Training Center, Department of the Treasury;
William F. Riley, Director, Office of Planning, United States Customs Service, Department of the Treasury.

FOR FURTHER INFORMATION CONTACT: Dennis Snyder, Personnel Division, Bureau of Alcohol, Tobacco and Firearms, 650 Massachusetts Avenue, NW., Washington, DC 20226; telephone (202) 927–8610.

Bradley A. Buckles,
Director.

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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: 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 December 17, 2001.

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: Written comments should be submitted to the Communications Division, Office of the Comptroller of the Currency, 250 E Street, SW., Public Information Room, Mailstop 1–5, Attention: 1557–0081, Washington, DC 20219. In addition, comments may be sent by facsimile transmission to (202) 874–4448, or by electronic mail to *regs.comments@occ.treas.gov.* Comments will be available for inspection and photocopying at the OCC's Public Information Room, 250 E Street, SW., Washington, DC 20219. Appointments for inspection of comments may be made by calling (202) 874–5043.

Board: Written comments should be addressed to Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551, submitted by electronic mail to *regs.comments@federalreserve.gov,* or delivered to the Board's mail room between 8:45 a.m. and 5:15 p.m., and to the security control room outside of those hours. Both the mail room and the security control room are accessible from the 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., except as provided in section 261.12 of the Board's Rules Regarding Availability of Information, 12 CFR 261.12(a).

FDIC: Written comments should be addressed to Robert E. Feldman, Executive Secretary, Attention: Comments/OES, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429. Comments 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. [Fax number: (202) 898–3838; Internet address: *comments@fdic.gov*]. 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: Alexander T. Hunt, Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 3208, Washington, DC 20503.

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: Mary M. West, Chief, Financial Reports Section, (202) 452–3829, 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 contact Diane Jenkins, (202) 452–3544, Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551.

FDIC: Steven F. Hanft, FDIC Clearance Officer, (202) 898–3907, Office of the Executive Secretary, Federal Deposit Insurance Corporation, 550 17th Street NW., Washington, DC 20429.

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

Report Title: Consolidated Reports of Condition and Income.

Form Numbers: 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: 42.02 burden hours.

Estimated Total Annual Burden: 369,786 burden hours.

For Board:

OMB Number: 7100–0036.

Estimated Number of Respondents: 978 state member banks.

Estimated Time per Response: 48.00 burden hours.

Estimated Total Annual Burden: 187,776 burden hours.

For FDIC:

OMB Number: 3064–0052.

Estimated Number of Respondents: 5,640 insured state nonmember banks.

Estimated Time per Response: 32.63 burden hours.

Estimated Total Annual Burden: 736,053 burden hours.

The estimated time per response 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 banks, types of activities in which they are engaged, and number of banks with foreign

offices). The time per response for a bank is estimated to range from 15 to 550 hours, depending on individual circumstances.

General Description of Report

This information collection is mandatory: 12 U.S.C. 161 (for national banks), 12 U.S.C. 324 (for state member banks), and 12 U.S.C. 1817 (for insured state nonmember commercial and savings banks). 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 Actions

I. Overview

The agencies are requesting comment on several proposed revisions to the Call Report that will significantly enhance the usefulness of the report to the agencies, particularly from a supervisory perspective, and on certain revisions that should help simplify the completion of the report. Although the agencies implemented a substantial number of revisions to the Call Report in 2001, the agencies' ongoing review of their data needs for safety and soundness and other public purposes and other developments have indicated that further refinements to the information collected in the Call Report should be made in 2002. The proposed revisions include:

- Separating the existing balance sheet (Schedule RC) items for federal funds sold and securities resale agreements and for federal funds purchased and securities repurchase agreements into two asset and two liability items and adding a new item to Schedule RC–M, Memoranda, for the amount of overnight Federal Home Loan Bank advances included in federal funds purchased;
- Adding new items for:
- The fair value of credit derivatives to Schedule RC–L, Derivatives and Off-Balance Sheet Items;
- Year-to-date merchant credit card sales volume for acquiring banks and for agent banks with risk to Schedule RC–L; and
- Loans and leases held for sale that are past due 30–89 days, past due 90 days or more, and in nonaccrual status to the past due and nonaccrual schedule (Schedule RC–N);
- Breaking down the existing items for past due and nonaccrual closed-end 1–4 family residential mortgages in Schedule RC–N and for the charge-offs and recoveries of such mortgages in Schedule RI–B, part I, into separate items for first lien and junior lien mortgages;
- Revising the manner in which banks report on the estimated amount of their uninsured deposits in the deposit insurance assessments schedule (Schedule RC–O) and, for banks with foreign offices, modifying the scope of the existing items for the number and amount of deposit accounts in domestic offices to include accounts in insured branches in Puerto Rico and U.S. territories and possessions;
- Inserting a subtotal in the Tier 1 capital computation in Schedule RC–R, Regulatory Capital, to facilitate the calculation of certain disallowed assets and adding a new item to the schedule in which banks with financial subsidiaries would report the adjustment they must make to Tier 1 capital for their investment in these subsidiaries;
- Splitting the existing income statement (Schedule RI) item for intangible asset amortization expense into separate items for impairment losses on goodwill and for the amortization expense and impairment losses on other intangible assets on account of a new accounting standard; and
- Simplifying the disclosure of write-downs arising from transfers of loans to the held-for-sale account in the changes in allowance for loan and lease losses schedule (Schedule RI–B, part II).

