line of railroad extending from milepost 47.2 near Lindsay to milepost 66.0 near Ultra, in Tulare County, CA, and to discontinue trackage rights over 25.7 miles of railroad owned by San Joaquin Valley Railroad Co. from SP milepost 287.1 near Ducor to SP milepost 308.7 near Famoso, including the branch line from SP milepost 295.0 near Richgrove to SP milepost 299.1 near Jovista, in Tulare and Kern Counties, CA, subject to standard employee protective conditions and environmental conditions.

DATES: Provided no formal expression of intent to file an offer of financial assistance (OFA) has been received, this exemption is effective on March 23, 1997. Formal expressions of intent to file an OFA [1] under 49 CFR 1152.27(c)(2) must be filed by March 3, 1997; petitions to stay must be filed by March 10, 1997; requests for a public use condition must be filed by March 13, 1997; and petitions to reopen must be filed by March 18, 1997.

ADDRESSES: Send pleadings referring to STB Docket No. AB–397 (Sub-No. 5X) to: (1) Surface Transportation Board, Office of the Secretary, Case Control Branch, 1201 Constitution Ave., NW., Washington, DC 20423; and (2) Petitioner's representative: Paul C. Oakley, 1350 New York Ave., NW, Suite 800, Washington, DC 20005–4797.

FOR FURTHER INFORMATION CONTACT: Beryl Gordon, (202) 927–5660. (TDD for the hearing impaired: (202) 927–5721.)

SUPPLEMENTARY INFORMATION: Additional information is contained in the Board's decision. To purchase a copy of the full decision, write to, call, or pick up in person from: DC News & Data, Inc., Room 2229, 1201 Constitution Ave., NW., Washington, DC 20423. Telephone: (202) 289–4357/4359. (Assistance for the hearing impaired is available through TDD services (202) 927–5721.)

Decided: February 13, 1997.

By the Board, Chairman Morgan and Vice Chairman Owen.

Vernon A. Williams,

Secretary.

[FR Doc. 97–4273 Filed 2–20–97; 8:45 am]

BILLING CODE 4915–00–P

[1] *See Exempt. of Rail Abandonment-Offers of Finan. Assist.*, 4 I.C.C.2d 164 (1987).

DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

Federal Reserve System

Federal Deposit Insurance Corporation

Agency Information Collection Activities: Submission for OMB Review; 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: Notice of information collection to be submitted to OMB for review and approval under the Paperwork Reduction Act of 1995.

SUMMARY: On September 16, 1996, the OCC, the Board, and the FDIC (the agencies) requested public comment for 60 days on proposed revisions to the Consolidated Reports of Condition and Income (Call Report), which are currently approved collections of information. After considering the comments the agencies received, the Federal Financial Institutions Examination Council (FFIEC), of which the agencies are members, adopted several modifications to the revised reporting requirements initially proposed.

In accordance with the requirements of the Paperwork Reduction Act of 1995 (44 U.S.C. chapter 35), the agencies may not conduct or sponsor, and the respondent is not required to respond to, an information collection that has been extended, revised, or implemented on or after October 1, 1995, unless it displays a currently valid Office of Management and Budget (OMB) control number. Comments are invited on: a. whether the proposed revisions to the following 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 collection on respondents, including through the use of automated collection techniques or other forms of information technology; and e. estimates of capital or startup costs and costs of operational, maintenance, and purchase of services to provide information.

DATES: Comments must be submitted on or before March 24, 1997.

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: Written comments should be submitted to the Communications Division, Office of the Comptroller of the Currency, 250 E Street, S.W., Washington, D.C. 20219; Attention: Paperwork Docket No. 1557–0081 [FAX number (202) 874–5274; Internet address: Regs.comments@occ.treas.gov]. Comments will be available for inspection and photocopying at that address.

Board: Written comments should be addressed to Mr. William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, D.C. 20551, or delivered to the Board's mail room between 8:45 a.m. and 5:15 p.m., and to the security control room outside of those hours. Both the mail room and the security control room are accessible from the courtyard entrance on 20th Street between Constitution Avenue and C Street, N.W. Comments received may be inspected in room M–P–500 between 9:00 a.m. and 5:00 p.m., except as provided in § 261.8 of the Board's Rules Regarding Availability of Information, 12 CFR 261.8(a).

