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, with extension, the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031and 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 180,611 hours; the proposed revisions are estimated to increase the annual burden to 184,328 hours.

The Board, FDIC, and OCC (agencies) propose (1) to revise instructions for reporting daily average deposit data by newly insured institutions for deposit insurance assessment purposes to conform the instructions with Part 327 of the FDIC's assessment regulations, (2) to revise several schedules to require additional information on 1-4 family residential mortgage loans, (3) to modify the trading account definition in response to the creation of a fair value option in generally accepted accounting principles (GAAP), (4) revise several schedules for information collected on fair value measurements for trading assets and liabilities and other assets and liabilities accounted for under a fair value option to enhance the information available on instruments accounted for under this option, (5) to clarify the Call Report instructions for reporting credit derivative data in the risk-based capital schedule (Schedule RC-R), (6) to change the threshold for reporting significant data items of other noninterest income and expense in the explanations schedule (Schedule RI-E), and (7) to conform the instructions for reporting fully insured brokered deposits in Schedule RC-E, Deposit Liabilities, to the instructions for reporting time deposits in this schedule. Most of the proposed revisions to the Call Report, which have been approved for publication by the FFIEC and are discussed in more detail below, would take effect as of March 31, 2008. In response to public comments, certain new data items would be optional for March 31, 2008, but required for June 30, 2008, to allow institutions ample time to change their programs and systems. See the Proposed Revisions section below for additional details. Finally, the agencies propose to discontinue the mailing of paper Call Report reporting forms and instructions to banks.

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 collect 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 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 bank holding companies 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 Report data electronically. Banks do not have to submit hard copy Call Reports to any federal bank supervisory agency unless specifically requested to do so.

Proposed Revisions

Unless otherwise noted, the proposed revisions discussed below would be effective March 31, 2008.

Deposit Insurance Assessment Data

Section 327.5(a)(1) of the FDIC's assessment regulations (12 CFR 327.5(a)(1)) states that "[a]n institution that becomes newly insured after the first report of condition allowing for average daily balances shall have its assessment base determined using average daily balances." For purposes of these regulations, the term "report of condition" includes the Call Report, which first allowed an institution to report average daily balances for the deposit data used to determine its assessment base as of the March 31, 2007, report date. This change was introduced as of that date in conjunction with a revision and reduction in the overall reporting requirements related to deposit insurance assessments in Call Report Schedule RC-O that was intended to simplify regulatory reporting. As part of these revised overall reporting requirements, the agencies provided an interim period covering the March 31, 2007, through December 31, 2007, report dates during which each institution had the option to submit its Call Report using either the current or revised formats for reporting the data used to measure its assessment base. The revised reporting format will take effect for all institutions on March 31, 2008, at which time the current reporting format will be eliminated.

The instructions issued in March 2007 for the revised reporting format state that an institution that becomes newly insured on or after April 1, 2008, would be required to report daily average balances beginning in the first quarterly Call Report that it files. However, these instructions do not conform to the previously cited language in the FDIC's assessments regulations with respect to their treatment of institutions that become insured between April 1, 2007, and March

31, 2008. Therefore, the agencies are revising the instructions to Call Report Schedule RC-O to require an institution that becomes insured after March 31, 2007, but on or before March 31, 2008, to begin reporting daily average balances in its Call Report for the March 31, 2008, report date. The requirement for an institution that becomes insured on or after April 1, 2008, to report daily average deposit data beginning in its first quarterly Call Report would remain in effect.

