

SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 210, 211, 229, 231 and 241

Release No. 33-10321; 34-80131; File No. S7-02-17

RIN 3235-AL79

**REQUEST FOR COMMENT ON POSSIBLE CHANGES TO INDUSTRY GUIDE 3
(STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES)**

AGENCY: Securities and Exchange Commission.

ACTION: Request for comment.

SUMMARY: The Commission is publishing this request for comment to seek public input as to the disclosures called for by Industry Guide 3, *Statistical Disclosure by Bank Holding Companies*. The financial services industry has changed dramatically since Guide 3 was first published. Consequently, our disclosure guidance may not in all cases reflect recent industry developments or changes in accounting standards related to financial and other reporting requirements.

DATES: Comments should be received on or before May 8, 2017.

ADDRESSES: Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/other.shtml>);
- Send an email to rule-comments@sec.gov. Please include File Number S7-02-17 on the subject line; or
- Use the Federal eRulemaking Portal (<http://www.regulations.gov>). Follow the instructions for submitting comments.

Paper comments:

- Send paper comments to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number S7-02-17. This file number should be included on the subject line if email is used. To help us process and review your comments more efficiently, please use only one method of submission. The Commission will post all comments on the Commission's website (<http://www.sec.gov/rules/other.shtml>). Comments also are available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

FOR FURTHER INFORMATION CONTACT: Lindsay McCord, Associate Chief Accountant in the Office of Chief Accountant, Division of Corporation Finance, at (202) 551-3400, U.S. Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

TABLE OF CONTENTS

I.	Introduction	4
II.	Applicable Disclosures.....	17
A.	Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rate and Interest Differential (Average Balance, Interest and Yield/Rate Analysis and Rate/Volume Analysis).....	18
B.	Investment Portfolio	27
C.	Loan Portfolio	36
D.	Summary of Loan Loss Experience.....	48
E.	Deposits	56
F.	Return on Equity and Assets.....	62
G.	Short-Term Borrowings	66
H.	Potential New Disclosures	73
III.	Applicability of Disclosure Requirements.....	79
A.	Applicability to Registrants Other Than Bank Holding Companies.....	79
B.	Applicability to Foreign Registrants	80
C.	Size Thresholds and Reporting Periods	83
IV.	Closing.....	86

I. Introduction

The Commission is considering possible revisions to its disclosure regime for bank holding companies. When we discuss current disclosure guidance in this request for comment, we focus on the disclosures currently called for by Industry Guide 3, *Statistical Disclosure by Bank Holding Companies* (Guide 3).¹ By its terms, Guide 3 applies exclusively to bank holding companies, although the staff has previously indicated that the disclosures called for by Guide 3 “should also be provided by other registrants with material lending and deposit activities.”² In this request for comment, when we use the term “BHC registrants,” we are referring to public companies that apply Guide 3 disclosures. In light of developments in the financial services industry since publication of Guide 3, we are considering modernization of the nature, timing, scope and applicability of Guide 3. We also encourage commenters to consider registrants *other than* BHC registrants with material amounts of activities in the areas addressed in Guide 3³ when responding to this request for comment.

The goal of the Commission’s disclosure system is to ensure that investors receive the information they need to make informed investment and voting decisions.⁴ Many of the

¹ 57 FR 36442.

² Staff Accounting Bulletin Topic 11:K – Application of Article 9 and Guide 3 (SAB 11:K). The Industry Guides and SAB 11:K are not rules, regulations or statements of the Commission. Further, as with any staff guidance, the views of the staff referenced in this request for comment are not rules or interpretations of the Commission. The Commission has neither approved nor disapproved the views of the staff expressed herein.

³ Guide 3 is divided into seven sections, each covering a distinct area of statistical disclosure: (I) Distribution of Assets, Liabilities and Stockholders’ Equity; Interest Rates and Interest Differential, (II) Investment Portfolio, (III) Loan Portfolio, (IV) Summary of Loan Loss Experience, (V) Deposits, (VI) Return on Equity and Assets, and (VII) Short-Term Borrowings.