FDIC: Written comments should be addressed to the Office of the Executive Secretary, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429. Comments may be hand-delivered to Room F–402, 1776 F Street, N.W., Washington, D.C. 20429, on business days between 8:30 a.m. and 5:00 p.m. Comments may be sent through facsimile to: (202) 898–3838 or by the Internet to: comments@fdic.gov. Comments will be available for inspection at the FDIC Public Information Center, Room 100, 801 17th Street, N.W., Washington, D.C., between 9:00 a.m. and 4:30 p.m. on business days.

A copy of the comments may also be submitted to the OMB desk officer for the agencies: Alexander Hunt, Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 3208, Washington, D.C. 20503.

FOR FURTHER INFORMATION CONTACT: A copy of the revised collection of information may be requested from any of the agency clearance officers whose names appear below.

OCC: Jessie Gates, OCC Clearance Officer, (202) 874–5090, Office of the

Comptroller of the Currency, 250 E Street, S.W., Washington, D.C. 20219.

Board: Mary M. McLaughlin, Board Clearance Officer, (202) 452–3829, Division of Research and Statistics, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, D.C. 20551. Telecommunications Device for the Deaf (TDD) users only, Dorothea Thompson, (202) 452–3544, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, D.C. 20551.

FDIC: Steven F. Hanft, FDIC Clearance Officer, (202) 898–3907, Office of the Executive Secretary, Federal Deposit Insurance Corporation, 550 17th Street N.W., Washington, D.C. 20429.

SUPPLEMENTARY INFORMATION: Request for OMB approval to extend, with revision, the following currently approved collections of information:

Report Title: Consolidated Reports of Condition and Income

Form Number: FFIEC 031, 032, 033, 034.[1]

Frequency of Response: Quarterly.

For OCC:

OMB Number: 1557–0081.

Affected Public: National Banks.

Estimated Number of Respondents: 2,800 national banks.

Estimated Time per Response: 39.92 burden hours.

Estimated Total Annual Burden: 447,132 burden hours.

For Board:

OMB Number: 7100–0036.

Affected Public: State Member Banks.

Estimated Number of Respondents: 1,002 state member banks.

Estimated Time per Response: 45.80 burden hours.

Estimated Total Annual Burden: 183,566 burden hours.

For FDIC:

OMB Number: 3064–0052.

Affected Public: Insured State Nonmember Commercial and Savings Banks.

Estimated Number of Respondents: 6,374 insured state nonmember banks.

Estimated Time per Response: 29.67 burden hours.

Estimated Total Annual Burden: 756,511 burden hours.

The estimated time per response is an average which varies by agency because of differences in the composition of the banks under each agency's supervision (e.g., size distribution of banks, types of activities in which they are engaged, and number of banks with foreign offices). The time per response for a bank is estimated to range from 15 to 400 hours, depending on individual circumstances.

General Description of Report: This information collection is 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). Except for select sensitive items, this information collection is not given confidential treatment. Small businesses (i.e., small banks) are affected.

Abstract: Call Reports are filed quarterly with the agencies for their use in monitoring the condition and performance of reporting banks and the industry as a whole. The call reports also are used to calculate banks' deposit insurance assessments and for monetary policy and other public policy purposes.

Current Actions: Revisions initially proposed for the Call Report consisted of: the deletion or combining of a number of existing items; the revision of the Call Report instructions to eliminate instructions that differ from generally accepted accounting principles (GAAP) and the addition of a small number of new items to meet supervisory or insurance assessment calculation data needs resulting from this move to GAAP; the addition of new items and modification of existing items to enhance the agencies' ability to monitor interest rate risk, identify bank usage of credit derivatives, and support the FDIC's calculation of deposit insurance assessments for Oakar institutions; and changes to several other instructions. After considering the comments, the FFIEC approved several modifications to the initial set of proposed revisions. The comments on the initial proposal and the changes made in response to the comments are discussed below.

Type of Review: Revision.

On September 16, 1996, the agencies jointly published a notice soliciting comments for 60 days on proposed revisions to their currently approved Call Report information collections (61 FR 48687). The notice described the specific changes that the agencies, with the approval of the FFIEC, were proposing to implement as of March 31, 1997.

In response to this notice, the agencies collectively received 38 comment letters: 16 from community banks, 12 from large banks, 5 from bankers' associations, 2 from accounting organizations, 1 from another specialized trade association, 1 from a state banking authority, and 1 from a law firm. In general, most large banks and bankers' associations commented on several, but not necessarily all, of the areas in which the agencies proposed to change the Call Report requirements. Each of the remaining commenters typically addressed only one or two aspects of the proposal. The agencies and the FFIEC have considered all of the comments received on the proposal.

