BANK POLICY INSTITUTE

February 26, 2024

Via Electronic Mail

Chief Counsel's Office
Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Washington, D.C. 20219

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Manuel E. Cabeza, Counsel
Attn: Comments, Room MB-3128
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington D.C. 20429

Re: Call Report and FFIEC 002 Revisions

To Whom It May Concern:

The Bank Policy Institute[1] welcomes the opportunity to respond to the joint notice and request for comment by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency, regarding revisions to the Consolidated Reports of Condition and Income (Call Reports) and Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002).[2]

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1 The Bank Policy Institute is a nonpartisan public policy, research and advocacy group, representing the nation's leading banks and their customers. Our members include universal banks, regional banks and the major foreign banks doing business in the United States. Collectively, they employ almost 2 million Americans, make nearly half of the nation's small business loans, and are an engine for financial innovation and economic growth.

2 88 Fed. Reg. 89489.

BPI is supportive of the purpose of the proposed revisions to the Call Reports in improving the consistency of reporting of nondepository financial institution ("NDFI") exposures and guaranteed structured financial products. Additionally, we are supportive of the proposed revisions to these forms which would adopt ongoing standards for electronic signatures to comply with the Call Report signature and attestation requirement. Our comments herein are aimed at suggesting further enhancements that would be beneficial with respect to the reporting of non-purpose loans secured by securities ("non-purpose loans") and loans for purchasing or carrying securities, as well as to highlight certain necessary clarifications. Considering the significance of the changes required by the proposed revisions and the significant operational challenge presented as described in more detail in Section VI, we respectfully request a delayed effective date of at least four quarters following the issuance of final forms and instructions to allow firms adequate time to develop and test the necessary systems and governance and controls frameworks to implement these changes.

I. All non-purpose loans and loans for purchasing or carrying securities should be reported in Call Report Schedule RC-C item 9.b.(1).

BPI is supportive of the Agencies' proposed revisions to Call Report Schedule RC-C item 9 emphasizing the reporting of loan exposures by securities collateral, as opposed to borrower type. Under the proposal, the description of Schedule RC-C item 9.b.(1) would be revised to "Loans for purchasing or carrying securities, including margin loans," which would "include in the amounts reported in this item all margin loans, including securities-based loans and non-purpose margin loans."[3] Specifically, the instructions have been revised to include "loans to businesses or individuals that are secured by liquid or illiquid securities collateral" and "non-purpose margin lending and securities-based lending facilities"[4] (i.e., nonpurpose loans). This proposed revision to the reporting of non-purpose loans would simplify loan reporting practices for firms, and also further the Agencies' expressed intention that these revisions increase transparency and consistency in reporting of these items by "group[ing] together loan exposures that exhibit similar underlying risk characteristics."[5] Firms are supportive of these changes and would request that the agencies confirm that based on these proposed instructions, all non-purpose loans should be reported in item 9.b.(1), regardless of borrower type.

Additionally, BPI is supportive of the Agencies' proposal to classify investment companies, mutual funds and brokers and dealers in securities as NDFIs.[6] However, we further urge the Agencies to allow for the consistent reporting of all NDFI loans with the purpose of purchasing or carrying securities in Schedule RC-C item 9.b.(1) by not adopting the proposed exclusion for brokers and dealers in securities. Both the current and proposed Call Report instructions state to report in item 9.b.(1) "all loans, whether secured or unsecured, to any other borrower for the purpose of purchasing or carrying securities;"[7] however, the proposed revisions would add an instruction to exclude "all loans to brokers

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[3] 88 Fed. Reg. 89489 at 89492.

[4] Federal Reserve, *Redlined Draft FFIEC 031 Instructions for the Proposed Call Report Revisions with Proposed Effective Date June 30, 2024*, available at https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_20231227_i_draft.pdf, at 10.

[5] 88 Fed. Reg. 89489 at 89491.

[6] Federal Reserve, *supra* note 4 at 7.

[7] Federal Reserve, *supra* note 4 at 10.

and dealers in securities" from this item.[8] This proposed exclusion of loans to brokers and dealers in securities, even when such loans are for the purpose of purchasing or carrying securities, is inconsistent with existing reporting practices for other types of NDFIs. BPI is not supportive of this proposed exclusion as it calls for firms to report NDFI loan products for the purpose of carrying or purchasing securities alongside items with different risk profiles, collateral types, and purposes. This amalgamation of loan products would be in contrast with the Agencies' expressed intention for increased transparency and consistency by these revisions. On the other hand, if this exclusion was not added to Line 9.b.1, loans to brokers and dealers in securities would be reported more appropriately alongside loans for the same purpose to other NDFIs and borrowers. BPI strongly recommends that loans to brokers and dealers in securities that are for the purpose of purchasing or carrying securities or secured by securities be reported in Schedule RC-C item 9.b.(1), consistent with loans to other types of NDFIs and other borrowers, for the same purpose.