⁴ Adoption of Integrated Disclosure System, Release No. 33-6383 (Mar. 3, 1982) [47 FR 11380].

Commission's disclosure requirements are found in Regulation S-K,⁵ which is the central repository of non-financial statement disclosure requirements, and Regulation S-X,⁶ which prescribes the form and content of and requirements for financial statements. These requirements generally apply to all registrants, regardless of industry. In some instances, the Commission has determined that registrants in specific industries, such as bank holding companies, should provide additional disclosures. For example, Subpart 1200 of Regulation S-K⁷ contains additional disclosure requirements for oil and gas producing companies. The Commission also recently proposed to consolidate the property disclosure requirements for mining registrants in a new Subpart 1300 of Regulation S-K.⁸ Similarly, the Commission has adopted disclosure requirements and published guidance specific to bank holding companies, such as Article 9 of Regulation S-X (Article 9),⁹ which sets forth the Commission's rules for the form and content of consolidated bank holding company financial statements and bank financial statements included in filings with the Commission.

Industry Guide 3 was first published in 1976¹⁰ as "a convenient reference to the statistical disclosures sought by the staff of the Division of Corporation Finance in registration statements

⁵ 17 CFR 229.10 *et seq.*

⁶ 17 CFR 210.1-01 *et seq.*

⁷ 17 CFR 229.1201 through 1208.

⁸ Modernization of Property Disclosures for Mining Registrants, Release No. 33-10098 (June 16, 2016) [81 FR 41651] (Mining Disclosures Release).

⁹ 17 CFR 210.9-01 through 9-07.

¹⁰ Guides for Statistical Disclosure by Bank Holding Companies, Release No. 33-5735 (Aug. 31, 1976) [41 FR 39007] (Guide 3 Release). Guide 3 was originally published as Securities Act Guide 61 and Exchange Act Guide 3. In 1982, Securities Act Guide 61 and Exchange Act Guide 3 were redesignated as Securities Act Industry Guide 3 and Exchange Act Industry Guide 3. *See* Rescission of Guides and Redesignation of Industry Guides, Release No. 33-6384 (Mar. 16, 1982) [47 FR 11476]. When it published the Guide 3 Release, the Commission stated that "[t]he Guides are not Commission rules nor do they bear the

and other disclosure documents filed by bank holding companies.”¹¹ The Guide 3 release noted that “as the operations of bank holding companies have diversified, it has become increasingly difficult for investors to identify the sources of income of such companies.”¹² The Division believed that disclosure of the same statistical information on a regular, periodic basis would assist in assessing their future earning potential and enable investors to compare bank holding companies.¹³ In drafting Guide 3, the staff was “mindful of the investor’s need to assess uncertainties, the need for disclosure with respect to changes in risk characteristics, and specifically the need for substantial and specific disclosure of changes in risk characteristics of loan portfolios.”¹⁴ Consequently, Guide 3 called for “more meaningful disclosure about loan portfolios and related items in filings by bank holding companies”¹⁵ than had been generally available prior to implementation of Guide 3. Guide 3 also requests information with respect to a BHC registrant’s foreign operations on the basis that it believes is representative of its foreign activities and the risks associated with such business. The staff’s view was that such “information [would] assist investors to evaluate the potential impact of future economic events upon a registrant’s business and earnings and to assess the ability of a bank holding company to move into or out of situations with favorable or unfavorable risk/return characteristics.”¹⁶ In

Commission’s official approval; they represent policies and practices followed by the Commission’s Division of Corporation Finance in administering the disclosure requirements of the federal securities laws.”

¹¹ Guide 3 Release at 39008.

