November 27, 2024

Via Electronic Mail

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

Re: Revisions to the Financial Statements for Holding Companies (FR Y-9; OMB No. 7100-0128) and Capital Assessments and Stress Testing Reports (FR Y-14A/Q/M; OMB No. 7100-0341).

To Whom It May Concern:

The Bank Policy Institute[1] and the Institute of International Bankers[2] welcome the opportunity to respond to the notice and request for comment by the Board of Governors of the Federal Reserve System regarding revisions to the Financial Statements for Holding Companies and Capital Assessments and Stress Testing Reports.[3] The Associations are supportive of the purpose of the proposed revisions to the FR Y-9C in improving the consistency of reporting of nondepository financial institution (NDFI)

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1 The Bank Policy Institute is a nonpartisan public policy, research and advocacy group that represents universal banks, regional banks, and the major foreign banks doing business in the United States. The Institute produces academic research and analysis on regulatory and monetary policy topics, analyzes and comments on proposed regulations, and represents the financial services industry with respect to cybersecurity, fraud, and other information security issues.

2 The Institute of International Bankers (IIB) represents the U.S. operations of internationally headquartered financial institutions from more than 35 countries around the world. The membership consists principally of international banks that operate branches, agencies, bank subsidiaries, and broker-dealer subsidiaries in the United States. The IIB works to ensure a level playing field for these institutions, which are an important source of credit for U.S. borrowers and comprise the majority of U.S. primary dealers. These institutions also enhance the depth and liquidity of U.S. financial markets and contribute significantly to the U.S. economy through direct employment of U.S. citizens, as well as through other operating and capital expenditures.

3 89 Fed. Reg. 80244.

exposures. Our comments herein are aimed largely at (i) alignment between the FR Y-9C, Call Reports, and FR Y-14, (ii) continuing to express our views on the reporting treatment of purpose and non-purpose loans secured by securities (non-purpose loans) in Schedule HC-C line item 9.b.(1), and (iii) clarifying a number of NDFI reporting items for purposes of both the FR Y-9C and Call Reports.

I. The effective date of the FR Y-9C NDFI revisions should be consistent with the Call Reports, with reporting as-of December 31, 2024, on a best efforts basis until June 30, 2025.

As previously discussed in BPI comment letters on similar changes across the Call Reports, FR Y-9C and FR Y-14 report forms,[4] we continue to stress the importance of alignment of the content and effective dates for new information added to regulatory reports. In the 30-day notice for the Call Report proposal related to the reporting of loans to NDFIs,[5] the Agencies stated that the changes from the December 2023 Call Report notice[6] would be effective as of the December 31, 2024, report date, rather than as of the June 30, 2024, report date, as originally proposed. The proposal continues to remain outstanding and has not yet been finalized and published in the Federal Register. Following this 30-day notice, the Agencies issued a letter to provide guidance pertaining to Call Report reporting on NDFIs for the September 30, 2024, report date.[7] Here, the Agencies state that the revisions to the Call Report forms and instructions related to the reporting of loans to NDFIs that were included in the 30-day Federal Register notice[8] are effective as of the December 31, 2024, report date and that "[i]nstitutions that require additional time should still report loans to NDFIs on a best efforts basis as of the December 31, 2024, and March 31, 2025, report dates, and comprehensively no later than June 30, 2025."[9]

This period of best efforts reporting is beneficial to firms who are actively developing new processes and procedures to comply with the new reporting requirements. To better align reporting between the Call Reports and the FR Y-9C, we request that the Federal Reserve align the reporting for the FR Y-9C with this same guidance, instituting a best efforts reporting basis for firms beginning with the December 31, 2024 reports until the June 30, 2025 reports. We further ask that the Federal Reserve and other agencies clarify that this reporting treatment is applicable to **all** proposed changes from the December 2023 Call Report notice, as these items were grouped together for reporting timelines in the