Type of Review: Revision of a currently approved collection.

The proposed revisions to the Call Report have been approved for publication by the FFIEC. The agencies would implement these proposed Call Report changes as of the March 31, 2002, report date. Nonetheless, as is customary for Call Report changes, banks are advised that, for the March 31, 2002, report date only, reasonable estimates may be provided for any new or revised item for which the requested information is not readily available. The specific wording of the captions for the new and revised Call Report items and the numbering of these items in the report forms should be regarded as preliminary.

II. Discussion of Proposed Revisions

A. Federal Funds Transactions and Resale/Repurchase Agreements

On the Call Report balance sheet (Schedule RC), the agencies are proposing to separate the reporting of federal funds sold from securities purchased under agreements to resell (current item 3) and Federal funds purchased from securities sold under agreements to repurchase (current item 14). The revised balance sheet would have separate asset and liability items for federal funds transactions (items 3.a and 14.a) and for other securities resale/repurchase agreements (items 3.b. and 14.b).[1] In addition, the agencies would add a new item to Schedule RC–M—Memoranda, in which banks would report the amount of overnight Federal Home Loan Bank (FHLB) advances (i.e., maturing in one business day) included in federal funds purchased on the balance sheet. All reporting of these transactions on the Call Report balance sheet would continue to be on a gross basis (i.e., without netting), except to the extent permitted under FASB Interpretation No. 41.

From 1988 until March 31, 1997, banks reported their Federal funds transactions separately from their resale/repurchase agreements on the Call Report balance sheet. These items were combined in 1997 in conjunction with the agencies' adoption of generally accepted accounting principles (GAAP) as the reporting basis for recognition and measurement purposes in the Call Report. The combining took place because Federal funds sold/purchased and securities resale/repurchase agreements are shown as single asset/liability categories on the illustrative consolidated financial statements in the Audit and Accounting Guide—Banks and Savings Institutions, published by the American Institute of Certified Public Accountants (AICPA), and on the Securities and Exchange Commission's bank holding company balance sheet format in Article 9 of Regulation S–X (17 CFR 210.9–03). However, the agencies have reconsidered the current method of presentation for these assets and liabilities in the Call Report balance sheet and, for the reasons discussed

[1] Federal funds transactions include securities resale/repurchase agreements involving the receipt of immediately available funds that mature in one business day or roll over under a continuing contract.

below, have concluded that they should return to the pre-1997 method.

As banks have increased their reliance on nondeposit funding sources, the importance of liquidity and collateral management—and the potential for serious liquidity stress—has increased. Federal funds purchased and securities repurchase agreements frequently make up a large portion of banks' nondeposit funding sources and these short-term instruments often play a critical role in a bank's asset-liability management strategies and its response to liquidity pressures. Many federal funds transactions are unsecured, whereas all resale/repurchase agreements and overnight FHLB advances are secured; moreover, the terms for resale/repurchase agreements are longer than those for federal funds transactions.

Currently, nearly 90 percent of all commercial banks report that they have ''Federal funds sold and securities purchased under agreements to resell'' and approximately one third of all commercial banks report that they have ''Federal funds purchased and securities sold under agreements to repurchase.'' Current Call Reports also show that one quarter of all commercial banks have both these assets and liabilities. Frequently, resale and repurchase agreements are linked, meaning that a bank has purchased securities under agreements to resell and at the same time has sold the same securities under agreements to repurchase. Thus, separate reporting of federal funds transactions and resale/repurchase agreements, combined with information about overnight FHLB advances, will allow the agencies to more effectively monitor and understand individual bank funding sources, asset-liability management, and liquidity risk. Under the proposed new reporting, the agencies will also improve their ability to identify banks that have significant changes to their asset-liability management strategies or liquidity risk positions between examinations.

In addition, because repurchase agreements and FHLB advances are always secured, receiverships must use the collateral to satisfy these claims prior to meeting the FDIC's claims when banks fail. A large volume of secured claims can materially increase the FDIC's loss rate. Therefore, the addition of these liability items will improve the FDIC's estimates of its potential loss exposure, both for individual troubled institutions [2] and in the aggregate. More accurate loss estimates for individual failing banks could produce better-informed decisions in selecting winning bidders at resolution and more accurate loss estimates on the insurance funds' financial statements. More accurate data at the aggregate level could improve the FDIC's analysis of its overall risk exposure and more informed analysis of potential changes to its deposit insurance pricing or risk abatement strategies.

