

**Supporting Statement for
the Consolidated Reports of Condition and Income
(FFIEC 031 and 041; OMB No. 7100-0036)**

Summary

The Board of Governors of the Federal Reserve System (Board) requests approval from the Office of Management and Budget (OMB) to revise, without extension, the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 and 041; OMB No. 7100-0036). These data are required of state member banks and are filed on a quarterly basis. The revisions to the Call Reports that are the subject of this request have been approved by the FFIEC. The Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) have also submitted a similar request for OMB review in order to request this information from banks under their supervision.

The Federal Reserve requires information collected on the Call Reports to fulfill its statutory obligation to supervise state member banks. State member banks are required to file both detailed schedules of assets, liabilities, and capital accounts in the form of a condition report and summary statement as well as detailed schedules of operating income and expense, sources and disposition of income, and changes in equity capital. The current annual burden for the Call Reports is estimated to be 184,692 hours; the proposed revisions are estimated to increase the annual burden to 185,778 hours.

The Board, FDIC, and OCC (agencies) propose to revise the reporting of risk-based capital information in the Call Reports based on the agencies' joint notice of proposed rulemaking (NPR) on proposed revisions to their existing risk-based capital framework, an approach known as Basel IA (71 FR 77445, December 26, 2006). These proposed revisions to Call Report Schedule RC-R would take effect as of the first quarter-end Call Report date following the effective date of the agencies' final rule amending their risk-based capital standards to implement the Basel IA alternative risk-based capital framework.

Background and Justification

Banks that are members of the Federal Reserve System are required by law to file reports of condition with the Federal Reserve System. Section 9(6) of the Federal Reserve Act (12 U.S.C. 324) states:

... banks ... shall be required to make reports of condition and of the payment of dividends to the Federal Reserve bank of which they become a member. Not less than three of such reports shall be made annually on call of the Federal Reserve bank on dates to be fixed by the Board of Governors of the Federal Reserve System.... Such reports of condition shall be in such form and shall contain such information as the Board of Governors of the Federal Reserve System may require and shall be published by the reporting banks in such manner and in accordance with such regulations as the said Board may prescribe.

In discharging this statutory responsibility, the Board of Governors, acting in concert with the other federal banking supervisory agencies since 1979 through the FFIEC, requires banks to

submit on the quarterly Reports of Condition and Income such financial data as are needed by the Federal Reserve System to: (1) supervise and regulate banks through monitoring of their financial condition, ensuring the continued safety of the public's monies and the overall soundness of the nation's financial structure, and (2) contribute information needed for background for the proper discharge of the Board's monetary policy responsibilities. The use of the data is not limited to the federal government, but extends to state and local governments, the banking industry, securities analysts, and the academic community.

Description of Information Collection

The Call Reports collect basic financial data from commercial banks in the form of a balance sheet, income statement, and supporting schedules. The Report of Condition contains supporting schedules that provide detail on assets, liabilities, and capital accounts. The Report of Income contains supporting schedules that provide detail on income and expenses.

Within the Call Report information collection system as a whole, there are two reporting forms that apply to different categories of banks: (1) all banks that have domestic and foreign offices (FFIEC 031) and (2) banks with domestic offices only (FFIEC 041). Prior to March 2001, there were four categories of banks and four reporting forms. The FFIEC 031 was filed by banks with domestic and foreign offices and the FFIEC 032, 033, and 034 were filed by banks with domestic offices only and were filed according to the asset size of the bank.

There is no other reporting form or series of reporting forms that collects from all commercial and savings banks the information gathered through the Reports of Condition and Income taken as a whole. There are other information collection systems that tend to duplicate certain parts of the Call Reports; however, the information they provide would be of limited value as a replacement for the Call Reports. For example, the Federal Reserve collects various data in connection with its measurement of monetary aggregates, of bank credit, and of flow of funds. Reporting banks supply the Federal Reserve with detailed information relating to such balance sheet accounts as balances due from depository institutions, loans, and deposit liabilities. The Federal Reserve also collects financial data from bank holding companies (BHCs) on a regular basis. Such data are presented for the holding company on a consolidated basis, including its banking and nonbanking subsidiaries, and on a parent company only basis.

However, Federal Reserve reporting forms from banks are frequently obtained on a sample basis rather than from all insured banks. Moreover, these reporting forms are often prepared as of dates other than the last business day of each quarter, which would seriously limit their comparability. Institutions below a certain size are exempt entirely from some Federal Reserve reporting requirements. Data collected from BHCs on a consolidated basis reflect an aggregate amount for all subsidiaries within the organization, including banking and nonbanking subsidiaries, so that the actual dollar amounts applicable to any bank subsidiary are not determinable from the holding company reporting forms. Hence, these reporting forms could not be a viable replacement for even a significant portion of the Call Reports since the Federal Reserve, in its role as supervisor of insured state member banks, would be lacking the data necessary to assess the financial condition of individual insured banks to determine whether there had been any deterioration in their condition.