1-4 Family Residential Mortgage Loans

Since year-end 2000, commercial bank holdings of 1-4 family residential mortgage loans in domestic offices have increased nearly 108 percent to more than $1.9 trillion. Nearly 98 percent of all banks hold such mortgages. 1-4 family residential mortgages now represent the single largest category of loans held by commercial banks, surpassing commercial and industrial loans as the largest category in 2002. As a percentage of total loans and leases at commercial banks, 1-4 family residential mortgages have grown from 24 percent at year-end 2000 to 32 percent at year-end 2006. Similarly, 1-4 family residential mortgages have increased from less than 15 percent of total assets to nearly 19 percent of total assets during this period. During the first quarter of 2007, bank originations and purchases of closed-end 1-4 family residential mortgages for resale exceeded $287 billion. There has been a growing use of nontraditional residential mortgage products and an increasing number of banks offering such products. In addition, the volume of 1-4 family residential mortgage loans extended to subprime borrowers has increased. At the same time, home prices have stagnated or even declined in many areas of the country. Foreclosure rates have substantially increased along with an increase in restructured loans. The higher concentration of 1-4 family residential mortgages across the industry and the changing risk profile of the loans with which banks are associated in some capacity has led the banking agencies to evaluate the information they collect about such loans in the Call Report. As a result, the agencies are proposing several Call Report changes that are intended to enhance their ability to monitor the nature and extent of banks' involvement with 1-4 family residential mortgage loans as originators, holders, sellers, and servicers of such loans.

Interest and Fee Income and Quarterly Average

At present, banks report the total amount of interest and fee income on their "Loans secured by real estate" (in domestic offices) in the Call Report income statement (Schedule RI, data item 1.a.(1)(a) on the FFIEC 031 and data item 1.a.(1) on the FFIEC 041) and the quarterly average for these loans (in domestic offices) in the quarterly averages schedule (Schedule RC-K, data item 6.a.(2) on the FFIEC 031 and data item 6.b on the FFIEC 041). The agencies are proposing to split these existing income statement and quarterly average data items into separate data items for the interest and fee income on and the quarterly averages of "Loans secured by 1-4 family residential properties" and "All other loans secured by real estate."

Restructured Mortgages

Banks currently report information on the amount of loans whose terms have been modified, because of the borrower's financial difficulties, to provide for a reduction of either interest or principal. When such restructured loans are past due thirty days or more or are in nonaccrual status in relation to their modified terms as of the report date, they are reported in Schedule RC-N, Memorandum item 1. In contrast, when such restructured loans are less than thirty days past due and are not otherwise in nonaccrual status, that is, when they are deemed to be in compliance with their modified terms as discussed in the Call Report instructions, banks report the amount of these loans in the Call Report loan schedule (Schedule RC-C, part I, Memorandum item 1). However, the instructions advise banks to exclude restructured loans secured by 1-4 family residential properties from these Memorandum items.

This exclusion was incorporated into the Call Report instructions because the original disclosure requirements for troubled debt restructurings under GAAP provided that creditors need not disclose information on restructured real estate loans secured by 1-4 family residential properties.[1] However, this exemption from disclosure under GAAP has since been eliminated.[2] Accordingly, the agencies are proposing to add a new Memorandum item to Schedule RC-C, part I, for "Loans secured by 1-4 family residential properties (in domestic offices)" that have been restructured and are in compliance with their modified terms and a new Memorandum item to Schedule RC-N, for restructured "Loans secured by 1-4 family residential properties (in domestic offices)" that under their modified terms are past due thirty days or more or in nonaccrual status.

Mortgages in Foreclosure

The agencies currently collect data on the amount of loans secured by 1-4 family residential properties that are past due thirty days or more or are in nonaccrual status (Schedule RC-N, data item 1.c) and on the amount of foreclosed 1-4 family residential properties held by the bank (Schedule RC-M, data item 3.b.(3)). However, regardless of whether the bank owns the loans or services the loans for others, banks do not report the volume of 1-4 family residential mortgage loans that are in process of foreclosure, an indicator of potential additions to the bank's "other real estate owned" in the near term.

The banking agencies propose to add two new Memorandum items for the amount of 1-4 family residential mortgage loans owned by the bank and serviced by the bank that are in foreclosure as of the quarter-end report date. Mortgage loans in foreclosure would be those for which the legal process of foreclosure has been initiated, but for which the foreclosure process has not yet been resolved at quarter-end.[3] These Memorandum items would be added to the Call Report

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1 See Financial Accounting Standards Board Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*, footnote 25.