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4 Bank Policy Institute, BPI Comments to FR Y-9 OMB No. 7100-0128 Revisions; FR 2886b OMB No. 7100-0086 Revisions (Aug. 6, 2024), available at https://bpi.com/wp-content/uploads/2024/08/BPI-Comments-onReporting-Requirement-Changes-for-Holding-Companies-and-Edge-and-Agreement-Corporations.pdf; Bank Policy Institute, BPI Comments to Call Report and FFIEC 002 Revisions, OCC 1557-0081 (June 18, 2024), available at https://bpi.com/wp-content/uploads/2024/07/BPI-Responds-to-Banking-Regulators-Call-ReportRevisions.pdf; Bank Policy Institute., BPI Comments to Call Report and FFIEC 002 Revisions (Feb. 26, 2024), available at https://bpi.com/wp-content/uploads/2024/02/BPI-Comment-Letter-Call-Report-and-FFIEC-002- Revisions.pdf

5 89 Fed. Reg. 45046.

6 88 Fed. Reg. 89489.

7 FDIC, FIL-71-2024, available at https://www.fdic.gov/news/financial-institution-letters/2024/consolidated-reports-condition-and-income-third-quarter.

8 *Supra* note 4.

9 *Supra* note 6.

final 30-day Federal Register notice. Specifically, this would entail that the revisions related to the reporting of loans to NDFIs, and the reporting of purpose and non-purpose loans secured by securities in Schedule HC-C/RC-C line item 9.b.(1), be effective as of December 31, 2024, and that firms be permitted to report on a best efforts basis until June 30, 2025.

As stated in prior BPI letters,[10] these proposed changes would require the development of new systems, processes and controls, as well as testing to ensure that these are compliant and operational, and firms would have to undergo an extensive review of a significant number of loans. If the Federal Reserve were to extend the reporting timeline and best efforts reporting period outlined in FIL-71-2024 to the FR Y-9 report series, it would provide firms the necessary additional time to address the required systems changes. Additionally, alignment with the Call Reports would eliminate the burden of running dual processes for the reporting of these items. As noted below, there remain outstanding questions requiring further clarification on the reporting instructions with respect to the reporting of purpose and non-purpose loans in Schedule HC-C item 9.b.(1) and NDFI items that will take time for banks to implement after receiving the requested clarifications. Further, this reporting timeline and best efforts basis should be extended to other applicable regulatory reporting forms based on FR Y-9 reporting and impacted by the currently proposed changes, including the FR 2644 and FR 2886b.

II. The reporting of loans on FR Y-9C Schedule HC-C should be clarified such that all purpose and non-purpose loans are reported in item 9.b.(1), those clarifications should also be imported into the final Call Report instruction.

As expressed in BPI's comments on the 30-day notice for the NDFI Call Report proposal,[11] the instructions for Call Reports Schedule RC-C should be clarified to indicate that all purpose and non-purpose loans should be included in line item 9.b.(1). The same clarification is required for the current proposed language for Schedule HC-C on the FR Y-9C. The treatment for all purpose and non-purpose loans in Schedule HC-C should be revised, clarifying that they should be reported in line item 9.b.(1), and these revisions should also be extended to Schedule RC-C of the Call Reports.

The treatment of loans for the purpose of purchasing or carrying securities should be clarified in Schedule HC-C line item 9.b.(1). As currently proposed, the instructions for Schedule HC-C item 9.b.(1) include "(1) all loans, whether secured or unsecured, to any other borrower for the purpose of purchasing or carrying securities;" however, subparagraph (2) in the instructions for item 9.b.(1) reflects the inclusion of "all purpose and non-purpose securities-based margin loans, regardless of borrower type, that are predominately secured (greater than 50% of underlying collateral) by securities with readily determinable fair values."[12] We continue to have concerns regarding this new language for the

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10 *Supra* note 3.

11 Bank Policy Institute, Call Report and FFIEC 002 Revisions, OCC 1557-0081 (June 18, 2024), available at https://bpi.com/bpi-responds-to-banking-regulators-call-report-revisions/.

