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March 2, 2015

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: Additional Comments on Reporting of Bank-Owned Life Insurance (BOLI) in Call Reports

Ladies and Gentlemen:

On February 2, 2015, the Federal Financial Institutions Examination Council (FFIEC) approved revisions to the reporting of risk-weighted assets in Part II of Schedule RC-R of the Call Report ("Approved Schedule RC-R"). The Approved Schedule RC-R incorporates feedback received in response to the draft form that was proposed on June 23, 2014.

The Approved Schedule RC-R will implement the reporting of risk-weighted assets (RWA) consistent with the Standardized Approach and is applicable for call reports submitted as of March 31, 2015.

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.

On August 19, 2014, we submitted a comment letter to the agencies requesting clarification regarding the reporting of risk-weighted assets for BOLI assets. We would like to commend the agencies for providing clarity with respect to treatment of BOLI assets in the Approved Schedule RC-R.

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While the treatment of BOLI assets in the Approved Schedule RC-R appears clear and straightforward, we would like to suggest that the agencies consider further aligning the reporting treatment of BOLI assets in each applicable call report schedule:

- FFIEC 031 and FFIEC 041: Schedule RC-F (Other Assets);
- FFIEC 031 and FFIEC 041: Schedule RC-R (Part II); and
- FFIEC 101: Schedule C (Wholesale Exposures) and Schedule R (Equity Exposures).

Below, we briefly describe our understanding of the reporting instructions and actual practices for BOLI under each of these schedules and identify potential differences. We conclude with a brief recommendation section.

FFIEC 031 and FFIEC 041: Schedule RC-F (Other Assets)

In accordance with the FFIEC 031 and 041 instructions, BOLI assets are reported under Other Assets (Schedule RC-F line 5) and are distinguished between general account (line 5.a), separate account (line 5.b), and hybrid (line 5.c).

Of note, the instructions direct an institution to include the following portions as general account assets in line 5.a:

Also include the portion of the carrying value of:

- (1) Separate account policies that represents general account claims on the insurance company, such as realizable deferred acquisition costs and mortality reserves; and
- (2) Hybrid account policies that represents general account claims on the insurance company, such as any shortfall in the value of the separate account assets supporting the cash surrender value of the policies.

FFIEC 031 and FFIEC 041: Schedule RC-R (Part II)

The Approved Schedule RC-R and corresponding draft instructions call for the following treatment of each type of BOLI:

- General Account: BOLI that is solely general account insurance is to be reported in column I (100% risk weight) of line 8;
- Separate Account: The carrying value is to be reported in column R of line 8.a. and the total RWA is to be reported in column S of line 8.a; and
- Hybrid: Is treated the same as Separate Account BOLI (i.e., reflected in line 8.a).

Of note, the instructions appear to require an institution to include certain portions of separate account products (i.e., general account exposures such as DAC and mortality reserves and stable value protection exposures) within line 8.a.

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This differs from the instruction in Schedule RC-F that directs an institution to include general account exposures of separate account products under the general account BOLI classification (line 5.a).

FFIEC 101: Schedule C (Wholesale Exposures) and Schedule R (Equity Exposures)

The FFIEC 101 report form and instructions do not provide complete direction for reporting the RWA of BOLI assets. The General Instructions for Schedule R (Equity Exposures) includes an explicit requirement to treat “investments in a separate account (such as bank-owned life insurance)... as if they were an equity exposure to an investment fund as described in section 154 of the advanced approaches rule.”

Based on the totality of instructions and regulatory guidance provided, our general understanding is that advanced approach institutions have thus far arrived at the following determinations:

- General Account BOLI: Treated as a Wholesale (Corporate) Exposure to the issuing insurance company; Values are reflected in Schedule C;
- Separate Account BOLI:
 - Exposures to an insulated separate account treated as an Investment Fund Exposure (Schedule R; lines 12-14);
 - Exposures to an insurance carrier’s general account (e.g., DAC and mortality reserves) treated as Wholesale (Corporate) Exposure to the issuing insurance company; Values are reflected in Schedule C;
 - Exposures to a SVP provider treated as an underlying exposure within the separate account to the applicable counterparty; and
- Hybrid BOLI: Treated as either a Wholesale Exposure or an Investment Fund exposure based on an interpretation of whether the product satisfies the definition of “separate account” under section 2 of the Basel III rules.¹

Summary

As noted above, there appears to be disharmony between how general account portions of separate account BOLI products are treated under different schedules of the call report. In the Other Assets schedule, they are explicitly segregated from the separate account line and included with general account BOLI assets.

The Approved Schedule RC-R appears to provide the opposite instruction (i.e., to include the general account portions of separate account products in the separate account line items).

The FFIEC 101 report and instructions do not appear to be entirely clear; however, it is our understanding that advanced approach institutions have applied a treatment more

¹ We have noted in a previous comment letter that the application of the definition as it relates to hybrid BOLI appears (to us) to be uncertain. The materiality of hybrid BOLI exposures for advanced approach institutions is fairly low. According to an analysis we prepare periodically, hybrid BOLI represented approximately 6% of the total BOLI assets owned by the top 20 national banks as of the third quarter 2014.

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similar to Schedule RC-F (i.e., segregating the general account portions of separate account policies).

Recommendations

We recommend that the agencies further align the reporting elements in each schedule referenced above. In particular, we recommend applying a consistent methodology for general account exposures within separate account products.

We tend to favor the approach set forth in the Approved Schedule RC-R, whereby the entire carrying value of separate account assets are reported as a single entry. At this time, it is unclear whether similar treatment is desired or allowed by the agencies with respect to the FFIEC 101 form. Alignment between the two RWA schedules (i.e., standardized and advanced) would seem preferable from a regulatory standpoint.

Likewise, we recommend modifying the instructions for lines 5a-5c of Schedule RC-F such that the full carrying value of separate account and hybrid products (inclusive of general account portions thereof) are reported in the respective line items.

It is our understanding that better alignment of these elements would reduce administrative burden at institutions associated with the exercise of reconciling the general ledger totals to the call report schedules.

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,

A black rectangular redaction box covering the signature of Tradyn Foley.

Tradyn Foley
Vice President