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Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th St. & Constitution Avenue, NW
Washington, DC 20551.

Mr. Steven F. Hanft, Paperwork Clearance Officer
Room MB–3064
Federal Deposit Insurance Corporation
550 17th Street, NW.
Washington, DC 20429

Re: **FDIC** - Consolidated Reports of Condition and Income, 3064–0052; **FRB** - Consolidated Reports of Condition and Income, 7100–0036; **OCC** – Attention: 1557–0081; 70 Federal Register 49363; August 23, 2005

Ladies and Gentlemen:

The Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency (the "Agencies") propose numerous changes to the Consolidated Reports of Condition and Income (the "Call Report"). All commercial banks under the jurisdiction of these Agencies will be affected, and so the American Bankers Association ("ABA") submits these comments on the proposed changes. The American Bankers Association, on behalf of the more than two million men and women who work in the nation's banks, brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership--which includes community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks--makes ABA the largest banking trade association in the country.

General Comments

The Agencies propose to delete a few items from the Call Report, propose to add many more items, and propose to change how the accuracy of the Call Report is attested to by the bank. ABA's primary concern about the proposal is that the new attestation procedures are literally unworkable and extremely troubling for bank Call Report preparers. Because of the importance of this issue, this comment first focuses on the proposal by the Agencies to hold directors and officers to an increased level of responsibility for Call Report items that are themselves often of little supervisory value and sometimes just impossible to accurately calculate (see discussion of insurance revenue reporting, below).

A. New Attestation and Signature Requirements

Currently, the Call Report must be signed by an authorized officer and must be attested to by not less than two directors (trustees) for State nonmember banks and three directors for State member and National banks. The authorized officer signs the following declaration: "I, ________________ of the named bank do hereby declare that the Reports of Condition and Income (including the supporting schedules) for this report date have been prepared in conformance with the instructions issued by the appropriate Federal regulatory authority and are true to the best of my knowledge and belief." The directors attest to the Call Report with the following declaration: "We, the undersigned directors (trustees), attest to the correctness of the Report of Condition (including the supporting schedules) for this report date and declare that it has been examined by us and to the best of our knowledge and belief has been prepared in conformance with the instructions issued by the appropriate Federal regulatory authority and is true and correct."

The proposed changes to the Call Report would require each bank's CEO <u>and</u> CFO to provide a declaration stating that they are responsible for establishing and maintaining adequate internal controls over financial reporting, including controls over regulatory reports. In addition the director attestation requirements would be changed to require that the directors who sign must be members of the bank's audit committee (for larger banks, this means that they will all be outside directors). This revised attestation would also indicate that the directors signing have reviewed the Call Report.

ABA believes, on the basis of comments from a number of bank Call Report preparers, that these changes are directly opposed to other regulatory changes recently made or now pending, will impose enormous new burden in preparing the Call Report, will require considerably more time for the bank to obtain the necessary signatures from the outside directors, and will impose unnecessary and excessive responsibilities on audit committee directors. ABA recommends that these proposed changes not be adopted.

<u>The proposed changes run counter to other regulatory changes recently made or now pending.</u> Recent changes to the Call Report deadlines have accelerated the filing date for some Call Reports. For instance, the filing deadline for banks with more than one foreign office was reduced from 45 to 40 days, effective June 30, 2004, and from 40 to 35 days, effective June 30, 2005.[1] In addition, the major project for Call Report Modernization was designed primarily for making Call Report data available to supervisors and analysts sooner. However, the requirement that the Call Report be signed only by audit committee members creates operational and logistical issues by restricting the number of persons that can sign. Directors are usually very active, and for larger banks, that are already required under Part 362 of the FDIC's regulations to have only outside directors on the audit committee, locating these directors in the short time frame after the Call Report is prepared, getting them to review the Call Report (presumably this new language will require that directors will spend