2 See Financial Accounting Standards Board Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, paragraph 22(f).

3 For banks that participate in the Mortgage Bankers Association's (MBA) National Delinquency Survey, the time at which mortgage loans would become reportable as being in process of foreclosure for Call Report purposes would be the same time at which mortgage loans become reportable as being in "foreclosure inventory" for MBA survey

loan schedule (Schedule RC-C, part I) and the servicing, securitization, and asset sale activities schedule (Schedule RC-S), with the carrying amount (before any applicable allowance for loan and leases losses) reported in the former Memorandum item and the principal amount reported in the latter Memorandum item. Reporting mortgage loans as being in process of foreclosure will not exempt those loans owned by the bank from being reported as past due or nonaccrual, as appropriate, in Call Report Schedule RC-N, and will not exempt those loans serviced by the bank that are reported in Schedule RC-S, data item 1, from being reported as past due, as appropriate, in that schedule.

Open-end 1-4 Family Residential Mortgage Banking Activities

Banks with $1 billion or more in total assets and smaller banks that meet certain criteria currently provide data on originations, purchases, and sales of closed-end 1-4 family residential mortgage loans during the quarter arising from their mortgage banking activities in domestic offices in Call Report Schedule RC-P. These banks also report the amount of closed-end 1-4 family residential mortgage loans held for sale at quarter-end as well as the noninterest income for the quarter from the sale, securitization, and servicing of these mortgage loans. Data (other than for noninterest income) is provided separately for first lien and junior lien mortgages in Schedule RC-P. About 650 banks complete Schedule RC-P, less than 300 of which have total assets of less than $1 billion. However, this information does not provide a complete picture of banks' mortgage banking activities since it excludes open-end 1-4 family residential mortgages extended under lines of credit. From year-end 2001 to year-end 2006, bank holdings of 1-4 family residential mortgage loans extended under lines of credit more than tripled to nearly $470 billion.

Accordingly, the agencies are proposing to expand the scope of Schedule RC-P to include separate data items for originations, purchases, and sales of open-end 1-4 family residential mortgages during the quarter; the amount of such mortgages held for sale at quarter-end; and noninterest income for the quarter from the sale, securitization, and servicing of open-end residential mortgages. When reporting the originations, purchases, sales, and mortgages held for sale, banks would report both the total commitment under the line of credit and the principal amount funded[4] under the line. For banks with less than $1 billion in total assets, the criteria used to determine whether Schedule RC-P must be completed would be modified to include both closed-end and open-end 1-4 family residential mortgage bank activities. The revisions discussed in this paragraph would be optional for March 31, 2008, and required for June 30, 2008.

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purposes (although the dollar amount of such loans would be reported in the Call Report while the number of such loans are reported for MBA survey purposes).

[4] Total commitment would be defined as the total amount of the lines of credit granted to customers at the time the open-end credits were originated. For retail and wholesale originations of such open-end loans, principal amount funded would be defined as the initial funding made to customers on newly established lines of credit. In addition, for open-end loans purchased, sold, held for sale, and repurchased or indemnified, principal amount funded would be defined as the principal balance outstanding of loans extended under lines of credit at the transaction date or at quarter-end, as appropriate.

Mortgage Repurchases and Indemnifications

As a result of its 1-4 family residential mortgage banking activities, a bank may be obligated to repurchase mortgage loans that it has sold or otherwise indemnify the loan purchaser against loss because of borrower defaults, loan defects, other breaches of representations and warranties, or for other reasons, thereby exposing the bank to additional risk. Such information is not currently captured in Call Report Schedule RC-P. Therefore, the agencies propose to add four new data items to Schedule RC-P to collect data on mortgage loan repurchases and indemnifications[5] during the quarter. For both closed-end first lien and closed-end junior lien 1-4 family residential mortgages, banks would report the principal amount of mortgages repurchased or indemnified. For open-end 1-4 family residential mortgages, banks would report both the total commitment under the line of credit and the principal amount funded under the line for mortgages repurchased or indemnified. The revisions discussed in this paragraph for open-end 1-4 family residential mortgages would be optional for March 31, 2008, and required for June 30, 2008.