Beginning March 1998, all banks were required to transmit their Call Reports data electronically. Banks do not have to submit hard copy Call Reports to any federal bank supervisory agency unless specifically requested to do so.

Proposed Revisions

Overview

On December 26, 2006, the agencies issued a joint NPR requesting comment on an alternative approach for computing risk-weighted assets and credit equivalent amounts of off-balance-sheet data items for purposes of calculating the risk-based capital ratios of banks, BHCs, and savings associations (banking organizations), an approach known as Basel IA (71 FR 77445). In general, the agencies proposed in the Basel IA NPR to:

- (1) Expand the number of risk weight categories;
- (2) Allow the use of external credit ratings to risk weight certain exposures;
- (3) Expand the range of recognized collateral and eligible guarantors;
- (4) Use loan-to-value ratios to risk weight most residential mortgages;
- (5) Increase the credit conversion factor for certain commitments with an original maturity of one year or less;
- (6) Assess a capital charge for securitizations of revolving exposures with early-amortization features; and
- (7) Remove the 50 percent limit on the risk weight for certain derivative transactions.

As proposed in the Basel IA NPR, the application of the Basel IA risk-based capital rules would be optional. According to the Basel IA NPR, a banking organization would have to apply all of the proposed Basel IA changes to its risk-based capital calculations if it chose to use the Basel IA risk-based capital approach, which would affect the denominator of the organization's risk-based capital ratios. The agencies did not propose any changes to the numerator used in these ratios in the Basel IA NPR.

The agencies currently collect data pertaining to the composition of an institution's risk-based capital ratios under the current risk-based capital framework in Call Report Schedule RC-R, Regulatory Capital. These schedules also collect data pertaining to a banking organization's leverage ratio. In its present form, Schedule RC-R consists of sections in which banking organizations report the components of Tier 1 capital, Tier 2 capital, and total risk-based capital; the calculation of total assets for the leverage ratio; various adjustments to regulatory capital measures; leverage and risk-based capital ratios; the risk-weighting of on-balance-sheet assets; the credit conversion and risk-weighting of derivatives and off-balance-sheet data items; the calculation of total risk-weighted assets; and the current credit exposure and remaining maturities of derivative contracts covered by the risk-based capital standards.

As proposed in the Basel IA NPR, unless a banking organization uses the risk-based capital framework proposed in the agencies' separate Basel II NPR (71 FR 55380, September 25, 2006), a banking organization could elect to adopt the proposed Basel IA capital rules or it could continue to calculate its risk-based capital ratios under the existing risk-based capital rules. Therefore, because the Basel IA proposal would affect the calculation of a banking organization's total risk-weighted assets, the agencies are proposing only to revise Call Report Schedule RC-R. These proposed revisions would add a second set of sections in which institutions that opt to apply the Basel IA

capital rules would report the risk-weighting of on-balance-sheet assets, the credit conversion and risk-weighting of derivatives and off-balance-sheet data items, and the calculation of total risk-weighted assets. Basel IA institutions would complete this alternative set of risk-weighting sections in lieu of the comparable risk-weighting sections currently contained in Schedule RC-R that pertain to the existing risk-based capital rules. Institutions that continue to calculate their risk-based capital ratios under the existing risk-based capital rules would continue to complete the current set of risk-weighting sections in Schedule RC-R; they would not complete the proposed Basel IA alternative risk-weighting sections of these schedules.

In addition, the agencies would add a question to Schedule RC-R in which each institution would indicate whether it calculates its risk-based capital ratios under the existing risk-based capital rules or the Basel IA capital rules. Existing data items within Schedule RC-R that cross-reference that schedule's data item for total risk-weighted assets would be revised to refer to the total risk-weighted assets data item determined under the existing risk-based capital rules or the Basel IA approach, as appropriate.

These proposed revisions to Call Report Schedule RC-R would take effect as of the first quarter-end Call Report date following the effective date of the agencies' final rule amending their risk-based capital standards to implement the Basel IA alternative risk-based capital framework.

Detailed Revisions to Schedule RC-R

The current on-balance-sheet asset risk-weighting section of Schedule RC-R includes separate data items for the major asset categories along with columns for four of the five risk-weight categories in the agencies' existing risk-based capital framework: zero percent, 20 percent, 50 percent, and 100 percent. Assets subject to the 200 percent risk weight are handled through an adjustment that, in general, doubles the balance sheet amount of the asset.