[1] The original proposal had been to shorten the filing date to 30 days, effective in 2003. The Agencies were made to understand that such a deadline was impossible for these banking organizations to meet and maintain data accuracy. See discussion of Call Report deadlines at 69 FR at 3997.

far more time reviewing the draft Call Report, raising questions, and waiting for answers before they will sign), and getting the signatures back to the bank will add considerably to the time necessary to file the Call Report. ABA finds this part of the proposal directly inconsistent with the shortened time frame for filing large bank (with at least one foreign office) Call Reports. Even for smaller institutions, these new signature requirements will consume precious time that banks do not have. Banks with only domestic offices must file the FFIEC 041 within 30 calendar days of the Report date. Their Call Report preparers tell us that this is barely enough time to complete and file the current Call Report. Any requirement that will demand more time in the process for filing Call Reports will likely make them late in filing. They tell ABA that the new attestation requirements will make it logistically impossible for them to file the banks' Call Reports on time.

Second, the proposal adds to the attestation requirements, requiring more review of the Call Report and more review of the adequacy of the bank's systems for "establishing and maintaining adequate internal control over … controls over regulatory reports." ABA is concerned that the FDIC proposes additional attestation requirements on <u>all</u> banks and savings associations at the same time that the FDIC has pending a proposal to reduce attestation and internal control burdens for banks and savings associations between $500 million and $1 billion.[2] These seem to be completely contradictory actions.

<u>The proposed changes require far more than is required for public companies and create enormous new burden with respect to regulatory reporting.</u>
Current requirements make the signing officer of the bank and the directors responsible for the correctness of the Call Reports. Further, federal criminal statutes make it a crime to make false statements in Call Reports.[3] Bank officers and directors are already civilly liable for losses arising from their negligence or their intentional acts. All of these make the correctness of the Call Report a matter of direct concern of officers and directors of the bank. So it is reasonable to ask what additional burden is imposed by the new language about being "responsible for establishing and maintaining adequate internal control over financial reporting including controls over regulatory reports." If this language had been proposed five or ten years ago, we would probably not see it as imposing significantly more burden; but the enactment of the Sarbanes-Oxley Act of 2002 (SOX) creates a totally different context, one of extremely burdensome and expensive requirements. The new language appears to generally mirror the language of the Section 302 of SOX certification as it relates to establishing and maintaining adequate internal control over reporting.

As further evidence of this different context, ABA has been told by two large banks that examiners already seem to expect that the bank should have the same documentation of controls over regulatory reporting that it has on controls over SEC reporting. And this was <u>before</u> the Agencies issued this proposal. One bank reports that its bank supervisor requested that the bank's internal auditors do additional field work because documentation of internal controls for regulatory reporting "did not exist." We see these as alarming signs that the Agencies anticipate imposing SOX level requirements on not just financial reporting but also on regulatory reporting, which we sincerely believe to be excessive.

It is important to understand that SOX only requires that an audit committee of a public company (i) have direct responsibility for the appointment, compensation, and oversight of the work of any

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[2] The FDIC's proposal would exempt institutions under a billion dollars from having to conduct and attest to an internal controls assessment. It also would not require these institutions to have audit committees composed entirely of outside directors. See 70 FR 44293; August 2, 2005.
[3] See 18 USC 1001, 1005, for example.

public accounting firm employed by that company for the purpose of preparing or issuing an audit report or related work and that the public accounting firm report directly to the audit committee and (ii) establish procedures for the receipt, retention and treatment of complaints received by the issuer regarding accounting, internal accounting controls or auditing matters; and the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters. SOX, the SEC and the New York Stock Exchange do not require public company audit committees to sign or attest to or certify financial statements filed with the SEC. These same standards appear in the discussion of the duties of the audit committee in the FDIC's Part 363: Annual Independent Audits and Reporting Requirements.[4]

Duties of a public company audit committee are detailed in audit committee charters, which underscore that SOX/SEC/NYSE view the audit committee as an oversight and review committee. Public company audit committee charters generally charge the audit committee with:

- separately and periodically discussing with management and independent accountants audited financial statements;
- reviewing accounting standards;
- reviewing with independent accountants any audit problems or difficulties with management's response;
- selecting or replacing independent auditors;
- reviewing scope of independent audit;
- reviewing reports by independent auditors;
- setting hiring policies for employees or former employees of the independent auditors;
- reviewing the scope and results of the internal audit;
- establishing procedures for reviewing and handling complaints;
- reviewing compliance with laws and regulations; and
- preparing an annual committee report.

