



January 20, 2012

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Office of the Comptroller  
of the Currency  
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Washington, D.C. 20219  
Attention: 1557-0081

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Attention: Comments 3064-0052

Jennifer J. Johnson  
Secretary  
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U.S. Office of Management  
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New Executive Office Building  
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725 17<sup>th</sup> Street, N.W.  
Washington, D.C. 20503

Re: Consolidated Reports of Condition and Income (FFIEC 031 and 041)

Ladies and Gentlemen:

The Clearing House Association L.L.C. ("The Clearing House"), an association of major commercial banks,<sup>1</sup> appreciates the opportunity to comment on the proposed revisions to the Consolidated Reports of Condition and Income (the "Call Report") and the instructions thereto (the "Instructions", and together with the Call Report, the "Proposal") jointly proposed by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (collectively, the "Agencies"). We support the efforts of the Agencies to improve their understanding of banks' lending activities and credit risk exposures while striking a balance between the Agencies' need for data and the need for such data requests to be practical, logical and administratively manageable for both

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<sup>1</sup> Established in 1853, The Clearing House is the oldest banking association and payments company in the United States. It is owned by the world's largest commercial banks, which collectively employ over 2 million people and hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing—through regulatory comment letters, amicus briefs and white papers—the interests of its owner banks on a variety of systemically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost \$2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the U.S. See The Clearing House's web page at [www.theclearinghouse.org](http://www.theclearinghouse.org).

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the Agencies and the members of the banking industry that have to apply those rules. We believe the recommendations provided herein will achieve the Agencies' objectives and strike that appropriate balance.

- I. **The data requested by the Proposal's Schedule RI-C, Disaggregated Data on the Allowance for Loan and Lease Losses ("Schedule RI-C") is not consistent with how banks estimate, manage and maintain their Allowance for Loan and Lease Losses ("ALLL"). Accordingly, The Clearing House recommends an alternative approach that allows the Agencies to achieve their stated objective which would require data consistent with the business model banks use to estimate their ALLL.**

The Proposal states that the intention of the Financial Accounting Standards Board (the "FASB") Accounting Standard Update No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("ASU 2010-20"), is to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses.<sup>2</sup> The Proposal further provides in relevant part that, consistent with the ASU 2010-20 disclosure requirements, the Agencies are proposing revisions to the June 30, 2012 Call Reports to capture disaggregated detail of institutions' ALLL and related recorded investments for certain loan and lease financing categories.<sup>3</sup> Specifically, the Proposal requests disaggregated allowance and recorded investment data on the basis of the impairment method (*i.e.*, whether the ALLL and the related investment amounts are collectively evaluated for impairment, individually evaluated for impairment or acquired with deteriorated credit quality) for certain loan and lease financing categories.<sup>4</sup> The detailed reporting that would be required for Schedule RI-C assumes a degree of disaggregation of the ALLL, which is not required by ASU 2010-20 and therefore not consistent with how banks estimate, manage and maintain their ALLL for purposes of complying with ASU 2010-20 in their Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K (the "SEC Reports"). Rather, The Clearing House member banks estimate their respective ALLL by using a consistent methodology for the entire inherent loss in their portfolio segments, which vary among all institutions, and they do not currently separate their ALLL by the categories contained in the Proposal.

ASU 2010-20 provides requirements to disclose the ALLL by portfolio segment (*i.e.*, the level at which an entity develops and documents a systematic method to determine its ALLL). For most large banks, this disclosure may consist of separate methodologies for portfolios of commercial loans (typically low volume, high dollar, individually risk-rated loans) and consumer loans (typically high volume, small dollar, homogenous loans). Thus, the methodology used to estimate the ALLL for a commercial portfolio of loans typically includes an individual loan risk-

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<sup>2</sup> 76 Fed. Reg. No. 224 (November 21, 2011) at 72038.

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

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rating and an implied expected loss based on the historical experience of either the individual loan or, if the loans that comprise the portfolio share similar characteristics, the portfolio. In contrast, the consumer loan ALLL methodology typically includes a statistically modeled, four-quarter loss forecast.

