

June 28, 2017

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Via email: rule-comments@sec.gov

RE: File Number S7-02-17 *Request for Comment on Possible Changes to Industry Guide 3 (Statistical Disclosure by Bank Holding Companies)*

To Whom It May Concern:

The American Bankers Association (ABA)¹ appreciates the opportunity to comment on the *Request for Comment on Possible Changes to Industry Guide 3 (Statistical Disclosure by Bank Holding Companies)* (the Request). The Request seeks feedback on possible revisions to the disclosure regime for bank holding companies and other entities with material lending and deposit activities.

Bankers strongly support efforts to improve disclosure requirements for the benefit of investors and registrants and a formal review of Guide 3, which was first published in 1976, is the right course of action. As acknowledged in the Request, disclosure is an important and challenging issue for bankers, as banks publicly disclose different financial information in various regulatory forums. The relevance of certain banking disclosure requirements can change quickly, as a result of new accounting standards, new regulations, investor requests, and banking agency reporting requirements. For example, recently issued and pending Accounting Standards Updates (ASUs) by the Financial Accounting Standards Board (FASB) will significantly affect the ongoing relevance of certain banking metrics.² The needs of investors also evolve, as many realign their focus depending on cyclical or event-driven circumstances. In the banking industry, since Guide 3 was issued, the availability of financial data from other sources has increased dramatically, as other disclosures are provided due to agency requirements³ and para-agency initiatives⁴.

¹ The American Bankers Association is the voice of the nation's \$16 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard \$12 trillion in deposits and extend more than \$8 trillion in loans.

² Since 2009, many accounting standards updates have been issued by FASB that have had (or will have) a significant effect on the banking industry. See the appendix to this letter for a list of these updates. ASU 2016-13 (*Measurement of Credit Losses on Financial Assets*), when effective, may also change how many traditional banking metrics will be interpreted.

³ The most well-known disclosures are reported in "Call Reports" and FR Y-9C reports. However, other required under various laws and regulations include "Pillar 3" reports and the reporting of other metrics, such as liquidity coverage ratios, net stable funding ratios, and stress testing results.

⁴ Certain disclosures are also provided by large, international banks through voluntary compliance with recommendations made by the Enhanced Disclosures Task Force (EDTF). Organized under the sponsorship of the Financial Stability Board, the EDTF membership included bankers, auditors, and investors.

Priority Should be Placed on Reducing Redundancy

ABA supports a disclosure regime that can be tailored to specific company business models and the timely concerns of investors. The existing framework of financial disclosure requirements (defined in Regulation S-X and U.S. GAAP) and Management's Discussion and Analysis (MD&A) has generally served investors well. ABA acknowledges that bank investors may also benefit from prescriptive guidance intended to increase the comparability of disclosed information among companies. As acknowledged in the Request, however, the specific information required in Guide 3 often overlaps with information required under U.S. GAAP or included within MD&A. Because of the prescriptive requirements in Guide 3, certain key information may often lack relevance or otherwise confuse investors when those categories do not conform to how the assets, liabilities, and their related risks are managed and addressed within MD&A.

With this in mind, reducing and eliminating redundancy of prescriptive disclosure requirements – especially those that add minimal value to investors – should be a priority. To the extent Guide 3 disclosure requirements remain, they should be focused on providing information deemed valuable and relevant to investors that is not otherwise presented under existing financial disclosure requirements. We believe further expansion of Guide 3 disclosures (for example, for inclusion of trading securities, fair values of loans, and Liquidity Coverage Ratio disclosures) is unnecessary. Any additional statistical information considered relevant to banking that is not already available through other regulatory guidance can be provided on an as-needed basis through MD&A.