The proposal exceeds these requirements by demanding that audit committee directors review the Call Report, and that, combined with the additions to the officer declarations, seems to suggest additional responsibilities for internal controls and correctness of regulatory reporting that are excessive.

<u>Applying SOX internal controls to regulatory reporting is inappropriate.</u>
First, Section 302 certification relates specifically to SEC reporting, which is based upon the financial statements prepared under Generally Accepted Accounting Principles (GAAP). There is an enormous professional body of accountants and auditors schooled in GAAP. That is not true for Call Reports and regulatory reporting. While the Call Reports are supposed to generally follow GAAP, bank Call Reports include a great amount of information at a much greater level of detail than is required or even explained by GAAP. Bank Call Reports also require disclosures that are not consistent with GAAP presentations.[5] A bank's internal control structure is generally designed to

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[4] See particularly Numbered Paragraph 31: Duties in the Appendix A to 12 CFR Part 363.
[5] For example, financial statements support the classification of loans by type (i.e., commercial, retail, construction, credit card). The Call Report requires detail primarily based on the type of collateral securing the loan. Since this categorization is not usually supported by the general ledger, it must be derived through secondary sources. There is also a similar requirement to provide detail on the interest income from these loans based on the loan categories as defined by their collateral. However, since this is not how interest income is recorded for GAAP purposes, the amounts reported again must be derived through other channels.

primarily support GAAP level disclosures; we know of no bank that is currently capable of applying a SOX level of controls to its Call Report process.

Based upon the secondary controls that exist for regulatory reporting as compared to the primary controls that support SEC reporting, ABA believes that the CEO and CFO will need to carefully evaluate the control structure before they can be expected to provide the proposed declaration. We do not believe that this is possible by the March 2006 Call. Also, in order for these officers to appropriately assess their liability in providing the declaration, more guidance should be given by the regulators on what specifically their expectations are for assessing controls over regulatory reports. Until such guidance is issued for comment and crafted into final form, SOX levels of internal controls for regulatory reporting are inappropriate.

Further, our bankers know that the corporate governance process that <u>must</u> exist to support declarations related to the adequacy and function of internal controls is a time-consuming process, given what they have had to do just to comply with the SOX requirements. Appropriate implementation of such controls would require years, not months.

Finally, ABA is particularly troubled by these new requirements because they are to be applied to all Call Report items, some of which are not capable of being calculated as accurately as are GAAP financial items. For example, the insurance revenue reporting items added to the Call Reports in 2002 were so confusing to bankers that the ABA's subsidiary, the American Bankers Insurance Association, actually wrote to the head of the Call Report Task Force and asked that additional items to be added to the Call Report, just so bankers could have a reasonable chance to correctly report the requested information.[6] Another example of a Call Report item that needed significant clarification before bankers could possible correctly report the required information is discussed in the Agencies' discussion of continuing confusion over how to correctly report loans with the GNMA Buy-Back Option.[7]

<u>ABA's Recommendation on the Attestation and Signature Proposal</u>.
For all of these reasons, the ABA recommends that the Agencies not adopt the proposed attestation changes.

However, if the Agencies do adopt these proposed changes, then the ABA strongly recommends <u>at least</u> a three year transition period, and a continuing three year exemption from the attestation requirements for any informational item added to or revised in the Call Report forms. ABA also urges the Agencies to inform examiners now that SOX-like internal controls for regulatory reporting have not been and currently are not required, and so examiners should not expect banks to have them in place or even be creating them at this time.

