

DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

FEDERAL RESERVE SYSTEM

FEDERAL DEPOSIT INSURANCE CORPORATION

Proposed Agency Information Collection Activities; Comment Request

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

ACTION: Joint notice and request for comment.

SUMMARY: In accordance with the requirements of the Paperwork Reduction Act of 1995 (44 U.S.C. chapter 35), the OCC, the Board, and the FDIC (the “agencies”) may not conduct or sponsor, and the respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The Federal Financial Institutions Examination Council (FFIEC), of which the agencies are members, has approved the agencies’ publication for public comment of a proposal to extend, with revision, 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 and the agencies should modify the proposed revisions prior to giving final approval. The agencies will then submit the revisions to OMB for review and approval.

DATES: Comments must be submitted on or before November 24, 2008.

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: You should direct all written comments to: Communications Division, Office of the Comptroller of the Currency, Public Information Room, Mailstop 1-5, Attention: 1557-0081, 250 E Street, SW., Washington, DC 20219. In addition, comments may be sent by fax to (202) 874-4448, or by electronic mail to regs.comments@occ.treas.gov. For security reasons, the OCC requires that visitors make an appointment to inspect comments. You may do so by calling (202) 874-5043. Upon arrival, visitors will be required to present valid government-issued photo identification and submit to security screening in order to inspect and photocopy comments.

Board: You may submit comments, which should refer to “Consolidated Reports of Condition and Income, 7100-0036,” by any of the following methods:

- Agency Web Site: <http://www.federalreserve.gov>. Follow the instructions for submitting comments on the <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.
- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.
- E-mail: regs.comments@federalreserve.gov. Include docket number in the subject line of the message.
- FAX: 202-452-3819 or 202-452-3102.
- Mail: Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW., Washington, DC 20551.

All public comments are available from the Board's web site at www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm as submitted, unless modified for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper in Room MP-500 of the Board's Martin Building (20th and C Streets, NW.) between 9:00 a.m. and 5:00 p.m. on weekdays.

FDIC: You may submit comments, which should refer to "Consolidated Reports of Condition and Income, 3064-0052," by any of the following methods:

- Agency Web Site: <http://www.fdic.gov/regulations/laws/federal/propose.html>.
Follow the instructions for submitting comments on the FDIC Web site.
- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.
- E-mail: comments@FDIC.gov. Include "Consolidated Reports of Condition and Income, 3064-0052" in the subject line of the message.
- Mail: Herbert J. Messite (202-898-6834), Counsel, Attn: Comments, Room F-1052, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429.
- Hand Delivery: 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.

Public Inspection: All comments received will be posted without change to <http://www.fdic.gov/regulations/laws/federal/propose.html> including any personal information provided.

Additionally, commenters may send a copy of their comments to the OMB desk officer for the agencies by mail to the Office of Information and Regulatory Affairs, U.S. Office of Management and Budget, New Executive Office Building, Room 10235, 725 17th Street, NW, Washington, DC 20503, or by fax to (202) 395-6974.

FOR FURTHER INFORMATION CONTACT: For further information about the revisions discussed in this notice, please contact any of the agency clearance officers whose names appear below. In addition, copies of the Call Report forms can be obtained at the FFIEC's web site (http://www.ffiec.gov/ffiec_report_forms.htm).

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

Board: Michelle E. Shore, Federal Reserve Board Clearance Officer, (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 call (202) 263-4869.

FDIC: Herbert J. Messite, Counsel, (202) 898-6834, Legal Division, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429.

SUPPLEMENTARY INFORMATION: The agencies are proposing to revise and extend for three years the Call Report, which are currently approved collections of information.

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

Form Number: Call Report: 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.

OCC:

OMB Number: 1557-0081.

Estimated Number of Respondents: 1,650 national banks.

Estimated Time per Response: 46.24 burden hours.

Estimated Total Annual Burden: 305,237 burden hours.

Board:

OMB Number: 7100-0036.

Estimated Number of Respondents: 874 state member banks.

Estimated Time per Response: 52.82 burden hours.

Estimated Total Annual Burden: 184,653 burden hours.

FDIC:

OMB Number: 3064-0052.

Estimated Number of Respondents: 5,162 insured state nonmember banks.

Estimated Time per Response: 36.88 burden hours.

Estimated Total Annual Burden: 761,498 burden hours.

The estimated time per response for the Call Report is an average that varies by agency because of differences in the composition of the institutions under each agency's supervision (e.g., size distribution of institutions, types of activities in which they are engaged, and existence of foreign offices). The average reporting burden for the Call Report is estimated to range from 16 to 650 hours per quarter, depending on an individual institution's circumstances.

General Description of Reports

These information collections are mandatory: 12 U.S.C. 161 (for national banks), 12 U.S.C. 324 (for state member banks), and 12 U.S.C. 1817 (for insured state nonmember commercial and savings banks). At present, except for selected data items, these information collections are not given confidential treatment.

Abstract

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

Current Actions**I. Overview**

The agencies are proposing to implement several changes to the Call Report requirements on a phased-in basis during 2009 to better support their surveillance and supervision of individual banks and enhance their monitoring of the industry's condition and performance. The proposed revisions reflect a thorough and careful review of the

agencies' data needs in a variety of areas as banks encounter the most turbulent environment in more than a decade. Thus, the revisions include new items that focus on areas in which the banking industry is facing heightened risk as a result of market turmoil and illiquidity and weakening economic and credit conditions. Where possible, the agencies have sought to establish reporting thresholds for proposed new items. Other proposed new items will be relevant to only a small percentage of banks. The proposed revisions are discussed in detail in Sections II.A through IV.F of this notice.

In their review of data needs in the current environment, the agencies concluded that additional information on banks' securitization and structured finance activities would assist the agencies in evaluating the nature and scope of banks' involvement with the traditionally off-balance sheet entities that issue these products. However, the Financial Accounting Standards Board (FASB) is proposing to amend the accounting standards governing the accounting for financial asset transfers and the consolidation of variable interest entities in a manner that may cause a substantial volume of assets in bank-sponsored entities to be brought onto bank balance sheets. Therefore, the agencies have decided to wait until the outcome of the FASB's amendment projects is clearer and the effect of the accounting changes on banks' securitization and structured finance activities can be evaluated before proposing to revise the information currently collected on these activities in Schedule RC-S, Servicing, Securitization, and Asset Sale Activities. Depending on the outcome of the amendments (including their effective date) and their impact on banks, the agencies may decide that they are confronted with an immediate and critical need for specific information pertaining to the securitization and structured finance activities significantly affected by the amended accounting standards. If that

were the case, the agencies would consider using the previously approved supplement to the Call Report to collect the necessary data for a limited time period in accordance with the policy established for the use of the supplement.¹ The agencies' ongoing Call Report data needs in this area in response to the amended accounting standards would then be incorporated into a formal proposal that the agencies would publish with a request for comment in accordance with the requirements of the Paperwork Reduction Act of 1995.

The agencies' review also identified a need for data on higher risk 1-4 family residential mortgage loans, often referred to as subprime mortgages, that are either held by banks or serviced for others and on residential mortgage-backed securities for which a significant portion of the underlying mortgage loans are higher risk. The agencies will be developing a separate reporting proposal that would request industry comment on the collection of information in the Call Report on these higher risk residential mortgages and residential mortgage-backed securities, including proposed definitions for such mortgages and securities. The proposal would be published in the Federal Register and the comments received would assist the agencies in determining whether and how to proceed with the collection of data on these mortgages and securities in the Call Report.

With respect to the proposed Call Report changes that are the subject of this proposal, the revisions that would take effect as of March 31, 2009, include:

- The addition of new items in response to a revised accounting standard that will provide information on held-for-investment loans and leases acquired in business combinations;

¹ See 67 Federal Register 3995, January 27, 2004.

- Revisions to several Call Report schedules in response to accounting changes applicable to noncontrolling (minority) interests in consolidated subsidiaries;
- Clarifications of the definition of the term “loan secured by real estate” and of the instructions for reporting unused commitments;
- The addition of a new item to be reported annually on the bank’s fiscal year-end date;
- Exemptions from reporting certain existing Call Report items for banks with less than \$1 billion in total assets;
- Instructional guidance on quantifying misstatements in the Call Report; and
- The elimination of confidential treatment for data collected on fiduciary income, expenses, and losses.

The proposed Call Report revisions to be implemented as of June 30, 2009, include new or revised items for:

- Real estate construction and development loans outstanding with capitalized interest and the amount of such interest included in income for the quarter (for banks with construction and development loan concentrations);
- Holdings of collateralized debt obligations and other structured financial products by type of product and underlying collateral;
- Holdings of commercial mortgage-backed securities;
- Unused commitments with an original maturity of one year or less to asset-backed commercial paper conduits;
- Fair value measurements by level for asset and liability categories reported at fair value on a recurring basis (for banks that have \$500 million or more in total assets,

apply a fair value option, or are required to complete the Call Report trading schedule);

- Pledged loans and pledged trading assets;
- Collateral held against over-the-counter (OTC) derivative exposures by type of collateral and type of counterparty as well as the current credit exposure on OTC derivatives by type of counterparty (for banks with \$10 billion or more in total assets);
- Remaining maturities of unsecured other borrowings and subordinated notes and debentures;
- Investments in real estate ventures;
- Held-to-maturity and available-for-sale securities in domestic offices (for banks that have both domestic and foreign offices);
- Past due and nonaccrual trading assets;
- Credit derivatives by credit quality and remaining maturity and by regulatory capital treatment; and
- Whether the bank is a trustee or custodian for certain types of accounts or provides certain services in connection with orders for securities transactions regardless of whether the bank exercises trust powers, which will take the form of yes/no questions.