Trading Assets and Liabilities and Other Assets and Liabilities Accounted for Under a Fair Value Option

Reporting of Assets and Liabilities under the Fair Value Option as Trading

On February 15, 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159), which is effective for fiscal years beginning after November 15, 2007. Earlier adoption of FAS 159 was permitted as of the beginning of an earlier fiscal year, provided the bank (i) also adopts all of the requirements of FASB Statement No. 157, *Fair Value Measurements* (FAS 157) at the early adoption date of FAS 159; (ii) has not yet issued a financial statement or submitted Call Report data for any period of that fiscal year; and (iii) satisfies certain other conditions. Thus, a bank with a calendar year fiscal year may have voluntarily adopted FAS 159 as of January 1, 2007. Changes in the fair value of financial assets and liabilities to which the fair value option is applied are reported in current earnings as is currently the case for trading assets and liabilities. Since the fair value option standard allows a bank to elect fair value measurement through earnings for financial assets and financial liabilities, the agencies understand that some institutions would like to reclassify certain loans elected to be accounted for under the fair value option as trading assets. The Call Report instructions currently do not allow loans held for sale to be reported as trading assets.

Under FAS 159, all securities within the scope of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115), that a bank has elected to report at fair value under a fair value option should be classified as trading securities. Recognizing the provisions of FAS 159, the agencies are proposing the following clarification to the Call Report instructions, including the Call Report Glossary entry for "Trading Account." Banks may classify assets (other than securities within the scope of FAS 115 for which a fair value option is elected) and liabilities as trading if the bank applies fair value accounting, with changes in fair value reported in current earnings, <u>and</u> manages these assets and liabilities as trading positions, subject to the controls and applicable regulatory guidance related to trading activities.

[5] Indemnifications would be limited to reimbursements for credit losses.

Revision of Certain Fair Value Measurement and Fair Value Option Information

Effective for the March 31, 2007, report date, the agencies started collecting information on certain assets and liabilities measured at fair value on Call Report Schedule RC-Q, Financial Assets and Liabilities Measured at Fair Value. Schedule RC-Q was intended to be consistent with the disclosure and other requirements contained in FAS 157 and FAS 159. Based on the agencies' review of initial industry practice and inquiries from banks, the agencies have determined that industry practice for preparing and reporting FAS 157 disclosures has evolved differently than the process for the information collected on Schedule RC-Q. This divergence has resulted in unnecessary burden and less transparency for the affected banks in two material respects.

First, Schedule RC-Q does not allow banks to separately identify each of the three levels of fair value measurements prescribed by FAS 157. The agencies included Level 1 fair value measurements in the total fair value amount in column A of Schedule RC-Q as a means of minimizing reporting burden. However, the omission of a separate column on Schedule RC-Q for Level 1 fair value measurements has increased the time bank managements spend preparing and reviewing Schedule RC-Q because the fair value disclosures on Schedule RC-Q differ from those in the banks' other financial statements. Second, Schedule RC-Q does not allow banks to separately identify any amounts by which the gross fair values of assets and liabilities reported for Level 2 and 3 fair value measurements included in columns B and C have been offset (netted) in the determination of the total fair value reported on the Call Report balance sheet (Schedule RC), which is disclosed in column A of Schedule RC-Q. Based on a review of industry practice, these disclosures are commonly made in the banks' other financial statements.

To reduce confusion related to the differences in industry practice and the Call Report, the agencies propose to add two columns to Schedule RC-Q to allow banks to report any netting adjustments and Level 1 fair value measurements separately in a manner consistent with industry practice. The new columns would be captioned column B, Amounts Netted in the Determination of Total Fair Value Reported on Schedule RC, and column C, Level 1 Fair Value Measurements. Existing column B, Level 2 Fair Value Measurements, and column C, Level 3 Fair Value Measurements, of Schedule RC-Q would be recaptioned as columns D and E, respectively. Column A would remain unchanged.

The agencies have also given further consideration to the information that will be necessary to effectively assess the safety and soundness of banks that utilize the fair value option pursuant to FAS 159. Based on this assessment, the agencies propose to amend certain other Call Report schedules to improve the agencies' ability to make comparisons among entities that elect a fair value option and those that do not. The primary focus of these proposed changes is to enhance the information provided by banks that elect the fair value option for loans. The proposed changes are based on the principal objectives for disclosures and the required disclosures in FAS 159, which were intended to provide "information to enable users to understand the differences between fair value and contractual cash flows" and to provide information "that would have been disclosed if the fair value option had not been elected."

Specifically, the agencies propose to add data items to Schedule RC-C, part I, Loans and Leases, to collect data on the loans reported in this schedule that are measured at fair value under a fair value option: (1) the fair value of such loans measured by major loan category and (2) the unpaid principal balance of such loans by major loan category.

