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

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

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Collectively, regulated financial institutions own approximately \$160 billion of BOLI.<sup>1</sup> 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).

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

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.<sup>2</sup>

Dollar Amounts in Thousands	(Column A) Totals From Schedule RC			(Column B) Adjustments to totals reported in Column A			(Column C) Allocation by Risk Weight Category																							
							0%			2%			4%			10%			20%			50%			100%			150%		
	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 <sup>4</sup>	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

<sup>1</sup> 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.

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



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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.

**Suggested Resolution – Add Investment Fund Line Items**

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		
	Bil	Mil	Thou		Bil	Mil	Thou	Bil	Mil	Thou		Bil	Mil	Thou	Bil	Mil	Thou		Bil	Mil	Thou
Dollar Amounts in Thousands																					
<b>Equity Exposures to Investment Funds</b>	AARA J063				AARB J063			AARC J063				AARD J063			AARE J063				AARF J063		
12. Full look-through approach .....																					
	AARA J064				AARB J064			AARC J064				AARD J064			AARE J064				AARF J064		
13. Simple modified look-through approach .....																					
	AARA J065				AARB J065			AARC J065				AARD J065			AARE J065				AARF J065		
14. Alternative modified look-through approach .....																					

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.

**Conclusion**

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  
Vice President