The proposed Call Report revisions that would take effect December 31, 2009, apply only to Schedule RC-T, Fiduciary and Related Services. These revisions include:

- Breaking out foundations and endowments as well as investment advisory agency accounts as separate types of fiduciary accounts in the schedule's sections for reporting fiduciary and related assets and income;
- Adding items for Individual Retirement Accounts and similar accounts included in fiduciary and related assets;
- Expanding the breakdown of managed assets by type of asset to cover all types of fiduciary accounts;
- Adding new asset types in the breakdown of managed assets by type of asset;
- Revising the manner in which discretionary investments in common trust funds and collective investment funds are reported in the breakdown of managed assets by type of asset;
- Adding items for the market value of discretionary investments in proprietary mutual funds and the number of managed accounts holding such investments; and
- Adding items for the number and principal amount outstanding of debt issues in substantive default for which the institution serves as indenture trustee.

For the March 31, June 30, and December 31, 2009, report dates, banks may provide reasonable estimates for any new or revised Call Report item initially required to be reported as of that date for which the requested information is not readily available. The specific wording of the captions for the new or revised Call Report data items discussed in this proposal and the numbering of these data items should be regarded as preliminary.

Type of Review: Revision and extension of currently approved collections.

II. Discussion of Revisions Proposed for March 2009

A. Loans and Leases Acquired in Business Combinations

Banks must apply Statement of Financial Accounting Standards No. 141 (Revised), *Business Combinations* (FAS 141(R)), which was issued in December 2007, prospectively to business combinations for which the acquisition date is on or after the beginning of their first annual reporting period beginning on or after December 15, 2008. Thus, for banks with calendar year fiscal years, FAS 141(R) will apply to business combinations with acquisition dates on or after January 1, 2009. Under FAS 141(R), all business combinations are to be accounted for by applying the acquisition method.

Under current generally accepted accounting principles, loans to be held for investment that are acquired in a business combination accounted for using the purchase method generally are recorded at “present values of amounts to be received determined at appropriate current interest rates, less allowances” for loan and lease losses (ALLL).² Thus, in practice, an acquired bank’s ALLL generally is carried over to the acquiring bank’s (consolidated) balance sheet. In contrast, under FAS 141(R), a bank acquiring loans to be held for investment in a business combination accounted for using the acquisition method must record these loans at fair value. The fair value of these loans incorporates assumptions regarding credit risk. As a result, FAS 141(R) does not permit an acquiring bank to carry over the acquired bank’s ALLL. This same prohibition on carrying over the ALLL would apply in those situations when a bank must apply push down accounting, which is the establishment of a new accounting basis for a bank in its separate financial statements and its Call Report as a result of the bank becoming

² See Statement of Financial Accounting Standards No. 141, *Business Combinations* (FAS 141), paragraph 57(b). This accounting treatment does not apply to those acquired loans within the scope of American Institute of Certified Public Accountants Statement of

substantially wholly owned via a purchase transaction or a series of purchase transactions.

Because of this significant change in the accounting for acquired loans, paragraph 68(h) of FAS 141(R) requires the following disclosures about the loans (not subject to SOP 03-3) and leases that were acquired in each business combination that occurred during the reporting period:

- The fair value of the loans and leases;
- The gross contractual amounts receivable; and
- The best estimate at the acquisition date of the contractual cash flows not expected to be collected.

These disclosures are intended to assist users of financial statements in understanding the credit quality and collectibility of the acquired loans and leases at the time of their acquisition. Accordingly, and in recognition of this significant change in accounting practice for business combinations, the agencies are proposing to add new items to the Call Report that would encompass the three acquisition date disclosures required by FAS 141(R) cited above for the following categories of acquired held-for-investment loans (not subject to SOP 03-3) and leases:

- Loans secured by real estate;
- Commercial and industrial loans;
- Loans to individuals for household, family, and other personal expenditures; and
- All other loans and all leases.

These new items would be completed by banks that have engaged in business combinations that must be accounted for in accordance with FAS 141(R) or that have been involved in push down accounting transactions to which the measurement principles in FAS 141(R) apply, i.e., in general, transactions for which the acquisition date is on or after January 1, 2009. A bank that has completed one or more business combinations or has applied push down accounting during the current calendar year would report these acquisition date data (as aggregate totals if multiple business combinations have occurred) in each Call Report submission after the acquisition date during that year.

The agencies are also considering whether banks that have engaged in FAS 141(R) business combinations should provide additional information in the Call Report about the acquired held-for-investment loans (not subject to SOP 03-3) and leases and the loss allowances established for them in periods after their acquisition. The agencies are considering requiring banks to report the outstanding balance of these acquired loans and leases, their carrying amount, and the amount of the allowance for post-acquisition losses on these loans and leases, which is consistent with the information that banks currently report in the Call Report about “purchased impaired loans” accounted for in accordance with SOP 03-3. Since these purchased loans will be recorded at fair value at acquisition, this information would help the agencies and other users of the Call Report to track management’s judgments regarding the collectibility of the acquired loans and leases in periods after the acquisition date and evaluate fluctuations in the level of the overall ALLL as a percentage of the held-for-investment loan and lease portfolio in periods after a business combination. However, the agencies recognize that information about acquired loans and leases and related allowances will

become less useful from an analytical standpoint with the passage of time after a business combination.

The agencies request comment on the merits and availability of the post-acquisition loan and lease data described above that are being considered for possible addition to the Call Report and the period of time after a business combination this information should be reported (e.g., through the end of the calendar year of the acquisition, through the end of the calendar year after the year of the acquisition, for a longer period, or for some other period such as the first four calendar quarters after the acquisition).

B. Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (FAS 160). FAS 160 requires a bank to clearly present in its consolidated financial statements the equity ownership interest in and the financial statement results of its subsidiaries that are attributable to the noncontrolling ownership interests in these subsidiaries. FAS 160 defines a noncontrolling interest, also called a minority interest, as the portion of equity in a bank's subsidiary not attributable, directly or indirectly, to the parent bank. Under FAS 160, the ownership interests in subsidiaries held by the noncontrolling interests must be clearly identified, labeled, and presented in the consolidated balance sheet within equity capital, but separate from the parent bank's equity capital. FAS 160 also requires that the amount of consolidated net income attributable to the bank and to the noncontrolling interests in the bank's subsidiaries be clearly identified and presented on the face of the consolidated income statement. In this regard, the consolidated income statement will reflect the amount of

the bank's consolidated net income, with separate line items then indicating the portions of the consolidated net income attributable to the noncontrolling interests and to the parent bank.

The agencies are proposing to make several changes to conform the Call Report to the presentation requirements of FAS 160. The agencies propose to amend Schedule RC, Balance Sheet, by replacing item 22, "Minority interest in consolidated subsidiaries," which is currently reported outside the Equity Capital section, with a new item 27.b in the Equity Capital section for "Noncontrolling (minority) interests in consolidated subsidiaries." The agencies also propose to renumber and rename Schedule RC, items 26 through 29 in the following manner:

- Item 26.a, "Retained earnings;"
- Item 26.b, "Accumulated other comprehensive income;"
- Item 26.c, "Other equity capital components;"
- Item 27.a, "Total bank equity capital (sum of items 23 through 26.c);"
- Item 27.b, "Noncontrolling (minority) interests in consolidated subsidiaries;"
- Item 28, "Total equity capital (sum of items 27.a and 27.b);" and
- Item 29, "Total liabilities and equity capital (sum of items 21 and 28)."

The agencies also propose to adjust certain captions in Schedule RC-R, Regulatory Capital, to reflect these changes to the Equity Capital section of the Call Report balance sheet and to conform to FAS 160. Schedule RC-R, item 1, "Total equity capital (from Schedule RC, item 28)," will be renamed "Total bank equity capital (from Schedule RC, item 27.a)." Schedule RC-R, item 6, "Qualifying minority interest in

consolidated subsidiaries,” will be renamed to “Qualifying noncontrolling (minority) interest in consolidated subsidiaries.”

Further, the agencies propose to amend Schedule RI, Income Statement, and Schedule RI-A, Changes in Equity Capital, to add or revise items to conform to FAS 160. In Schedule RI, new items 12, “Net income (loss) attributable to bank and noncontrolling (minority) interests (sum of items 10 and 11),” and 13, “Less: Net income (loss) attributable to noncontrolling (minority) interests,” will be added to identify the entity’s consolidated net income and segregate net income attributable to noncontrolling interests. Current Schedule RI, item 12, “Net income (loss) (sum of items 10 and 11),” will be renumbered as item 14 and renamed “Net income (loss) attributable to bank (item 12 minus item 13).” The instructions to Schedule RI, item 7.d, “Other noninterest expense,” will be amended to remove net income (or loss) attributable to noncontrolling (minority) interests from the current list of components of “Other noninterest expense.”

Schedule RI-A will be retitled Changes in Bank Equity Capital. In Schedule RI-A, the following changes will be made:

- Current item 1, “Total equity capital most recently reported for the December 31, 20xx, [previous calendar year-end] Reports of Condition and Income (i.e., after adjustments from amended Reports of Income),” will be renamed “Total bank equity capital most recently reported for the December 31, 20xx, Reports of Condition and Income (i.e., after adjustments from amended Reports of Income);”
- Current item 4, “Net income (loss) (must equal Schedule RI, item 12),” will be renamed “Net income (loss) attributable to bank (must equal Schedule RI, item 14);” and

- Current item 12, “Total equity capital end of current period (sum of items 3 through 11) (must equal Schedule RC, item 28),” will be renamed “Total bank equity capital end of current period (sum of items 3 through 11) (must equal Schedule RC, item 27.a).”

The instructions to Schedule RI-A, item 5, “Sale, conversion, acquisition, or retirement of capital stock, net,” will be amended to state that increases and decreases in bank equity capital resulting from changes in a bank’s ownership interest in a subsidiary while it retains its controlling financial interest in the subsidiary should be reported in item 5.

C. Clarification of the Definition of Loan Secured by Real Estate

The agencies have found that the definition of a “loan secured by real estate” in the Glossary section of the Call Report instructions has been interpreted differently by Call Report preparers and users. This has led to inconsistent reporting of loans collateralized by real estate in the loan schedule (Schedule RC-C) and other schedules of the Call Report that collect loan data. As a result, the agencies are proposing to clarify the definition by explaining that the estimated value of the real estate collateral must be greater than 50 percent of the principal amount of the loan at origination in order for the loan to be considered secured by real estate. Banks should apply this clarified definition prospectively and they need not reevaluate and, if appropriate, recategorize loans that they currently report as loans secured by real estate into other loan categories on the Call Report loan schedule.