Observations and High-Level Recommendations Resulting from Investor Outreach

While bank executives and investor relations departments conduct outreach to their investor base on a regular basis, ABA has also recently conducted various meetings with investors, with the topic of disclosures among the major issues. Those discussions have fed our comments to the specific sections of Guide 3 (addressed below) and the following are our high-level recommendations:

- **Streamlining will simplify efforts:** Investors generally view financial reporting holistically and are unaware of which requirements necessitate which disclosures or the detailed differences among the requirements of Regulation S-X, MD&A, and Guide 3. Thus, in contrast to those who may recommend codifying Guide 3 guidance within Regulation S-X, mere streamlining of Guide 3 by eliminating redundancy with GAAP appears to be the least confusing path of reform.
- **Additional codification is inappropriate:** Investors also generally have no preference as to where information is obtained or to the specific regulator requiring the disclosures and they will refer to banking regulatory reports in addition to reports filed with the Commission. As a result, we believe codification of additional prescriptive requirements is largely unnecessary or will be ineffective.
- **Address redundancies only with GAAP; Cross-referencing with regulatory reports is not recommended:** In light of the investor indifference as to the source of the information, ABA recommends that, within the Commission's efforts to reduce redundancy, the staff refer only to GAAP financial statements. While we do not oppose investors referring to the other reports

(call reports, for example), we oppose any requirements to cross reference or hyperlink such information. We believe such requirements would likely cause confusion among both registrants and their investors. Regulatory reporting may not provide the context necessary for understanding the complete picture presented in a 10-K and additional reconciliation and other unnecessary costs would be required in such a scenario.

- **Prescribing risk classifications is difficult in a dynamic environment:** Statistical information provided in conjunction with quarterly earnings announcements is often of highest interest to investors. Disaggregation of the information to enable investors to identify and analyze various perceived risks is performed specifically in response to ongoing contact with them. These risks will often change or vary, based on the state of the economy, industry and regulatory developments, as well as contemporary world events. Thus, additional prescriptive guidance will likely have limited effectiveness over time if the objective is to provide comparability. Such disaggregation, therefore, is probably better addressed within MD&A.
- **Prescriptive statistics measuring interest rate risk may always be inadequate:** Disclosures relating to interest rate risk and asset-liability management are very challenging to address if comparability is the objective. The vast arrays of highly judgmental assumptions that go into current sensitivity testing processes addressing interest rate risk in non-trading portfolios make comparability almost impossible. Even merely standardizing future interest rate scenarios will produce results that will not likely resemble reality nor be helpful to investors. Feedback we have received indicate that investors find useful information that helps them assess interest rate risk, such as understanding fixed vs. adjustable rate terms and different maturities. Further, there is a desire for metrics such as duration. However, duration and any similar metrics are full of the aforementioned assumptions, making comparability formidable, if not impossible.

Comments on Specific Guide 3 Sections

While there is significant overlap in the prescriptive disclosure requirements of Guide 3 and other financial disclosure requirements (such as U.S. GAAP), there are certain disclosures not explicitly required outside of Guide 3 that investors may find useful, as noted below in our general comments on the specific sections of Guide 3. To the extent such information is relevant to a bank's business and investors, banks may also consider leveraging MD&A, where additional context can easily be provided to incorporate this information.

Distribution of Assets, liabilities and Stockholders' Equity: Interest Rates and Interest Differential

The current guidance, which includes the analyses of average balance sheets and yields/rates, appears to be useful to some investors and is not otherwise explicitly required under GAAP or MD&A guidance.

Investment portfolio

It appears that the current guidance can largely be streamlined, as the required information is largely included within other disclosures required by GAAP. Requirements related to weighted average yield, not otherwise required by GAAP, may be useful to some investors.

Loan Portfolio

It appears that the current guidance can be streamlined, as this information is largely included within other disclosures required by GAAP. Certain information related to Maturities and Sensitivities may be useful to some investors (specifically, fixed vs. floating rate terms and maturity information that can provide more information related to loan duration) and is not otherwise required by GAAP. Additionally, information on Other Interest-Bearing Assets may also be useful to some investors and is similarly not otherwise required by GAAP.

Information related to Problem Loans, and Foreign Outstandings may be useful and is not otherwise required by GAAP. However, these issues appear to be more appropriate for MD&A, as such information would likely be included therein, whether or not it was required in Guide 3. Further, the relevance of problem loans could change significantly upon the effective date of FASB Accounting Standards Update 2016-13. Therefore, any new disclosures in this area may soon become obsolete.

Information related to foreign outstandings, in particular, appears to be more appropriately addressed within MD&A, as country risk exposure discussed therein more clearly reflects such exposures and how the company manages them. A Guide 3 requirement should, in fact, be eliminated because the evolution of international markets and risk management processes makes such a prescriptive disclosure quickly obsolete. The existing country risk disclosures within MD&A are able to adapt to the changing market conditions more quickly.