12 Federal Reserve, *Redlined Draft FR Y-9C*, available at https://www.federalreserve.gov/apps/reportingforms/Download/DownloadAttachment?guid=1FAFB171-0234-4CC9-B1B9-5C06C77DC5B5, at 13.

potential implications regarding the reporting of both purpose and non-purpose loans in line item 9.b.(1) and further believe additional clarification is necessary.

Further, the language in (2) of the instructions for item 9.b.(1) could be read to contradict and further limit the instructions in (1) of the instructions for item 9.b.(1) or instead could be read to expand upon those items contained in (1). While (1) appears clear that "all loans, whether secured or unsecured, to any other borrower for the purpose of purchasing or carrying securities" should be reported there are differing possible interpretations with respect to the qualifications contained in (2). Specifically, the inclusion of "purpose loans" in (2) may create confusion that only those predominately secured by securities with readily determinable fair values should be reported in 9.b.(1), despite the prior instructions in (1) specifying that a respondent should include all purpose loans in line item 9.b.(1). To avoid possible inconsistencies in reporting, we respectfully request that the instructions clarify that all loans for the purpose of purchasing or carrying securities (all purpose loans) are reported in Schedule HC-C line item 9.b.(1) and remove the language indicating "purpose loans" in (2) of 9.b.(1).

Additionally, clarification is required regarding the reporting of non-purpose loans in Schedule HC-C line item 9.b.(1). Beyond the potential confusion detailed above, the recently proposed instructions in (2) further limit non-purpose loans that are included in 9.b.(1) by restricting inclusion to just those structured as "margin loans" and "that are predominately secured by securities with readily determinable fair values." These additional criteria, beyond all non-purpose securities-based loans, have the potential to create inconsistent reporting among firms and would also be very operationally burdensome to implement. As noted in BPI's prior comments on the Call Reports,[13] we are supportive of the inclusion of all non-purpose loans in item 9.b.(1) to simplify loan reporting practices for firms, and also further the 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."[14]

However, the currently proposed instruction language in (2) for item 9.b.(1), limiting products to only margin loans predominantly secured by securities with readily determinable fair values, would introduce entirely new and burdensome criteria for the classification of loans on Schedule HC-C. Specifically, the proposed changes to the instructions incorporate collateral market values assessment (i.e., assessing whether they have readily determinable fair value) and credit risk management practices (through only margin loans) as criteria for the line item. Currently, loans are classified in Schedule HC-C using borrower type, purpose, and collateral. For example, loans secured by real estate on Schedule HC-C, Line 1, are classified based on the estimated value of the real estate collateral at origination and do not require certain credit risk management practices to be implemented for classification. Further, it is not clear in the proposed instructions whether the collateral market value assessment needs to be performed for each reporting period. These proposed criteria for item 9.b.(1), including ongoing collateral assessment, are therefore not aligned with the existing classification methods and items in Schedule HC-C and would be burdensome to implement by firms. To reduce the operational burden on firms and create more consistent reporting, we request that the Federal Reserve remove the provisions

[13] *Supra* note 3.

[14] *Supra* note 5.

regarding "margin loans" and "predominately secured by securities with readily determinable fair values" from (2) in Schedule HC-C line item 9.b.(1) to clarify that all non-purpose securities-based loans, regardless of borrower type, are included in this item.

In addition to the changes above, we respectfully request that the final instructions also remove exclusions (1) and (2) from this item in order to maintain reporting consistency and have all loans for the purpose of purchasing or carrying securities and non-purpose loans regardless of borrower type be reported in this item. These exclusions, (1) and (2), specify not to include loans to "banks in foreign countries that act as brokers and dealers in securities" and "depository institutions for the purpose of purchasing or carrying securities" from Schedule HC-C line item 9.b.(1), Loans for purchasing or carrying securities, including margin loans. However, this language, which calls out certain borrower types for exclusion, is at odds with other language in 9.b.(1) that states that firms should include "all purpose and non-purpose securities-based margin loans, regardless of borrower type."