The revised definition of a “loan secured by real estate” would read as follows:

For purposes of these reports, a loan secured by real estate is a loan secured wholly or substantially by a lien or liens on real property for which the

lien or liens are central to the extension of the credit – that is, the borrower would not have been extended credit in the same amount or on terms as favorable without the lien or liens on real property. To be considered wholly or substantially secured by a lien or liens on real property, the estimated value of the real estate collateral (after deducting any more senior liens) must be greater than 50 percent of the principal amount of the loan at origination. A loan satisfying the criteria above, except a loan to a state or political subdivisions in the U.S., is to be reported as a loan secured by real estate in the Reports of Condition and Income, (1) regardless of whether the loan is secured by a first or a junior lien; (2) regardless of the department within the bank or bank subsidiary that made the loan; (3) regardless of how the loan is categorized in the bank’s records; (4) and regardless of the purpose of the financing. Only in a transaction where a lien or liens on real property (with an estimated collateral value greater than 50 percent of the loan’s principal amount at origination) have been taken as collateral solely through an abundance of caution and where the loan terms as a consequence have not been made more favorable than they would have been in the absence of the lien or liens, would the loan not be considered a loan secured by real estate for purposes of the Reports of Condition and Income. In addition, when a loan is partially secured by a lien or liens on real property, but the estimated value of the real estate collateral (after deducting any more senior liens) is 50 percent or less of the principal amount of the loan at origination, the loan should not be categorized as a loan secured by real estate. Instead, the loan should be reported

in one of the other loan categories used in these reports based on the purpose of the loan.

D. Clarification of Instructions for Unused Commitments

Banks report unused commitments in Schedule RC-L, item 1. The instructions for this item identify various arrangements that should be reported as unused commitments, including but not limited to commitments for which the bank has charged a commitment fee or other consideration, commitments that are legally binding, loan proceeds that the bank is obligated to advance, commitments to issue a commitment, and revolving underwriting facilities. However, the agencies have found that some banks have not reported commitments that they have entered into until they have signed the loan agreement for the financing that they have committed to provide. Although the agencies consider these arrangements to be within the scope of the existing instructions for reporting commitments in Schedule RC-L, they believe that these instructions may not be sufficiently clear. Therefore, the agencies are proposing to revise the instructions for Schedule RC-L, item 1, “Unused commitments,” to read as follows:

Report in the appropriate subitem the unused portions of commitments. Unused commitments are to be reported gross, i.e., include in the appropriate subitem the amounts of commitments acquired from and conveyed to others.

For purposes of this item, commitments include:

- (1) Commitments to make or purchase extensions of credit in the form of loans or participations in loans, lease financing receivables, or similar transactions.
- (2) Commitments for which the bank has charged a commitment fee or other consideration.

- (3) Commitments that are legally binding.
- (4) Loan proceeds that the bank is obligated to advance, such as:
 - (a) Loan draws;
 - (b) Construction progress payments; and
 - (c) Seasonal or living advances to farmers under prearranged lines of credit.
- (5) Rotating, revolving, and open-end credit arrangements, including, but not limited to, retail credit card lines and home equity lines of credit.
- (6) Commitments to issue a commitment at some point in the future, including commitments that have been entered into even though the related loan agreement has not yet been signed.
- (7) Overdraft protection on depositors' accounts offered under a program where the bank advises account holders of the available amount of overdraft protection, for example, when accounts are opened or on depositors' account statements or ATM receipts.
- (8) The bank's own takedown in securities underwriting transactions.
- (9) Revolving underwriting facilities (RUFs), note issuance facilities (NIFs), and other similar arrangements, which are facilities under which a borrower can issue on a revolving basis short-term paper in its own name, but for which the underwriting banks have a legally binding commitment either to purchase any notes the borrower is unable to sell by the rollover date or to advance funds to the borrower.

Exclude forward contracts and other commitments that meet the definition of a derivative and must be accounted for in accordance with FASB Statement No. 133,

which should be reported in Schedule RC-L, item 12. Include the amount (not the fair value) of the unused portions of loan commitments that do not meet the definition of a derivative that the bank has elected to report at fair value under a fair value option. Also include forward contracts that do not meet the definition of a derivative. The unused portions of commitments are to be reported in the appropriate subitem regardless of whether they contain “material adverse change” clauses or other provisions that are intended to relieve the issuer of its funding obligations under certain conditions and regardless of whether they are unconditionally cancelable at any time.

In the case of commitments for syndicated loans, report only the bank’s proportional share of the commitment.

For purposes of reporting the unused portions of revolving asset-based lending commitments, the commitment is defined as the amount a bank is obligated to fund – as of the report date – based on the contractually agreed upon terms. In the case of revolving asset-based lending, the unused portions of such commitments should be measured as the difference between (a) the lesser of the contractual borrowing base (i.e., eligible collateral times the advance rate) or the note commitment limit, and (b) the sum of outstanding loans and letters of credit under the commitment. The note commitment limit is the overall maximum loan amount beyond which the bank will not advance funds regardless of the amount of collateral posted. This definition of “commitment” is applicable only to revolving asset-based lending, which is a specialized form of secured lending in which a borrower uses current assets (e.g.,

accounts receivable and inventory) as collateral for a loan. The loan is structured so that the amount of credit is limited by the value of the collateral.

E. Fiscal Year-End Date

Although most banks have a calendar year fiscal year, many banks do not. The agencies currently do not have a systematic means for identifying the fiscal year-end dates of banks. In contrast, savings associations report their fiscal year-ends to the Office of Thrift Supervision in the Thrift Financial Report.

New accounting standards typically take effect for fiscal years beginning on or after a date specified in the standard and banks are expected to adopt new standards for Call Report purposes in accordance with their effective date. Thus, individual banks must adopt new standards in different quarterly Call Reports based on their fiscal year-end dates. In addition, the applicability of certain regulations is based on a bank's fiscal year. For example, the annual audit and reporting requirements of Part 363 of the FDIC's regulations apply to insured institutions with \$500 million or more in total assets as of the beginning of their fiscal year. As another example, banks do not have to start complying with Regulation R – Exceptions for Banks from the Definition of Broker in the Securities Exchange Act of 1934 (12 CFR part 218), which the Board and the Securities and Exchange Commission (SEC) jointly adopted in September 2007, and the “broker” exceptions in section 3(a)(4) of the Securities Exchange Act of 1934 until the first day of their fiscal year commencing after September 30, 2008.

To facilitate the agencies' ability to determine when individual banks should be implementing accounting standards and regulations and to assess their compliance, the agencies are proposing to add a Memorandum item to the Call Report balance sheet in

which banks would report their fiscal year-end date. This item would be collected annually as of each March 31.

F. Exemptions from Reporting for Certain Existing Call Report Items

The agencies have identified certain Call Report items for which the reported data are of lesser usefulness for banks with less than \$1 billion in total assets. Accordingly, the agencies are proposing to exempt such banks from completing the following Call Report items effective March 31, 2009:

- Schedule RI, Memorandum item 2, “Income from the sale and servicing of mutual funds and annuities (in domestic offices);”
- Schedule RC-B, Memorandum items 5.a through 5.f, “Asset-backed securities,” on the FFIEC 031 report;³
- Schedule RC-L, item 2.a, “Amount of financial standby letters of credit conveyed to others;” and
- Schedule RC-L, item 3.a, “Amount of performance standby letters of credit conveyed to others.”

G. Quantifying Misstatements in the Call Report

The General Instructions section of the Call Report instructions discusses the filing of amended Call Reports. In this regard, the instructions state that

When dealing with the recognition and measurement of events and transactions in the Call Report, amended reports may be required if a bank’s primary federal bank supervisory authority determines that the reports as previously submitted contain errors that are material for the reporting bank. Materiality is a qualitative

characteristic of accounting information which is defined in Financial Accounting Standards Board (FASB) Concepts Statement No. 2 as “the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

FASB Statement No. 154, *Accounting Changes and Error Corrections* (FAS 154), provides guidance for reporting the correction of an error or misstatement in previously issued financial statements. An error or misstatement can result from mathematical mistakes, mistakes in the application of generally accepted accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared, and includes a change from an accounting principle that is not generally accepted to one that is generally accepted. The Glossary entry for “Accounting Changes” in the Call Report instructions includes a section on “Corrections of Accounting Errors” that provides guidance on reporting such corrections that is consistent with FAS 154. However, neither FAS 154 nor the Glossary entry for “Accounting Changes” specifies the appropriate method to quantify an error or misstatement for purposes of evaluating materiality.

In September 2006, the SEC staff noted in Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in*

³ On the FFIEC 041 report, banks with less than \$1 billion in assets are currently exempt from completing these Memorandum items.

Current Year Financial Statements (SAB 108),⁴ that in describing the concept of materiality, FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*, indicates that materiality determinations are based on whether “it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced *by the inclusion or correction of the item*” (emphasis added). The staff believes registrants must quantify the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements.

SAB 108 describes two approaches, generally referred to as “rollover” and “iron curtain,” that have been commonly used to accumulate and quantify misstatements. The rollover approach “quantifies a misstatement based on the amount of the error originating in the current year income statement,” which “ignores the ‘carryover effects’ of prior year misstatements.” In contrast, the “iron curtain approach quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, irrespective of the misstatement’s year(s) of origination.” Because each of these approaches has its weaknesses, SAB 108 advises that the impact of correcting all misstatements on current year financial statements should be accomplished by quantifying an error under both the rollover and iron curtain approaches and by evaluating the error measured under each approach. When either approach results in a misstatement that is material, after considering all relevant quantitative and qualitative factors, an adjustment to the financial statements would be required. Guidance on the consideration of all relevant factors when assessing the materiality of misstatements is

⁴ SAB 108 can be accessed at <http://www.sec.gov/interps/account/sab108.pdf>. SAB 108 has been codified as Topic 1.N. in the SEC’s Codification of Staff Accounting Bulletins.

provided in the SEC's Staff Accounting Bulletin No. 99, *Materiality* (SAB 99).⁵

SAB 108 observes that when the correction of an error in the current year would materially misstate the current year's financial statements because the correction includes the effect of the prior year misstatements, the prior year financial statements should be corrected.

