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FEDERAL FINANCIAL INSTITUTIONS EXAMINATIONS COUNCIL

Proposed Schedule on Trust Income and Expense

AGENCY: Federal Financial Institutions Examination Council.

ACTION: Request for comment.

SUMMARY: The Federal Financial Institutions Examination Council (FFIEC) \1\ proposes to add Schedule E--Fiduciary Income Statement (Schedule) to the Annual Report of Trust Assets (FFIEC 001). The agencies currently have no other source which provides trust income and expense data in a consistent and timely manner from those institutions engaged in fiduciary activities that are supervised by the agencies. The information requested would help the agencies monitor and evaluate the performance of and risks associated with the fiduciary industry.

\1\ The FFIEC consists of representatives from the Board of Governors of the Federal Reserve System (Board), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS) (referred to as the ``agencies"), and the National Credit Union Administration. However, this request for comment is not directed to credit unions. Section 1006(c) of the Federal Financial Institutions Examination Council Act requires the FFIEC to develop uniform reporting standards for federally-supervised financial institutions.

The proposed Schedule would be required to be filed by all trust institutions with \$100 million or more in total trust assets as reported on Schedule A, Annual Report of Trust Assets, on Form FFIEC 001. In addition, all non-deposit trust companies, whether or not they report any assets on Schedule A, would be required to file this Schedule. The proposed Schedule would be prepared on a calendar year basis beginning with the year ending December 31, 1996.

DATES: Comments must be received by August 29, 1995.

ADDRESSES: Comments should be directed to Joe M. Cleaver, Executive Secretary, Federal Financial Institutions Examination Council, 2100 Pennsylvania Avenue, NW, Suite 200, Washington, D.C. 20037. (Fax number (202) 634-6556.)

FOR FURTHER INFORMATION CONTACT:

Board: Donald R. Vinnedge, Manager, Trust Activities Program, (202) 452-2717; William R. Stanley, Supervisory Trust Analyst, Trust Activities Program, (202) 452-2744.

FDIC: James D. Leitner, Examination Specialist, Division of Supervision, 202 898-6790; Robert F. Storch, Chief, Accounting Section, Division of Supervision, (202) 898-8906.

OCC: William L. Granovsky, National Bank Examiner, Compliance Management, (202) 874-4447.

OTS: Larry A. Clark, Program Manager, Compliance and Trust, (202) 906-5628.

SUPPLEMENTARY INFORMATION:

Background

The FFIEC is proposing to add a schedule to the Annual Report of Trust Assets to annually collect limited trust income and expense information. Since this information generally pertains to only a portion of the reporting organization's total operations, the data reported by individual institutions would be regarded as confidential by the FFIEC and the agencies. Aggregate information, however, would be

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published annually in an FFIEC publication entitled "Trust Assets of Financial Institutions."

The off-balance sheet nature of fiduciary activities presents certain impediments to the agencies in the development and implementation of fiduciary and related supervision policy. The lack of uniform, consistent and industry-wide information on fiduciary income and expenses precludes effective analysis of fiduciary profitability and risk management for an individual institution, a peer group, and the entire industry. In addition, trust profitability is one of the rating factors in the Uniform Interagency Trust Rating System and the new schedule would enable the agencies to monitor trust income and losses between trust examinations.

Presently, the information collected on trust activities is limited to an annual reporting requirement for banks, savings associations, and trust companies showing discretionary and nondiscretionary trust assets by various types of accounts. Without income-related information from the same set of reporters, the agencies' ability to measure the risk associated with particular lines of fiduciary business and to evaluate the functional activities causing losses is hampered.

There are approximately 3,000 banks, savings associations, and trust companies that actively engage in trust activities. These institutions administered \$10.6 trillion of assets as of December 31, 1993, or more than three times the banking industry's on-balance sheet assets. As proposed, less than one third of these institutions would be required to report their income and expenses on the new schedule. These reporting institutions would account for approximately 99 percent of all trust assets. The size distribution of institutions engaging in trust activities as of December 31, 1993, was as follows:

Although data for 1994 show that assets grew by one trillion dollars and the number of institutions engaged in fiduciary activities decreased by about 100, no significant change was noted

in the number of institutions subject to the proposed reporting requirement.