Following BPI's prior letters on the Call Report NDFI revisions,[15] the Agencies appeared supportive of further clarifying that all purpose and non-purpose securities-based margin loans, regardless of borrower type, should be included in item 9.b.(1), by removing exclusion 5, which called for firms to exclude "all loans to brokers and dealers in securities" and adding the underlined language above.[16] In removing this exclusion, which was proposed as a part of the initial 60 day Call Report notice,[17] as requested and not proposing it for the FR Y-9C, the Agencies grouped together loan exposures secured by securities collateral, and those for the purpose of purchasing or carrying securities, rather than classifying them by borrower type. This change improves reporting consistency, groups together loans with similar underlying risk characteristics and provides further transparency into the use of these products. To achieve these same improvements to reporting and to avoid possible inconsistencies in reporting, we respectfully request that the Federal Reserve remove exclusions (1) and (2) from FR Y-9C Schedule HC-C line item 9.b.(1), and that the Agencies revise the Call Report instructions accordingly. Requiring banks to separately track and report these loans, which have similar risk characteristics to those already being reported in line item 9.b.(1) would significantly increase the burden on reporting institutions.

III. For fourth quarter 2024 reporting, firms are planning to align the relevant reporting of items in the FR Y-9C and FR Y-14, consistent with the existing instructions.

As currently proposed to be effective December 31, 2024, these FR Y-9C revisions would include all non-purpose margin loans, if they are secured predominantly by securities with readily determinable fair value, in FR Y-9C Schedule RC-C, Line item 9.b.(1). Moreover, the most recent FR Y-14Q, Schedule H.1 instructions provide that loans reported on Schedule HC-C, Line 9.b.(1) of the FR Y-9C

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15 *Supra* note 3.

16 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.

17 *Supra* note 5.

(corresponding to loans for purchasing or carrying securities) would be excluded from Schedule H.1.[18] The FR Y-14Q instructions also provide that non-purpose loans reportable in the relevant FR Y-9C, Schedule HC-C categories would be reported in the FR Y-14Q, regardless of whether those loans are "graded" and that "for the purposes of this schedule, non-purpose loans are loans collateralized by securities made for any purpose other than purchasing or carrying securities".[19] Therefore, consistent with the existing instructions, firms are planning to align the reporting of non-purpose margin loans in FR Y-9C and FR Y-14 for fourth quarter 2024 reporting.

IV. The FR Y-9C instructions should be clarified in several ways and those clarifications should also be imported into the final Call Report instructions.

Following the release of the proposed instructions for the reporting of loans to NDFIs on the Call Reports,[20] and subsequent release of this proposal to revise the FR Y-9C instructions,[21] firms undertook additional time working to understand the proposals to begin considering how to best implement the final standards, once available. Consequently, we are seeking several clarifications on NDFI classification and revisions to bring the FR Y-9C and Call Reports into alignment.

Loans to securitization vehicles

The proposed instructions for the FR Y-9C and Call Reports[22] Schedule HC-C/RC-C line item 9.a, loans to NDFIs, (5) state to include "loans to securitization vehicles." However, considering the diversity of assets that can securitize these vehicles, firms are seeking additional clarity on this reporting. For example, there are instances where the underlying assets of a securitization vehicle are a financial product, which firms would denote as a loan to an NDFI. However, in the case where the underlying asset is a physical asset such as automobiles or planes, the reporting treatment is less clear as this would not typically be considered an NDFI. With this scenario in mind, firms would like to request clarification on whether loans to all securitization vehicles should be reported as loans to NDFIs, or only when the underlying assets are financial products.

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18 Federal Reserve, Draft Reporting Instructions for the Capital Assessments and Stress Testing Information Collection (Reporting Form FR Y-14Q), at 165–68, available at https://www.federalreserve.gov/apps/reportingforms/Download/DownloadAttachment?guid=A01DBC1A4555-4B05-B2D0-EE64B19BDF2A.

19 *Id.*

20 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_20240625_i_draft.pdf.

21 *Supra* note 2.

22 Federal Reserve, Redlined Draft FR Y-9C Instructions, available at https://www.federalreserve.gov/apps/reportingforms/Download/DownloadAttachment?guid=1FAFB171-0234-4CC9-B1B9-5C06C77DC5B5.