Currently, overnight FHLB advances are reported only as part of ''Federal funds purchased and securities sold under agreements to repurchase'' on the Call Report balance sheet (item 14). Under the proposed revision described above, these overnight advances will continue to be reported as part of federal funds purchased in balance sheet item 14.a. All other FHLB advances are reported on the balance sheet as part of ''Other borrowed money'' (item 16), with a breakdown on these advances by remaining maturity reported in Schedule RC–M, items 5.a.(1) through 5.a.(3). However, the agencies understand that the amount of overnight FHLB borrowings is a substantial portion of the total FHLB advances made to all banks, but the amount of these advances cannot at present be determined from the Call Report. The proposed new Schedule RC–M item will enable the agencies to determine the total amount of FHLB borrowings at each institution, thereby improving their ability to monitor and understand individual bank funding sources, asset-liability management, and liquidity.

B. Fair Value of Credit Derivatives

The notional amounts of credit derivatives have been reported on the Call Report since 1997. These amounts are reported separately for contracts where the reporting bank is the guarantor (Schedule RC–L, item 7.a) and for contracts where the bank is the beneficiary (Schedule RC–L, item 7.b). However, there are no disclosures on the Call Report for the fair value of these contracts. In contrast, banks disclose both the notional amounts and fair values of four other types of derivatives in Schedule RC–L: interest rate contracts, foreign exchange contracts, equity derivative contracts, and commodity and other contracts. Gross positive and gross negative fair values are reported for each of these four types of derivatives, with separate values provided for contracts held for trading and for contracts held for purposes other than trading.

The notional amount outstanding of credit derivatives at banks has increased more than sixfold since 1997 (from $55 billion to $352 billion). This growth is largely the result of the use of credit derivatives as a risk management tool. In this regard, notional amounts are useful as an overall indicator of volume of derivative markets. However, notional amounts do not reveal the credit or market risk to which banks are exposed from derivative contracts. Therefore, the agencies propose to add four new items to Schedule RC–L, Derivatives and Off-Balance Sheet Items, to capture the gross positive and gross negative fair values of credit derivatives where the bank is the guarantor (items 7.a.(1) and (2)) and where the bank is the beneficiary (items 7.b.(1) and (2)).

The addition of these items should result in minimal additional reporting burden for the small number of banks with credit derivatives because the Financial Accounting Standards Board (FASB) requires the fair value of credit derivatives to be reported or disclosed in financial statements. FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, requires certain credit derivatives to be reported as assets or liabilities on the balance sheet at their fair value. The remaining credit derivatives are financial instruments, the fair value of which must be disclosed in accordance with FASB Statement No. 107, Disclosures About Fair Value of Financial Instruments, in financial statements prepared in accordance with GAAP.

The two new proposed Schedule RC–L items would enable the agencies to better determine the risk of credit derivatives at each institution, thereby improving their ability to monitor and understand individual trading and hedging strategies. In addition, these items will increase transparency in financial reporting and further align the Call Report with GAAP and financial statement disclosures.

C. Merchant Credit Card Sales Volume

The agencies are proposing to add two items to Schedule RC–L, Derivatives and Off-Balance Sheet Items, in which data on year-to-date merchant credit card sales volume would be collected. One item would be applicable to acquiring banks, *i.e.,* banks that contract with merchants for the settlement of credit card transactions. Acquiring banks can contract directly with a merchant or indirectly through an agent bank or another third-party organization to process a merchant's credit card transactions. The other item would be completed by agent banks with risk, *i.e.,* banks that arrange for an acquiring bank to process a merchant's credit card

[2] These items would not yield improvements for individual institution estimates where the FDIC has access to timely data on secured credits directly from the institution.

transactions and, in effect, guarantee that merchant's transactions.

In general, merchant processing activities involve the gathering of sales information from merchants, obtaining authorization for sales transactions, collecting funds from the card-issuing banks, and crediting the merchants' accounts for their sales. The off-balance sheet risk associated with merchant processing can be significant as evidenced by a recent bank failure resulting from poor risk management of merchant processing activity. For an acquiring bank and an agent bank with risk, the primary risks associated with the merchant acquirer business are credit risk and transaction risk, although liquidity and reputation risks are also present. With respect to credit risk, an acquiring bank and an agent bank with risk both rely on the creditworthiness of the merchant to pay chargebacks. Chargebacks can result, for example, from a customer's dispute of a transaction (*e.g.,* the customer never received the merchandise) or from an invalid transaction (*i.e.,* a transaction with an improper authorization). Chargebacks are a recurring element in the merchant processing business, and a merchant must be financially capable to pay for them. However, when the merchant is unable or unwilling to pay, merchant chargebacks become a credit exposure to the acquiring bank. If a merchant's transactions have been guaranteed by an agent bank with risk or another third party, the acquiring bank will look to this guarantor for reimbursement. If a merchant does not honor its chargebacks, the acquiring bank or the agent bank with risk, if one is associated with the merchant, will incur losses.

