TO:  CHIEF EXECUTIVE OFFICER

SUBJECT:  Addition of a Fiduciary Income Statement to the Annual Report of Trust Assets

The Federal Financial Institutions Examination Council (FFIEC) has approved the addition of Schedule E, "Fiduciary Income Statement," to the Annual Report of Trust Assets (form FFIEC 001), effective for the December 31, 1996, report date. While the Annual Report of Trust Assets is completed each year by all financial institutions with trust powers that are supervised by the federal banking and thrift agencies, the new trust income statement must be completed only by those institutions with $100 million or more in total trust assets and by all nondeposit trust companies. The information reported by individual institutions in Schedule E will not be publicly available, but aggregate data will be included in the Examination Council's annual publication, Trust Assets of Financial Institutions.

A trust income statement was issued in proposed form for public comment on June 30, 1995. The version of this new schedule adopted by the Examination Council incorporates changes made to the proposal to address commenters' concerns about reporting burden.

In approving the trust income reporting requirement, the Examination Council noted that the trust activities of federally-supervised financial institutions have grown substantially in recent years, in terms of the types and volume of assets administered and the variety and sophistication of investment services offered. Trust assets administered by the industry have grown by 74 percent over the five years from 1989 to 1994, including increases of 12 percent from 1992 to 1993 and 10 percent from 1993 to 1994. At year-end 1994, a total of 2,892 institutions administered aggregate trust assets of $11.6 trillion, with the 886 institutions with $100 million or more in trust assets holding more than 99 percent of this total. Trust activities also have been an important source of fee income for financial institutions with trust powers. For the 50 largest bank holding companies, gross trust fee income of $10.8 billion was nearly 20 percent of noninterest income in 1994, and this dollar amount was 83 percent higher than the $5.9 billion in trust fee income earned in 1989.

The new trust income schedule should enable the agencies to better target their supervision of trust activities to those areas that pose greater risks to institutions. In general, institutions will report trust fees by type of trust account, three general categories of expense, and the amount of settlements, surcharges, and other losses gross and net of recoveries. If an institution's aggregate losses are $100,000 or more in any year, individual losses of $10,000 or more must be reported by type of account. The new trust income statement will be included in the Annual Report of Trust Assets for the first time for the 1996 reporting year and must be received by February 15, 1997. However, in recognition of the limited amount of time before the beginning of the initial year for which trust income statement data must be compiled, the Examination Council agreed that institutions may report reasonable estimates in Schedule E for 1996 if the requested information is not readily available.

A copy of Schedule E and its instructions is attached. For more information, please contact your primary federal regulator.

- At the Federal Reserve Board: Donald R. Vinnedge, Manager, Trust/EDP Activities Program, (202) 452-2717; or William R. Stanley, Supervisory Trust Analyst, (202) 452-2744.
- At the Federal Deposit Corporation: John F. Harvey, Trust Review Examiner, Division of Supervision, (202) 898-6752.
Attachment:

Schedule E - Fiduciary Income Statement

Draft Instructions

Distribution: Selected Banks, Trust Companies and Savings Associations