Size of institution	Number of institutions	Trust assets
\$1 billion or more in trust assets.....	314	\$10,400
\$100 million to less than \$1 billion in trust assets.....	545	165
Less than \$100 million in trust assets.....	1,960	33
Totals.....	2,819	\$10,598

The fiduciary business has continued to grow substantially both in terms of assets administered and the variety and sophistication of investment services offered. Trust assets administered have grown by 61 percent over five years from \$6.6 trillion in 1988 to \$10.6 trillion in 1993. During this time, the proportion of these assets subject to the investment discretion of trust management has increased from 17 percent to 19 percent of trust assets.

Similarly, based on bank holding company reports to the Board on form FR Y-9C, it is estimated that gross fees from fiduciary activities for the 50 largest bank holding companies (in asset size) during this five year period has increased by 87 percent from \$5.2 billion in 1988 to \$9.7 billion in 1993. For these 50 organizations, these fees rose from 16 percent of total non-interest income in 1988 to 18 percent in 1993. The five year growth in trust assets and gross fee income supports the need for the agencies to collect and evaluate uniform information on income and expenses for individual institutions as an element of their supervisory oversight over these institutions and the industry.

Description of Proposed Schedule E--Fiduciary Income Statement

The proposed Schedule would be prepared on a calendar year basis beginning with the year ending December 31, 1996. Individual agencies, at their own discretion, may request that institutions under their supervision voluntarily file this Schedule for the year ending December 31, 1995.

The proposal calls for institutions to provide a breakdown of fiduciary income along six categories that correspond to the existing account classifications on Schedule A, Annual Report of Trust Assets, and Schedule C, Corporate Trusts, of the FFIEC 001. This would permit the agencies to compare income data with information on assets managed and to enhance their understanding of the operations of individual institutions.

Expense information is proposed to be broken out by three categories: (1) Salaries and Employee Benefits; (2) Other Direct Expense; and (3) Allocated Indirect Expense. This would permit the development of efficiency or overhead ratios comparable to those commonly used in the analysis of commercial bank operations.

The proposed Schedule includes two types of breakdowns of losses resulting from surcharges and settlements (e.g., replenishment of losses incurred by fiduciary customers). For the first breakdown, these losses would be separately reported for ten categories of fiduciary

activities: (1) Employee Benefit Trusts--Discretionary; (2) Employee Benefit Trusts--Non-Discretionary; (3) Personal Trusts and Estates--Discretionary; (4) Personal Trusts and Estates--Non-Discretionary; (5) Employee Benefit Agencies--Discretionary; (6) Employee Benefit Agencies--Non-Discretionary; (7) Other Agency Accounts--Discretionary; (8) Other Agency Accounts--Non-Discretionary; (9) Corporate Trusts and Agencies; and (10) All Other Activities. The losses for the first eight of the preceding categories can be measured against the dollar amount of trust assets held by that type of account as reported on Schedule A of the Annual Report of Trust Assets. Corporate trusts can be compared against information collected on Schedule C of the Annual Report of Trust Assets where the number of issues and principal amount of outstanding securities are shown.

In addition to collecting loss information by type of account, these data would be reported by type of loss: (1) Investment; (2) Administrative; and (3) Operational. This breakdown will provide the agencies with information on the types of losses that can adversely affect an institution's condition. Consequently, if an institution or a group of institutions show data or trends in data for certain types of losses, this form of reporting will help the agencies develop and implement appropriate supervisory policies and examination emphasis. Further, this information will help examiners determine ratings for the Earnings, Volume Trends and Prospects components of the Uniform Interagency Trust Rating System for an institution under examination.

Request for Comment

The FFIEC is requesting comment on all aspects of the proposed Schedule. In particular, the FFIEC requests comment on the availability of the information to be collected in the Schedule and the cost and time required to implement any needed changes in the institution's recordkeeping systems to provide the requested information. Comment is also requested on the cost and time required to complete the proposed Schedule each year thereafter. Institutions addressing availability, cost, and time should

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indicate the total amount of their trust assets.

The FFIEC also requests comment on the feasibility of providing such data for the calendar year ending December 31, 1996. If the proposed effective date for this reporting is not feasible, please explain why it is not feasible and comment on how soon thereafter such data would be available.