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[6] A copy of the ABIA letter to Robert Storch, FDIC, dated October 28, 2002, is attached.

[7] 69 FR 23502. On page 23504, the Agencies write: "However, additional inconsistencies in practice still exist regarding:
• the appropriateness of reporting repurchased GNMA loans, and GNMA loans that are eligible for repurchase, as past due loans in Call Report Schedule RC–N and TFR Schedule PD, and
• the appropriate balance sheet classification of foreclosed real estate that had been the collateral for GNMA loans, i.e., whether the foreclosed real estate should be reported as "other real estate owned" or "other assets."
The agencies December 2003 guidance did not address these reporting issues.

"The agencies' objective is to ensure consistent accounting and reporting for these loans and foreclosed real estate. <u>However, achieving consistency will require changes to current practice for some institutions and changes and clarifications to existing regulatory reporting guidance.</u>" [Emphasis added.]

B. Burden-reducing revisions

The Agencies propose a few reductions in Call Report items, which make a minor reduction in regulatory burden. ABA does not oppose them.

C. Revisions of existing items and new items

On the other hand, the Agencies propose to increase regulatory burden by adding or revising a number of items, some with multiple parts. However, no mere enumeration of the number of changes accurately reflects the increased burden. For example, the Agencies have proposed to split out separate items for "1-4 family residential construction, land development, and other land loans" from "Other construction, land development and other land loans" on Schedule RC-C, part 1, item 1.a; the past due and nonaccrual schedule (Schedule RC-N, item 1.a); the charge-offs and recoveries schedule (RI-B, part I, item 1.a); and commitments to fund loans (Schedule RC-L, item 1.c.(1)). First, the supervisory value of these changes is unclear. The Agencies' discussion of the change indicates that these loans in fact "perform much better than most other real estate loans," and the Agencies do not make clear how then this information will be used to improve the Agencies' risk analysis of real estate lending. Second, our bankers tell us that this level of detail is not readily available and would require system programming changes, particularly in larger institutions. As the industry demonstrated during the 2001-2002 Home Mortgage Disclosure Act rulemaking, changes to data collection systems require significant planning, budgeting, and reprogramming. It was this demonstration that caused the Federal Reserve Board to delay the implementation of the revised HMDA data collection by a full year in order to allow banks adequate time to implement the system changes that were needed. With respect to these Call Report changes, a minimum of six months' or more lead time would be required to perform the system changes necessary to provide this data. The costs for this are directly assessable as additional regulatory burden, as present SEC disclosure requirements related to loans outstanding, past due and nonaccrual loans, charge-offs and recoveries and commitments are not made at this level of detail.

Essentially these same criticisms may be made of many of the other items. In a further example, the Agencies have proposed to split out separate items for loans "Secured by nonfarm nonresidential properties" into separate categories for owner-occupied and other nonfarm nonresidential properties on Schedule RC-C, part 1, item 1.e; the past due and nonaccrual schedule (Schedule RC-N, item 1.e); and the charge-offs and recoveries schedule (RI-B, part I, item 1.e). The Agencies state that this is needed because these two types of loans present different risk profiles. ABA believes that this is not current practice for most banks to use the owner-occupied designation in reporting. Again, reprogramming of loan reporting systems to obtain this information would require a minimum lead time of six months from the date the final reporting revisions are published. We further note that it will be especially difficult to separate cash recovery amounts into these categories since at the time of the charge-off (2005 and prior years), the loans were not flagged according to these categories.

In fact, this particular change is so burdensome and of such questionable supervisory value for most institutions that ABA recommends an alternative. If the Agencies believe that it is necessary to identify the concentrations of these loans, ABA recommends, as a more practical alternative, that the information be collected in a memorandum item on Schedule RC-C rather than in the breakout of the loans. We also recommend that only the loan balances of the owner-occupied properties be collected and that no information be collected for nonaccruals, past dues and charge-offs/recoveries. If the concentration of these loans is high at an institution, the Agencies could collect further information when they conduct examinations, rather than require all banks to establish expensive and burdensome reporting systems to provide this information each quarter.