Because sales volume is a risk indicator, the proposed new items for sales volume represent information that acquiring banks and agent banks with risk should be monitoring internally as part of their risk management process. Institutions that are required to report sales data to the credit card associations of which they are members should measure sales volume in the same manner for Call Report purposes. These new items will enable the agencies to identify and monitor institutions that are involved in the credit card merchant acquirer business, the volume of sales transactions being processed or guaranteed, particularly in relation to an institution's capital, significant changes in sales volume at individual institutions, and new entrants to the business. The agencies' examiners will use this information during their pre-examination planning process as they seek to identify potential high risk areas within a bank and to determine appropriate examination staffing. It is estimated that there are approximately 2,000 banks with off-balance sheet credit exposure from merchant sales transactions.

D. Past Due and Nonaccrual Information on Loans and Leases Held for Sale

Currently the category-by-category breakdown of a bank's loans and leases that are past due or in nonaccrual status in Call Report Schedule RC–N includes loans and leases held for sale together with loans and leases that the bank has the intent and ability to hold for the foreseeable future or until maturity or payoff (loans held for investment). The agencies propose to add new Memorandum item 5, ''Loans and leases held for sale (included in Schedule RC–N, items 1 through 8, above),'' to specifically break out such loans and leases that are past due 30 through 89 days and still accruing, past due 90 days or more and still accruing, or in nonaccrual status. Existing Memorandum item 5 on past due derivative contracts would be renumbered as Memorandum item 6.

Selling loans, in whole or in part, has become an increasingly important portfolio risk management tool for institutions seeking to manage concentrations, change risk profiles, improve returns, and generate liquidity. In 1991, the agencies began collecting information on the carrying value of all loans and leases that are held for sale, currently reported on Schedule RC, Balance Sheet, item 4.a. Since 1996, the aggregate amount of banks' loans and leases held for sale has increased nearly 250 percent (from $44 billion to $153 billion). Separately disclosing the repayment performance of held-for-sale loans will enable the agencies to better understand the quality of loans in banks' held-for-sale portfolios and held-for-investment portfolios. It will also give an indication of banks' held-for-sale strategies over time. In addition, because loans held for sale are carried on the balance sheet at the lower of cost or fair value and loan loss allowances are not established for these loans, the proposed Memorandum items will ensure that the relationship between banks' loan loss allowances for loans held for investment and the volume of such loans that are in past due or nonaccrual status can be readily ascertained.

E. First and Junior Lien 1–4 Family Residential Mortgages: Past Due and Nonaccrual Loans, Charge-offs, and Recoveries

The agencies are proposing to revise Schedule RC–N, Past Due and Nonaccrual Loans, Leases, and Other Assets, to collect the amount of closed-end loans secured by first mortgages on 1–4 family residential properties (in domestic offices) that are past due 30 days or more or in nonaccrual status separately from past due and nonaccrual closed-end loans secured by junior liens on such properties (in domestic offices). A similar change would be made to the reporting of first and junior lien 1–4 family residential mortgages (in domestic offices) in Schedule RI–B, part I, Charge-offs and Recoveries on Loans and Leases. Currently, these two types of residential mortgage loans are combined for purposes of reporting past due and nonaccrual loan data as well as year-to-date charge-offs and recoveries. The revised reporting structure for residential mortgage loans in Schedule RC–N, item 1.c.(2), and Schedule RI–B, part I, item 1.c.(2), will then parallel the reporting for these types of loans (in domestic offices) in Schedule RC–C, part I—Loans and Leases, item 1.c.(2)(a) and (b).

Over the past several years, there has been an enormous growth in home equity lending, which includes closed-end loans secured by junior liens on 1–4 family residential properties as well as open-end loans secured by 1–4 family residential properties (home equity lines of credit), which are generally junior liens. From March 1996 to March 2001, closed-end junior liens at commercial banks grew by over 70 percent to $106 billion while open-end loans increased by nearly 66 percent to $130 billion. Both types of home equity lending grew by around one third over the past two years. Currently, over 80 percent of all commercial banks have closed-end junior liens in their loan portfolios and almost 60 percent have open-end loans under home equity lines of credit. The percentage of closed-end 1–4 family residential mortgages (junior liens and first liens combined) that are 30 days or more past due or in nonaccrual status has increased 18 percent from March 1999 to March 2001. However, because closed-end first and junior lien residential mortgage loans are reported on a combined basis in Schedules RC–N and RI–B, part I, differences in the delinquency and loss rates for these two different types of closed-end residential mortgages cannot be discerned at present. Therefore, this proposed change will permit the agencies to

monitor the performance of home equity lending in the form of closed-end junior lien 1–4 family residential loans in the same manner as they currently do for revolving, open-end 1–4 family residential loans.