In order to limit the reporting burden of the new schedule, banks and savings associations with less than \$100 million in total trust assets (as reported on line 18, column F, of Schedule A of the FFIEC 001) would not be required, but would be encouraged, to complete the schedule. The FFIEC requests comment on this reporting threshold for filing the Schedule. Also, the FFIEC requests comment on the proposed requirement that nondeposit trust companies with less than \$100 million in total trust assets on Schedule A of the Annual Report of Trust Assets file this Schedule.

Finally, the FFIEC requests comment on the adequacy and clarity of the proposed instructions. Suggested improvements are welcome and are encouraged.

Paperwork Reduction Act

In accordance with the Paperwork Reduction Act of 1980 (Pub. L. 96-511), the current Annual Report of Trust Assets required from those institutions with trust powers and under the supervision of one of the agencies has been submitted to, and approved by, the U.S. Office of Management and Budget (OMB). (OMB Control Numbers: for the Board, 7100-0031; for the OCC, 1557-0127; for the FDIC, 3064-0024; and for the OTS, 1550-0026.) The final version of the proposed changes that are the subject of this request for comment, which will be developed after consideration of the comments received, will be submitted by each agency to OMB for its review.

The proposed Schedule E and its accompanying instructions are illustrated as follows:

Dated: June 26, 1995.

Joe M. Cleaver,
Executive Secretary, Federal Financial Institutions Examination
Council.

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BILLING CODE 6210-01-C

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Annual Report of Trust Assets--Form FFIEC 001

Specific Instructions

Schedule E--Fiduciary Income Statement

Who Must Report: This Schedule must be completed by each financial institution with more than \$100 million in Total Trust Assets as reported on Schedule A (Line 18, Column F). In addition, all non-deposit trust companies, whether or not they report any assets on Schedule A, must also file Schedule E. Institutions which are not required to file Schedule E are encouraged to file it on a voluntary basis.

Public Availability of Schedule E: The information on Schedule E is confidential and will not be publicly available. The aggregate information will be included in the annual FFIEC publication, Trust Assets of Financial Institutions.

Instructions: Institutions filing Schedule E must complete all portions of the Schedule. Enter a zero on any line item that does not apply to your institution.

1. Gross Fees, Commissions and Other Fiduciary Income

1(a through e) Trust and Agency Accounts

Gross fees, commissions and other fiduciary income data is to be reported by line of business. Please refer to the instructions for Schedules A and C for guidance in defining these lines of business. For employee benefit trust accounts, see Schedule A, column A; for personal trust & estate accounts, see Schedule A, columns B and C; for other agency accounts, see Schedule A, column E; and for corporate trust and agency accounts, see Schedule C.

Fees received for IRA, Keogh Plan or other accounts that are not administered by the trust department should be excluded from this Schedule. If these accounts require the bank to have trust powers, then their fees should be reported on this Schedule.

1(f) All Other Fiduciary Income

Report all other direct income derived from other fiduciary sources not included in any of the above categories (e.g. 12b-1 fees and income from providing fiduciary services under agreement with another institution). Include all internal allocations of income to the trust function (such as transfer agent or pension plan administration credits), except for credits for deposits held in own or affiliated institutions, which are to be reported on line 5.

1(g) Total Fiduciary Income

The total of lines 1(a) through 1(f). (It should be noted that banks with more than \$100 million in commercial bank assets are required to itemize "Income from fiduciary activities" in the quarterly FFIEC Report of Condition and Income ("Call Report") on line 5(a) of Schedule RI. Instructions for fiduciary income to be reported on line 5(a) of Call Report Schedule RI differ from those for line 1(g) of this Schedule with respect to allocated income. Consequently, banks should be aware that the amounts reported in these two items will differ by the amount of such allocated income.)

2. Expenses

2(a) Salaries and Employee Benefits

Include salaries, bonuses, hourly wages, overtime pay, and incentive pay for officers and employees of the trust department. If officers or employees spend only a portion of their time in the trust department, allocate that proportional share of their salaries and employee benefits. Expenses associated with employee benefit plans (pension, profit-sharing, 401(k), ESOP, etc.), health and life insurance, Social Security and unemployment taxes, tuition reimbursement, and all other so-called fringe benefits, should be included on this line.