Further, ABA recommends that the Agencies reassess all supplemental schedule information and make an evaluation as to when such supplemental and memoranda data should be collected to fulfill supervisory and other responsibilities, based on the relative risk or significance associated with the data elements, rather than imposing mandatory collection of all supplemental information. For another example from the current proposal, ABA believes that it is unlikely to be meaningful to a given institution for the Agencies to require supplemental repricing information on Federal Home Loan Bank advances, if such advances are not significant to the liquidity or funding sources of the institution. The risks and risk management processes deployed by financial institutions can vary significantly between a community banking organization and a large bank. The information pertinent to a community bank may not be significant to a large bank and vice versa. By implementing minimum reporting thresholds for certain information, the Agencies will still collect relevant information to fulfill their objectives while reducing certain of the regulatory burdens otherwise imposed on all reporting institutions.

Finally, ABA reiterates that if the Agencies determine to proceed with the proposed revisions to the Call Reports, then the Agencies at a minimum need to delay the implementation date of the proposal for Construction, land development, and other land loans; the proposal for Non-farm, nonresidential loans; and the proposal for adding the new Schedule RC-P for the collection of closed-end 1-4 family residential mortgage banking activities until March 31, 2007. Because certain of the proposed data collections (such as charge-offs and recoveries) would be required to be reported on a year-to-date basis, banks would have to program for these changes by December 31, 2005, in order to begin tracking of this data throughout 2006. However, these proposals require significant programming changes that we have already noted require a minimum of six months from finalization of the changes. We believe this to be literally impossible, given that the comment period for this proposal only closes on October 24, 2005.

Conclusion

The American Bankers Association appreciates the opportunity to comment on this proposal, and ABA earnestly hopes that its comments will sway the regulators to not adopt the proposal for additional attestation and signature requirements, for all of the reasons given above. If there are any questions about this comment, please call the undersigned.

Sincerely,

Paul Alan Smith

Paul Smith
Senior Counsel

Attachment

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October 28, 2002

Mr. Robert Storch
Chief Accountant
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: FFIEC Call Report Task Force: Items Reporting Insurance Revenue

Dear Mr. Storch:

In June of this year, ABIA Managing Director Ken Reynolds collected data on insurance activities income from the new noninterest income items added to the Bank Report of Condition and Income and the BHC Y-9C ("bank financial reports") in 2001 and prepared a report ranking banking organizations by annual insurance revenues. However, when he sent the draft report out to the ABIA Board for review, it became quickly apparent by the responses from the Board that the numbers did not seem consistent with internal management reports. Ken asked for volunteers for a working group to review the bank financial reports' items and instructions and to determine what were the likely reasons for the apparent reporting confusions by a number of banking organizations. The resulting working group was composed of Ed Agnew and Dave Powell, US Bancorp; Chuck Bennett, Bank One; Elizabeth Hagman, National City; Kwan Lee, JP Morgan Chase; and Mehboob Vellani, SunTrust.

Initially, the working group focused on how each of their institutions had determined what information to report, in order to identify differences in how banking organizations were interpreting the instructions. These causes are discussed below under the heading Problems in Reporting.

The working group felt that just identifying problems with the bank financial reports' items on insurance revenues was inadequate. Therefore, the working group has tried to suggest improvements to the current reporting structure that would improve clarity, efficiency and consistency. Those suggestions are below in the section entitled The Working Group's Suggestions for Reporting of Insurance Revenue. The actual steps for implementation of these suggestions are in Appendix A, which provides a line-by-line description of suggested changes to the Report of Condition and Income and the FR Y-9C.

