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Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street SW., Suite 3E-218, Mail Stop 9W-11
Washington, DC 20219

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, DC 20551
Attention: Robert DeV. Frierson, Secretary,

Federal Deposit Insurance Corporation
550 17th Street N.W.
Washington, DC 20429
Attention: Gary A. Kuiper, Counsel (Comments, Room NYA–5046)

RE: Comments on Proposed Revisions to Risk-Weighted Assets Portion of Schedule RC-R for Call Reports – Bank-Owned Life Insurance Assets

Ladies and Gentlemen:

On June 23, 2014, 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") approved the publication for public comment of proposed revisions to the risk-weighted assets portion of Schedule RC–R, Regulatory Capital in the Consolidated Reports of Condition and Income ("Revised Schedule RC–R").

Once finalized, the Revised Schedule RC–R will implement the reporting of risk-weighted assets (RWA) consistent with the Standardized Approach which will become effective and replace the existing risk-weighting (commonly referred to as "Basel I") on January 1, 2015.

Established in 1992, MB Schoen & Associates, Inc. provides consulting and administrative services specifically related to Bank Owned Life Insurance (BOLI) programs. Our clients include community banks, large regional banks and banks that are among the largest in the world. We presently provide administrative services for more than $18 billion of BOLI assets. We appreciate the opportunity to provide comments and suggestions on the Revised Schedule RC–R, specifically as it relates to the reporting of risk-weighted assets for BOLI assets.

Collectively, regulated financial institutions own approximately $160 billion of BOLI.[1] There are three types of BOLI: general account, separate account, and hybrid. As discussed further below, there are certain aspects of incorporating BOLI in the Revised Schedule RC–R that may require regulatory clarification. Additionally, we provide a specific recommendation applicable to separate account BOLI programs.

Discussion of Current (Basel I) RWA Reporting for BOLI

In accordance with the FFIEC 031 and 041 instructions, BOLI assets are reported under Other Assets (Schedule RC-F) and are distinguished between general account, separate account, and hybrid.

Specific instructions are not provided for incorporating BOLI into the Risk-Weighted Assets schedule (Schedule RC-R-Part II – June 2014). However, consistent with the "Other Assets" classification, it is our understanding that banks include BOLI in the "All other assets" line of the Risk-Weighted Assets schedule (line 42 in the June 2014 form).

	(Column A) Totals *(from Schedule RC)*	(Column B) Items Not Subject to Risk Weighting	(Column C)	(Column D)	(Column E)	(Column F)
			Allocation by Risk-Weight Category			
			0%	20%	50%	100%
Dollar Amounts in Thousands	Tril Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou
Balance Sheet Asset Categories						
	RCFD B639	RCFD B640	RCFD B641	RCFD B642	RCFD B643	RCFD 5339
42. All other assets[1]						

As shown above, this line requires the underlying asset values to be reported in specific risk-weight categories. The categories shown on the form are consistent with Basel I risk-weights.

Discussion of RWA Reporting for BOLI in Revised Schedule RC–R

The Revised Schedule RC–R does not provide specific instructions for incorporating BOLI into the RWA schedule. With specific exceptions that we will discuss further below, barring additional clarification, we would expect BOLI assets to continue to be reported in the "All other assets" line (line 8). Below is a screen print of line 8.[2]

	(Column A) Totals *From Schedule RC*	(Column B) Adjustments to totals reported in Column A	(Column C)	(Column D)	(Column E)	(Column F)	(Column G)	(Column H)	(Column I)	(Column J)
			Allocation by Risk Weight Category							
			0%	2%	4%	10%	20%	50%	100%	150%
Dollar Amounts in Thousands	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou
8. All other assets[4]	RCXX XXXX	RCXX XXXX	RCXX XXXX				RCXX XXXX	RCXX XXXX	RCXX XXXX	

Similar to the current reporting, this line requires the underlying asset values to be reported in specific risk-weight categories. In the following subsections, we identify

[1] Total BOLI holdings are the sum of BOLI reported by bank holding companies in Y-9C reports and BOLI reported by standalone banks in call reports. Values are as of 3/31/2014.

[2] Line 8 spans two pages in the Revised Schedule RC–R; the second page includes risk-weight categories ranging from 250% to 1250%.

specific issues with respect to utilizing this line item for separate account BOLI assets, which, as clarified in the final regulatory rules, must be treated as investment fund exposures.