Because Schedule RC-C, part I, provides data on loans held for investment and for sale, the agencies propose to add the same data items to Schedule RC-D, Trading Assets and Liabilities, for loans measured at fair value under a fair value option that are designated as held for trading. The agencies also propose to add a new data item to Schedule RC-D for "Other trading liabilities" in recognition of a bank's ability to elect to measure certain liabilities at fair value in accordance with FAS 159 and designate them as held for trading.

The agencies propose to add two data items to Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, to collect data on the fair value and unpaid principal balance of loans measured at fair value under a fair value option that are past due or in nonaccrual status. The data items would follow the existing three column breakdown on Schedule RC-N that banks utilize to report all other past due and nonaccrual loans. Since trading assets are not currently reported on Schedule RC-N, the agencies propose to add similar data items to Schedule RC-D to collect the total fair value and unpaid principal balance of loans 90 days or more past due that are classified as trading. The revisions discussed in this paragraph would be optional for March 31, 2008, and required for June 30, 2008.

Finally, the agencies propose to add data items to Schedule RI, Income Statement, to collect information on: (1) net gains (losses) recognized in earnings on assets that are reported at fair value under a fair value option; (2) estimated net gains (losses) on loans attributable to changes in instrument-specific credit risk; (3) net gains (losses) recognized in earnings on liabilities that are reported at fair value under a fair value option; (4) estimated net gains (losses) on liabilities attributable to changes in instrument-specific credit risk. The reporting instructions will cross-reference the corresponding FAS 159 disclosure requirements.

Other Revisions to the Call Report Information on Trading Assets and Liabilities

Since 2000, the total trading assets reported by banks has increased approximately 124 percent to $682 billion or 7 percent of total industry assets as of March 31, 2007. In terms of concentrations, approximately 64 percent of total trading assets now are either reported in the category of "Trading assets held in foreign offices" (approximately 53 percent of total trading assets) or "Other trading assets in domestic offices" (approximately 11 percent of total trading assets). Schedule RC-D, Trading Assets and Liabilities, currently does not provide any specific detail on the trading assets held in foreign offices or other trading assets in domestic offices. This limits the agencies' ability to assess bank exposures to market, liquidity, credit, operational, and other risks posed by these assets. To appropriately assess the safety and soundness of banks with these exposures and banks with significant concentrations in trading assets, the agencies propose three revisions to Schedule RC-D.

First, the agencies propose to eliminate the single data item for trading assets in foreign offices on the FFIEC 031 Call Report reporting form and revise the schedule to include separate columns for the consolidated bank and for domestic offices. This will provide detail on the assets in foreign offices in a manner consistent with disclosures about trading assets throughout the bank. Second, the banking agencies propose to change the reporting threshold for Schedule RC-D. At present, a bank must complete Schedule RC-D each quarter during a calendar year if the bank reported a quarterly average for trading assets of $2 million or more in Schedule RC-K, data item 7, for any quarter of the preceding calendar year.[6] As proposed, Schedule RC-D would be completed in any quarter when the quarterly average for trading assets was $2 million or more in any of the four preceding quarters.[7] This change will enable the agencies to more quickly and readily monitor the composition and risk exposures of the trading accounts of banks that become more significantly involved in trading activities. During 2006, 118 banks reported average trading assets of $2 million or more in any quarter of the year.

Third, the agencies propose to require banks with average trading assets of $1 billion or more in any of the four preceding quarters to provide additional detail on trading assets and liabilities currently included in certain trading asset and liability categories. These banks would provide additional breakouts for asset-backed securities by major category, collateralized debt obligations (both synthetic and non-synthetic), retained interests in securitizations, equity securities (both with and without readily determinable fair values), and loans held pending securitization. In addition, these banks would be required to provide a description of and report the fair value of any type of trading asset or liability in the "Other trading assets" and "Other trading liabilities" categories that is greater than $25,000 and exceeds 25 percent of the amount reported in that trading category. This threshold is comparable to the threshold that all banks use for providing additional detail on other assets and other liabilities reported in Schedules RC-F and RC-G, respectively. The revisions discussed in this paragraph would be optional for March 31, 2008, and required for June 30, 2008.