With respect to the proposed deletions and reductions in detail, commenters agreed with these changes, but several of them stated that the agencies had not gone far enough in their efforts to eliminate items and reduce reporting burden. Furthermore, as discussed further below, virtually all of the commenters expressing opinions on the Call Report revisions designed to enhance the agencies' ability to monitor interest rate risk opposed these proposed changes. They found them to be unnecessary and contrary to the statutory mandate to the agencies set forth in section 307 of the Riegle Community Development and Regulatory Improvement Act of 1994. In this regard, the agencies and the Office of Thrift Supervision, through the FFIEC's Task Force on Reports, are working to develop a common core report and supplemental schedules that will satisfy the requirements of section 307. The proposed Call Report changes for 1997 were not intended to fulfill those requirements in their entirety, but the deletions and reductions in detail as well as the adoption of GAAP represent important initial steps in that direction.

More specific information on the comments received is presented below.

Comments on Proposed Deletions and Reductions in Detail—The agencies had proposed to eliminate the separate Schedule RC–L items for ''Gross commitments to purchase'' and ''Gross commitments to sell'' when-issued securities (items 10.a and 10.b) and, instead, to have these commitments reported as forward contracts in the off-balance sheet derivative contract portion of that schedule. This change was proposed because of the relatively small number of banks reporting when-issued securities commitments and because these commitments are treated as derivative contracts under the agencies' risk-based capital standards. However, one commenter observed that the Financial Accounting Standards Board (FASB) defined the term ''derivative financial instrument'' in its June 1996 exposure draft of the proposed accounting standard ''Accounting for Derivative and Similar Financial Instruments and for Hedging Activities'' as a financial instrument

[1] The FFIEC 031 report form is filed by banks with domestic and foreign offices. The FFIEC 032 report form is filed by banks with domestic offices only and total assets of $300 million or more. The FFIEC 033 report form is filed by banks with domestic offices only and total assets of $100 million or more but less than $300 million. The FFIEC 034 report form is filed by banks with domestic offices only and total assets of less than $100 million.

that generally does not require the holder or writer of the instrument to own or deliver the underlying. This commenter felt it would be confusing to report when-issued securities as derivatives in Schedule RC–L if they are not reported as such for other financial reporting purposes. The FFIEC agreed and decided that institutions that do not include when-issued securities commitments as part of their disclosures about derivatives for other financial reporting purposes would be permitted to report commitments to sell when-issued securities as ''other off-balance sheet assets'' and commitments to purchase when-issued securities as ''other off-balance sheet liabilities'' in Schedule RC–L. There would be no change in the risk-based capital treatment of these contracts regardless of the Schedule RC–L item in which they are reported.

The agencies had proposed to combine items 1.d, ''Securities underwriting,'' and 1.e. ''Other unused commitments,'' on Schedule RC–L—Off-Balance Sheet Items, because only a small number of banks report that they have securities underwriting commitments. However, because of regulatory and possible statutory changes, the extent of bank involvement in securities underwriting may increase in the near future. Therefore, upon further consideration by the agencies, item 1.d is being retained.

Comments on the Elimination of Call Report Instructions That Differ From GAAP, Related New Items, and Other Affected Call Report Items and Instructions—Commenters addressing the adoption of GAAP as the reporting basis for the balance sheet, income statement, and related schedules in the Call Report expressed broad support for this concept. However, many of these commenters had opinions on certain issues relating to the implementation of GAAP-based reporting in the Call Report.

First, the proposal stated that the Call Report ''instructions will continue to contain and the FFIEC and the agencies will continue when necessary to issue specific reporting guidance that falls within the range of acceptable practice under GAAP.'' [2] The proposal further noted that ''[e]ach agency also will retain existing authority to require an institution to report a transaction in the Call Report in accordance with that agency's interpretation of GAAP.'' Commenters considered these practices contrary to the proposal's objective of moving to GAAP and expressed concern that the exercise of this authority would cause the Call Report to fall back into a reporting mode similar to the current situation in which the instructions contain departures from GAAP. Moreover, permitting individual agencies the discretion to interpret GAAP for Call Report purposes may affect consistency and comparability among the reported information. Several commenters recommended that any plans to require a specific reporting practice within the range of acceptable GAAP or to interpret GAAP in a way that departs from industry practice should first be issued as a proposal for public comment by all of the agencies.