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

adopting Guide 3, the staff consulted extensively with representatives of the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) (collectively, U.S. banking agencies), which regulate banking organizations.¹⁷ Unless the context dictates otherwise, in this request for comment, when we use the term “banking organizations,” we are referring to national banks, state member banks, Federal savings associations, and top-tier bank holding companies domiciled in the United States not subject to the FRB’s Small Bank Holding Company Policy Statement (12 CFR part 225, appendix C), as well as top-tier savings and loan holding companies domiciled in the United States, except certain savings and loan holding companies that are substantially engaged in insurance underwriting or commercial activities.¹⁸ Guide 3 has been amended over time to provide more uniformity and consistency between the Guide and Article 9 and to elicit additional information about various risk elements involved in deposit and lending activities,¹⁹ although the last substantive revision of Guide 3 took place in 1986.²⁰

¹⁷ *Id.*

¹⁸ *See* Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule. (Oct. 11, 2013) [78 FR 62017] (Regulatory Capital Rules).

¹⁹ Amendments to Guides for Statistical Disclosure by Bank Holding Companies, Release No. 33-6221 (July 8, 1980) [45 FR 47138] (1980 Guide 3 Amendments Release); Revision of Financial Statement Requirements and Industry Guide Disclosure for Bank Holding Companies, Release No. 33-6458 (Mar. 7, 1983) [48 FR 11104]; Revision of Industry Guide Disclosures for Bank Holding Companies, Release No. 33-6478 (Aug. 11, 1983) 48 FR 37609 (1983 Guide 3 Revisions Release); Notification of Technical Amendments to Securities Act Industry Guides, Release No. 33-9337 (Jul. 13, 2012) [77 FR 42175].

²⁰ Guide 3’s last substantive revision, which added disclosures regarding loans and extensions of credit to borrowers in countries experiencing liquidity problems, occurred in 1986. *See* Amendments to Industry Guide Disclosures by Bank Holding Companies, Release No. 33-6677 (Nov. 25, 1986) [51 FR 43594].

Purpose of this Request for Comment

Since the last substantive revisions to Guide 3, the Commission has issued disclosure requirements and guidelines²¹ and the Financial Accounting Standards Board (FASB)²² has issued accounting standards that have changed the reporting obligations for all registrants generally. In addition, various international, federal and state regulatory, supervisory and standard-setting bodies²³ require entities within their respective remits to publish a wide range of quantitative and qualitative disclosures. Consequently, some of the disclosures called for by Guide 3, which are focused on the needs of an investor, may be duplicative of or overlap with subsequently adopted Commission rules, accounting principles generally accepted in the United States (U.S. GAAP) or disclosures mandated by other regulatory, supervisory or standard-setting regimes.

²¹ For example, the Commission adopted Item 305 of Regulation S-K in 1997. Disclosure of Accounting Policies for Derivative Financial Instruments and Derivative Commodity Instruments and Disclosure of Quantitative and Qualitative Information about Market Risk Inherent in Derivative Financial Instruments, Other Financial Instruments and Derivative Commodity Instruments, Release No. 33-7386 (Jan. 31, 1997) [62 FR 6044] (Disclosure of Market Risk Sensitive Instruments Release).

²² The Commission has broad authority and responsibility under the federal securities laws to prescribe the methods to be followed in the preparation of accounts and the form and content of financial statements to be filed under those laws. *See, e.g.*, Sections 7 and 19(a) and Schedule A, Items (25) and (26) of the Securities Act of 1933 [15 U.S.C. 77a *et seq.*] (Securities Act) and Sections 3(b), 12(b) and 13(b) of the Securities Exchange Act of 1934 [15 U.S.C. 78a *et seq.*] (Exchange Act). To assist it in meeting this responsibility, the Commission historically has looked to private sector standard-setting bodies designated by the accounting profession to develop accounting principles and standards. In 2002, in accordance with criteria established by the Sarbanes-Oxley Act, the Commission designated the FASB as the private sector accounting standard setter for U.S. financial reporting. *See* Commission Statement of Policy Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter, Release No. 33-8221 (Apr. 25, 2003) [68 FR 23333]. The IASB, which is subject to oversight by the IFRS Foundation, is responsible for IFRS and establishes its own standard-setting agenda. For further information, *see* <http://www.ifrs.org/About-us/Pages/IFRS-Foundation-and-IASB.aspx>.