Loans to financial entities that provide services similar to those of traditional banks

The proposed instructions for FR Y-9C Schedule HC-C line item 9.a note that "NDFIs encompass a wide range of financial entities that provide services similar to those of traditional banks" and provide a non-exhaustive list of NDFIs, such as "mortgage companies, investment funds, hedge funds… and other financial services activities."[23] Given this guidance, we request clarification regarding loans to three different borrowers that provide services similar to those performed by traditional banks, but are not specifically mentioned in the instructions for item 9.a.

First, we are seeking clarification on whether loans to companies primarily engaged in payment processing (e.g., Visa, Mastercard), check cashing and money transfer services (e.g., Western Union), but who do not offer credit or other financing services, should be classified as loans to NDFIs. These payment processing companies do not engage in financing and do not accept deposits. They only perform a processing role but engage in certain activities which are typically performed by traditional banks.

Second, we are asking for clarification for the reporting treatment for loans to standalone companies that primarily provide safe deposit box services (e.g., Manhattan Vaults). Similar to payment processing firms, these companies engage in a normal service offered by traditional banks, providing safe deposit box services, but do not offer any other financial services. In these scenarios, where loans are made to entities providing services similar to those of traditional banks, but in which there is no financing and no acceptance of deposits, clarification is requested on whether loans to these entities should be classified as loans to NDFIs.

Third, we are asking for clarification on reporting loans to central counterparties (CCPs). CCPs do not accept deposits and are not regulated by Federal banking agencies but provide some services similar to traditional banks. A CCP acts as seller to every buyer and buyer to every seller, insures clearing members against counterparty losses by taking on the positions of the defaulted member, nets down payment obligations across all the cleared contracts to one payment obligation to the CCP per member, and takes in collateral to guarantee contractual performance. Similar to the other items above, clarification is requested on whether loans to CCPs should be reported as loans to NDFIs.

Loans to leasing and renting companies

We are also seeking clarification regarding the reporting treatment for loans to leasing and renting companies, in the circumstances where these companies do not provide any financing to customers. The proposed instructions for both the FR Y-9C and the Call Reports added language to include loans to "leasing companies" in line item 9.a, loans to NDFIs, under both (2) Loans to business credit intermediaries and (4) Loans to consumer credit intermediaries. Further, in the proposed Y-14Q instructions[24] implementing the NDFI reporting changes, Schedule H.1 Field 120, NDFI Obligor Type

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[23] *Id.* at page 14.

[24] Federal Reserve, Redlined Draft FR Y-14Q Instructions, available at https://www.federalreserve.gov/apps/reportingforms/Download/DownloadAttachment?guid=F7F486CE-FD85-4BF0-9875-1B99D25F390C, at 227.

includes "Leasing and non-real estate rental". Notwithstanding BPI's prior request for revisions that would align NDFI reporting across the FR Y-14, Call Reports and FR Y-9C,[25] the inclusion of these obligor types in the Y-14 could be interpreted to indicate that the Federal Reserve intends these items to be reported as NDFIs for the purposes of the FR Y-9C and Call Reports as well. However, there exist many leasing and renting companies who do not provide any financing or banking activities, for example, equipment or automobile renting companies. In these instances, these companies have an asset that they rent or lease out, which is then returned to the company, without any financing component. Given this scenario, we request clarification on whether all loans to rental and leasing companies, including leasing and non-real estate rental, should be included in line item 9.a, loans to NDFIs.

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The Associations appreciate the opportunity to comment on the proposal. If you have any questions, please contact Jack Stump by email at jack.stump@bpi.com, or Stephanie Webster by email at swbster@iib.org.

Respectfully submitted,

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cc: Michael Gibson
Mark Van Der Weide
Board of Governors of the Federal Reserve System

[25] Bank Policy Institute, Capital Assessments and Stress Testing Reports, FR Y-14 A/Q/M Revisions (OMB Control Number: 7100-0341) (August 20, 2024), available at https://bpi.com/wp-content/uploads/2024/09/BPI-FR-Y-14-Proposal-Comment-Letter-Final.pdf.