BPI would strongly support the Agencies maintaining consistency with the revisions to item 9.b.(1) discussed above and consider that **all** loans for the purpose of purchasing or carrying securities be reported in item 9.b.(1), alongside all nonpurpose loans, regardless of borrower type. This change would group together loan exposures secured by securities collateral, and those for the purpose of purchasing or carrying securities (other than loans secured by real estates), rather than classifying them by borrower type, which would improve reporting consistency and provide further transparency into the use of these products. Additionally, this reporting practice would be clear and "would allow for more accurate analysis of bank financial statements for applicable institutions and performance metrics," as the Agencies have stated as the goal of these revisions.[9] In order to improve reporting consistency all loans for the purpose of purchasing or carrying securities, regardless of whether they are to brokers and dealers in securities, investment companies, hedge funds, mutual funds, other NDFIs, or depository institutions have the same purpose and collateral, and should be reported uniformly in 9.b.(1).

II. The Agencies' proposed new Call Report Memorandum item 7, "Guaranteed by U.S. Government agencies or sponsored agencies included in Call Report Schedule RC–B, item 5.b." should be finalized as proposed.

In February 2023, the Agencies sought comment on the reporting of structured financial products.[10] The Agencies' current proposal to add a separate item for the reporting of U.S. Government ("USG") Guaranteed structured financial products is appropriate to increase transparency into these items and would be consistent with the suggestions in our prior comment letter.[11] Previously, in the

8 Federal Reserve, *supra* note 4 at 10.
9 88 Fed. Reg. 89489 at 89491.
10 85 FR 10644 (February 21, 2023).
11 BPI, *BPI Comments on Banking Agencies' Proposed Revisions to Call Reports and FR Y-9*, available at https://bpi.com/bpi-comments-on-banking-agencies-proposed-revisions-to-call-reports-and-fr-y-9/.

June 2022 Call Report instruction update[12] and March 2022 FR Y-9C instruction book update,[13] the Agencies clarified that USG Guaranteed structured financial products should be included in Schedule HC-B/RC-B item 5.b. BPI is supportive of the current reporting of these products on item 5.b, and the proposed addition of a memorandum item for products guaranteed by U.S. Government agencies or sponsored agencies. Generally, USG Guaranteed structured financial products provide assurances that these products hold lower levels of risk than those structured financial products without such guarantees. By delineating these items as USG Guaranteed in a new Memorandum item 7 on Schedule RC–B, the agencies are increasing transparency about the composition of reported structured financial products, which will allow for a more comprehensible understanding of these forms and risk assessment by external entities such as credit rating agencies, investment banks and other regulatory report users.

III. The Agencies' proposal to add the electronic signature alternative for the Call Report, while also permitting the continued use of physical signatures, reduces the regulatory burden on firms and should be implemented as proposed.

During the COVID-19 pandemic, the Agencies issued the Call Report Supplemental Instructions: June 2020 Call Report Materials[14] which allowed firms to use electronic signatures in lieu of ink signatures to fulfill the Call Report attestation requirement for the duration of the COVID-19 disruptions, provided the institution follows the appropriate governance procedures for collecting and retaining electronic signatures. This accommodation was a welcome change and was helpful to firms in submitting the Call Report in a timely manner amid the COVID-19 pandemic. Currently, the Call Report data submission occurs electronically, and the reports require the signature of the bank chief financial officer (or equivalent officer), and three directors, to attest to the correctness of the report by "wet" signature. We have previously encouraged the agencies to continue to allow the use of electronic signatures[15] and note that the proposed electronic signature framework will help reduce the regulatory burden associated with obtaining four physical signatures and would be consistent with the electronic submission of the Call Reports. As such, BPI supports the Agencies' proposal allowing the use of electronic signatures for purposes of the Call Report and additionally requests that the agencies align reporting practices across other electronically submitted forms and permit the same approach.

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12 Federal Reserve, *June 2022 Call Report Instructions,* available at https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_FFIEC041_202206_i.pdf.

13 Federal Reserve, *March 2022 FR Y-9C Supplemental Instructions,* available at: https://www.federalreserve.gov/apps/reportingforms/Download/DownloadAttachment?guid=c24ef62f-573c-4929-b26a-3a0900c0781a.

14 Call Report Supplemental Instructions for March 2020, available at*:* https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_FFIEC041_FFIEC051_suppinst_202003.pdf.

15 BPI, *BPI Submits Comment Letter to Banking Agencies on Revisions to Call Report*, available at https://bpi.com/bpi-submits-comment-letter-to-banking-agencies-on-revisions-to-call-report/, *BPI Comments on Fed Proposal to Revise Structure Reporting and Recordkeeping Requirements for Domestic and Foreign Banking Organizations*, available at, https://bpi.com/bpi-comments-on-fed-proposal-to-revise-structure-reporting-and-recordkeeping-requirements-for-domestic-and-foreign-banking-organizations/.