The agencies and the FFIEC have in the past limited the number of circumstances in which they have adopted specific Call Report guidance that falls within GAAP to those few situations where safety and soundness objectives argue for a single reporting rule for all institutions or where the GAAP alternatives for reporting a transaction produce accounting results with a significant lack of comparability. When the agencies have previously considered implementing specific GAAP guidance, the FFIEC's Task Force on Reports has normally consulted with the staffs of the FASB and the Securities Exchange Commission (SEC). If reporting guidance of a supervisory nature is being pursued, the agencies and the FFIEC also decide whether public comment should be solicited. These practices are expected to continue and the adoption of specific Call Report instructions that fall within the range of GAAP should remain infrequent in the future.

In addition, the Call Report instructions have for many years stated that when a bank and its primary federal regulator have differing interpretations of how GAAP should be applied to a specific transaction, the agency may require the bank to report the transaction in the Call Report in accordance with the agency's interpretation and, if appropriate, to amend previously submitted reports. The agencies do not believe they have excessively or improperly invoked this authority in the past and would not expect this to change. In practice, when issues of GAAP interpretation are raised with an agency's Washington Office, the staff normally consults with the other agencies and with the FASB and SEC staffs and considers the views of the bank and its accountant before reaching a decision. This authority is essentially the same as the authority the SEC exercises over the public financial statements filed with it. The SEC can and does challenge registrants over their application of GAAP to specific events or transactions reflected in their financial statements. The SEC also can require restatement when it concludes that a registrant has not properly applied GAAP given the facts and circumstances surrounding an event or transaction. Therefore, the agencies believe it is appropriate to retain this authority.

Second, the proposal reminded banks that their regulatory capital ratios will continue to be calculated in accordance with the agencies' capital standards rather than in accordance with GAAP. At least five commenters responded to this statement. As long as the capital standards differ from GAAP, some felt that true relief from the burden of regulatory reporting requirements will not be achieved. Three suggested that the agencies should adopt GAAP for purposes of measuring regulatory capital. On the other hand, one commenter strongly supported the agencies' ability to decide whether to adopt new accounting standards for regulatory capital purposes. Revisions to the agencies' capital standards fall outside the scope of the Call Report proposal for 1997 and would need to be addressed by each agency, in consultation with the other agencies, as part of a rulemaking. Appropriate agency staff have been advised of this request.

Along a similar vein, two commenters observed that there are other laws and regulations that are based on income or capital levels that are reported in Call Reports such as legal lending limits, dividend limitations, loans to insiders, and permissible investment activities. One of these two commenters, which had recommended that the agencies adopt GAAP for regulatory capital purposes, also urged the agencies to adopt GAAP for purposes of these other laws and regulations as well as for all supervisory purposes. The other commenter requested that the agencies provide guidance to institutions and examiners on how these other laws and regulations would be applied under the GAAP basis of reporting in the Call Report. Appropriate agency staff have been advised of this request.

Third, several commenters questioned how the agencies would define ''materiality'' when they interpret GAAP for Call Report purposes. It was stated that the agencies cannot truly ''adopt'' GAAP without adopting the

[2] Call Report instructions providing such specific reporting guidance include the nonaccrual rules, the treatment of impaired collateral dependent loans, the Glossary entry for the ''Allowance for Loan and Lease Losses'' which references the 1993 Interagency Policy Statement on this subject, the separate entity method of accounting for income taxes of bank subsidiaries of holding companies, push down accounting, and property dividends.

consideration of materiality in the application of accounting standards. Materiality is a qualitative characteristic of accounting information which is defined in FASB's Statement of Financial Accounting Concepts No. 2. At the end of each Statement of Financial Accounting Standards, the FASB states that the Statement's provisions ''need not be applied to immaterial items.'' Commenters indicated that the agencies' failure to recognize the concept of materiality for regulatory reporting purposes would add to the cost and regulatory burden of the Call Report. One commenter complained that regulators consider all items material, regardless of size.

The General Instructions section of the Call Report instructions discusses the applicability of GAAP to regulatory reporting requirements. While not specifically referring to materiality, banks generally are directed to follow GAAP when reporting events and transactions in the Call Report except where the instructions do not follow GAAP. When discussing the need for banks to amend previous reports, the General Instructions to the Call Report state that the agencies may require amendments if reports contain *significant* errors. The Glossary entry for ''Accounting Changes'' in the Call Report instructions states that a bank *may* be directed to file amended reports for periods that were *significantly* affected by a *material* error. Consistent with this language, the members of the FFIEC's Task Force on Reports and their agencies' accounting policy staffs, as a matter of practice, routinely consider materiality when responding to inquiries about how banks should account for specific events and transactions for Call Report purposes. Therefore, when dealing with the recognition and measurement of events and transactions in the Call Report, the General Instructions' reference to ''significant'' errors should be interpreted to mean errors that are ''material'' for the reporting bank.