Loan Loss Experience

Loan loss experience is useful information. However, GAAP requirements appear to be more relevant than Guide 3. The disaggregation of information on the allowance for loan losses is inconsistent between GAAP (by portfolio segment) and Guide 3 (by loan type) and the number of years presented conflicts (three years under GAAP and five years under Guide 3). Further, there is a rollforward of the allowance balance under GAAP. Overall, we believe that Guide 3 should be superseded by GAAP requirements, especially as the new accounting standard on credit losses will change certain disclosures and may change how loans are disaggregated in the future.

Deposits

While largely redundant with disclosures required by GAAP, certain information may be useful to investors, namely, the average deposit rates paid information, as it is connected to the Average Balance/Interest Rate schedules defined above. Disclosures related to foreign banking may also be useful.

Return on Equity and Assets

The majority of this information may be useful to investors. Although largely duplicative with data filed within Federal Reserve report FR Y-9C and easily derived from information otherwise disclosed in financial statements, this information is relatively easy to provide. We recommend that the Commission ignore specifically defined information within industry regulatory reports, as those amounts are not necessarily intended for investor audiences and could change, based on regulatory need.

Short-Term Borrowings

Period-end amounts of short-term borrowings are largely redundant with GAAP. However, the average and maximum month-end amounts outstanding, as well as weighted average interest rates, may be useful to some investors and they also provide further context to the period-end amounts. At a minimum, however, the Commission should consider converging the number of periods reported to those required in GAAP.

Other Comments

Additional ABA recommendations are as follows:

- As expressed within the detailed comments, the number of years of data presented in Guide 3 should be aligned with GAAP.
- Guide 3 requirements should not be applied to interim financial filings, as significant changes to the most relevant statistics are already normally addressed during earnings calls and within MD&A.
- Guide 3 size thresholds should be aligned with the current definitions of a smaller reporting company.
- Guide 3 requirements should apply to non-bank holding registrants that have significant operations in which credit is provided.
- There should be no requirement to file Guide 3 information in XBRL format.

ABA appreciates the opportunity to share this feedback, which comes from ABA members, as well as from detailed discussions from banking analysts and investors. We found this process to be very

useful and believe continued outreach is important. Thus, we recommend that the Commission conduct regular and timely review of Guide 3 to maintain its relevance in light of evolving reporting standards and investor needs. Thank you for your attention to these matters and for considering our views. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss our views.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael L. Gullette". The signature is written in a cursive, flowing style.

Michael L. Gullette

Appendix: FASB Accounting Standards Updates That Have Significantly Affected the Banking Industry

- ASU 2009-16: *Accounting for Transfers of Financial Assets* ASU 2010-06 *Improving Disclosures About Fair Values Measurements*
- ASU 2010-11 *Scope Exception Related to Embedded Credit Derivatives*
- ASU 2010-18 *Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset*
- ASU 2010-20 *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*
- ASU 2011-02 *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*
- ASU 2013-03 *Reconsideration of Effective Control for Repurchase Agreements*
- ASU 2011-04 *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*
- ASU 2011-11 *Disclosures about Offsetting Assets and Liabilities*
- ASU 2012-06 *Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*
- ASU 2013-01 *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*
- ASU 2013-10 *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*
- ASU 2014-01 *Accounting for Investments in Qualified Affordable Housing Projects*
- ASU 2014-03 *Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach*
- ASU 2014-04 *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*
- ASU 2014-11 *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*
- ASU 2014-13 *Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity*
- ASU 2014-14 *Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*
- ASU 2014-16 *Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity*
- ASU 2015-03 *Imputation of Interest*
- ASU 2016-01 *Recognition and Measurement of Financial Assets and Financial Liabilities*
- ASU 2016-05 *Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*
- ASU 2016-06 *Contingent Put and Call Options in Debt Instruments*
- ASU 2016-13 *Measurement of Credit Losses on Financial Instruments*
- ASU 2016-08 *Premium Amortization on Purchased Callable Debt Securities*

In addition, a FASB ASU relating to hedge accounting is expected to be issued in summer, 2017.