American Bankers Association

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Submitted Electronically

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Re: OMB Control No. 1557-0081; FFIEC 031, FFIEC 041, and FFIEC 051

Ladies and Gentlemen:

The American Bankers Association (ABA)[1]appreciates the opportunity to comment on the Federal Financial Institutions Examination Council's (FFIEC) proposal (the Proposal) to modify FFIEC Forms 051, 041, and 031, the Consolidated Reports of Condition and Income (the Call Report). The Call Report provides financial data on individual banks, allows trend analysis of condition and trend information about the overall banking industry, and serves as the basis for other reporting.

ABA appreciates the time and effort the FFIEC has devoted to identifying opportunities to reduce the burdens associated with Call Report requirements. We reiterate that for banks of all sizes the burdens of preparing and filing the Call Report most significantly are found in the complexity and granularity of the reporting, where many line items require legal or policy interpretations. We welcome the removal of line items not needed for supervisory purposes, and we recognize that increasing thresholds and application of less frequent reporting of certain line items serves as needed clean-up of the Call Report; the burden reduction value is limited.

[1] *The American Bankers Association is the voice of the nation's $17 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $13 trillion in deposits and extend more than $9 trillion in loans.*

Reducing the reporting frequency of only specific data items provides far less relief than might be thought, as banks will still need to collect the data at the same frequency in order to provide the cumulative data required every six-months. That is an issue that merits further consideration and another iteration of reform in order to realize the extent of relief that is intended.

In order to continue the process—that has been useful to industry and the FFIEC alike—to achieve the extent of necessary updating and refinement of the Call Report, we again[2] urge the FFIEC to maintain an industry advisory committee to provide the FFIEC with advice and guidance on issues related to FFIEC reports. We also urge the FFIEC to provide a regular forum, such as quarterly teleconferences, through which bankers can pose technical questions, learn about regulatory expectations, and understand any new requirements, among other things. Past teleconferences have been extremely helpful to the industry and to regulators, and we recommend that the FFIEC continue holding them on a regular basis.

With respect to the specific changes articulated in the proposal, as discussed more fully below, we are concerned about the Proposal's (1) revised methodology for identifying past due loans and leases and (2) the FFIEC's contemplation of moving banks with over $100 billion in assets to the FFIEC 031, in effect creating three Call Reports. We call upon the FFIEC not to finalize these aspects of the Proposal.

Instructional Revision for the Reporting of Assets as Past Due

The Proposal would revise the Call Report's methodology for reporting the past-due status for certain loans and leases, requiring all banks to use the Mortgage Bankers Association (MBA) method. While we appreciate the FFIEC's desire to standardize the approach across the industry, ABA opposes this change, as it will impose significant costs on the industry with little regulatory or supervisory benefit. Importantly, the change could have adverse impact on other financial and regulatory reporting, as we describe below.

Depending on their loan portfolios, most banks currently use a combination of actual day count, the MBA method, and Office of Thrift Supervision (OTS) approaches in reporting past due assets. Requiring that banks use the MBA method to calculate past due loans for purposes of the Call Report would involve significant changes to existing systems and may require changes to certain legal agreements. Furthermore, banks that base their disclosure of past due assets used in audited financial statements (in accordance with GAAP) on their regulatory reports will need to consider restatement of their financial statements. SEC registrants may further need to consider adjustment to 10-Q, 10-K, and other filings. Since past due methodology also affects the reporting of charge-offs and nonaccrual loans, the change in methodology will therefore require changes to these reported amounts.

[2] ABA Comment Letter to FFIEC, October 14, 2016

Due to the importance of credit risk to bank investors, these banks will also need to consider whether estimates of the allowance for loan and lease losses that are based on, among other things, trends in such metrics, require changes to their methodology or to the documentation related to their previous estimates. It is also likely that significant operational costs will be incurred in retrieving and calculating prior year past due amounts, which would be required in such a restatement. Of course, the GAAP definition of past due is less prescriptive than that which is required for purposes of regulatory reporting, and banks may elect not to align GAAP financial reporting to the Call Report. In those cases in which parallel processes are run, such banks will need to reconcile the two systems periodically.

