on all aspects of this proposal. In addition, comments are invited on:

- (a) Whether the proposed revisions to the Call Report collections of information are necessary for the proper performance of the agencies' functions, including whether the information has practical utility;
- (b) The accuracy of the agencies' estimates of the burden of the information collections as they are proposed to be revised, including the validity of the methodology and assumptions used;
- (c) Ways to enhance the quality, utility, and clarity of the information to be collected;
- (d) Ways to minimize the burden of information collections on respondents, including through the use of automated collection techniques or other forms of information technology; and
- (e) Estimates of capital or start up costs and costs of operation, maintenance, and purchase of services to provide information.

Comments submitted in response to this Notice will be shared among the agencies and will be summarized or included in the agencies' requests for OMB approval. All comments will become a matter of public record. Written comments should address the accuracy of the burden estimates and ways to minimize burden as well as other relevant aspects of the information collection request.

Dated: October 23, 2002

(signed)

**Mark J. Tenhundfeld,**

*Assistant Director, Legislative and Regulatory Activities Division,  
Office of the Comptroller of the Currency.*

Board of Governors of the Federal Reserve System, October 29, 2002.

(signed)

Jennifer J. Johnson  
Secretary of the Board.

Dated at Washington, D.C., this 23rd day of October, 2002.

FEDERAL DEPOSIT INSURANCE CORPORATION

(signed)

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Robert E. Feldman  
Executive Secretary