The current section of Schedule RC-R for derivatives and off-balance-sheet data items contains separate data items for the categories of these exposures that are covered by the existing risk-based capital framework. This section also includes columns for the credit equivalent amounts of these exposures and for the four risk-weight categories mentioned above.

For each category of assets, derivatives, and off-balance-sheet data items, an institution allocates the individual asset amounts or credit equivalent amounts within that exposure category across the risk-weight columns based on the risk weight or weights appropriate to the individual asset or credit equivalent amount. In the current risk-weighted assets section of Schedule RC-R, the asset amounts and credit equivalent amounts in each risk weight category are totaled and then multiplied by the applicable risk weight to produce the institution's risk-weighted assets by risk weight category. The risk-weighted assets in each category, together with the institution's market risk equivalent assets, are summed to arrive at the institution's risk-weighted assets before any deductions for excess allowance for loan and lease losses and allocated transfer risk reserve. Following these deductions, the institution reports its total risk-weighted assets, which generally serves as the denominator for the institution's risk-based capital ratios.

The structure of the sections of existing Schedule RC-R that institutions use to report the risk-weighting of on-balance-sheet assets, the credit conversion and risk-weighting of derivatives

and off-balance-sheet data items, and the calculation of total risk-weighted assets, which have been described above, provides a suitable starting point for the Basel IA alternative version of these sections. Therefore, the agencies are proposing to add modified versions of these sections to Schedule RC-R and to designate them as the Basel IA alternative, which only those institutions that have opted in to Basel IA would complete. The proposed modifications are discussed in the following paragraphs.

The Basel IA proposal would increase the number of risk-weight categories to which on- and off-balance-sheet credit exposures may be assigned, specifically by adding risk weights of 35 percent, 75 percent, and 150 percent. Therefore, in the proposed Basel IA alternative risk-weighting sections of these revised schedules, the agencies would add columns for these three additional risk-weight categories. The agencies would also include in the proposed Basel IA alternative risk-weighting sections a specific column in Schedule RC-R for the existing 200 percent risk-weight category that the current schedules provide for indirectly.

The Basel IA proposal increases the credit conversion factor for various commitments with an original maturity of one year or less. Under this proposal, short-term commitments, to which the current risk-based capital standards generally apply a zero percent credit conversion factor, would be assigned a 10 percent credit conversion factor. The resulting credit equivalent amount would then be risk weighted according to the underlying asset(s) or the obligor after considering any applicable collateral, guarantees, or the external rating of the facility. Under the Basel IA proposal, commitments that are unconditionally cancelable would retain their existing zero percent credit conversion factor.

The current section of Schedule RC-R for risk-weighting the credit equivalent amount of derivatives and off-balance-sheet data items includes data items for unused commitments that cover commitments with an original maturity exceeding one year and eligible liquidity facilities for asset-backed commercial paper programs with an original maturity of one year or less. Because other short-term commitments are generally subject to a zero percent credit conversion factor under the agencies' existing risk-based capital rules, they are not reported in the current Schedule RC-R. In order to implement the proposed Basel IA 10 percent credit conversion factor for these other short-term commitments (excluding commitments that are unconditionally cancelable), the banking agencies propose to add new data items for such commitments to the Basel IA alternative risk-weighting section in the revised Schedule RC-R.

Under the Basel IA proposal, loan-to-value (LTV) ratios would be used to determine the risk weight to which first lien and junior lien one-to-four family residential mortgage loans, including those held for sale and those held in portfolio, would be assigned. The agencies have proposed this LTV approach for one-to-four family residential mortgages to increase the risk sensitivity of their risk-based capital standards while minimizing the overall burden to banks. To aid in minimizing burden, the Basel IA NPR includes a transitional rule that would provide an option for banking organizations opting in to the proposed Basel IA approach to continue to risk weight existing residential mortgages using the existing risk-based capital standard.