The proposed Schedule RI-C requirement to publicly disclose the ALLL on the basis of the impairment method for certain loan and lease financing categories is inconsistent with ASU 2010-20, and therefore would require a bank to either allocate its existing ALLL or develop new methodologies for regulatory reporting to determine the ALLL at the level of granularity required by the Proposal; these methodologies also may vary within the industry. Both of these alternatives may result in information that may be less meaningful than that which is currently included in SEC Reports and prove confusing to users that attempt to reconcile the Call Reports with the SEC Reports for a particular institution. Finally, disaggregating the ALLL at the level of detail proposed could be less accurate, as historical data (e.g., number of observations of default) used to model the "Probability of Default" may not be statistically significant when reduced to such a granular level.

In view of the concerns described above, The Clearing House respectfully recommends an alternative disclosure presentation (the "TCH View") that supports the Agencies' need to better understand bank lending activities and credit risk exposures but which is consistent with the business model currently used by such reporting entities to estimate their ALLL. In particular, the TCH View will provide the Agencies with information on credit card reserves, which are relatively large unsecured portfolios with high loss rates, and allow the Agencies to differentiate the ALLL allocated to commercial real estate ("CRE") loans from the remainder of the ALLL at institutions with CRE concentrations, which was specifically noted as a concern in the Proposal.<sup>5</sup> The TCH View recommends reporting the ALLL and the related investment amounts by impairment method for only the following loan categories as part of Schedule RI-C:

1. Real Estate
  - a. Commercial
  - b. Residential
2. Commercial (commercial & industrial & other)
3. Cards (consumer & small business)
4. Other Consumer
5. Unallocated

The TCH View aligns the new Call Report disclosures with disclosures currently required by ASU 2010-20. Further, although any level of additional disaggregation, such as that proposed by the TCH View, will require system programming changes to implement, The

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<sup>5</sup> 76 Fed. Reg. 224 (November 21, 2011) at 72039.

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Clearing House member banks would be able to provide the data required by the TCH View for the June 30, 2012 Call Report as requested in the Proposal, since the TCH View is consistent with disclosure contained in current SEC Reports. We would be happy to discuss the TCH View with the Agencies in further detail at your convenience.

Notwithstanding our concerns, if the Agencies move forward with the Proposal, The Clearing House urges the Agencies to delay this aspect of the Proposal at least until the September 30, 2012 Call Report due to the difficulty in compiling data at the level of detail required by the Proposal for Schedule RI-C. The final Call Report changes will not be published in the Federal Register until the beginning of February or later. Due to the significant changes to the reporting systems required to produce reliable information, large and small financial institutions would need this additional time to implement the required systems changes, integrate the changes with their existing internal controls structure and test their internal control systems. While in the interim it may be possible to make use of manually intensive processes such as database or spreadsheet tools to generate the data required by the Proposal, these manual processes would also necessitate additional time for implementation. As a result, in any event the data as included in the Proposal for Schedule RI-C would not likely be available in time to be included in the June 30, 2012 Call Report.

**II. The Clearing House strongly recommends that the Agencies collect information on loan origination activity only at the bank holding company level, using the existing Quarterly Capital Assessments and Stress Testing Report (the "FR Y-14Q") under the Comprehensive Capital Analysis and Review, rather than through the proposed Schedule RC-U, Loan Origination Activity ("Schedule RC-U").**

The Agencies state that information on the proposed Schedule RC-U would provide meaningful data to regulators to enable them to formulate and monitor monetary policy, particularly credit availability.<sup>6</sup> We appreciate that the Agencies have invited institutions to suggest alternative ways in which such loan origination data could be collected to meet the Agencies' data needs.<sup>7</sup> During our January 4, 2012 conference call with the Agencies (the "January 4<sup>th</sup> Conference Call"), the Agencies stated that the purpose of this data collection was not to analyze the lending data of a particular institution. The Clearing House believes, therefore, that the data the Agencies are requesting on loan originations should be collected at the bank holding company level rather than at the insured depository institution level.

Additionally, after reviewing the types of information reported in the FR Y-14Q, The Clearing House believes that this report provides appropriate information for the Agencies to meet their objectives (while maintaining the confidentiality of the data). Using the information already reported on the FR Y-14Q, the Agencies could calculate changes in balances of

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<sup>6</sup> *Id.*

<sup>7</sup> *Id.* at 72041.