The agencies have advised banks that, for Call Report purposes, a bank that is a public company or a subsidiary of a public company should apply the guidance from SAB 108 and SAB 99 when quantifying the impact of correcting misstatements, including both the carryover and reversing effects of prior year misstatements, on their current year Call Reports.⁶ The agencies believe that the guidance in SAB 108 and SAB 99 represents sound accounting practices that all banks, including those that are not public companies, should follow for purposes of quantifying misstatements and considering all relevant factors when assessing the materiality of misstatements in their Call Reports. Accordingly, the agencies are proposing to incorporate the guidance in these two Staff Accounting Bulletins into the section of the "Accounting Changes" Glossary entry on error corrections, thereby establishing a single approach for quantifying misstatements in the Call Report that would be applicable to all banks. The Glossary entry would explain that the impact of correcting all misstatements on current year Call Reports should be accomplished by quantifying an error under both the rollover and iron curtain approaches and by evaluating the error measured under each approach.

⁵ SAB 99 can be accessed at <http://www.sec.gov/interps/account/sab99.htm>. SAB 99 has been codified as Topic 1.M. in the SEC's Codification of Staff Accounting Bulletins.

⁶ For example, see the Call Report Supplemental Instructions for June 2007 at http://www.ffiec.gov/PDF/FFIEC_forms/FFIEC031_041_suppinst_200706.pdf.

When either approach results in a misstatement that is material, after considering all relevant quantitative and qualitative factors, appropriate adjustments to Call Reports would be required.

H. Eliminating Confidential Treatment for Fiduciary Income, Expense, and Loss Data

An important public policy issue for the agencies has been how to use market discipline to complement supervisory resources. Market discipline relies on market participants having sufficient appropriate information about the financial condition and risks of banks. The Call Report, in particular, is widely used by securities analysts, rating agencies, and large institutional investors as sources of bank-specific data. Disclosure that increases transparency should lead to more accurate market assessments of individual banks' performance and risks. This, in turn, should result in more effective market discipline on banks.

Despite this emphasis on market discipline, the FFIEC and the agencies currently accord confidential treatment to the information that certain institutions report in Call Report Schedule RC-T, Fiduciary and Related Services, on fiduciary and related services income, expenses, and losses (items 12 through 18, items 19.a through 23, and Memorandum item 4). Approximately 400 institutions that exercise fiduciary powers and have either total fiduciary assets greater than \$250 million or gross fiduciary and related services income greater than 10 percent of revenue report their fiduciary and related services income quarterly and expenses and losses annually as of year-end. Around 200 institutions that exercise fiduciary powers, have total fiduciary assets greater than \$100 million but less than or equal to \$250 million, and do not meet the fiduciary income test mentioned above report their fiduciary and related services income, expenses, and

losses annually as of year-end. An additional 1,000 institutions that exercise fiduciary powers, have total fiduciary assets of \$100 million or less, and do not meet the fiduciary income test mentioned above are exempt from reporting their fiduciary and related services income, expenses, and losses.

Data on fiduciary and related services income, expenses, and losses (except for gross fiduciary and related services income, which is also reported in each institution's Call Report income statement) are the only financial information currently collected on the Call Report that is treated as confidential on an individual institution basis. Nevertheless, the agencies publish aggregate data derived from these confidential items. The agencies have accorded confidential treatment to the fiduciary services income data for individual institutions since it began to be collected in 1997 in a separate report, the Annual Report of Trust Assets (FFIEC 001). Confidential treatment was retained when the reporting of trust data was incorporated into the Call Report and the separate trust report was eliminated in 2001. However, the agencies do not preclude institutions from publicly disclosing the fiduciary and related services income, expense, and loss data that the agencies treat as confidential.

The agencies originally applied this confidential treatment to the fiduciary and related services income, expense, and loss information because these data generally pertain to only a portion of a reporting institution's total operations and not to the institution as a whole. However, the agencies make publicly available on an individual bank basis the Call Report data they collect on income and expenses from foreign offices from banks with such offices where foreign activities exceed certain levels even though these data pertain to only a portion of these banks' total operations.

In addition, under the Uniform Interagency Trust Rating System, the agencies assign a rating to the earnings of an institution's fiduciary activities at those institutions with fiduciary assets of more than \$100 million, which are also the institutions that report their fiduciary and related services income, expenses, and losses in Call Report Schedule RC-T. The agencies' evaluation of an institution's trust earnings considers such factors as the profitability of fiduciary activities in relation to the size and scope of those activities and the institution's overall business, taking this into account by functions and product lines. Although the agencies' ratings for individual institutions are not publicly available, the reason for rating the trust earnings of institutions with more than \$100 million in fiduciary assets – its effect on the financial condition of the institution – means that fiduciary and related services income, expense, and loss information for these institutions is also relevant to market participants and others in the public as they seek to evaluate the financial condition and performance of individual institutions. Increasing the transparency of institutions' fiduciary activities by making individual institutions' fiduciary income, expense, and loss data available to the public should improve the market's ability to assess these institutions' performance and risks and thereby enhance market discipline. Accordingly, the agencies are proposing to eliminate the confidential treatment for the data on fiduciary and related services income, expenses, and losses that are reported in Schedule RC-T beginning with the amounts reported as of March 31, 2009. Fiduciary and related services income, expense, and loss data reported in Schedule RC-T for report dates prior to March 31, 2009, would remain confidential.

III. Discussion of Revisions Proposed for June 2009

A. Construction and Development Loans with Interest Reserves

In December 2006, the agencies issued final guidance on commercial real estate (CRE) loans, including construction, land development, and other land (C&D) loans, entitled *Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices* (CRE Guidance).⁷ This guidance was developed to reinforce sound risk management practices for institutions with high and increasing concentrations of commercial real estate loans on their balance sheets. It provides a framework for assessing CRE concentrations; risk management, including board and management oversight, portfolio management, management information systems, market analysis and stress testing, underwriting and credit risk review; and supervisory oversight, including CRE concentration management and an assessment of capital adequacy.

In issuing the CRE Guidance, the agencies noted that CRE concentrations had been rising over the past several years and had reached levels that could create safety and soundness concerns in the event of a significant economic downturn. As a consequence, the CRE Guidance explains that, as part of their ongoing supervisory monitoring processes, the agencies would use certain criteria to identify institutions that are potentially exposed to significant CRE concentration risk. Thus, the CRE Guidance states in part that an institution whose total reported construction, land development, and other land loans is approaching or exceeds 100 percent or more of the institution's total risk-based capital may be identified for further supervisory analysis of the level and nature of its CRE concentration risk. As of March 31, 2008, approximately 28 percent of all banks held C&D loans in excess of 100 percent of their total risk-based capital.

⁷ 71 Federal Register 74580, December 12, 2006.

A practice that is common in C&D lending is the establishment of an interest reserve as part of the original underwriting of a C&D loan. The interest reserve account allows the lender to periodically advance loan funds to pay interest charges on the outstanding balance of the loan. The interest is capitalized and added to the loan balance. Frequently, C&D loan budgets will include an interest reserve to carry the project from origination to completion and may cover the project's anticipated sell-out or lease-up period. Although potentially beneficial to the lender and the borrower, the use of interest reserves carries certain risks. Of particular concern is the possibility that an interest reserve could disguise problems with a borrower's willingness and ability to repay the debt consistent with the terms and conditions of the loan agreement. For example, a C&D loan for a project on which construction ceases before it has been completed or is not completed in a timely manner may appear to be performing if the continued capitalization of interest through the use of an interest reserve keeps the troubled loan current. This practice can erode collateral protection and mask loans that should otherwise be reported as delinquent or in nonaccrual status.

Since the CRE Guidance was issued, market conditions have weakened, most notably in the C&D sector. As this weakening has occurred, the agencies' examiners are encountering C&D loans on projects that are troubled, but where interest has been capitalized inappropriately, resulting in overstated income and understated volumes of past due and nonaccrual C&D loans. Therefore, to assist the agencies in monitoring C&D lending activities at those banks with a concentration of such loans, i.e., C&D loans (in domestic offices) that exceeded 100 percent of total risk-based capital as of the previous calendar year-end, the agencies are proposing to add two new Call Report items.

First, banks with such a concentration would report the amount of C&D loans (in domestic offices) included in the Call Report loan schedule (Schedule RC-C) on which the use of interest reserves is provided for in the loan agreement. Second, these banks would report the amount of capitalized interest included in the interest and fee income on loans during the quarter. These data, together with information that banks currently report on the amount of past due and nonaccrual C&D loans, will assist in identifying banks with C&D loan concentrations that may be engaging in questionable interest capitalization practices for supervisory follow-up.

B. Structured Financial Products Carried in Securities and Trading Portfolios

Structured financial products such as collateralized debt obligations (CDOs) have become increasingly more complex and the volume of these financial products has increased substantially in recent years. Structured financial products generally convert a large pool of assets and other exposures (such as derivatives and third-party guarantees) into tradable capital market debt instruments. Some of the more complex financial product structures mix asset classes in an attempt to create investment products that diversify risk.

In recent years, increasingly complex structured financial products have become more widely held as investments and trading assets, allowing investors and traders to acquire positions in a pool of assets with varying risks and rewards depending on the underlying collateral or reference assets. Synthetic structured financial products use credit derivatives and a reference pool of assets, which has led to the creation of hybrid products, which are a combination of cash and synthetic structured financial products. Further, complex products known as CDOs “squared,” which are CDOs backed primarily

by the tranches of other CDOs, have contributed to the opacity and inability of investors to understand the performance of these highly complex products.