Given the significant change in approach to the risk-weighting of one-to-four family residential mortgages under the Basel IA proposal, the banking agencies are seeking the ability to monitor the effect of this LTV-based approach at individual banks under their supervision that opt in

to Basel IA and across all such banks that opt in. Therefore, the banking agencies are proposing to add new data items to the Basel IA alternative risk-weighting section of Schedule RC-R for assets to enable them to track the allocation across the risk-weighting categories of residential mortgages to which the proposed Basel IA LTV-based risk-weighting approach has been applied. In these new data items, banks supervised by the banking agencies would report breakdowns by risk-weight category of (a) their one-to-four family residential mortgages held for sale that are risk-weighted using the LTV-based approach separately from their other loans and all leases held for sale and (b) their one-to-four family residential mortgages held in portfolio that are risk-weighted using the LTV-based approach separately from their other loans and all leases held in portfolio.¹

In the Basel IA NPR, the agencies proposed to risk weight mortgage loans with negative amortization features consistent with the risk-based capital treatment for other unfunded commitments (for example, lines of credit). Under the proposed approach, the unfunded portion of the maximum negative amortization amount would be handled separately from the funded portion of the loan. The unfunded portion would be treated as a commitment (based on the original maturity of the commitment, i.e., the original time period the negative amortization feature would be available), converted to a credit equivalent amount, and then risk weighted based on the LTV for the maximum contractual loan amount (i.e., the sum of the drawn amount of the loan and the unfunded portion of the maximum negative amortization amount). For banks, the unfunded portion of the maximum negative amortization amount would be reported in the appropriate data item for unused commitments in the Basel IA alternative risk-weighting section for off-balance-sheet data items in revised Schedule RC-R. The funded portion of a mortgage loan with negative amortization features would be risk-weighted based on the LTV of the funded portion and reported in the asset data item on revised Schedule RC-R for either (a) the one-to-four family residential mortgages held for sale that are risk-weighted using the LTV-based approach or (b) the one-to-four family residential mortgages held in portfolio that are risk-weighted using the LTV-based approach, as appropriate.

Another feature of the Basel IA NPR is the proposed assessment of a risk-based capital charge for securitizations of revolving exposures with early-amortization features. The early-amortization capital charge would be levied against the credit equivalent amount of the off-balance-sheet investors' interest (that is, the total amount of securities or other interests issued by a trust or special purpose entity to investors that is not on the securitizing banking organization's balance sheet) and would be imposed only in the event that the excess spread on the securitization has declined to a predetermined percentage of the excess spread trapping point.² As the level of excess spread approaches the early amortization trigger, the credit conversion factor to be applied to the amount of investors' interest would increase from zero percent to 100 percent, thereby producing an increase in the capital charge.

Because no capital charge is imposed on investors' interests in revolving securitizations with early-amortization features under the existing risk-based capital framework, the banking agencies are proposing to add new data items for these investors' interests to the off-balance-sheet data items

¹ Banks that exercise the option to continue to risk weight existing residential mortgages using the existing risk-based capital standard would report these mortgages in the data items for their other loans and leases held for sale or held in portfolio.

² The excess spread trapping point is the point at which a banking organization is required by the documentation governing a securitization to divert and hold excess spread in a spread or reserve account, expressed as a percentage.

section of revised Schedule RC-R for the purpose of reporting the credit equivalent amount of these interests and then risk-weighting this off-balance-sheet exposure. When reporting on its revolving securitizations with early-amortization features on Schedule RC-R, an institution will need to determine the credit equivalent amount for each individual securitization based on the credit conversion factor specific to that securitization rather than applying a single credit conversion factor to the total of all investors' interests. The credit equivalent amount for each securitization would then be assigned to the risk weight category appropriate to the securitized assets.

The Basel IA proposed rule would remove the 50 percent risk-weight limit that applies to certain derivative contracts. The risk weight assigned to the credit equivalent amount of a derivative contract would instead be the risk weight assigned to the derivative counterparty after consideration of any collateral or guarantees. The data items for derivative contracts in the current section of Schedule RC-R for risk-weighting derivatives and off-balance-sheet data items do not permit the credit equivalent amount of a derivative contract to be assigned a risk weight greater than 50 percent. As a consequence, the data items for derivatives in the Basel IA alternative risk-weighting section for derivatives and off-balance-sheet data items in revised Schedule RC-R will permit these credit equivalent amounts to be assigned to the full range of risk-weight categories.

The Basel IA proposed rule would expand the use of external credit ratings to risk weight most categories of externally-rated exposures, including sovereign and corporate debt securities and rated loans. At present, external credit ratings can be used to risk weight only asset-backed and mortgage-backed securities and other positions in securitization transactions (except credit-enhancing interest-only strips). The Basel IA proposal would also expand the range of recognized collateral to include a broader array of externally-rated, liquid, and readily marketable financial instruments. The agencies' existing risk-based capital standards recognize limited types of collateral, including cash on deposit and securities issued or guaranteed by the U.S. government, U.S. government agencies, and U.S. government-sponsored agencies. Finally, the Basel IA proposal would expand the range of eligible guarantors by recognizing entities that have long-term senior debt that, in general, is rated at least investment grade, provided the guarantee meets certain additional criteria. The agencies' existing risk-based capital standards limit the recognition of third party guarantees. Currently recognized guarantees include those provided by the U.S. government and U.S. government-sponsored agencies, U.S. depository institutions, and qualifying U.S. securities firms.

