



**FEDERAL RESERVE BANK
OF DALLAS**

ROBERT D. McTEER, JR.
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

October 22, 1991

DALLAS, TEXAS 75222

Notice 91-84

TO: The Chief Executive Officer of each
member bank and others concerned in
the Eleventh Federal Reserve District

SUBJECT

**Federal Financial Institutions Examination Council
Proposed Requirement for Electronic Submission of
Bank Reports of Condition and Income**

DETAILS

The Federal Financial Institutions Examination Council (FFIEC) has requested public comment on a proposal requiring electronic submission of Bank Reports of Condition and Income (Call Reports). Banks currently have the option of either filing paper reports or submitting Call Reports electronically.

The FFIEC invites comment on all aspects of the proposal, including a timetable under which banks would be required to submit electronic Call Reports. Specific comments furnishing information on the costs of, and savings realized from, the use of computer software to prepare and transmit Call Reports would be helpful. In addition, comment is sought regarding whether banks that meet certain criteria and that do not have personal computers should be exempt from the electronic submission requirement or should be permitted to request waivers of the requirement.

The FFIEC must receive comments by November 18, 1991. Comments should be addressed to Robert J. Lawrence, Executive Secretary, Federal Financial Institutions Examination Council, 1776 G Street, N.W., Suite 850B, Washington, D.C. 20006.

ATTACHMENT

Attached is a copy of the FFIEC's notice as it appears on pages 50334-37, Vol. 56, No. 193, of the Federal Register dated October 4, 1991.

MORE INFORMATION

For more information, please contact Marion White at (214) 744-7490. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 651-6289.

Sincerely yours,

Robert D. McTeer, Jr.

**FEDERAL FINANCIAL INSTITUTIONS
EXAMINATION COUNCIL****Proposed Requirement for Electronic
Submission of Bank Reports of
Condition and Income**

AGENCY: Federal Financial Institutions
Examination Council.

ACTION: Request for comment.

SUMMARY: The Federal Institutions Examination Council ("Examination Council") requests public comment on a proposed timetable under which banks would be required to submit their Reports of Condition and Income ("Call Reports") electronically. The filing of Call Reports is required quarterly by the Office of the Comptroller of the Currency ("OCC") for national banks, the Federal Reserve Board ("FRB") for state member banks, and the Federal Deposit Insurance Corporation ("FDIC") for insured state nonmember commercial and savings banks. At present, banks must submit their completed Call Reports on the report forms provided by the federal bank supervisory agencies, on computer-generated facsimiles of the agency-supplied report forms, or electronically over telephone lines to the banking agencies' electronic collection agent using computer software. Except for certain banks with foreign offices that are required to transmit electronically, most banks currently have the option of either filing hard-copy (paper) reports or submitting their Call Reports electronically. Under the timetable proposed herein by the Examination Council, beginning as of March 31, 1992, banks with assets of \$100 million or more as of June 30, 1991, would be required to file electronically. One year later, this requirement would be extended to banks with assets of \$50 million or more as of June 30, 1991. Finally, as of March 31, 1994, all banks would be required to submit their Call Reports electronically. The proposed timetable would not change the existing deadlines for submitting Call Reports.

The Examination Council invites comment on all aspects of the proposed electronic submission requirement. Specific comments furnishing

information on the costs of and savings realized from the use of Call Report software to prepare and transmit reports would be helpful to the agencies. In addition, the Examination Council seeks comment on whether banks meeting certain criteria (e.g., those with assets of less than some specified amount) that do not have personal computers should either be exempt from the electronic submission requirement or should be permitted to request waivers from it.

DATE: Comments must be received by November 18, 1991.

ADDRESSES: Comments should be directed to Robert J. Lawrence, Executive Secretary, Federal Financial Institutions Examination Council, 1776 G Street, NW., suite 850B, Washington, DC 20006.

FOR FURTHER INFORMATION CONTACT:

OCC: David C. Motter, Special Assistant to the Chief National Bank Examiner, Office of the Comptroller of the Currency, 250 E Street, SW., Washington, DC 20219, (202) 874-4922.

FRB: Rhoger H. Pugh, Manager, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, 20th and Constitution Avenue, NW., Washington, DC 20551, (202) 728-5883.

FDIC: Robert F. Storch, Chief, Accounting Section, Division of Supervision, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429, (202) 898-8906.