F. Reporting Uninsured Deposits

The FDIC relies on Call Report information to estimate the amount of insured and uninsured deposits in banks. The FDIC uses estimates of insured deposits to determine the reserve ratios of the deposit insurance funds. The reserve ratios are measured against the funds' ''designated reserve ratio,'' as defined in the Federal Deposit Insurance Act (FDI Act), in determining assessment rates to be paid by insured institutions. Thus, having accurate information on insured deposits is critical to managing the insurance funds and assessing deposit insurance premiums. In this regard, Section 7(a)(9) of the FDI Act, which was originally added by Section 141 of the FDIC Improvement Act of 1991, directs the FDIC to

> take such action as may be necessary to insure that—(A) each insured depository institution maintains; and (B) the Corporation receives on a regular basis from such institution, information on the total amount of all insured deposits, preferred deposits, and uninsured deposits at the institution. In prescribing reporting and other requirements for the collection of actual and accurate information * * *, the Corporation shall minimize the regulatory reporting burden imposed upon insured depository institutions that are well capitalized * * * while taking into account the benefit of the information to the Corporation, including the use of the information to enable the Corporation to more accurately determine the total amount of insured deposits in each insured depository institution.

In order to improve compliance with this statutory requirement while also considering its guidance on reporting burden, the agencies are proposing to revise Schedule RC–O, Memorandum item 2, ''Estimated amount of uninsured deposits of the bank.'' As revised, Memorandum item 2 would no longer ask whether the reporting bank, in essence, can estimate its uninsured deposits and, if so, to report this estimate. Instead, each bank would be required to report the estimated uninsured portion of its deposits, subject to certain criteria that are discussed below. In this regard, the following paragraphs first explain the reasons for proposing this revision, the intent of which is to take advantage of banks' automated systems to the extent that they are in place.

The FDIC's initial approach for implementing Section 7(a)(9) of the FDI Act was through the addition of Memorandum items 2.a and 2.b to Schedule RC–O in March 1993. In Memorandum item 2.a, each bank is asked whether it has ''a method or procedure for determining a better estimate of uninsured deposits than'' the so-called ''simple estimate'' of uninsured deposits (in domestic offices). The simple estimate of uninsured deposits is derived by multiplying the number of deposit accounts of more than $100,000 (reported in Schedule RC–O, Memorandum item 1.b.(2)) by $100,000 and subtracting the result from the amount of deposit accounts of more than $100,000 (reported in Schedule RC–O, Memorandum item 1.b.(1)). If a bank answers Memorandum item 2.a affirmatively, thereby reporting that it has a method or procedure for better estimating uninsured deposits, the bank is directed to report this estimate in Schedule RC–O, Memorandum item 2.b. The estimate of insured deposits is then the difference between total deposits (in domestic offices) and estimated uninsured deposits.

In the year-end 2000 Call Report, only 157 of the nearly 8,600 banks reported that they have a ''better estimate'' of uninsured deposits. With such a small percentage of institutions reporting a better estimate, this has raised concerns about the accuracy of the aggregate insured deposit estimate for banks that the FDIC has had to derive primarily from simple estimates.

The simple estimate overstates a bank's insured deposits (in domestic offices) when a single depositor holds multiple accounts in the same capacity at the bank and these accounts in the aggregate exceed $100,000. In contrast, the simple estimate understates a bank's insured deposits when multiple parties participate in the ownership of a single account of more than $100,000 or when there is ''pass-through'' coverage on an account of more than $100,000 that is owned by multiple depositors. Consequently, the ''simple estimate'' may either overstate or understate the amount of a bank's insured deposits (in domestic offices).

Furthermore, on the FFIEC 031 report form for banks with foreign offices, the Schedule RC–O Memorandum items for the number and amount of deposit accounts and the better estimate of uninsured deposits cover only domestic offices. However, domestic offices exclude insured branches in Puerto Rico and U.S. territories and possessions, which are considered foreign offices for Call Report purposes. As a result, even the simple estimate of uninsured deposits does not consider the deposits in these insured branches, an omission that biases the simple estimate toward understatement.

Brokered deposits are another area of concern with respect to the accuracy of the simple estimate of uninsured deposits. In this regard, the number of banks with brokered deposits is increasing and the amount of brokered deposits is also increasing. From year-end 1998 through March 31, 2001, the volume of brokered deposits at banks more than tripled to over $217 billion while the number of banks reporting brokered deposits grew from more than 1,200 to over 1,450. Brokered deposits issued in amounts over $100,000 and participated out by the broker in shares of $100,000 or less, which receive the benefit of ''pass-through'' deposit insurance coverage and which banks are currently required to report in Schedule RC-E, Memorandum item 1.c.(2), are not always captured in the ''simple estimate'' of insured deposits. A number of banks with a significant amount of these insured brokered deposits do not report the ''better estimate.'' Thus, insured deposits may be significantly underestimated for these banks. Furthermore, other banks with large amounts of brokered deposits have reported the ''better estimate'' of uninsured deposits in some quarters but not in others. This inconsistent reporting can result in volatile estimates of insured deposits.