Separate Account Securitization Exposures
Certain separate account BOLI plans include investments in high-quality securitization exposures. Under the Standardized Approach, securitization exposures may be risk-weighted in three ways: the Gross Up Approach, the Simplified Supervisory Formula Approach ("SSFA") or by assigning a risk-weight of 1250%. The computational results of the Gross Up Approach and SSFA will vary based on the input parameters at an applicable point in time. As such, it is understood that they likely will not fall into the prescribed risk-weight categories.

We note that the Revised Schedule RC–R includes a line item (Line 9.d) which the agencies may intend to be used to capture securitization exposures within separate account BOLI plans ("All other on-balance sheet securitization exposures").

	(Column A) Totals	(Column B) Adjustments to totals reported in Column A	(Column Q)	(Column R)	(Column S)
			Total risk-weighted exposure, by calculation methodology		
			1250%	SSFA	Gross-Up
Dollar Amounts in Thousands	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou	Bil Mil Thou
9. On-balance sheet securitization exposures					
	RCXX XXXX	RCXX XXXX	RCXX XXXX	RCXX XXXX	RCXX XXXX
a. Held-to-maturity securities					
	RCXX XXXX	RCXX XXXX	RCXX XXXX	RCXX XXXX	RCXX XXXX
b. Available-for-sale securities					
	RCXX XXXX	RCXX XXXX	RCXX XXXX	RCXX XXXX	RCXX XXXX
c. Trading assets that receive standardized charges					
	RCXX XXXX	RCXX XXXX	RCXX XXXX	RCXX XXXX	RCXX XXXX
d. All other on-balance sheet securitization exposures					

Other Exposures in Separate Account BOLI Plans
Separate account BOLI plans may have underlying exposures to investments that have risk-weight categories that are currently marked as closed in line 8 of the Revised Schedule RC–R. These may include:

- Exchange traded interest rate futures contracts that might qualify for either the 2% or 4% risk-weight;
- Publicly traded equity securities (used in connection with hedging certain deferred compensation plan liabilities) that receive a 300% risk-weight; and
- Investments that might receive a 150% risk-weight (including, as an example, a foreign sovereign following an event of default).

Given the potential to encounter additional risk-weight categories, we think it would be helpful if the agencies clarified their intentions with respect to reporting such exposures.

<u>Suggested Resolution – Add Investment Fund Line Items</u>

Under the Advanced Approaches reporting (FFIEC 101), there are distinct line items for "Equity Exposures to Investment Funds" (lines 12-14 of Schedule R).

	Simple Risk Weight Approach			Full Internal Models Approach			Publicly Traded Internal Models Approach		
	(Column A) Exposure	Risk Weight or Multiplier	(Column B) Risk-Weighted Assets	(Column C) Exposure	Risk Weight or Multiplier	(Column D) Risk-Weighted Assets	(Column E) Exposure	Risk Weight or Multiplier	(Column F) Risk-Weighted Assets
Dollar Amounts in Thousands	Bil Mil Thou		Bil Mil Thou	Bil Mil Thou		Bil Mil Thou	Bil Mil Thou		Bil Mil Thou
Equity Exposures to Investment Funds									
12. Full look-through approach	AARA J063		AARB J063	AARC J063		AARD J063	AARE J063		AARF J063
13. Simple modified look-through approach	AARA J064		AARB J064	AARC J064		AARD J064	AARE J064		AARF J064
14. Alternative modified look-through approach	AARA J065		AARB J065	AARC J065		AARD J065	AARE J065		AARF J065

We think it would be helpful to add similar line items in the Standardized Approach forms. Benefits include:

1. Better regulatory visibility into investment fund RWA treatment (as opposed to the funds being dispersed across a number of line items and incorporated along with fixed assets, intangibles, etc.);
2. Better alignment between Standardized Approach and Advanced Approach methodologies for banks that are subject to both approaches; and
3. Potentially more efficient administration and recordkeeping since the values would more directly align with general ledger asset accounts.

<u>Conclusion</u>

As discussed in this letter, we recommend adding specific line items for Equity Exposures to Investment Funds in the revised risk-weighted asset schedule that was proposed for comment. If the agencies choose not to add such line items, we recommend opening up additional risk-weight categories in the "All other assets" line (line 8.) and/or providing additional guidance regarding how underlying exposures within separate account BOLI programs should be reported in the revised schedule.

Again, we appreciate the opportunity to submit comments on this matter and would be happy to discuss our observations and recommendations further if it would be of assistance to the agencies.

Sincerely,

Tradyn Foley

Tradyn Foley
Vice President