SUPPLEMENTARY INFORMATION:

Background

In the early 1980s, the growing use of personal computers in the banking industry led to the introduction of software to assist banks in preparing their Call Reports. This software was also programmed to generate a printout of a bank's Call Report in a format closely resembling that of the printed forms supplied to all banks by the banking agencies each quarter. Thus, in 1985, the Examination Council advised all banks that the banking agencies would accept computer-generated facsimile Call Reports satisfying certain format standards in lieu of the agency-supplied printed forms. Taking further advantage of advancements in computer technology, the Examination Council authorized the electronic submission of Call Reports to the banking agencies starting with the March 31, 1988, report date. Through a recently conducted competitive bidding process, the Examination Council selected a new collection agent to provide electronic collection services beginning with the Call Reports for June 30, 1991. This

contract is for three years with three one-year renewal options.

Currently, around 6,800 or 54 percent of all banks (including 46 percent of the 9,400 banks with less than \$100 million in assets) use Call Report software either to file computer-generated facsimile report forms or to submit their data electronically. Electronically submitted reports are received from nearly 50 percent of the banks using this software, that is, from 27 percent of all banks, including 19 percent of banks with less than \$100 million in assets. Since the electronic submission of bank Call Reports was first permitted as of March 31, 1988, the number of banks using this filing method has grown steadily from around 750 that quarter to over 3,400 as of March 31, 1991, and total bank usage of Call Report software has likewise been increasing over time. This increasing level of bank participation in the electronic submission program, which has involved institutions of all sizes, has largely been achieved on a voluntary basis.¹ This suggests that, regardless of size, banks that use computer software to prepare their Call Reports, and particularly those which choose to submit electronically, have concluded that this automated method of preparing and filing their reports offers certain benefits compared to completing hard-copy report forms manually or in some other manner.

Costs and Benefits to Banks of Call Report Software and Electronic Submission

During the third quarter of 1990, the OCC conducted separate statistically valid surveys of three groups of national banks: those that submit their Call Reports on the agency-supplied forms, those that use Call Report software to prepare and file computer-generated facsimile report forms, and those that submit their reports electronically.² The purpose of these surveys was to determine why the banks in each group use that particular submission method.

According to the OCC's surveys, national banks find a number of advantages to the use of Call Report software. In particular, after an initial learning period, the survey indicates that the use of Call Report software

saves banks, on average, more than six hours in preparation time each quarter compared to the time spent to complete their Call Reports before they began using such software. These banks also cited the reduction in errors that they achieve through the use of the Call Report software because of the edits built into the software that allow them to correct certain types of errors before the reports are filed. This means that less time has to be spent by both the banks and the banking agencies in following up on edit exceptions identified by the agencies during their quarterly Call Report processing cycles.

National banks filing electronically further noted that the electronic submission method eliminates the need to allow time for mailing the hard-copy (paper) report forms to ensure that they are received by the Call Report submission deadline. Thus, under current timely filing standards, a bank transmitting its report electronically has up to three more days in which to complete the Call Report than a bank that mails its report, even if the report itself is a computer-generated facsimile. Additionally, when reports are transmitted electronically, the electronic collection agent provides the transmitting bank with immediate confirmation (electronically) that its Call Report has been received by the collection agent for forwarding to the banking agencies. Banks mailing their Call Reports receive no indication as to whether and, if so, when their reports have been received by the agencies.

As for national banks that complete and submit the agency-supplied Call Report forms, the OCC's survey of these banks showed that their nonuse of Call Report software could neither be attributed to a lack of awareness of such software (including the electronic submission option) nor to a lack of personal computers. Of the national bank respondents in this group, 97 percent knew about Call Report software and 90 percent stated that their banks had personal computers on which the software could be run. (Call Report preparation software is also available for use on mainframe computers.) In explaining their reasons for not using Call Report software to prepare their reports, nearly two-thirds of the national banks in this group cited the cost of the software. However, these banks' concern that such software would not be cost effective to use runs counter to the comments by national bank software users.

As mentioned above, national bank software users had reduced their Call Report preparation time by an average

¹ The only banks that are currently required to submit electronically are a relatively small number that have or have had more than one foreign office (other than a "shell" branch or an International Banking Facility) that use any of the additional 15 days they are allowed for the completion of their reports.