Some holders of structured financial products have sustained financial losses due to defaults and losses on the underlying assets and other exposures. In addition, reduced market liquidity has contributed to significant fair value declines and lack of price transparency for other structured financial products. These recent market events have demonstrated the need for the agencies to collect more comprehensive information on investment products with significant market, credit, liquidity, and valuation risks in order to identify and monitor banks with exposures to these products and to track such exposures for the industry as a whole.

Currently, banks separately report their holdings of regular mortgage-backed securities (MBS) (such as mortgage-backed pass-through securities, collateralized mortgage obligations, and real estate mortgage investment conduits) in the Call Report securities schedule (Schedule RC-B) or trading schedule (Schedule RC-D), as appropriate. All banks separately report their holdings of held-to-maturity and available-for-sale asset-backed securities (ABS) in the securities schedule. Those banks with large trading portfolios separately report their held-for-trading ABS in the trading schedule. Banks' holdings of all other debt securities not issued by governmental entities in the U.S. are reported as "Other debt securities" in either the securities or trading schedule, as appropriate. However, the more complex structured financial products discussed above are not separately reported in Schedules RC-B and RC-D, but are currently reported in other line items within these two schedules.

Therefore, the agencies propose to separately collect certain structured financial product data in both the securities and trading schedules of the Call Report. First, the agencies would add line items to collect information on certain structured financial products by type of structure (cash, synthetic, and hybrid). Each of these three new line items would cover CDOs, collateralized loan obligations (CLOs), collateralized bond obligations (CBOs), CDOs squared and cubed, and similar structured financial products.⁸ These new line items would be added to the body of the securities schedule and the trading schedule. In Schedule RC-B, the amortized cost and fair value of these three types of structures will be reported using the current four-column format that distinguishes between held-to-maturity and available-for-sale securities. In Schedule RC-D, the fair value of these three types of structures would be reported. Since the new items on structured financial products would include CDOs, the agencies will delete existing Memorandum items 5.a and 5.b from the trading schedule (Schedule RC-D).

Second, the agencies would collect information on these complex structured financial products by the predominant type of collateral supporting the structures in new memorandum items in both Schedule RC-B and Schedule RC-D. The collateral supporting these products has distinct risk characteristics and the new information will provide the agencies with greater insight into the risks associated with the various collateralized structured financial products. The structured financial products would be reported according to the following types of collateral:

⁸ These new line items would not include mortgage-backed and asset-backed commercial paper, which would continue to be reported as MBS and ABS, respectively, in Schedules RC-B and RC-D.

- Trust preferred securities issued by financial institutions;
- Trust preferred securities issued by real estate investment trusts;
- Corporate and similar loans;⁹
- 1-4 family residential MBS issued or guaranteed by U.S. government-sponsored enterprises (GSEs);
- 1-4 family residential MBS not issued or guaranteed by GSEs;
- Diversified (mixed) pools of structured financial products such as CDOs squared and cubed (also known as “pools of pools”); and
- Other collateral.

In Schedule RC-B, amortized cost and fair value would be reported by the predominant type of collateral supporting the structure based on whether the products are classified as held-to-maturity or available-for-sale. In Schedule RC-D, the fair value of these products would be reported by predominant type of collateral supporting the structure.

C. Holdings of Commercial Mortgage-Backed Securities

At present, all banks report information on their holdings of held-to-maturity and available-for-sale MBS in Schedule RC-B, Securities, without distinguishing between residential and commercial MBS. Banks with average trading assets of \$2 million or more in any of the four preceding calendar quarters provide information on MBS held for trading in Schedule RC-D, but only those with average trading assets of \$1 billion or more disclose the amount of their residential and commercial MBS.

⁹ Securities backed by commercial and industrial loans that are commonly regarded as ABS rather than CLOs in the marketplace would continue to be reported as ABS in Schedules RC-B and RC-D.

Differences in residential mortgages and commercial mortgages carry through to MBS backed by these two types of mortgages. In contrast to residential mortgage loans, commercial mortgage loans are normally nonrecourse, which means that if the borrower defaults, the creditor cannot seize any other assets of the borrower. As a consequence, the ability of the underlying commercial real estate to produce income and the value of the property are key factors when assessing the credit risk of commercial MBS. In addition, the prepayment risk of commercial MBS is lower than on residential MBS because commercial mortgages normally place restrictions on prepayment that typically are not present on residential mortgages. Furthermore, the residential real estate market often performs differently than the commercial real estate market.

Given the differences between residential and commercial MBS, the agencies are proposing to revise the reporting of MBS in Schedule RC-B, Securities, and Schedule RC-D, Trading Assets and Liabilities, in order to separately identify and track bank holdings of commercial MBS. In Schedule RC-B, items 4.a, “Pass-through securities,” and 4.b, “Other mortgage-backed securities,” would be revised to cover only residential MBS. New items 4.c.(1) and (2) would be added for “Commercial pass-through securities” and “Other commercial mortgage-backed securities.” Similarly, in Schedule RC-D, items 4.a through 4.c would cover only residential MBS and a new item 4.d would collect data on “Commercial mortgage-backed securities.” These new and revised items would replace Memorandum items 4.a, “Residential mortgage-backed securities,” and 4.b, “Commercial mortgage-backed securities,” in Schedule RC-D, which are currently completed only by banks with average trading assets of \$1 billion or more in any of the four preceding calendar quarters.

D. Unused Eligible Liquidity Facilities for Asset-Backed Commercial Paper (ABCP)
Conduits with an Original Maturity of One Year or Less

Under the agencies' risk-based capital guidelines, banks are required to hold capital against the unused portions of eligible liquidity facilities that provide support to ABCP programs. The capital guidelines apply different risk-based capital requirements to eligible liquidity facilities based on the original maturity of the facilities. Banks are currently required to hold less capital against eligible liquidity facilities with original maturities of one year or less than against liquidity facilities with original maturities in excess of one year. However, because of the current structure of Schedule RC-R, Regulatory Capital, the instructions for the schedule direct banks to report the credit equivalent amount of both types of eligible liquidity facilities in item 53, "Unused commitments with an original maturity exceeding one year." The reporting of both types of eligible liquidity facilities in a single item has been accomplished by having banks adjust the credit equivalent amount of eligible liquidity facilities with original maturities of one year or less to produce the effect of the lower capital charge applicable to such liquidity facilities. This approach does not promote transparency with respect to the actual credit equivalent amount of eligible liquidity facilities with original maturities of one year or less and does not allow for verification of the accuracy of the credit converting and risk weighting of these exposures.

To address these concerns, the agencies propose to renumber Schedule RC-R, item 53 as item 53.a and add a new item 53.b, "Unused commitments with an original maturity of one year or less to asset-backed commercial paper conduits," to

Schedule RC-R. The credit conversion factor applied to amounts reported in item 53.b, column A, would be 10 percent.

E. Fair Value Measurements

Effective for the March 31, 2007, report date, the banking agencies began 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. Currently, this schedule is completed by banks with a significant level of trading activity or that use a fair value option. The information collected on Schedule RC-Q is intended to be consistent with the fair value disclosures and other requirements in FASB Statement No. 157, *Fair Value Measurements* (FAS 157).

Based on the banking agencies' ongoing review of industry reporting and disclosure practices since the inception of this standard, and the reporting of items at fair value on Schedule RC, Balance Sheet, the agencies are proposing to expand the data collected on Schedule RC-Q in two material respects.

First, to improve the consistency of data collected on Schedule RC-Q with the FAS 157 disclosure requirements and industry disclosure practices, the agencies are proposing to expand the detail of the collected data. The agencies are proposing to expand the detail on Schedule RC-Q to collect fair value information on all assets and liabilities reported at fair value on a recurring basis in a manner consistent with the asset and liability breakdowns on Schedule RC. Thus, the agencies are proposing to add items to collect fair value information on:

- Available-for-sale securities;
- Federal funds sold and securities purchased under agreements to resell;

- Federal funds purchased and securities sold under agreements to repurchase;
- Other borrowed money; and
- Subordinated notes and debentures.

The agencies also are proposing to modify the existing collection of loan and lease data and trading asset and liability data to collect data separately for:

- Loans and leases held for sale;
- Loans and leases held for investment;
- Trading derivative assets;
- Other trading assets;
- Trading derivative liabilities; and
- Other trading liabilities.

The agencies would also add totals to capture total assets and total liabilities for items reported on the schedule. In addition, the agencies are proposing to modify the existing items for “other financial assets and servicing assets” and “other financial liabilities and servicing liabilities” to collect information on “other assets” and “other liabilities” reported at fair value on a recurring basis, including nontrading derivatives.

Components of “other assets” and “other liabilities” would be separately reported if they are greater than \$25,000 and exceed 25 percent of the total fair value of “other assets” and “other liabilities,” respectively. In conjunction with this change, the existing reporting for loan commitments accounted for under a fair value option would be revised to include these instruments, based on whether their fair values are positive or negative, in the items for “other assets” and “other liabilities” reported at fair value on a recurring basis, with separate disclosure of these commitments if significant.

Second, the agencies are proposing to modify the reporting criteria for Schedule RC-Q. The current instructions require all banks that have adopted FAS 157 and (1) have elected to account for financial instruments or servicing assets and liabilities at fair value under a fair value option or (2) are required to complete Schedule RC-D, Trading Assets and Liabilities, to complete Schedule RC-Q. The agencies are proposing to maintain this reporting requirement for banks that use a fair value option or that have significant trading activity. In addition, the agencies are proposing to extend the requirement to complete Schedule RC-Q to all banks that reported \$500 million or more in total assets at the beginning of their fiscal year, regardless of whether they have elected to apply a fair value option to financial or servicing assets and liabilities. Thus, Schedule RC-Q would be completed by all banks that are required to obtain an independent annual financial statement audit pursuant to Part 363 of the FDIC's regulations and are therefore required to include the FAS 157 fair value disclosures in their financial statements.