The working group recognizes that its suggestions will involve adding items to the reports and memoranda, which appears to be a request to add to the overall regulatory reporting burden. However, the working group makes these suggestions in the belief that the current reports are so confusing that adding more items that more correctly reflect BHC and bank practice in accounting for insurance revenue and clarifying the instructions for the items will in fact reduce regulatory reporting burden. As it would be best if these changes were effective with March 31, 2003 bank financial reports, to provide consistent, year-through reporting of insurance revenue, the working group would be happy to discuss any of their suggestions with the FFIEC Call Reports Task Force. If, after the Task Force has reviewed these suggestions, it has any questions or would like to discuss any aspect of this letter further, please call Ken Reynolds, ABIA's Managing Director.

Problems in Reporting

1. The instructions for line item 5.h create an inconsistency by calling for the reporting of premium revenue partially on a GAAP basis and partially on a statutory reporting basis. Although current instructions do not specifically mention GAAP or statutory basis for premium recognition, the request for **earned** property-casualty premiums and **written** life and health premiums inherently raises this issue. Earned insurance premiums for both property and casualty and life and health products are readily available in the GAAP financial statements of banks BHCs that have insurance company affiliates. However, written premiums are generally available on statutory financial statements prepared in accordance with the instructions of the individual state insurance regulators. Statutory basis reporting is used only by insurance carriers and not by insurance agencies, or any other corporate entities. Statutory reporting generally recognizes revenue and expense items on a cash basis to help insurance regulators monitor the liquidity and claims paying ability of insurance carriers. Combining GAAP basis figures with statutory amounts is not done in any other context and is certainly an apples and oranges example. As banks and BHCs' ledgers are maintained on a GAAP basis, it is extremely difficult, *if even available*, to combine premium information requests on both GAAP and statutory bases. This has led to considerable confusion among reporters.

This is complicated further by the timing of reporting. The currently required "written premiums" information for the bank financial reports is actually reported on a statutory basis under state insurance regulations. The deadline for such state reporting is 45 days after quarter-end and between 60 and 90 days at year-end, depending on the state. Since these dates fall after the deadline for bank financial reports, written premium information is generally unavailable. To attempt compliance, some banks and BHCs may have inadvertently used GAAP earned revenue in order to make reporting deadlines.

2. The bank financial reports require that commissions and fees from annuity sales be reported differently, depending upon the sales channel. Banks and BHCs may (and <u>do</u>) use a variety of legal entities and reporting structures with which to manage the sale of annuity and insurance products. Attributing the revenue on the basis of which particular entity (out of several selling annuities) seems inconsistent with the product based information necessary to support functional regulation. Reporting fixed annuities and insurance products as part of brokerage revenues, if a particular bank or BHC's broker-dealer happens to sell insurance products, obfuscates the true insurance-related revenue of that bank or BHC and dilutes the true risk profile of that broker-dealer. It is also unclear where other insurance products, such as variable life insurance, sold by broker-dealers or under fiduciary trust powers should be reported.

Example: Two different banks could own broker-dealers, each reporting $60 million of revenues on line 5d. The first broker-dealer may be solely responsible for its bank's fixed and variable annuity sales that result in $50 million of that reported $60 million revenue. The second broker-dealer may have very little involvement in its bank's fixed and variable annuity sales that result in only $5 million of annuity revenues out of the total $60 million reported. By splitting out the annuity revenues from the broker-dealer, as recommended in the Appendix for changes to line 12.a, the examiners receive a much clearer risk profile of the two different banks.

3. Additionally, bank financial reports appear to treat revenue from insurance sales and revenue from insurance underwriting as the same. The working group concluded that ignoring these selling and underwriting structural differences appears to result in reporting confusion. Currently, insurance agency commissions and fees, underwriting premiums and reinsurance premiums are requested on a single line. This does not give an examiner insight into how bank or BHC insurance activities are structured or the true risk profile of those activities. Agency commissions and fees are essentially riskless while revenue from underwriting premiums are of course subject to the underwriting risk. Not separately reporting these revenue streams results in masking the risk profile of the institution. $50 million in commissions and $10 million in net premiums is a completely different risk profile than $50 million in net premiums and $10 million in commissions.