² The Examination Council believes that the findings of the OCC's surveys of national banks that are discussed in this document are comparable to the results that would have been obtained had all banks been surveyed.

of more than six hours per quarter or 24 hours per year. Based on the average salary and benefits per full time equivalent employee of slightly more than \$13 per hour at banks with less than \$100 million in assets (based on calendar year 1990 data), the time saved by banks using Call Report software translates into an annual savings of more than \$300. This means that a bank, on average, should be able to recover a substantial portion of its annual outlay of \$400 to \$500 for Call Report preparation software.³ The time that is saved by a bank's staff can then be used for other productive activities. Moreover, the edits built into the Call Report software permit banks to correct certain types of errors before submitting their reports rather than having to do so afterward when their reports are edited by the banking agencies. This offers an additional but less quantifiable cost savings that banks not using Call Report software may not be taking into account. Thus, when all of these factors are considered, the Examination Council believes that using commercially-available preparation software is an affordable and cost-effective way to complete a Call Report.

Nevertheless, while the majority of all banks have chosen to use Call Report software, only half of these banks take advantage of the electronic submission feature that is incorporated into their software. As a result, some 3,400 banks submit hard-copy (paper) report forms that they have produced on their Call Report software. The OCC survey of national banks in this group revealed that slightly more than two-thirds of them lacked modems and therefore were not equipped to transmit electronically. A similar percentage of national banks not currently using Call Report software do not own modems. Most national banks in the former group gave the cost of a modem as the most important reason for not electronically submitting while most national banks in the latter group also cited the cost of a modem as a reason (but not necessarily as the most important reason) for not filing electronically. However, depending on quality, a modem represents a one-time cost of from \$75 to \$200. When this cost is amortized over several quarters of use, this price range should make the purchase of a modem affordable to all institutions. (Moreover, one Call Report software vendor periodically offers a free modem as an inducement to attract new subscribers to its software.)

³ One software vendor offers a fairly basic stand-alone small bank software package at an annual cost of approximately \$200.

Regulatory Agencies' Perspective on Software and Electronic Submission

As mentioned above, a key feature of the commercially-available Call Report software packages is the set of edits they contain that identify and allow banks to correct mathematical errors in their reports. Thus, the banking agencies have regarded their acceptance of computer-generated facsimile Call Report forms and electronically submitted reports as a means of improving the quality of the data received from banks. The OCC's surveys of national banks confirm that bankers hold a similar view. Support for such a conclusion is also evident from statistics compiled by the FDIC comparing mathematical edit exception rates for banks that use Call Report software and those that do not. For example, the mathematical edit exception rate for the 6,600 national and state nonmember banks using Call Report software to prepare their March 31, 1991, reports was only one-third of the rate for the 5,100 national and state nonmember banks not using such software.⁴ Thus, greater usage of Call Report software provides an opportunity for an improvement in the quality of the data banks submit to the agencies. Other things being equal, this would tend to lessen the amount of time the agencies would need to spend on editing reports each quarter.

Another reason for the Examination Council's institution of the electronic submission program has been to improve the timeliness with which the quarterly Call Report data was available for processing and use. In this regard, hard-copy (paper) Call Reports must be keypunched before they can be loaded onto the agencies' databases, a step which is, of course, not necessary for electronically submitted Call Reports. At the FDIC in particular, because of the backlog that develops when 8,600 hard-copy Call Reports needing keypunching arrive each quarter around the filing deadline, up to seven days can elapse between the receipt of a hard-copy report and the date when it has been

⁴ It should be noted that the types of edits in the banking agencies' Call Report processing systems extend beyond the mathematical edits to which the commercially-available software edits are generally limited. These other types of edits generally determine whether reported information falls outside established parameters. Edit exceptions identified by the agencies' systems require further agency staff review to determine whether a reporting error has actually occurred, a process which often involves telephone contact with the bank which filed the report. FCIC statistics on nonmathematical edit exceptions indicate that the exception rates for banks using Call Report software and for those that do not are about the same.

keypunched and can be loaded into the FDIC's Call Report processing system. In contrast, a report received electronically can normally be loaded into the agencies' computer systems the day after it has been received by the agencies' electronic collection agent.⁵

Thus, the adoption of an electronic requirement would bring the date as of which the Call Reports for all banks are available on the agencies' databases much closer to the actual submission deadline (which, for most banks, is 30 days after the Call Report date) than is presently the case. This, coupled with the lower edit exception rate for reports prepared using Call Report software, may ultimately enable the agencies' edit processing to be completed sooner than at present. Such an outcome would also provide banks and the public with earlier access to Call Report data.