²³ In the United States, for example, the U.S. banking agencies regulate and supervise banking organizations. The Basel Committee on Banking Supervision (BCBS) is an example of an international standard-setter for the prudential regulation of banks. The BCBS develops international regulatory capital standards through a number of capital accords and related publications. The United States is a participating member of the BCBS, and the U.S. banking agencies generally implement BCBS standards through a notice and comment process. For more information, *see* <http://www.bis.org/bcbs/history.pdf>.

Furthermore, the financial services industry has evolved significantly since Guide 3 was first published. Bank holding companies and financial holding companies today conduct a wider array of activities than was the case at the time of Guide 3's publication.²⁴ Moreover, the use of financial instruments has also evolved. For example, 1,438 insured U.S. commercial banks and savings associations reported derivatives activities at the end of the third quarter of 2016.²⁵ A small group of large financial institutions continues to dominate derivatives activity in the U.S. commercial banking system. During the third quarter of 2016, four large commercial banks represented 89.7 percent of the total banking industry notional amounts and 84.4 percent of industry net credit exposure.²⁶

In this request for comment, we describe each disclosure section in Guide 3 in turn, as well as related disclosures required by Commission rules, U.S. GAAP and the U.S. banking agencies,²⁷ and we ask for public input about how and to what extent the Guide 3 disclosure regime could be improved. We seek input on new or revised disclosure or the elimination of what may be duplicative or overlapping disclosures in Guide 3. We also seek input on whether any of the Guide 3 disclosures, which are not Commission rules or requirements, should be

²⁴ For example, some banking organizations engage in activities involving physical commodities, insurance, investment management, asset management and broker-dealer activities. *See also* Henry T. C. Hu, *Disclosure Universes and Modes of Information: Banks, Innovation, and Divergent Regulatory Quests*, 31 *Yale Journal on Regulation* 565 (2014) at pages 590-592.

²⁵ See Quarterly Report on Bank Derivatives Activities, Third Quarter 2016, Office of the Comptroller of the Currency, available at <https://www.occ.gov/topics/capital-markets/financial-markets/derivatives/derivatives-quarterly-report.html>.

²⁶ *Id.*

²⁷ The descriptions in this request for comment are provided for the convenience of commenters and to facilitate the comment process. These descriptions, particularly the descriptions of applicable bank regulatory requirements and U.S. GAAP, should not be taken as Commission or staff guidance about the relevant rules or standards.

codified as Commission rules.²⁸ Because we are considering modernization of the scope and applicability of Guide 3, we also encourage commenters to consider registrants *other than* bank holding companies when recommending improvements to the disclosure regime.

Sources of Disclosures

In addition to Article 9 and Guide 3, various Commission rules and accounting standards applicable to registrants in all industries govern the disclosures that bank holding companies provide in Commission filings. For example:²⁹

- Article 4 of Regulation S-X³⁰ requires financial statements for domestic registrants to comply with U.S. GAAP, which in turn contains disclosure requirements that apply specifically to the financial services industry.³¹
- Item 303 of Regulation S-K,³² Management's discussion and analysis of financial condition and results of operations (MD&A), requires a discussion and analysis of the underlying causes of material changes in financial statement line items, as well as the material trends and uncertainties that may have a material impact on a registrant's results of operations, liquidity or capital resources.³³

²⁸ In 1996, the Commission's *Task Force on Disclosure Simplification* recommended relocating the industry guides, including Guide 3, into Regulation S-K. *Report of the Task Force on Disclosure Simplification* (Mar. 5, 1996), available at <http://www.sec.gov/news/studies/smpl.htm>. Currently, Instruction 13 to Regulation S-K Item 303(a) directs the attention of bank holding companies to the information called for by Guide 3. In 2008, the Commission modernized the reporting requirements applicable to oil and gas reserves and codified the disclosures formerly in Industry Guide 2 into Regulation S-K. Modernization of Oil and Gas Reporting, Release No. 33-8995 (Dec. 31, 2008) [74 FR 2158].

²⁹ The rules and accounting standards in these examples apply to domestic registrants. Foreign private issuers are subject to similar Commission disclosure requirements. For example, Form 20-F requires a discussion of the foreign private issuer's financial condition, changes in financial condition and results of operations and quantitative and qualitative disclosures about market risk.