When risk-weighting on-balance-sheet assets and the credit equivalent amounts of derivatives and off-balance-sheet data items in existing Schedule RC-R institutions take currently recognized external credit ratings, collateral, and guarantees into account when they allocate assets and credit equivalent amounts to risk-weight categories. Institutions are not required to separately identify or report on their use of the ratings-based approach or eligible collateral or guarantees in existing Schedule RC-R. The agencies would maintain this same reporting approach for the expanded recognized external credit ratings, collateral, and guarantees in the Basel IA alternative risk-weighting sections for on-balance-sheet assets and for the credit equivalent amount of derivatives and off-balance-sheet data items in revised Schedule RC-R.

Time Schedule for Information Collection

The Call Reports are collected quarterly as of the end of the last calendar day of March, June, September, and December. Less frequent collection of Call Reports would reduce the Federal Reserve's ability to identify on a timely basis those banks that are experiencing adverse changes in their condition so that appropriate corrective measures can be implemented to restore their safety and soundness. State member banks must submit the Call Reports to the appropriate Federal Reserve Bank within thirty calendar days following the as-of date; a five-day extension may be given to banks with more than one foreign office.

Aggregate data are published in the *Federal Reserve Bulletin* and the *Annual Statistical Digest*. Additionally, data are used in the *Uniform Bank Performance Report (UBPR)* and the *Annual Report of the FFIEC*. Individual respondent data, excluding confidential information, are available to the public from the National Technical Information Service in Springfield, Virginia, upon request approximately twelve weeks after the report date. The information is provided in the form of magnetic tapes or hard copy facsimiles of the material on file.

Legal Status

The Board's Legal Division has determined that Section 9(6) of the Federal Reserve Act [12 U.S.C. 324] authorizes the Board to require these reports from all banks admitted to membership in the Federal Reserve System. The Board's Legal Division has also determined that the individual respondent information contained in the trust schedule, RC-T are exempt from disclosure pursuant to the Freedom of Information Act [5 U.S.C. 552(b)(4) and (8)]. Finally, Column A and Memorandum data item 1 to Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, are exempt from disclosure pursuant to the Freedom of Information Act [5 U.S.C. 552(b)(4) and (8)] for periods prior to March 31, 2001.

Consultation Outside the Agency

On February 14, 2007, the agencies jointly published a notice for comment in the *Federal Register* requesting public comment for sixty days on the revision of the FFIEC 031 and FFIEC 041 (72 FR 7115). The comment period for this notice expired on April 16, 2007 and no comments were received.

Estimate of Respondent Burden

The Federal Reserve estimates that the proposed revisions would increase the estimated annual burden by 1,086 hours. This proposal would add several new data items to the Call Reports and revise certain existing data items. The proposal as a whole would produce a net increase in reporting burden for banks of all sizes of eighteen minutes per response. This increase is modest since most of the proposed new data items and revisions of existing data items would have an effect on a limited number of banks. The Federal Reserve estimates the total proposed annual reporting burden for state member banks to be 185,778 hours, as shown below. This burden represents 4 percent of the total Federal Reserve paperwork burden.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current	905	4	51.02	184,692
Proposed	905	4	51.32	185,778
<i>Change</i>				1,086

The total cost to state member banks is estimated to be \$11,035,213 annually.³ This estimate represents costs associated with recurring salary and employee benefits, and expenses associated with software, data processing, and bank records that are not used internally for management purposes but are necessary to complete the Call Reports.

With respect to the changes that are the subject of this submission, banks would incur a capital and start-up cost component, but the amount would vary from bank to bank depending upon its individual circumstances and the extent of its involvement, if any, with the particular type of activity or product about which information would begin to be collected. An estimate of this cost component cannot be determined at this time.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

Current costs to the Federal Reserve System for collecting and processing the Call Reports are estimated to be \$1,288,415 per year. This amount includes the routine annual costs of personnel, printing, and computer processing, as well as internal software development costs for maintaining and modifying existing operating systems used to edit and validate submitted data.

³ Total cost to the public was estimated using the following formula. Percent of staff time, multiplied by annual burden hours, multiplied by hourly rate: 30% - Clerical @ \$25, 50% - Managerial or Technical @ \$55, 10% - Senior Management @ \$100, and 10% - Legal Counsel @ \$144. Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics, *Occupational Employment and Wages*, news release.