Reporting Credit Derivative Data for Risk-based Capital

Approximately 50 banks report that they have entered into credit derivative contracts either as a guarantor or beneficiary. For credit derivative contracts that are covered by the banking agencies' risk-based capital standards, the Call Report instructions require banks to report these credit derivatives in data item 52, "All other off-balance sheet liabilities," of Schedule RC-R, Regulatory Capital, unless the credit derivatives represent recourse arrangements or direct credit substitutes, which are reported in one of the preceding data items in the Derivatives and Off-Balance Sheet Items section of the schedule. This reporting approach was developed to enable banks that sold credit protection and held the credit derivative to apply a 100 percent risk weight to the notional amount consistent with the risk-based capital treatment of standby letters of credit and guarantees. At present, Schedule RC-R, data item 54, "Derivative contracts," specifically excludes credit derivatives.

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6 This same reporting threshold applies to Schedule RI, Memorandum item 8, in which banks report a breakdown of trading revenue by risk exposure, but the banking agencies are not proposing to change the threshold for this Memorandum item.

7 For example, if a bank reported a quarterly average for trading assets of $2 million or more for the first time in its March 31, 2008, Call Report, it would begin to complete Schedule RC-D in its June 30, 2008, Call Report. At present, the bank would not begin to complete Schedule RC-D until its March 31, 2009, Call Report.

However, this reporting approach does not consider that some credit derivative positions are subject to a counterparty credit risk charge, which is calculated for other derivative positions in data item 54, even if the credit derivatives are held by a bank that is subject to the market risk capital rules. The agencies are proposing to modify the Call Report instructions for Schedule RC-R to allow the reporting of the credit equivalent amount of credit derivatives subject to the counterparty credit risk charge in data item 54 of the schedule.

Revision of Reporting Threshold for Other Noninterest Income and Other Noninterest Expense

In 2001, the agencies changed the threshold for reporting detail on the components of "Other noninterest income," included in Schedule RI, data item 5.l, and "Other noninterest expense," reported in Schedule RI, data item 7.d, to require banks separately to disclose on Schedule RI-E, Explanations, the description and amount of any component included in other noninterest income and other noninterest expense that exceeded 1 percent of the sum of interest income and noninterest income. Since that time, the agencies have monitored bank disclosures of the types of noninterest income and noninterest expenses in excess of this threshold to assess the safety and soundness considerations associated with the changing sources of these income and expense streams. Based on this review, the agencies have determined that the current threshold does not provide sufficient information on the sources of bank noninterest income and noninterest expenses to adequately address their safety and soundness concerns. As a result, the agencies are proposing to change the threshold for reporting detail information on the components of other noninterest income and other noninterest expense.

Prior to 2001, banks were required to separately disclose the description and amount of any data item included in other noninterest income that exceeded 10 percent of other noninterest income and any data item included in other noninterest expense that exceeded 10 percent of other noninterest expense. The agencies have determined that thresholds based on a percentage of other noninterest income and other noninterest expense are more relevant criteria for determining when a bank should provide more detail. The agencies propose to change the threshold to require banks to separately disclose the description and amount of any data item included in other noninterest income that exceeds 3 percent of other noninterest income and any data item included in other noninterest expense that exceeds 3 percent of other noninterest expense. This percentage is intended to initially result in a reporting threshold that is comparable to the current 1 percent of interest income plus noninterest income threshold. It is also expected to provide more relevant disclosures than the current threshold as the amounts reported in noninterest income and noninterest expense change over time. Data items that are below $25 thousand would not be subject to this disclosure requirement.