³⁰ 17 CFR 210.4-01 through 4-10.

³¹ U.S. GAAP includes industry-specific accounting and reporting guidance for the financial services industry in Accounting Standards Codification (ASC) 940 to 950. U.S. GAAP categorizes the financial services industry disclosures by the following: Broker Dealers, Depository and Lending, Insurance, Investment Companies, Mortgage Banking, and Title Plant.

³² 17 CFR 229.303.

³³ *See* Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations, Release No. 33-8350 (Dec. 19, 2003) [68 FR 75056] (Interpretive Guidance on MD&A).

- Item 305 of Regulation S-K,³⁴ Quantitative and qualitative disclosures about market risk, requires disclosures about market risks, including interest rate risk. Interest rate risk is a significant risk for registrants whose balance sheets are concentrated in interest-earning assets and interest-bearing liabilities.
- Item 2.02 of Form 8-K requires registrants that make any public announcement or release material non-public information about their results of operations or financial condition for a completed quarter or annual period to furnish the information as an exhibit to Form 8-K. Among other things, this requirement applies to earnings releases and investor presentations.³⁵

A wide range of information is publicly available beyond what is called for by the Commission's disclosure requirements and guidance. For example:

- The U.S. banking agencies require their regulated banking organizations to file publicly available Consolidated Reports of Condition and Income (Call Reports), on a quarterly basis.³⁶ The FRB also requires bank holding companies to file publicly available data separately on a consolidated basis.³⁷ Because these reports are prepared based on bank regulatory reporting requirements, the information they contain is not necessarily identical to the information in Commission filings.
- Banking organizations are subject to the regulatory capital framework and the associated disclosures adopted by the U.S. banking agencies. The current regulatory capital framework, known as "Basel III," was first phased in beginning on January 1, 2014 and became effective for all U.S. banking organizations on January 1, 2015.³⁸

³⁴ 17 CFR 229.305.

³⁵ Registrants sometimes provide investor presentations that contain extensive information that is not required to be disclosed by Commission rules or accounting standards. For example, some registrants disclose calculations for capital ratios to which they are not yet subject. In addition, some registrants disclose their deposit spreads for each category of deposits, while disclosing in MD&A their deposit spread on an aggregated basis only.

³⁶ Every national bank, state member bank, insured state nonmember bank, and savings association is required to file periodic consolidated Call Reports. These banking organizations may not be the entities that file reports with the Commission, which typically are the bank holding companies. For Call Report instructions and forms, see http://www.ffiec.gov/ffiec_report_forms.htm. Call Reports must be filed 30 to 35 calendar days after the report date, depending on whether the filer has a foreign office. The discussion of Call Reports in this request for comment is based on the reporting requirements applicable to banking organizations as of December 31, 2016.

³⁷ The FRB collects basic financial data on a consolidated basis from domestic bank holding companies, savings and loan holding companies and securities holding companies on Form FR Y-9C.

³⁸ The BCBS developed international regulatory capital standards through a number of capital accords and related publications, which have collectively been in effect since 1998. Basel III is a comprehensive set of

U.S. GAAP requires disclosure describing the capital requirements and compliance with those requirements on an annual basis.³⁹

- Large, internationally active banking organizations, certain designated nonbank financial companies and certain consolidated subsidiary depository institutions thereof are subject to a liquidity coverage ratio (LCR) requirement. The LCR requirement is designed to promote the short-term resilience of the liquidity risk profile of covered organizations, thereby improving the financial services industry's ability to absorb shocks arising from financial and economic stress, and to further improve the measurement and management of liquidity risk. It requires covered organizations to maintain adequate levels of "high-quality liquid assets."⁴⁰ Basel III also introduced, and the U.S. banking agencies have proposed, a net stable funding ratio (NSFR) requirement, a liquidity measure that would require large,

reform measures, developed by the BCBS, to strengthen the regulation, supervision, and risk management of the banking sector. The measures include both liquidity and capital reforms. *See* <http://www.federalreserve.gov/bankinforeg/basel/>.