2(b) Other Direct Expense

In general, direct expenses are immediately identifiable as costs expended for and under the control of the trust function. These include expenses related to the use of trust premises, furniture, fixtures, and equipment, as well as depreciation/amortization, ordinary repairs and maintenance, service or maintenance contracts, utilities, lease or rental payments, insurance coverage, and real estate and other property taxes if they are directly chargeable to the trust function.

2(c) Allocated Indirect Expense

Allocated indirect expenses are those charged to the trust function from other departments of the institution. These include any allocation for the trust functions' proportionate share of corporate expenses that cannot be directly charged to particular departments or functions. If the institution's accounting system is not able to provide this

information, the institution may use a reasonable alternate method.

Indirect expenses include audit and examination fees, marketing, charitable contributions, customer parking, holding company overhead, and, in many cases, functions such as personnel, corporate planning, and corporate financial staff. Other indirect expenses include the trust function's proportionate share of building rent or depreciation, utilities, real estate taxes, and insurance.

If no direct expense is shown for occupancy on line 2(b), an allocated occupancy expense based on proportionate floor space used by the trust function should be shown on line 2(c).

2(d) Total Expense

The total of lines 2(a) through 2(c).

3. Settlements, Surcharges and Other Losses

See the instructions for line 7 for information about the reporting of settlements, surcharges and other losses.

3(a) Gross Settlements, Surcharges & Other Losses

Report the total losses prior to any adjustments for recoveries. The amount shown on this line should agree to the total of the details shown in the box on line 7.

3(b) Recoveries to Reported Losses

Show all recoveries received on reported losses.

3(c) Net Settlements, Surcharges & Losses

Line 3(a) less 3(b).

4. Net Operating Income (Loss)

Line 1 (g) minus line 2(d) and 3. If the result is less than zero, the figure should be shown in parentheses.

5. Credit For Own-Institution Deposits

Uninvested cash belonging to fiduciary accounts is available to the commercial banking side of the institution for investment, trust functions are often given credit for the use of these monies. When this credit is given to the trust department or trust company as part of the bank's profit tracking system, it should be reported on line 5. Do not include actual interest earned on fiduciary funds on deposit, as this income would normally belong to the fiduciary account.

6. Net Trust Income (Loss)

Report the total amount of trust income or loss, prior to any income taxes, experienced by the trust function for the full year. The number for this line is the result of adding line 5 to the

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sub-total shown on line 4. If the total on line 6 is less than zero, the resulting figure should be shown in parentheses.

7. Settlements, Surcharges & Other Losses

Report gross losses resulting from charge-offs, settlements, judgments, or other claims which are included in the total shown on line 3. These amounts should not be shown net of any recoveries or insurance payments. Legal expenses should be included on line 2(b) or

2(c). Do not include contingent liabilities related to outstanding litigation.

Account Definitions--Lines 7(a) through 7(j)

Report settlements, surcharges, and other losses arising from errors, misfeasance or malfeasance according to the type of account and capacity. The sum of lines 7(a) through 7(j) should equal the total shown on line 3(a) above.

Risk Definitions--Lines 7(k) through 7(m)

Settlements, surcharges, and other losses should also be reported by the functional activity which gave rise to the payment. The sum of the amounts reported by such functional activity on lines 7(k) through 7(m) should equal the total shown on line 3(a), "Settlements, Surcharges and Other Losses."

Investment Losses: The amount paid or credited to accounts or account holders for losses arising from the investment management of account assets in situations where the bank exercises discretion in the selection, purchase, retention, or sale of an account's assets.

Administration Losses: The amount paid or credited to accounts or account holders as reimbursement for losses arising from the management of the accounts. Such losses generally arise from the failure to fulfill responsibilities established by the agreement under which the bank is acting or failure to fulfill the duties inherent in the fiduciary capacity under which the bank is authorized to act.

Operational Losses: The amount paid or credited to accounts or account holders as restitution for losses arising from accounting and other support activities, such as securities trade processing. Operational losses include all activities which support investment and account administration functions.

Memo Item to Be Completed by Non-Deposit Trust Companies Only

8. Non-Fiduciary Income

Stand alone or non-deposit trust companies, whose activities are limited to providing fiduciary services, may have income not directly attributable to the furnishing of fiduciary services. This income should be reported on this line 8 as a memo figure and should not be included in the data shown on lines 1 through 6.

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