The banking agencies have determined that the proposed information is necessary to more accurately assess the impact of fair value accounting and fair value measurements for safety and soundness purposes. The collection of the information on Schedule RC-Q, as proposed, will facilitate and enhance the banking agencies' ability to monitor the extent of fair value accounting in banks' Reports of Condition, including the elective use of fair value accounting and the nature of the inputs used in the valuation process, pursuant to the disclosure requirements of FAS 157. The information collected on Schedule RC-Q is consistent with the disclosures required by FAS 157 and consistent with industry practice for reporting fair value measurements and should, therefore, not impose significant incremental burden on banks.

F. Pledged Loans in Loan and Trading Portfolios and Pledged Trading Securities

Banks have been pledging loans for many years and the volume of these pledges has grown considerably in recent years. Pledging of bank loans is the act of setting aside certain loans to secure or collateralize bank transactions with the bank continuing to own the loans unless the bank defaults on the transaction. Pledging is used for securing public deposits, repurchase agreements, and other bank borrowings. Pledging affects a bank's liquidity and other asset and liability management programs.

Today there are a number of alternative funding structures used by banks that require banks to pledge loans. Some of these funding structures include pledging on-balance sheet loans to finance and support securitization structures held by the bank that do not meet sales treatment, pledging loans to secure borrowings from a Federal Home Loan Bank, and packaging of on-balance sheet loans to collateralize bonds sold by banks. Currently, the Call Report does not provide information on the volume of pledged loans. Therefore, the banking agencies propose to collect the total amount of held-for-sale and held-for-investment loans and leases reported in Schedule RC-C, Loans and Lease Financing Receivables, that are pledged and the total amount of pledged loans that are carried in the trading portfolio and reported in Schedule RC-D, Trading Assets and Liabilities.

In addition, although the agencies have long collected data on total amount of held-to-maturity and available-for-sale securities reported in Schedule RC-B, Securities, that are pledged, banks have not been required to report the amount of securities carried in the trading portfolio that are pledged. Therefore, for reasons similar to those for

collecting data on pledged loans, the agencies are proposing to add an item to Schedule RC-D to capture the amount of pledged trading securities.

G. Collateral for OTC Derivative Exposures and Distribution of Credit Exposures

The growth in banks' OTC derivatives and the related counterparty credit exposures has been significant in recent years. For some major dealer banks, the counterparty credit risk from OTC derivatives rivals or exceeds their commercial and industrial loans outstanding. Despite the magnitude of these derivative exposures, there is virtually no information on OTC derivative counterparty credit exposures and associated risk mitigation in the Call Report.

Given the size of OTC derivative counterparty credit exposures, and the important risk mitigation provided by collateral held to offset or mitigate such exposures, information on the distribution of each would assist the agencies in their oversight and supervision of banks engaging in OTC derivative activities. Therefore, the agencies propose to collect data in Schedule RC-L, Derivatives and Off-Balance Sheet Items, that will provide a breakdown of the fair value of collateral posted for OTC derivative exposures by type of collateral and type of derivative counterparty and a separate breakdown of the current credit exposure on OTC derivatives by type of counterparty. This information would give the agencies important insights into the extent to which collateral is used as part of the credit risk management practices associated with derivative credit exposures to different types of counterparties and changes over time in the nature and extent of the collateral protection.

Since a majority of OTC derivative transactions are conducted in larger banks, only banks with total assets of \$10 billion or more would be required to report the

proposed new data. These banks would report, using a matrix, the collateral's fair value allocated by type of counterparty and type of collateral as well as the current credit exposure associated with each type of counterparty. The proposed types of collateral for which the fair value would be reported are (a) cash – U.S. dollar; (b) cash – Other currencies; (c) U.S. Treasury securities; (d) U.S. Government agency and U.S. Government-sponsored agency debt securities; (e) corporate bonds; (f) equity securities; and (g) all other collateral.¹⁰ The fair value of the collateral would be reported according to the following types of counterparties: (a) banks and securities firms; (b) monoline financial guarantors; (c) hedge funds; (d) sovereign governments; and (e) corporations and all other counterparties. The current credit exposure (after considering the effect of master netting agreements with OTC derivative counterparties) would also be reported for these five types of counterparties. The total current credit exposure from OTC derivative exposures that would be reported for these counterparties in Schedule RC-L would not necessarily equal the current credit exposure in the Call Report's regulatory capital schedule (Schedule RC-R) because the amount reported in Schedule RC-R excludes derivatives not covered by the risk-based capital standards.

H. Maturity Distributions of Unsecured Other Borrowings and Subordinated Debt

As part of the Omnibus Budget Reconciliation Act of 1993, Congress enacted depositor preference legislation that elevated the claims of depositors in domestic offices (and in insured branches in Puerto Rico and U.S. territories and possessions) over the claims of general unsecured creditors in a bank failure. When a bank fails, the claims of general unsecured creditors provide a cushion that lowers the cost of the failure to the

¹⁰ All other collateral would include, but not be limited to, mortgage-backed securities, asset-backed securities, and structured financial products.

Deposit Insurance Fund (DIF) administered by the FDIC. The greater the amount of general unsecured creditor claims, the greater the cushion and the lower the cost of the failure to the DIF.

The FDIC is considering proposing an adjustment to the risk-based assessment system so that insured depository institutions with greater amounts of general unsecured long-term liabilities will be rewarded with a lower assessment rate. Currently, the Call Reports lacks information regarding the remaining maturities of unsecured “other borrowings” and subordinated notes and debentures. Therefore, the agencies are proposing to collect this information in the Call Report so that the FDIC would be able to implement such an adjustment. More specifically, banks would report separate maturity distributions for “other borrowings” (as defined for Schedule RC-M, item 5.b) that are unsecured and for subordinated notes and debentures (as defined for Schedule RC, item 19) in Schedule RC-O, Other Data for Deposit Insurance and FICO Assessments. The maturity distributions would include remaining maturities of one year or less, over one year through three years, over three years through five years, and over five years.

I. Investments in Real Estate Ventures

At present, a bank with investments in real estate ventures reports real estate (other than bank premises) owned or controlled by the bank and its consolidated subsidiaries that is held for investment purposes as a component of “Other real estate owned” in Schedule RC-M, item 3.a. If a bank has investments in real estate ventures in the form of investments in subsidiaries that have not been consolidated; associated companies; and corporate joint ventures, unincorporated joint ventures, general partnerships, and limited partnerships over which the bank exercises significant influence

that are engaged in the holding of real estate for investment purposes, these investments are reported as a component of “Investments in unconsolidated subsidiaries and associated companies” in Schedule RC-M, item 4.a. To better distinguish a bank’s investments in real estate ventures from these other categories of assets, particularly because “Other real estate owned” also includes real estate acquired either through foreclosure or in any other manner for debts previously contracted, which presents different supervisory considerations than real estate investments, the agencies are proposing to add a new asset category to the Call Report balance sheet (Schedule RC) for investments in real estate ventures. This new balance sheet category would include those investments in real estate ventures that are currently reported as part of “Other real estate owned” and “Investments in unconsolidated subsidiaries and associated companies.” By making this change, the agencies would be able to eliminate item 3.a and items 4.a through 4.c from Schedule RC-M.

J. Revisions to Schedule RC-H for Securities Held in Domestic Offices

Information reported by banks with foreign offices on Schedule RC-H, Selected Balance Sheet Items for Domestic Offices, on the FFIEC 031 report form is fundamental for public policy purposes in the measurement and analysis of the domestic (U.S.) banking system. The agencies have used estimates of certain domestic office measures to facilitate these public policy efforts. However, the agencies have determined that enhanced information on available-for-sale and held-to-maturity securities in domestic offices is necessary to accomplish these public policy efforts.

At present, banks with foreign offices report the combined amortized (historical) cost of available-for-sale and held-to-maturity securities by type of security in items 10

through 17 of Schedule RC-H. The agencies propose to replace this combined reporting with two columns to collect information separately on the fair value of available-for-sale securities and the amortized cost of held-to-maturity securities held in the domestic offices of banks with foreign offices.

After the transition to this Schedule RC-H revision, this proposed change should not result in significant additional ongoing reporting burden because banks are required to designate securities as either available-for-sale, held-to-maturity, or held for trading per FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and to report the fair value and amortized cost of all available-for-sale and held-to-maturity securities by type of security in Call Report Schedule RC-B, Securities.

K. Trading Assets that are Past Due or in Nonaccrual Status

The agencies have observed that banks are holding assets in the trading category for longer periods of time due to market and other factors. Some of these assets are exhibiting delinquency patterns similar to assets held outside of the trading account. Currently, the agencies do not distinguish past due and nonaccrual trading assets from other assets on Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets. The agencies propose to replace Schedule RC-N, item 9, for “Debt securities and other assets” that are past due 30 days or more or in nonaccrual status with two separate items: item 9.a, “Trading assets,” and item 9.b, “All other assets (including available-for-sale and held-to-maturity securities).” These items would follow the existing three-column breakdown on Schedule RC-N that banks utilize to report assets past due 30 through 89 days and still accruing, past due 90 days or more and still accruing, and in nonaccrual status. Item 9.a would include all assets held for trading purposes, including

loans held for trading. Collection of this information will allow the agencies to better assess the quality of assets held for trading purposes, and generally enhance surveillance and examination planning efforts.

Also, the agencies propose to expand the scope of Schedule RC-D, Trading Assets, Memorandum item 3, “Loans measured at fair value that are past due 90 days or more,” to include loans held for trading and measured at fair value that are in nonaccrual status. This change would provide for more consistent treatment with the information that would be collected on Schedule RC-N and with the disclosure requirements in FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*.

L. Enhanced Information on Credit Derivatives

Effective for the March 2006 Call Report, the agencies revised the information collected on credit derivatives in Schedules RC-L, Derivatives and Off-Balance Sheet Items, and RC-R, Regulatory Capital, to gain a better understanding of the nature and trends of banks’ credit derivative activities. Since that time, the volume of credit derivative activity in the banking industry, as measured by the notional amount of these contracts, has increased steadily, rising to an aggregate notional amount of \$16.4 trillion as of March 31, 2008. The Call Report data indicate that the credit derivative activity in the industry is highly concentrated in banks with total assets in excess of \$10 billion. For these banks, credit derivatives function as a risk mitigation tool for credit exposures in their operations as well as a financial product that is sold to third parties for risk management and other purposes.