The FDIC's regulations on deposit insurance coverage (12 CFR part 330) explain that, in general, in determining the amount of deposit insurance available to a depositor, there is a presumption that deposited funds are actually owned in the manner indicated on an institution's ''deposit account records.'' Furthermore, in order for the FDIC to recognize a claim for insurance coverage based on a fiduciary relationship, including one that provides a basis for additional insurance coverage on a ''pass-through'' basis, either the relationship must be expressly disclosed in the institution's ''deposit account records'' or the titling of the deposit account (together with the underlying records) must indicate the existence of the fiduciary relationship. Such relationships include, but are not limited to, relationships involving a trustee, agent, nominee, guardian, executor, or custodian.

In addition, the FDIC's deposit insurance regulations state that deposits of an employee benefit plan or of any eligible deferred compensation plan are insured on a ''pass-through'' basis, in the amount of up to $100,000 for the non-contingent interest of each plan participant, provided, in general, that

the institution meets each applicable regulatory capital standard at the time the deposit is accepted. In this regard, these regulations require each institution, upon request, to provide a written notice to any depositor of employee benefit plan funds that discloses the institution's capital ratios and its prompt corrective action capital category and whether, in the institution's judgment, employee benefit plan deposits made at the time the information is requested would be eligible for ''pass-through'' insurance coverage. Furthermore, whenever an account comprised of employee benefit plan funds is opened, an institution must provide a similar written notice to the depositor. In addition, whenever employee benefit plan deposits at an institution would no longer be eligible for ''pass-through'' insurance coverage, the institution must notify all existing depositors of employee benefit plan funds in writing that new, rolled-over or renewed deposits of employee benefit plan funds will not be eligible for such coverage. For both fiduciary accounts and employee benefit plan deposits with balances over $100,000 that would be eligible for ''pass-through'' coverage, the simple estimate tends to overstate the amount of uninsured deposits.

A number of banks offer benefit-responsive ''depository institution investment contracts,'' which are reported as deposit liabilities on the Call Report balance sheet but, in accordance with Section 11(a)(8) of the FDI Act (12 U.S.C. 1821(a)(8)), are not eligible for deposit insurance. Banks with such investment contracts outstanding must report the amount of these contracts in Schedule RC–O, item 10. However, for banks that do not report their ''better estimate'' of uninsured deposits, the ''simple estimate'' of their uninsured deposits would improperly treat at least a portion of these investment contracts as insured.

Because of the concerns discussed above, the agencies are proposing to revise Schedule RC–O, Memorandum item 2, ''Estimated amount of uninsured deposits of the bank,'' in order to improve compliance with Section 7(a)(9) of the FDI Act while taking its reporting burden provision into account. Rather than asking whether each bank can determine a ''better estimate'' of uninsured deposits and, if so, to report its ''better estimate,'' Memorandum item 2 would be recaptioned ''Uninsured deposits'' and revised to require each bank to report the estimated uninsured portion of its deposits. The intent of this proposed revision is to take advantage of banks' in-place automated systems. However, the agencies also recognize that most banks will not have, in automated form, the key information needed to fully identify all deposits that are at least in part uninsured. As a consequence, the reporting of ''Uninsured deposits'' in revised Memorandum item 2 would be subject to the following criteria.

First, because a bank with brokered deposits currently reports both the total amount of such deposits and the amount that is fully insured in Schedule RC–E, each bank with brokered deposits would be required to use the information already developed for completing the Schedule RC–E brokered deposit items to determine its best estimate of the uninsured portion of its brokered deposits. Second, if a bank has deposits of $100,000 or more whose existence is based on a fiduciary relationship, a relationship that must be evident from the deposit account titles or records in order for additional insurance coverage to be available on a ''pass-through'' basis, the bank would be required to diligently use available data to make its best estimate of the uninsured portion of these deposits. Similarly, when a bank has deposits of an employee benefit plan or an eligible deferred compensation plan that are insured on a ''pass-through'' basis, the eligibility (and discontinuance of eligibility) for which is subject to written notification requirements, the bank would also be required to diligently use available data to make its best estimate of the uninsured portion of these deposits.