In addition, based on a review of recent bank disclosures of components of other noninterest income and other noninterest expense reported in Schedule RI-E, the agencies plan to add one new preprinted caption for other noninterest income and four new preprinted captions for other noninterest expense to help banks comply with the disclosure requirements. As with the existing preprinted captions for other noninterest income and other noninterest expense, banks are only required to use these descriptions and provide the amounts for these components when the amounts included in other noninterest income or other noninterest expense exceed the reporting threshold. The new preprinted other noninterest income caption is bank card/credit card interchange fees. The new preprinted noninterest expense captions are: (1) accounting and auditing expenses, (2) consulting and advisory expenses, (3) automated teller machine (ATM) and interchange expenses, and (4) telecommunications expenses.[8]

Brokered Time Deposits Participated Out by the Broker

The agencies revised the instructions for Schedule RC-E, Memorandum items 2.b, "Total time deposits of less than $100,000," and 2.c, "Total time deposits of $100,000 or more," in March 2007. This was done so that brokered time deposits issued in denominations of $100,000 or more that are participated out by the broker in shares of less than $100,000 would be reported in the former rather than the latter Memorandum item. However, the agencies did not make a conforming instructional revision to Schedule RC-E, Memorandum items 1.c.(1) and 1.c.(2), on fully insured brokered deposits. This means that these participated brokered time deposits continue to be reported as brokered deposits of greater than $100,000 rather than brokered deposits of less than $100,000. Consistent reporting of these brokered time deposits across these Schedule RC-E Memorandum items is needed for purposes of measuring a bank's non-core liabilities. Therefore, the banking agencies are proposing to revise Schedule RC-E, Memorandum items 1.c.(1) and 1.c.(2), so that brokered time deposits issued in denominations of $100,000 or more that are participated out by the broker in shares of less than $100,000 are reported in Memorandum item 1.c.(1) as fully insured brokered deposits of less than $100,000.

Discontinuance of Mailing of Call Report Reporting Forms and Instructions

The agencies are planning to discontinue the mailing of reporting forms and instructions for the FFIEC 031 and FFIEC 041. In March 2006, the agencies advised banks that beginning in June 2006 they would no longer mail sample Call Report reporting forms to banks each quarter. At that time, the agencies stated that they planned to mail sample reporting forms to banks only in those quarters when significant revisions are made to the reporting forms. The agencies have continued to mail updates to the Call Report instruction book in those quarters when such updates have been issued.

The Call Report reporting forms and their instructions are available on the FFIEC's Web site (http://www.ffiec.gov/ffiec_report_forms.htm) and the FDIC's Web site (http://www.fdic.gov/regulations/resources/call/index.html) each quarter before any mailings of the

[8] In response to public comments, the reporting instructions will clarify the definition of telecommunications expenses and note that for bundled services, institutions should report expenses that reflect a single charge for grouped or "bundled" services in the item that most closely describes the predominant type of expense incurred, and that this categorization should be used consistently over time.

paper reporting forms and instructions are completed. A paper copy of the reporting forms and instructions can be printed from the Web sites. In addition, banks that use Call Report software generally can print paper copies of blank reporting forms from their software.

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 is 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. Data are also available from the FFIEC Central Data Repository Public Data Distribution (CDR PDD) web site (https://cdr.ffiec.gov/public/). Data for the current quarter are made available, when submitted by each bank, beginning approximately 15 calendar days after the report date. Updated or revised data may replace data already posted at any time thereafter.

Legal Status

The Board's Legal Division has determined that Section 9 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 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

The agencies published the notice for comment in the *Federal Register* on September 11, 2007 (72 FR 51814) and collectively received nine public comment letters. The comment period for this notice expired on November 13, 2007. The agencies modified the proposal in response to several of these comment letters. On February 4, 2008, the Federal Reserve published a final notice in the *Federal Register* (73 FR 6506) on the Call Reports.

Estimate of Respondent Burden

The Federal Reserve estimates that the proposed revisions would increase the estimated annual burden by 3,717 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 one hour and three minutes per response. The Federal Reserve estimates the total proposed annual reporting burden for state member banks to be 184,328 hours, as shown below. This burden represents 4 percent of the total Federal Reserve paperwork burden.

	Number of respondents	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
Current	885	4	51.02	180,611
Proposed	885	4	52.07	184,328
Change				3,717

The total cost to state member banks is estimated to be $10,949,083 annually.[9] 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 $1,380,729 per year. With the revisions the estimated costs will increase by 15 percent to $1,589,906 per year. The one-time costs to implement the revised reports are estimated to be $66,502. This amount includes the routine annual costs of personnel, printing, and computer

[9] 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.

processing, as well as internal software development costs for maintaining and modifying existing operating systems used to edit and validate submitted data.