In addition to situations involving recognition and measurement, the issue of materiality also arises in connection with how items must be classified or categorized in the Call Report, i.e., on what line of the Call Report must an item be reported. The Call Reports are standardized forms with preprinted captions for specific types of information. The agencies use the data reported on specific lines of the Call Report for purposes such as the FDIC's measurement of banks' assessable deposits in order to calculate deposit insurance premiums. The Board's research divisions use Call Report data for a variety of purposes, including for constructing and benchmarking various measures of the domestic (U.S.) banking system and for construction of the Flow-of-Funds accounts, all of which are provided to the Board of Governors and the Federal Open Market Committee, and for providing the Board of Governors with policy analyses of fundamental banking issues. Because of uses such as these for Call Report data, the need for banks to report items on the proper line of the standardized form may not be fully compatible with the concept of materiality. The agencies will need to give further study to the issue of materiality in relation to the classification of items in the Call Report.

Fourth, a number of commenters requested that they be given the opportunity to review and comment on the Call Report instructions as they would be revised to bring them into conformity with GAAP before they are finalized prior to the March 31, 1997, report date. One other commenter specifically suggested that the agencies provide a comment period after March 31 in order to permit banks to comment on any Call Report instructions they feel do not conform to GAAP. These commenters indicated that this process would help to ensure that the instructions do not inadvertently contain wording that is inconsistent with GAAP or otherwise presents problems to banks. Accordingly, the FFIEC's Task Force on Reports will provide draft instructions to each commenter who requested this opportunity and to the members of the Inter-Association Committee on Bank Accounting as they become available. In addition, once the new or revised instructions for 1997 are issued, the Task Force on Reports will set a specific time period, which will likely begin in the second quarter of 1997, during which banks can submit further comments about instructions that appear inconsistent with GAAP.

Fifth, the agencies proposed to add certain new items and to modify a number of existing Call Report items because of the effect that the adoption of GAAP will have on the manner in which several types of transactions or activities are reported in 1997. In the proposal, the caption to Schedule RC–F—Other Assets, item 3, ''Excess [first lien 1-to-4 family] residential mortgage servicing fees receivable,'' was to be revised to refer to interest-only strips receivable in response to the provisions of (FASB) Statement No. 125, ''Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities'' (FAS 125), which take effect in 1997. The agencies also proposed to add a new item to this schedule for interest-only strips receivable on other financial assets. One commenter recommended adding two more new items for interest-only strips receivable: one for mortgage-related assets other than first lien 1-to-4 family residential mortgages and another for credit card-related assets. After considering this commenter's suggestion, the FFIEC decided that only two items on interest-only strips receivable should be collected, but that the coverage of the proposed item for interest-only strips receivable on first lien 1-to-4 family residential mortgage loans be expanded to include all mortgage loans. The second proposed item would continue to refer to all other financial assets, but would no longer include any amounts related to mortgage loans.

Sixth, the proposal further noted that while the treatment of assets sold with recourse would be brought into conformity with GAAP for purposes of the Call Report balance sheet and income statement, the agencies' risk-based capital standards refer to the existing Call Report instructions as the source for the definition of asset sales with recourse. Thus, the Call Report Glossary entry for ''Sales of Assets'' would be recaptioned ''Sales of Assets for Risk-Based Capital Purposes.'' The Glossary entry's existing general rule would remain applicable for identifying those asset sales that would be treated as recourse transactions for risk-based capital purposes and be reportable as such in Call Report Schedule RC–R—Regulatory Capital.

The proposal also explained that, in connection with the implementation of FAS 125 in 1997, banks may be able to reflect as an asset certain previously nonrecognized (for Call Report purposes) contractual cash flows (e.g., excess servicing fees that are placed in so-called ''spread accounts'') that act as credit enhancements for assets (typically credit card receivables) that have been transferred and securitized. However, asset transfers that qualify for sale treatment under GAAP, but which use such cash flows as credit enhancements and carry them as on-balance sheet assets at a discounted amount, would be treated as sales with recourse under the ''Sales of Assets for Risk-Based Capital Purposes'' general rule because the bank has retained risk of loss with respect to these asset amounts. This means that a bank would have to hold risk-based capital against the full amount of assets transferred with recourse, but such transfers may qualify for low-level recourse capital treatment which would limit the required amount of capital to the carrying amount of these contractual cash flows net of any noncapital GAAP recourse liability account associated with the asset transfer.