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outstanding loans and lines of credit from the previously reported quarter as well as determine which loans and lines of credit were originated during the most recently completed quarter. The FR Y-14Q in its current format includes the following: (1) data referenced to FR Y-9C loan lines that separate reporting lines of credit from loans, as well as separate specific lines of credit (e.g., home equity lines, consumer cards and corporate cards) and specific loans (e.g., auto loans, student loans, residential first mortgage, residential second liens, other consumer and commercial real estate); (2) current outstanding balances of both loans and lines of credit for quarter-end, as well as origination dates, dollars of new commitments, and dollars of new accounts for a number of asset types; and (3) a separate schedule for small business lending and credit purpose data for commercial loans, as well as other information such as geographic location of borrowers, interest rates and pricing, detailed collateral types securing commercial real estate and commercial loan borrower industry codes that The Clearing House believes would be useful to assist the Agencies in assessing policy and trends.<sup>8</sup>

Furthermore, many bank holding companies currently disclose loan origination data in their SEC Reports and other public disclosures, such as earnings releases. This data is typically presented on a gross basis, consistent with how TARP origination data was captured. In the Proposal, the Agencies are requesting that quarterly loan origination data in Schedule RC-U be captured on a net basis. This net reporting would lead to multiple origination numbers being publicly disclosed and could create considerable confusion amongst the users of the SEC Reports and Call Reports. In addition, proposed Schedule RC-U only requests origination information on selected categories of loans, while the SEC Reports typically include data on all loan originations, further increasing the possibility for confusion. Moreover, certain column captions on the proposed Schedule RC-U are not labeled with commonly used and understood terminology (e.g., Schedule RC-U, Column B "Amount that was originated under a newly established commitment" and Schedule RC-U, Column C "Amount that was not originated under commitment"), thereby creating additional potential risk of confusion.<sup>9</sup>

In addition to the potential for confusion to users as discussed above, The Clearing House has other serious concerns with the Proposal's proposed data collection. The draft Instructions published on the FFIEC website prescribe the calculation of the amounts to be reported as originated during a quarter under a newly established commitment and contain several examples related to lines of credit.<sup>10</sup> The draft Instructions would require that

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<sup>8</sup> The FR Y-14Q is available at [http://www.federalreserve.gov/reportforms/formsreview/FRY14Q\\_20111216\\_f.pdf](http://www.federalreserve.gov/reportforms/formsreview/FRY14Q_20111216_f.pdf).

<sup>9</sup> In response to the question the Agencies raised during the January 4<sup>th</sup> Conference Call as to whether troubled debt restructurings ("TDRs") should be included in the origination schedule, The Clearing House recommends that TDRs not be included because banks are only restructuring the loans to mitigate losses, as opposed to issuing new credit.

<sup>10</sup> See Draft Instructions for Proposed Call Report Revisions for March and June 2012, pages 16 and 17, available at: [http://www.ffiec.gov/pdf/FFIEC\\_forms/FFIEC031\\_FFIEC041\\_201203\\_201206\\_i\\_draft.pdf](http://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_FFIEC041_201203_201206_i_draft.pdf)

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drawdowns on lines of credit during the quarter are reported net of payments received during the quarter, with payments applied to the oldest outstanding balances first. However, in practice, this is not how payments are applied for all credit line products. For example, in some consumer line of credit products, payments are applied to balances carrying the highest interest rate first and are then cascaded down to the balances with lower interest rates in descending order. Also, the Proposal does not consider other increases to line balances in addition to drawdowns such as balance transfers, fees and interest. Calculating new originations as proposed in the draft Instructions would require that institutions create a new, separate methodology to calculate net draws on lines of credit. Transaction level detail required to calculate such amounts would require a labor-intensive, business line product-by-product review and analysis. The resulting reported amounts may not provide meaningful data as they would not accurately reflect the actual sequence of draws, payments and other activity contributing to the changes in the outstanding balances of these lines of credit.

For all of these reasons, The Clearing House believes strongly that data included in the FR Y-14Q would better meet the Agencies' stated objectives for formulating and monitoring monetary policy than Schedule RC-U as currently contained in the Proposal. If the Agencies determine that they need additional information that is not reported in the FR 14-Q, The Clearing House would be pleased to discuss the objectives that the Agencies wishes to achieve and would welcome working with the Agencies to develop an alternative proposal to achieve those objectives.

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We greatly appreciate your consideration of our comments and would welcome the opportunity to discuss them further with you at your convenience. If we can facilitate arranging those discussions, or if you have any questions or need further information, please contact me at (212) 613-9883 (email: david.wagner@theclearinghouse.org) or Gail Haas at (212) 612-9233 (email: gail.haas@theclearinghouse.org).

Sincerely yours,



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