Next, for a bank whose deposits include benefit-responsive ''depository institution investment contracts,'' the amount of which the bank must already disclose in Schedule RC–O, the bank must ensure that it includes the entire amount of these contracts in its estimated amount of uninsured deposits. Finally, for all other deposits, each bank should make a reasonable estimate of the portion that is uninsured using the data available from its information systems. This reasonable estimate should include deposits in excess of the deposit insurance limit that the bank has collateralized by pledging assets, such as deposits of states and political subdivisions in the U.S. (sometimes referred to as municipal deposits). Furthermore, if the bank has automated systems in place that can identify jointly owned accounts and estimate the insurance coverage of these deposits, then the reasonable estimate reported in revised Memorandum item 2 should reflect the higher level of insurance afforded such accounts. Similarly, if the bank's systems can classify accounts by deposit owner and ownership capacity and aggregate a depositor's multiple accounts to determine the extent of insurance coverage, the amount of uninsured deposits the bank reports should incorporate this information.

In addition, on the FFIEC 031 report form for banks with foreign offices, the scope of the Schedule RC–O Memorandum items for the number and amount of deposit accounts (Memorandum items 1.a.(1), 1.a.(2), 1.b.(1), and 1.b.(2)) and revised Memorandum item 2 on estimated uninsured deposits would be expanded to cover both ''domestic offices'' and insured branches in Puerto Rico and U.S. territories and possessions. This would mean that, as revised, the sum of Schedule RC–O, Memorandum items 1.a.(1) and 1.b.(1), must equal Schedule RC, item 13.a, ''Deposits in domestic offices,'' plus the amount of deposits in insured branches reported in Schedule RC–O, items 5.a and 5.b.

This proposed revision to the reporting of uninsured deposits should limit reporting burden by focusing on those types of deposits for which the underlying data is currently compiled for Call Report or other purposes. To the extent that an institution uses automated systems to comply with the FDIC's existing rules on, or notice requirements associated with, ''pass-through'' insurance coverage, that information should be used in the estimate. An institution would also be expected to take advantage of automated information it possesses about common ownership and ownership capacities of deposit accounts to develop a reasonable estimate of the uninsured portion of its deposits.

While it is anticipated that most institutions will rely on automated systems to produce most or all of the data needed to complete revised Schedule RC–O, Memorandum item 2, some institutions may also choose to use non-automated information such as paper files or less formal knowledge of their depositors to provide reasonable estimates of appropriate portions of their uninsured deposits. An institution's use of such non-automated sources of information is considered appropriate unless errors associated with their use contribute significantly to an overall error in the FDIC's estimate of the amount of insured deposits in the banking system. The agencies also recognize that the capabilities of institutions' information systems to provide an estimate of their uninsured deposits will differ at any point in time and may improve over time.

G. Regulatory Capital Calculations

In items 1 through 11 of Schedule RC–R, Regulatory Capital, banks report their computation of Tier 1 capital. Items 8 and 9 are used to disclose any disallowed servicing assets and purchased credit card relationships and any disallowed deferred tax assets, respectively. These disallowed amounts are calculated, in part, by reference to a subtotal of Tier 1 capital components. The instructions for Schedule RC–R explain how this subtotal should be derived by adding and subtracting, as appropriate, amounts reported in items 1 through 7 of Schedule RC–R, but the amount of the subtotal is not directly reported in the schedule itself. To help ensure that banks are using the proper subtotal when determining whether they have any disallowed amounts, existing items 8 and 9 will be renumbered as items 9.a and 9.b and item 8 will become the subtotal of items 1 through 7 (i.e., the sum of items 1 and 6, less items 2, 3, 4, 5, and 7). For banks using commercially available Call Report software to complete their reports, the software should automatically calculate the correct subtotal and include it in new item 8.

Under the Gramm-Leach-Bliley Act of 1999, banks that have financial subsidiaries must deconsolidate these subsidiaries and deduct their aggregate outstanding equity investment in them from capital and assets when calculating their regulatory capital ratios. Banks with financial subsidiaries currently use items 28 through 30 of Schedule RC–R to report the amount of their adjustments to total risk-based capital, risk-weighted assets, and average total assets. These adjustments enter into the calculation of the three capital ratios reported in items 31 through 33: the Tier 1 leverage ratio, the Tier 1 risk-based capital ratio, and the total risk-based capital ratio. However, although two of these ratios use Tier 1 capital in the numerator, banks with financial subsidiaries do not report the adjustment that must be made to Tier 1 capital for these subsidiaries. In particular, if a bank's financial subsidiaries have been consolidated for accounting and reporting purposes (including the Call Report balance sheet), the computation of Tier 1 capital in items 1 through 11 of Schedule RC–R may include amounts attributable to financial subsidiaries. For example, item 7 could include goodwill on the books of financial subsidiaries. Thus, banks with financial subsidiaries would complete proposed new item 28.a to report the amount by which the Tier 1 capital figure reported in item 11 of Schedule RC–R must be adjusted to eliminate those amounts included in Tier 1 capital that are associated with the financial subsidiaries. Existing item 28, ''Adjustment to total risk-based capital'' would be renumbered as item 28.b.