IV. The proposed revisions to the reporting of LTD are sensible, however we continue to have significant concerns with the substance of the underlying LTD proposal that should be addressed before the revisions are finalized.

BPI does not object to the Agencies' proposal to revise Schedule RC–R, Part I, Regulatory Capital Components and Ratios under the heading "Long-Term Debt (LTD)" as consistent with similar items reported by holding companies on the Board's Consolidated Financial Statements for Holding Companies (FR Y–9C), Schedule HC–R, Part I, Regulatory Capital Components and Ratios. However, we have detailed significant policy concerns with key aspects of the underlying proposal[16] in our comment letter,[17] which we urge the Agencies to address before finalizing the proposed LTD rule.

V. The proposed Schedule RC-C classification changes should be extended to the other reporting forms to ensure continued alignment and further alignment between the Call Report and FFIEC 009 for the definition of NDFIs should also be considered.

The Agencies are proposing revisions to the Call Reports to enhance the understanding of NDFI exposure, risks, and performance trends. However, several required regulatory reports, including, but not limited to, the FR Y-9C, FFIEC 009, FFIEC 030, FR Y-11, FR 2314, FR 2644, FR 2510, FR Y-14Q and FR Y-14A, either anchor implicitly or explicitly to the Call Report. Given the linkages between the aforementioned reporting forms and the Call Reports, absent corresponding proposals aligning NDFI reporting requirements and definitions, the current proposal would create significant misalignment with other regulatory reporting. This type of misalignment could not only erode the transparency of the data provided but also inherently increases reporting burden, as respondents need to maintain separate reporting processes for different loan classifications across reports and develop cross report reconciliations. We do not believe this break in reporting is intentional or serves a supervisory purpose and would therefore recommend that the Agencies propose corresponding amendments to these reports, as well as any other reports that have linkages to the Call Report, with regard to these Schedule RC-C line items. Additionally, we recommend that any proposals to related reports regarding these loan classification changes, which would produce conformity with the Call Reports, have the same effective date as those for the Call Reports. Consistency in the timeline would prevent any the burden associated with implementing reporting revisions of the same population of data across reports at differing times.

Additionally, the FFIEC 009 and other report forms not listed above utilize slightly different definitions for similar terms, which creates inconsistent reporting between forms. For example, the FFIEC 009 leverages the term "Non-Bank Financial Institutions"[18] while the Call Report refers to "Nondepository Financial Institutions." These terms are defined similarly, but the definitions are not exactly the same. While the Agencies are proposing an expanded definition of NDFIs for the Call Report, it still would not be aligned with the definition of NBFIs for the FFIEC 009. If the proposed Call Report definition for NDFIs were to fully align with the FFIEC 009's NBFI definition, this would create more

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16 88 FR 64524 (September 19, 2023).

17 BPI, *BPI Comments on Proposed Rule Requiring Long-Term Debt Maintenance,* available at https://bpi.com/bpi-comments-to-proposed-rule-requiring-long-term-debt-maintenance/.

18 Federal Reserve, *FFIEC 009 Instructions*, available at https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC009_202212_i.pdf, at 10.

streamlined reporting processes for respondents. Respondents would be able to leverage their FFIEC 009 NBFI data for their review and implementation of the proposed revisions to the Call Report classification guidance for NDFIs. Thus, we encourage the Agencies to consider further alignment between the Call Report and the FFIEC 009 for the definition of NDFIs.

VI. At least four quarters, following the release of final forms and instructions, are needed for firms to properly implement the changes if finalized as proposed.

If the Agencies were to proceed with finalizing the NDFI reporting and loan classification changes on the Call Report as proposed, implementation for an as of date of June 30, 2024, would not be possible. With any reporting change that requires the development of new systems, processes and controls, firms require significant time to effectively implement these changes to complete the proper system builds, testing and verification, in accordance with the expectations of the Agencies and the firms. Should the revisions be implemented as proposed, firms would need significant time to implement for several reasons. First, the data is not readily available for the proposed breakout disclosures for NDFIs. Second, an extensive review of a significant number of loans would be needed in order to revise current loan classifications and processes to ensure accurate reporting under the proposal. Third, the proposal would necessitate substantial changes to firms' reporting systems for the new builds and additional system integrations would be needed due to the changes in loan classifications and additional breakout disclosures. These adjustments to current practices and processes would also necessitate the modification of reporting controls and data governance procedures, all of which would need to be tested to make them operational and fully compliant prior to the effective date.

Therefore, the proposed June 30, 2024, as of date would leave firms with insufficient time to make these necessary systems and governance changes. If the Agencies implement the changes as proposed, firms would require at least four additional quarters, following the release of final forms and instructions and commensurate revisions to related reporting forms as detailed above, to properly implement systems and procedures.

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BPI appreciates the opportunity to comment on the proposal. If you have any questions, please contact the undersigned by phone at 202.589.1932 or by email at jack.stump@bpi.com.

Respectfully submitted,

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