The proposed post-1996 reporting treatment for asset transfers in which certain contractual cash flows act as credit enhancements was intended to produce the same regulatory capital outcome as the current (non-GAAP) nonrecognition of these cash flows. Several commenters concurred with the agencies' desire for the move to GAAP in this area to produce no significant change in the risk-based capital ratios calculated for a bank using the data reported in the Call Report's risk-based capital schedule. However, they observed that this would not be the case because a bank's reported assets would increase based on the carrying amount of these ''spread accounts,'' but the amount by which its reported undivided profits and Tier 1 capital would increase would be reduced by the related tax effect. The agencies and the FFIEC did not intend for the adoption of GAAP to significantly penalize institutions from a risk-based capital perspective. Accordingly, until any new regulatory capital rules for recourse arrangements and direct credit substitutes take effect, the Call Report instructions relating to the completion of the regulatory capital schedule will permit banks to apply the low-level recourse capital rule on a net of tax basis to ''spread accounts'' that act as credit enhancements for asset transfers.

Finally, several commenters addressed specific Call Report instructions or reporting practices which the proposal had not indicated would be revised to conform with GAAP. Some of these commenters offered specific suggestions about changing how the current instructions tell banks to report various types of income statement and balance sheet items so that banks are permitted to report this information in accordance with either the current instructions or prevalent banking industry practice. These commenters stated that these instructional changes would help to reduce reporting burden. Accordingly, as mentioned in the Introduction, a number of instructions will be revised to accommodate bankers' suggestions. Some commenters also pointed out certain Call Report instructions with ambiguous wording that could be interpreted as inconsistent with GAAP. The agencies plan to clarify these instructions to avoid possible misinterpretation in a GAAP reporting environment.

At least three commenters addressed the regulatory reporting practice that calls for transfers of assets (other than cash) between a bank and an affiliate or other related party to be reported at fair value rather than book value. While the agencies acknowledge that GAAP permits such transfers to be recorded at book value, the agencies believe that the use of fair value falls within the range of acceptable practice under GAAP when an entity that is consolidated in the GAAP financial statements of its parent prepares separate financial statements like the Call Report. In addition, the provision of section 23A of the Federal Reserve Act requiring both covered and exempt transactions between a bank and an affiliate to ''be on terms and conditions that are consistent with safe and sound banking practices'' has been interpreted to mean that transfers must be reported at fair value.

One commenter disagreed with the agencies' proposed approach for reporting the effect of the retroactive application of GAAP to transactions previously reported in accordance with Call Report instructions that differ from GAAP. The agencies proposed that banks should report the effect of this ''catch-up'' adjustment on a bank's undivided profits as of January 1, 1997, as a direct adjustment to equity capital. This commenter believes that the adoption of GAAP for Call Report purposes represents a change in accounting principle, the effect of which should be reflected in the income statement rather than as an equity capital adjustment. The agencies considered this comment and concluded that they should retain the proposed method of reporting the effect of the retroactive application of GAAP for Call Report purposes. Because the agencies are permitting banks to decide for themselves whether to retroactively apply GAAP to previous transactions or to continue to report them in accordance with the existing instructions that differ from GAAP, the agencies believe it is more appropriate for the retroactive effect to be reported outside of the Call Report income statement.

Comments on the Subchapter S Election for Federal Income Tax Purposes—The unanticipated change to Subchapter S of the Internal Revenue Code enabling banks, savings associations, and their parent holding companies to elect Subchapter S corporation status for federal income tax purposes in 1997 occurred when the FFIEC was being asked to approve by notation vote the publication of the proposed Call Report changes for 1997 for a 60-day comment period as required by the Paperwork Reduction Act of 1995. One commenter recommended that the agencies add a Call Report item for a bank's tax status, indicating that this would provide federal and state regulatory agencies (and other users of the Call Report) with one central data source for identifying those institutions that have elected Subchapter S status. The agencies and the FFIEC agreed with this recommendation and added a simple ''yes/no'' question to the Call Report asking whether the reporting bank has a Subchapter S election in effect for the current tax year. Such an item should produce a nominal amount of reporting burden.