4. On both the Income Statement and the Balance Sheet Memoranda, questions require aggregating mutual fund and annuities information as a single number. The working group concluded that this is confusing to reporters, and the working group questions whether this combined number has any inherent relevance or particular utility for regulators.

5. Finally, the working group concluded that the current bank financial report instructions provide no guidance on whether to include (or how to include) a bank's or BHC's internal insurance companies or captives that insure against risks of the bank or BHC or that reinsure these internal insurance policies. The working group found a variety of different structures, depending upon the bank or BHC's internal structures. For example, corporate insurance and human resource departments may separately manage and report their related captives and inter-company insurance premium and claim expense activities outside of the "(external – customer) insurance sales and underwriting" areas. Because some of this will be netted to zero on a consolidated basis, it appears that items will be reported on the bank reports for an individual bank for inter-company revenues and expenses that will not be reported after consolidation for the BHC FR Y-9C reports. This appears to create a reporting anomaly that may create considerable confusion for bank financial report users. We will provide examples, if you wish.

The Working Group's Suggestions for Reporting of Insurance Revenue

1. With respect to the GAAP versus statutory basis inconsistency, the working group recommends that all requested insurance premiums, commissions and balance sheet items should be reported on a GAAP basis. The instructions should make clear that all reporting is on a GAAP basis. This simple change in the current instructions will also enable Federal bank examiners to directly and more easily review the general ledgers of the bank or BHC to determine from which reporting unit the insurance information was collected. Furthermore, change to a GAAP basis will make the insurance numbers consistent with all the other income and balance sheet items within both reports, thereby eliminating considerable confusion among the report preparers and resolving the timing issues as to how to gather the requested information.

The working group also suggests that the instructions should clarify that debt cancellation and/or deferment products are not (credit) insurance products. Therefore, any resulting revenues from these products must be recorded as "Other noninterest income" (Item 5.l). This can be accomplished by listing debt cancellation/deferment products under the specific examples for 5.l in the instructions or, as we suggest, by creating a new line for this item which would help regulators monitor the growth of this activity.

2. To eliminate the confusion caused by treating annuity sales income differently depending upon the sales channel, all revenues related to annuity and insurance products sales should be reported under Insurance, even if sold through the broker-dealer legal entity. Any annuity sales revenues recognized as part of a fiduciary trust arrangement would still reported in 5.a.

3. To eliminate the confusion created by combining insurance sales revenue with insurance underwriting revenue, the working group suggests that separate lines on the Call Report (FFIEC 031) and the FR Y-9C reports be used to separately report the commission and fee revenues earned by insurance agencies from the earned premiums earned by insurance underwriting companies and reinsurance captives. (See Appendix A.) This will not only assist examiners in understanding the true risk profile of the widely different insurance subsidiaries within a bank or BHC and allow better comparison between banks and BHCs of the effects of insurance-related activities, based on the components of those activities, but also will be easier for reporters to achieve.

4. To prevent confusion arising from the aggregating of mutual fund revenue and annuity sales revenue, the working group suggests that additional lines be added to these questions in order to clearly separate mutual fund numbers from annuities. This will allow examiners to easily distinguish the trends between these growing distinct product areas and allow comparison between banks and BHCs that are managing or selling these two products.

5. To prevent the anomalies arising from consolidation of affiliates under the FR Y-9C resulting in the netting of self-insurance and internal insurance/risk management, the working group suggests that the report instructions instead require that any internal insurance/risk management and self-insurance or other intercompany insurance activities be aggregated and reported in the Insurance-related activities questions.

Please see the Appendix for a line-by-line description of suggested changes to the Report of Condition and Income and the FR Y-9C.

Sincerely,

Ken Reynolds
Managing Director
ABIA

Paul Smith
House Counsel