H. Goodwill and Other Intangible Assets

On July 20, 2001, the FASB issued Statement No. 142, Goodwill and Other Intangible Assets, which, in general, is effective for fiscal years beginning after December 15, 2001. Under this standard, goodwill will no longer be amortized, but will be tested for impairment on an annual basis and between annual tests in certain circumstances. Other intangible assets will be tested for impairment in accordance with the standard and some of these intangibles must be amortized. Statement No. 142 also states that ''goodwill impairment losses shall be presented as a separate line item in the income statement before the subtotal income from continuing operations (or similar caption) unless a goodwill impairment loss is associated with a discontinued operation.''

Banks must adopt Statement No. 142 for Call Report purposes upon its effective date based on their fiscal year. At present, banks report the amortization expense of intangible assets, including goodwill amortization, in item 7.c of the Call Report income statement (Schedule RI). In response to the accounting and reporting changes mandated by Statement No. 142, the agencies are proposing to replace existing item 7.c with two items: item 7.c.(1), ''Goodwill impairment losses,'' [3] and item 7.c.(2), ''Amortization expense and impairment losses for other intangible assets.'' Along with appropriate revisions to the Call Report instructions (e.g., goodwill should not be amortized), this change will conform the reporting of amortization expense and impairment losses for intangibles in the Call Report to the provisions of Statement No. 142.

Statement No. 142 will not apply to goodwill and intangible assets acquired in combinations between two or more institutions with a mutual form ownership until the FASB issues interpretive guidance related to the application of the purchase method to such transactions. Until this interpretive guidance is issued and takes effect, goodwill and intangible assets acquired in combinations of mutual institutions will continue to be accounted for in accordance with existing accounting standards. However, for income statement presentation purposes, mutual institutions should report goodwill amortization expense and any impairment losses in new item 7.c.(1) and the amortization expense and any impairment losses on other intangible assets in new item 7.c.(2).

I. Write-Downs on Loans Transferred to the Held-for-Sale Account

On March 26, 2001, the agencies issued Interagency Guidance on Certain Loans Held for Sale to provide instruction about the appropriate accounting and reporting treatment for certain loans that are sold directly from the loan portfolio or transferred to a held-for-sale (HFS) account. The guidance applies when:

- An institution decides to sell loans that were not originated or otherwise acquired with the intent to sell, and
- The fair value of those loans has declined for any reason other than a change in the general market level of interest or foreign exchange rates.

One element of the guidance reminds institutions to appropriately report reductions in the value of loans transferred to held for sale through a write-down of the recorded investment to fair value upon transfer. The guidance explains that this write-down should be reported as a charge-off in Schedule RI–B, part I, Charge-offs and Recoveries on Loans and Leases. In Schedule RI–B, part II, Changes in Allowance for Loan and Lease Losses, the corresponding reduction in the allowance should be reported as an ''Adjustment'' to the allowance in item 5. Because each type of ''Adjustment'' reported in part II, item 5, must be disclosed and described in item 6 of Schedule RI–E, Explanations, the guidance also states that write-downs included in part II, item 5, should be disclosed in Schedule RI–E and described as ''Write-downs arising from transfers of loans to HFS.'' A preprinted caption to that effect was inserted in Schedule RI–E, item 6.a, in the June 30, 2001, Call Report forms.

To simplify the reporting of these write-downs, the agencies are proposing to move the disclosure now made in Schedule RI–E, item 6.a, directly into Schedule RI–B, part II, item 5, ''Adjustments.'' This item would be modified by creating item 5.a, ''LESS: Write-downs arising from transfers of loans to the held-for-sale account,'' and item 5.b, ''Other adjustments.'' As a result, going forward, only those amounts included in item 5.b, ''Other adjustments,'' would need to be

[3] A goodwill impairment loss associated with a discontinued operation would be included (on a net-of-tax basis) in Schedule RI, item 11, ''Extraordinary items and other adjustments, net of income taxes.''

disclosed and described in Schedule RI–E, item 6.

III. Other Issues

The AICPA is currently finalizing a Statement of Position (SOP), Accounting for Certain Purchased Loans or Debt Securities, following the FASB's nonobjection to its issuance subject to certain changes being made. The agencies understand that the provisions of this SOP would be effective for loans acquired in fiscal years beginning after June 15, 2002, with early application permitted. The SOP will change the accounting for loans purchased with credit quality concerns and will prohibit an institution from carrying over allowances for loan losses associated with purchased loans. The agencies invite comments on (i) how the reporting of information in the Call Report about loans and the loan loss allowance, e.g., loan delinquencies and charge-offs, should be revised and (ii) what types of new information should be collected in response to the expected issuance of this SOP.

IV. Request for Comment

The agencies request comment on all aspects of the proposed revisions discussed above. 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 9, 2001.

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 10, 2001.

Jennifer J. Johnson,

Secretary of the Board.

Dated at Washington, DC, this 9th day of October, 2001.

Federal Deposit Insurance Corporation.

Robert E. Feldman,

Executive Secretary.

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