Comments on the Reporting of Adjusted Attributable Deposit Amounts by Oakar Institutions—The FDIC's final rule amending certain provisions of its assessment regulations that pertain to Oakar institutions, which was published on December 10, 1996, calls for the FDIC to take over from Oakar institutions the responsibility for calculating the Adjusted Attributable Deposit Amount (AADA) resulting from previous assumptions of secondary-fund deposits. To support this calculation, the agencies proposed to revise the Call Report for 1997 to replace the existing item for AADAs in Schedule RC–O—Other Data for Deposit Insurance Assessments with two items that Oakar institutions currently report on a separate FDIC report form that would be eliminated and with one new item. The proposal indicated that Oakar institutions should experience a net reduction in reporting burden from these proposed reporting changes. However, several commenters that addressed this reporting change disagreed with this statement because Oakar institutions have not previously reported the third item that would be added to Schedule RC–O and because these institutions will now need to verify the accuracy of the FDIC's calculation of their AADAs each quarter. Therefore, the burden estimate for the Call Report was modified.

Comments on Credit Derivatives—The proposal discussed the effect of credit derivatives on the amounts reported in Call Report Schedule RC–R—Regulatory Capital and several comment letters addressed this matter. The agencies and the FFIEC agreed with these commenters that the instructions for Schedule RC–R should for the time being refer institutions to the guidance on credit derivatives issued by their primary federal supervisory agency rather than providing detailed instructional language in this evolving area.

Comments on Other Instructional Changes—The agencies proposed to revise the Call Report instructions in six other areas, two of which were addressed by commenters.

The first area involves the reporting of full-time equivalent employees and their compensation expense. Two commenters expressed concern that the proposal would cause banks to break out the compensation component of intercompany cost allocations and the related pro rata full-time equivalent employees. However, this was not the intent of the proposed change. Instructions will so indicate.

The second area involves the proposed elimination of conflicting instructions concerning the reporting of loans and leases held for sale. One commenter did not disagree with this proposed clarification, but suggested that the agencies also clarify that loans and leases held for short-term trading purposes and marked-to-market through the income statement may continue to be reported as trading assets. The agencies had not intended to change this existing reporting practice which is consistent with GAAP and will make this additional suggested instructional clarification.

Comments on Enhanced Interest Rate Risk Information—The industry comments on the proposed additions to the Call Report for interest rate risk monitoring purposes were generally unfavorable. Nearly three-fourths of the commenters, including almost all of the community banks, addressed the revisions related to interest rate risk. Most considered these revisions unnecessary, many stated that the expanded data will increase the cost and burden of the Call Report. Others suggested that the marginal benefit of these data to the agencies (in terms of earlier identification of some banks with interest rate risk problems than at present) would exceed the cost to implement the proposed changes. Some commenters reported that they or their data processing servicers would not have sufficient time to make the necessary systems changes by the proposed March 1997 implementation date and urged the agencies to move this date until June or September 1997 if they decide to proceed with their proposal. Some commenters also noted that the agencies just made some changes to the Call Report's maturity and repricing data in March 1996, are proposing further revisions for 1997, and may make additional changes as they design the common core report for banks, savings associations, and bank holding companies which at present is targeted for implementation not earlier than in 1998. In contrast, one commenting bankers' association agreed that, in general, ''the proposed changes are appropriate to analyze interest rate risk,'' but went on to state that it had some objections, including the cost.

After considering the comments, the agencies still believe that a revision of the Call Report that is substantially the same as proposed is necessary in order to obtain information that is better suited for off-site identification of institutions that have either minimal or potentially high interest rate risk. Revisions allowing a better identification of basic repricing/maturity mismatches and the presence of potential option risk are particularly important. A few commenters recognized that the proposed revisions accomplish this objective but commented negatively on the increased burden and the costs incurred in making programming changes to current systems.

Some commenters questioned the agencies' commitment to developing a risk assessment approach to determining the capital adequacy of an institution for interest rate risk. These commenters questioned the need for any revision to the Call Report given the increased focus on on-site examination of qualitative and quantitative risk management factors. Moreover, they viewed these modifications as auguring a shift in the policy stance taken by the agencies in the June 26, 1996, Joint Agency Policy Statement on Interest Rate Risk (1996 Policy Statement). Indeed, some industry commenters questioned whether these revisions represented a way to eventually implement a standardized model approach to assessing capital adequacy for interest rate risk.