Other areas of potential impact include regulatory capital, securitizations, and loan servicing. For example—

- Past due information is also used for the Risk Weighted Assets (RWA) calculation. There will likely be potential impact to the RWA calculation due to the different risk weighting associated with delinquent/nonaccrual loans.
- For loan management/servicing, the notifications to the customers on the status of the loan (e.g. past due) are commonly aligned with past due reporting.
- For loan securitizations, there are legal requirements regarding the quality of the loans, such as whether or not the loan is past due. The change to MBA methodology would, thus, create issues with the existing legal agreements and possibly significant unintended consequences.

For larger banks, the changes will affect other regulatory reporting, particularly with respect to liquidity reporting and the FR Y-15. For example—

- The FR 2052a Complex Institution Liquidity Monitoring Report only considers performing loans, so that revising the methodology will impact FR 2052 data.
- There could be potential impact to FR Y-15, as the FR 2052a provides the underlying data for FR Y-15 Schedule G, which is the basis for the method 2 calculation of the GSIB surcharge.
- Banks also use performing loan amounts as inputs for CCAR stress testing and Recovery & Resolution.
- Performing loans are reported separately from non-performing loans for the upcoming new reporting requirement related to Net Stable Funding Ratio.

In summary, the amounts of past due and non-performing loans are key metrics for banks, and changing the past due methodology will have far-reaching and unintended impacts.

Creation of Three Call Reports

Under the Proposal, the FFIEC contemplates what is effectively the creation of three Call Reports. We do not support the proposed scope revision of FFIEC 041. As a general matter, ABA believes that asset thresholds are not a sufficient proxy for risk or complexity. Rather, an institution's risk and complexity should be assessed on the activities in which it engages. Instead of creating multiple reports, we urge that the FFIEC use activity as a basis for determining if an institution needs to report a certain line item or schedule. As a practical matter, we are concerned about the ability to keep the reports aligned going forward. Three separate Call Reports would likely evolve differently, making it difficult to reconcile the reports for purposes of industry research. This problem will be compounded when bank growth is considered, as the same bank migrates from one size category to another with little change in its activities or risk profile. Instead of reducing burden, this change, if implemented, would in fact create burden, particularly for banking organizations with multiple banks which would have to maintain separate systems in order to file the variety of different reports.

Equity Securities

Overall, ABA supports the proposed changes to reporting of information on equity securities and other equity investments. We thank the FFIEC for responding to ABA's comment letter on this issue.[3] We agree that the changes will bring transparency to the effect of unrealized gains and losses on equity investments. With that in mind, however, we request clarification to ensure that banks appropriately report various equity investments that may now be subject to change, and that information in the Call Report not become out of sync with other financial reports, such as those required by the SEC.

We appreciate the FFIEC's release of draft instructions prior to the close of the comment period. While many outstanding questions were resolved, we request detailed clarification of the following.

Some equity securities with readily determinable fair value do not currently meet the current U.S. GAAP criteria for Available for Sale (AFS) classification. For example, securities might be bought and sold at a higher frequency than is expected for the AFS portfolio. Therefore, equity securities that are not held with the intention to trade are considered non-covered positions under the Market Risk Rules. Due to the fact that there is no other appropriate category other than Other Assets, banks generally report these securities in trading assets (Schedule RC-D) based on industry practice and regulator guidance derived from some banks' feedback. With the creation of the new item 2.c., "Equity securities with readily determinable fair values not held for trading," in Schedule RC - Balance Sheet, the guidance should indicate whether such equity securities should be reported in this line or in Trading Assets.

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[3] ABA Letter to the FDIC on the Reporting of Equity Securities. June 20, 2016

We reiterate our strong support and appreciation of the FFIEC's initiative to analyze the Call Report in order to reduce burden for all banks. We encourage the FFIEC to continue working with the industry to make the Call Reports and other required reporting more efficient for the banks that file the report, while providing accurate and relevant data for the report's users. If you have any questions about these comments, please contact the undersigned at (202) 663-5182 or email: atouhey@aba.com or Michael Gullette at 202-663-4986 or email: mgullett@aba.com.

Sincerely,

[redacted]

Alison Touhey