In addition, the cost to the agencies of getting a bank's Call Report data into their databases is lower for electronically submitted reports than for hard-copy (paper) report forms. With reports filed electronically, Call Report data can be loaded directly into the agencies' processing systems in the form in which it is received because keypunching is not necessary. The data entry and other costs for handling hard-copy Call Reports are approximately \$10.50 per report under the current contract with the vendor who keypunches these reports. In contrast, at the current level of 3,400 electronically submitted quarterly Call Reports, the average cost to the banking agencies' per report filed electronically under the pricing scale contained in the Examination Council's current contract with its electronic collection agent is approximately \$4.66 per report. As the number of electronically submitted reports increases in specified increments, the unit cost per report within each higher increment declines. If all 12,800 banks were required to submit their Call Reports electronically, the average cost to the banking agencies for each Call Report would decrease to approximately \$2.56 per report.

Thus, with the current combination of both electronically submitted and hard-copy (paper) Call Reports, the agencies are incurring an annual cost in excess of \$415,000 to get the Call Reports received from all banks loaded into their processing systems. In contrast, if all banks filed their Call Reports electronically with the banking

⁵ Errors by the agencies in keypunching data from Call Reports filed in hard-copy form would also be eliminated if all Call Reports were required to be submitted electronically.

agencies' collection agent, this annual cost would decrease by around \$300,000.

Proposal

The Examination Council recognizes that the number of banks submitting their Call Reports electronically has grown steadily since banks were first permitted to use this filing method in 1988. Nevertheless, even if this growth continues, the Examination Council has concluded that the achievement of a high level of industry participation in the electronic submission program will not be attained in the near term as long as participation remains voluntary. At the same time, banks of all sizes that purchase Call Report preparation software and use it to transmit their reports electronically generally have found it advantageous to do so.

Thus after considering the costs and the benefits to both banks and the agencies, the Examination Council believes that the percentage of banks currently using Call Report preparation software with an electronic submission feature and the percentage of banks already filing electronically on a voluntary basis are sufficient to justify a requirement that banks submit their Call Reports electronically. The Examination Council acknowledges, however, that smaller banks may need longer than larger banks to prepare themselves for transmitting electronically. Consequently, the Examination Council is proposing to require that Call Reports be submitted electronically in accordance with the timetable set forth below. The proposed schedule gives the smallest banks the longest amount of lead time before their electronic transmissions must begin. Of course, any bank not filing electronically could, at its option, adopt this submission method earlier than would otherwise be required.

The Examination Council invites comment on the proposed electronic submission requirement and on the dates as of which the requirement would take effect. Specific comments furnishing information on the costs of and savings realized from the use of Call Report software to prepare and transmit reports would be helpful to the agencies. In addition, the Examination Council recognizes that some very small banks may find it difficult or unduly burdensome to comply with an electronic submission requirement. Therefore, comment is also sought on whether banks meeting certain criteria (e.g., those with assets of less than some specified amount) that do not have personal computer should either be exempt from the electronic submission

requirement or should be permitted to request waivers from it.

In preparing their responses, commenters should note two factors that may affect the content of the Call Report forms during the proposed timetable. The Examination Council's Task Force on Reports is studying the possibility of reducing the number of different versions of the Call Report from the present four and the Task Force will be attempting to develop a common core set of regulatory report requirements for banks and thrifts.

The proposed timetable for the electronic submission requirement is as follows:

(1) Beginning with the March 31, 1992, Call Reports, banks with \$100 million or more in assets as of June 30, 1991, would be required to transmit electronically.

This group of banks currently numbers approximately 3,400, of which 48 percent are at present submitting electronically and another 27 percent are filing computer-generated facsimile report forms. Around 800 of the banks in this group currently do not use Call Report software to prepare their reports.

(2) Beginning with the March 31, 1993, Call Reports, banks with \$50 million or more in assets as of June 30, 1991, would be required to transmit electronically.

This would extend mandatory electronic submission to another 2,900 banks of which 30 percent are at present submitting electronically and another 30 percent are filing computer-generated facsimile report forms. Less than 1,200 of the banks in this group currently do not use Call Report software to prepare their reports.

(3) Beginning with the March 31, 1994, Call Reports, all banks would be required to transmit electronically.

This would extend mandatory electronic submission to the 6,500 banks with less than \$50 million in assets, of which 14 percent are at present submitting electronically and another 25 percent are filing computer-generated facsimile report forms. Around 3,900 banks with less than \$50 million in assets are not currently using Call Report software to prepare their reports.

Dated: October 1, 1991.

Robert J. Lawrence,
*Executive Secretary, Federal Financial
Institutions Examination Council.*

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