The agencies’ safety and soundness efforts continue to place emphasis on the role of credit derivatives in bank risk management practices. In addition, the agencies’

monitoring of credit derivative activities at certain banks has identified differences in interpretation as to how credit derivatives are treated under the agencies' risk-based capital standards. To further the agencies' safety and soundness efforts concerning credit derivatives and to improve transparency in the treatment of credit derivatives for regulatory capital purposes, the agencies propose to revise the information pertaining to credit derivatives that is collected on Schedules RC-L, RC-N (Past Due and Nonaccrual Loans, Leases, and Other Assets), and RC-R.

In Schedule RC-L, item 7, "Credit derivatives," the agencies propose to change the caption of column A from "Guarantor" to "Sold Protection" and the caption of column B from "Beneficiary" to "Purchased Protection" to eliminate confusion surrounding the meaning of "Guarantor" and "Beneficiary" that commonly occurs between the users and preparers of these data. The agencies also propose to add a new item 7.c to Schedule RC-L to collect information on the notional amount of credit derivatives by regulatory capital treatment. For credit derivatives that are subject to the agencies' market risk capital standards, the agencies propose to collect the notional amount of sold protection and the amount of purchased protection. For all other credit derivatives, the agencies propose to collect the notional amount of sold protection, the notional amount of purchased protection that is recognized as a guarantee under the risk-based capital guidelines, and the notional amount of purchased protection that is not recognized as a guarantee under the risk-based capital standards.

The agencies also propose to add a new item 7.d to Schedule RC-L to collect information on the notional amount of credit derivatives by credit rating and remaining maturity. The item would collect the notional amount of sold protection broken down by

credit ratings of investment grade and subinvestment grade for the underlying reference asset and by remaining maturities of one year or less, over one year through five years, and over five years. The same information would be collected for purchased protection.

In Schedule RC-N, the agencies propose to change the scope of Memorandum item 6, “Past due interest rate, foreign exchange rate, and other commodity and equity contracts,” to include credit derivatives. The fair value of credit derivatives where the bank has purchased protection increased significantly to over \$500 billion at March 31, 2008, as compared to a negative \$10 billion at March 31, 2007. Thus, the performance of credit derivative counterparties has increased in importance. The expanded scope of Memorandum item 6 on Schedule RC-N would include the fair value of credit derivatives carried as assets that are past due 30 through 89 days and past due 90 days or more.

In Schedule RC-R, the agencies propose to change the scope of the information collected in Memorandum items 2.g.(1) and (2) on the notional principal amounts of “Credit derivative contracts” that are subject to risk-based capital requirements to include only (a) the notional principal amount of purchased protection that is defined as a covered position under the market risk capital guidelines and (b) the notional principal amount of purchased protection that is not a covered position under the market risk capital guidelines and is not recognized as a guarantee for risk-based capital purposes. The scope of Memorandum item 1, “Current credit exposure across all derivative contracts covered by the risk-based capital standards,” would be similarly revised to include the current credit exposure arising from credit derivative contracts that represent (a) purchased protection that is defined as a covered position under the market risk capital guidelines and (b) purchased protection that is not a covered position under the market

risk capital guidelines and is not recognized as a guarantee for risk-based capital purposes. The agencies also propose to add new Memorandum items 3.a and 3.b to Schedule RC-R to collect the present value of unpaid premiums on sold credit protection that is defined as a covered position under the market risk capital guidelines. Consistent with the information currently reported in Memorandum item 2.g, the agencies propose to collect this present value information with a breakdown between investment grade and subinvestment grade for the rating of the underlying reference asset and with the same three remaining maturity breakouts.

M. Questions Concerning Certain Trust, Custodial, Safekeeping, and Other Services

Under certain circumstances, banks can serve as trustee or custodian for Individual Retirement Accounts (IRAs), Health Savings Accounts (HSAs), and other similar accounts without obtaining trust powers. Banks may also provide custody, safekeeping, or other services involving the acceptance of orders for the sale or purchase of securities regardless of whether they have trust powers. Under the Board's and the SEC's recently adopted Regulation R – Exceptions for Banks from the Definition of Broker in the Securities Exchange Act of 1934 (12 CFR part 218), a bank will only be able to effect securities transactions for customers if the bank meets one of the exceptions from the broker definition in section 3(a)(4) of the Securities Exchange Act of 1934. Under the trust and fiduciary exception, the securities transactions must be effected in a trust department or other department of a bank that is regularly examined for compliance with fiduciary standards.

Accordingly, the agencies must be able to identify banks that serve as trustee or custodian for IRAs, HSAs, and other similar accounts or provide custody, safekeeping, or

other services involving the acceptance of securities sale or purchase orders. Depending on whether such banks exercise trust powers, these activities will need to be examined during trust examinations or other examinations, as appropriate, in order to ensure that the activities are conducted in a satisfactory manner and in compliance with the requirements for the exception from the broker definition. Therefore, the agencies are proposing to add two yes/no questions to Schedule RC-M, one of which would ask each bank whether it acts as trustee or custodian for IRAs, HSAs, and other similar accounts and the other of which would ask whether the bank provides custody, safekeeping, or other services involving the acceptance of securities sale and purchase orders.

IV. Discussion of Revisions Proposed for December 2009

Schedule RC-T, Fiduciary and Related Services, was added to the Call Report effective December 31, 2001, replacing two separate reports, the Annual Report of Trust Assets (FFIEC 001) and the Annual Report of International Fiduciary Activities (FFIEC 006). Schedule RC-T collects data on:

- Fiduciary and related assets by type of fiduciary account, with the amount of assets and number of accounts reported separately for managed and non-managed accounts;
- Fiduciary and related services income by type of fiduciary account and expenses, including fiduciary settlements, surcharges, and other losses by type of fiduciary account;
- Managed assets held in personal trust and agency accounts by type of asset;
- Corporate trust and agency accounts; and
- The number of collective investment funds and common trust funds and the market value of fund assets by type of fund.

FDIC-insured banks that exercise fiduciary powers and have fiduciary assets or accounts and uninsured limited-purpose national trust banks (trust institutions) must complete specified sections of Schedule RC-T either quarterly or annually (as of December 31) depending on the amount of their total fiduciary assets as of the preceding calendar year-end and their gross fiduciary and related services income for the preceding calendar year. Approximately 400 trust institutions with total fiduciary assets greater than \$250 million or with gross fiduciary and related services income greater than 10 percent of net interest income plus noninterest income report their fiduciary and related assets and their fiduciary and related services income quarterly and the remaining data items on Schedule RC-T annually. Around 200 trust institutions with total fiduciary assets greater than \$100 million but less than or equal to \$250 million that do not meet the fiduciary income test mentioned above complete all of Schedule RC-T annually. About 1,000 trust institutions with total fiduciary assets of \$100 million or less that do not meet the fiduciary income test mentioned above must complete all of Schedule RC-T annually except the sections on fiduciary income and losses from which they are exempt.

Since its addition to the Call Report at year-end 2001, Schedule RC-T has not been revised. During this time period, significant growth has occurred in both the assets in managed and non-managed fiduciary accounts at trust institutions. For the five year period ending December 31, 2007, managed assets increased from \$3.3 trillion to \$5.6 trillion while non-managed assets climbed from \$8.2 trillion to \$17.7 trillion. Assets held in custody and safekeeping accounts grew from \$21.4 trillion to \$57.9 trillion over this same period. The number of corporate and municipal debt issues for which trust institutions serve as trustee has also increased over the past five years, rising from

237 thousand to 339 thousand, and the total par value of these debt issues has increased from \$6.4 trillion to \$15.7 trillion. The total market value of the assets held in collective investment funds and common trust funds operated by trust institutions grew from \$1.6 trillion at year-end 2002 to \$3.0 trillion at year-end 2007.

The agencies have been monitoring the growth in fiduciary activities and trends in this area, both from data collected in Schedule RC-T and through the examination process, and have determined that certain data should be added to Schedule RC-T to enable the agencies to better evaluate the trust activities of individual trust institutions and the industry as a whole. The agencies are proposing to implement the following revisions to Schedule RC-T as of December 31, 2009.

A. Institutional Foundations and Endowments

In both the Fiduciary and Related Assets section of Schedule RC-T and the Fiduciary and Related Services Income section of the schedule, information on the assets, number of accounts, and income from fiduciary accounts of institutional foundations and endowments is currently reported as part of the total amounts reported for “Other fiduciary accounts.” Internal Revenue Service (IRS) statistics for 2004, the most recent year for which data are available, indicated that foundations and charitable trusts treated as foundations by the IRS held assets with a total book value of \$451 billion.¹¹ The agencies believe that trust institutions administer a substantial amount of these assets and that foundations and endowments are a major type of fiduciary account being aggregated as a component of “Other fiduciary accounts.” Given the volume of assets administered

¹¹ <http://www.irs.gov/taxstats/charitablestats/article/0,,id=96996,00.html>.

in accounts for foundations and endowments, separate reporting in Schedule RC-T of data for such a significant type of fiduciary account is warranted.

B. Investment Advisory Agency Accounts

Investment advisory agency accounts are accounts for which a trust institution provides investment advice for a fee, but where the ultimate investment decision rests with the customer. At present, the instructions for reporting in both the Fiduciary and Related Assets section of Schedule RC-T and the Fiduciary and Related Services Income section of the schedule do not identify the type of fiduciary account in which information on the assets, number of accounts, and income from investment advisory agency accounts should be reported. As a result, there is diversity in how trust institutions report this information in these two sections of Schedule RC-T.