The agencies remain committed to a risk assessment approach to determining capital adequacy for interest rate risk. However, the 1996 Policy Statement explicitly noted the Agencies' intent to ''use various quantitative screens and filters to identify banks that may have high exposures or complex risk profiles, to allocate examiner resources, and to set examination priorities. These tools rely on Call Report data and various economic indicators and data.'' The agencies do not intend, with or without these Call Report changes, to construct a standardized supervisory measure of interest rate risk. The recent adoption of the market risk capital charge clearly signals and establishes precedent that the agencies will rely increasingly on the internal risk measures of institutions. The agencies intend to use the data from the Call Report as it would be revised to develop screens that will permit the allocation of examiner resources toward the potentially riskier institutions and away from potentially less risky institutions.

Without the increased identification power provided by the additional data, the agencies may tend to conduct more in-depth on-site examinations than might otherwise be conducted. With the revisions to the Call Report, the agencies will be better equipped to identify both high and low interest rate risk institutions, off-site, and will be able to better focus examiner resources to address interest rate risk in a more efficient and burden sensitive manner.

The agencies recognize that the cost associated with changing the Call Report is not inconsequential. However, the proposed modifications will cause institutions to incur a significant one-time reprogramming cost with a smaller increase in periodic reporting cost. Moreover, these revisions are a small fraction of the proposed data collection requirements contained in the Supervisory Policy Statement Concerning a Supervisory Framework for Measuring and Assessing Banks' Interest Rate Risk Exposure which the agencies proposed in August 1995. The agencies have chosen only those modifications that afford the greatest potential benefit to off-site risk identification and resource allocation. The increased transparency provided by the changes will enhance the agencies' ability to distinguish institutions with potentially higher interest rate sensitivity. Additionally, it extends the agencies' ability to monitor structural changes in portfolio composition over time, enhancing the agencies' ability to redirect resources in a timely fashion as potential risks at individual institutions change.

In response to the burden concerns raised by commenters, the agencies and the FFIEC reviewed the specific interest rate risk-related changes that had been proposed and have made some modifications to the original proposal. First, the FFIEC deferred the effective date for the interest rate risk revisions to the Call Report from March until June 1997. This will increase the lead time that banks and their servicers will have to make necessary systems changes. Commercial banks will report the existing Call Report items that provide maturity and repricing data in March 1997. FDIC-supervised savings banks will continue to complete their supplemental interest rate risk schedule (Schedule RC–J) in March 1997, except for the weighted average cost and yield factors and the principal payments received memorandum items which will be eliminated.

Second, the FFIEC dropped three of the new items that had been proposed because of their relatively lower importance for interest rate risk screening purposes. These three items are ''Long positions in interest rate futures and forwards,'' ''Short positions in interest rate options,'' and ''Outstanding principal balance of 1-to-4 family residential mortgage loans held in portfolio that are serviced by others.'' The first two items would have been added to the off-balance sheet schedule (Schedule RC–L) and the third would have appeared on the memoranda schedule (Schedule RC–M).

Third, another proposed memoranda schedule item on servicing, ''Outstanding principal balance of loans other than 1-to-4 family residential mortgage loans that are serviced for others,'' will not be completed by all banks. Instead, this item will be applicable only to those banks filing the FFIEC 031, 032, and 033 report forms that service more than $10 million of such loans and whose servicing volume exceeds 10 percent of the reporting bank's assets. This item will not be applicable to banks with less than $100 million in assets that file the FFIEC 034 report form.

Fourth, the coverage of one of the proposed off-balance sheet items on interest rate swaps held for purposes other than trading has been revised to provide the agencies with a better indication of the volume of such swaps used for hedging purposes. The proposed item for ''Interest rate swaps where the bank has undertaken a floating rate obligation'' has been changed to cover those swaps ''where the bank has agreed to pay a fixed rate.''

Dated: February 14, 1997.

Karen Solomon,

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

Board of Governors of the Federal Reserve System, February 7, 1997.

William W. Wiles,

Secretary of the Board.

[THIS SIGNATURE PAGE PERTAINS TO THE JOINT NOTICE AND REQUEST FOR COMMENT, ''SUBMISSION FOR OMB REVIEW; COMMENT REQUEST'']

Dated at Washington, D.C., this 7th day of February, 1997.

Federal Deposit Insurance Corporation.

Robert E. Feldman,

Deputy Executive Secretary.

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