Investment management agency accounts share a common characteristic with investment advisory agency accounts in that both involve the provision of investment advice to a customer for the purpose of determining which securities to buy, sell, or hold. However, the former is a type of managed account while the latter is a type of non-managed account. In order to clarify where investment advisory agency accounts should be reported in Schedule RC-T and include them with the most appropriate type of fiduciary account given their characteristics, the agencies are proposing that investment advisory agency accounts be reported with investment management agency accounts in the Fiduciary and Related Assets and the Fiduciary and Related Services Income sections of Schedule RC-T. The line item captions in these two sections for “Investment management agency accounts” would be revised to read “Investment management and investment advisory agency accounts.” In addition, given the non-managed nature of

investment advisory agency accounts, the currently blocked items for non-managed assets and number of non-managed accounts in the line for investment management agency accounts in the Fiduciary and Related Assets section of Schedule RC-T would be opened to enable trust institutions to report on these advisory accounts.

C. IRAs, HSAs, and Other Similar Accounts

IRAs, HSAs, and other similar accounts represent a large category of individual benefit and other retirement-related accounts administered by trust institutions for which the agencies do not collect specific data. At present, data for these accounts is included in the totals reported for “Other employee benefit and other retirement-related accounts” and “Custody and safekeeping accounts” in the Fiduciary and Related Assets section of Schedule RC-T (items 7.c and 13). As of year-end 2007, assets held in IRAs were estimated to be \$4.7 trillion.¹²

Significant growth in IRAs administered by trust institutions is expected as retiring individuals roll assets held in 401(k) plans over into IRAs. Significant growth in HSAs is also anticipated as these accounts gain increased popularity with the public. IRAs, HSAs, and other similar accounts for individuals have risk characteristics that differ from employee benefit plans that are covered by the Employee Retirement Income Security Act. In particular, the risks of these accounts for individuals tend to center on compliance with the relevant provisions of the Internal Revenue Code and the potential penalties for violations thereof. To identify trust institutions experiencing significant changes in the number and market value of assets of these types of accounts for supervisory follow-up and to monitor both aggregate and individual trust institution

¹² http://www.icifactbook.org/fb_sec7.html.

growth trends involving these accounts, the agencies are proposing to add a line item to the Fiduciary and Related Assets section of Schedule RC-T for data on IRAs, HSAs, and other similar accounts included in “Other employee benefit and other retirement-related accounts” and “Custody and safekeeping accounts.”

D. Managed Assets Held in Fiduciary Accounts

Trust institutions currently report a breakdown of the market value of managed assets held in personal trust and agency accounts by type of asset in Memorandum item 1 of Schedule RC-T. The agencies do not collect a similar breakdown of the managed assets for other types of fiduciary accounts. The exercise of investment discretion adds a significant element of risk to the administration of managed fiduciary accounts.

Therefore, it is essential that the agencies be able to monitor trends, both on a trust industry-wide basis and an individual trust institution basis, in how discretionary fiduciaries are investing the assets of managed accounts. The current scope of managed assets reporting is inadequate for monitoring and measuring risk exposures and provides inadequate information for examiners’ examination planning activities.

Despite the importance of such data, managed personal trust and agency accounts comprised just 20 percent of the number of total managed accounts and the assets of managed personal trust and agency accounts represented 18 percent of total managed assets as of December 31, 2007. By comparison, as of the same date, investment management agency accounts comprise 66 percent of the number of total managed accounts and the assets of investment management agency accounts represented 36 percent of total managed assets, while the assets of employee benefit and other retirement accounts comprised 41 percent of total managed assets.

In order to close the significant data gap in current reporting, the agencies are proposing to expand Memorandum item 1 of Schedule RC-T to collect a three-way breakdown of the market value of all managed assets held in fiduciary accounts by type of asset. The market values for the various asset types would be reported separately for three categories of managed fiduciary accounts: (1) personal trust and agency and investment management agency accounts, (2) employee benefit and other retirement accounts, and (3) all other accounts. The various types of fiduciary accounts have been combined into these three categories since each category is subject to unique regulatory and fiduciary standards. Data reported in this manner will assist in monitoring and measuring risk at trust institutions and in pre-examination planning by examiners.

The agencies have also reviewed the types of assets for which trust institutions currently provide a breakdown in Memorandum item 1. In this regard, discretionary investments in common trust funds (CTFs) and collective investment funds (CIFs) are not separately reported in this Memorandum item. Instead, trust institutions are required to allocate the underlying assets of each CTF and CIF attributable to managed accounts to the individual line items for the various types of assets reported in Memorandum item 1.

The agencies have found this method of reporting investments in CTFs and CIFs to be misleading, confusing, and burdensome for trust institutions. It is misleading because an investment in a CTF or CIF that invests in common stocks is very different in nature than a direct investment in an individual common stock, but these investments are reported as if the institution were investing in a specific asset, rather than in a fund. It is confusing and burdensome to reporting institutions that often do not understand the

allocation process currently required for reporting the value of the underlying assets of the CTFs and CIFs.

This allocation process requires institutions to segregate the underlying assets of each CTF and CIF by asset type, rather than following the more straightforward approach of reporting the total value of managed accounts' holdings of investments in CTFs and CIFs. Therefore, the agencies are proposing to end the current method of reporting investments in CTFs and CIFs in Memorandum item 1 by adding a separate line item for investments in CTFs and CIFs. This new asset type will enable the agencies to collect data that actually reflects the investment choices of discretionary fiduciaries, i.e., investing in a fund rather than an individual asset, while simplifying the reporting of these investments by eliminating the requirement to report each type of asset held by a fund.

At present, the asset type for "common and preferred stocks" in Memorandum item 1 includes not only these stocks, but also all investments in mutual funds (other than money market mutual funds, which are reported separately), private equity investments, and investments in unregistered and hedge funds. Investments in mutual funds (other than money market mutual funds) have long been reported with common and preferred stocks. However, over time, these investments have gone from being a relatively minor investment option for managed fiduciary accounts to being one of the most significant asset types for managed fiduciary accounts.

As a consequence, the agencies lack specific data on discretionary investments in mutual funds (other than money market mutual funds) despite their distinctive differences from investments in individual common stocks. Given these differences and the growth

in mutual fund holdings in managed fiduciary accounts, the agencies are proposing to add two new items to Memorandum item 1 to collect data on investments in equity mutual funds and in other (non-money market) mutual funds separately from common and preferred stocks.

Investments in hedge funds and private equity have grown rapidly since the implementation of Schedule RC-T in 2001, with large institutional investors, e.g., large pension plans, increasing their allocation to these types of investments in order to increase portfolio returns and pursue absolute return strategies. As mentioned above, these types of investments are currently reported in the “common and preferred stocks” asset type in Memorandum item 1. However, given their unique characteristics and risks and the increasing role such investments are having in managed fiduciary portfolios, the agencies believe there is a need to identify the volume of these investments to monitor both aggregate trust industry exposure and trust institution-specific exposure. Therefore, the agencies are also proposing to modify Memorandum item 1 by adding a new item in which trust institutions would report investments in unregistered funds and private equity investments held in managed accounts separately from common and preferred stocks.

Finally, since their inception in 1994, mutual funds for which the reporting trust institution or its subsidiary or affiliate is the sponsor or serves as an investment advisor (also referred to as proprietary mutual funds) have posed a significant fiduciary risk when the institution makes investments in such mutual funds for the fiduciary accounts it manages. In this situation, the institution’s dual roles present a conflict of interest, which has given rise to litigation on a number of occasions. Therefore, to supplement the proposed expanded information on mutual funds held in managed fiduciary accounts, the

agencies are proposing to add items to Memorandum item 1 for the reporting of the market value of discretionary investments in proprietary mutual funds and the number of managed accounts holding such investments. This information will assist the agencies in measuring and monitoring the risk exposure of the trust industry and individual trust institutions with respect to the conflicts of interest inherent in discretionary investments in proprietary mutual funds.

E. Corporate Trust and Agency Accounts

Trust institutions currently report the number of corporate and municipal debt issues for which the institution serves as trustee and the outstanding principal amount of these debt issues in Memorandum item 2.a of Schedule RC-T. One of the major risks in the area of corporate trust administration involves debt issues that are in substantive default. A substantive default occurs when the issuer fails to make a required payment of interest or principal, defaults on a required payment into a sinking fund, or is declared bankrupt or insolvent.

The occurrence of a substantive default significantly raises the risk profile for an indenture trustee of a defaulted issue. In such cases, every action or failure to act by the trustee is scrutinized intensely by the holders of the defaulted issue, which brings about a heightened risk of being sued. In addition, the administrative demands in such a situation can result in the incurrence of significant expenses and the distraction of managerial time and attention from other areas of the trust department. Thus, to monitor and better understand the risk profile of trust institutions serving as an indenture trustee for debt securities and changes therein, the agencies are proposing to require trust institutions to

report the number of such issues that are in substantive default and the principal amount outstanding for these issues.

In addition, the agencies are proposing to revise the instructions for reporting on corporate trust accounts to state that issues of trust preferred stock for which the institution is trustee should be included in the amounts reported for corporate and municipal trusteeships.

F. Instructional Clarifications

The instructions for reporting the managed and non-managed assets and number of managed and non-managed accounts for defined contribution plans and defined benefit plans in items 5.a and 5.b of Schedule RC-T, respectively, would be revised to indicate that employee benefit accounts for which the trust institution serves as a directed trustee should be reported as non-managed accounts.

The instructions for reporting on the number of and market value of assets held in collective investment funds and common trust funds in Memorandum item 3 would be clarified by stating that the number of funds should be reported, not the number of assets held by these funds, the number of participants, or the number of accounts invested in the funds.

V. Request for Comment

Public comment is requested on all aspects of this joint notice. 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 joint 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.

Dated: September 17, 2008

(signed)

Michele Meyer,

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

Board of Governors of the Federal Reserve System, September 17, 2008.

(signed)

Jennifer J. Johnson
Secretary of the Board.

[THIS SIGNATURE PAGE PERTAINS TO THE JOINT NOTICE AND REQUEST FOR COMMENT, "PROPOSED AGENCY INFORMATION COLLECTION ACTIVITIES; COMMENT REQUEST," FOR THE CONSOLIDATED REPORTS OF CONDITION AND INCOME]

Dated at Washington, D.C., this 16th day of September, 2008.

FEDERAL DEPOSIT INSURANCE CORPORATION

(signed)
Robert E. Feldman
Executive Secretary