The Basel III framework is based on the following three pillars: (1) minimum capital requirements, (2) supervisory review process, and (3) market discipline disclosures. *See* Regulatory Capital Rules.

³⁹ ASC 942-505-50. The ratios and amounts required to be disclosed, if applicable, include: (1) Tier 1 leverage, (2) Tier 1 risk-based and total risk-based capital, (3) tangible capital, and (4) Tier 3 capital for market risk. Registrants should disclose any other regulatory limitations that could materially affect their economic resources and claims to those resources.

Entities within the scope of ASC 942 include the following: (a) finance companies; (b) depository institutions; (c) bank holding companies; (d) savings and loan association holding companies; (e) branches and agencies of foreign banks regulated by U.S. federal banking regulatory agencies; (f) state-chartered banks, credit unions and savings institutions that are not federally insured; (g) foreign financial institutions that present U.S. GAAP financial statements; (h) mortgage companies; and (i) corporate credit unions.

⁴⁰ The U.S. banking agencies adopted the LCR rule effective January 1, 2015 for large and internationally active banking organizations, generally, bank holding companies, certain savings and loan holding companies, and depository institutions with \$250 billion or more in total assets or \$10 billion or more in on balance sheet foreign exposure and their consolidated subsidiaries that are depository institutions with \$10 billion or more in total consolidated assets. In addition, a modified minimum LCR requirement applies to bank holding companies and savings and loan holding companies without significant insurance or commercial operations that are not internationally active and, in each case, have \$50 billion or more in total consolidated assets. *See* Liquidity Coverage Ratio: Liquidity Risk Measurement Standards (Oct. 10, 2014) [79 FR 61440] (LCR Adopting Release).

In December 2016, the FRB adopted quarterly public disclosure requirements related to the LCR requirement, including disclosure of the inputs to the LCR calculation. The effective date is scaled based on organization size, and only those covered organizations with \$700 billion or more in total consolidated assets or \$10 trillion or more in assets under custody must comply in 2017. *See* Liquidity Coverage Ratio: Public Disclosure Requirements; Extension of Compliance Period for Certain Companies to Meet the Liquidity Coverage Ratio Requirements (Dec. 27, 2016) [81 FR 94922].

internationally active banking organizations to maintain sufficient levels of “stable funding” to reduce liquidity risk in the banking system.⁴¹

- Under Basel III, certain banking organizations are subject to public disclosure requirements intended to allow market participants to assess an organization’s capital adequacy (Pillar 3).⁴²
- Large bank holding companies are subject to the FRB’s annual comprehensive capital analysis and review (CCAR) and Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)⁴³ stress testing (DFAST).⁴⁴ Some bank holding companies subject to these stress testing requirements issue press releases announcing their CCAR and DFAST results and furnish the press releases as Form 8-K exhibits. The FRB generally publishes the CCAR results, and banking organizations’ primary bank regulatory agencies generally publish the DFAST results. These results are published both in summary form and on an organization-by-organization basis.

Public Comments on Guide 3

Over the years, the Commission has continuously evaluated its disclosure system and engaged periodically in rulemakings designed to enhance its disclosure and registration

⁴¹ In May 2016, the U.S. banking agencies proposed a rule that would establish a minimum NSFR threshold applicable to covered organizations and would require public disclosure of the NSFR, its components and a discussion of certain qualitative features of it. If adopted, the rule would become effective on January 1, 2018 and is tailored to the size of the organization. *See* Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements (May 3, 2016) [81 FR 35123].

⁴² Pillar 3 disclosure requirements apply to banking organizations with \$50 billion or more in total assets. *See* Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule (Oct. 11, 2013) [78 FR 62018] (Regulatory Capital Rules Release).

⁴³ Pub.L. No. 111-203, 124 Stat. 1376 (2010).

⁴⁴ Banking organizations with \$50 billion or more in total consolidated assets are subject to the full scope of these tests. DFAST testing and disclosure requirements are significantly reduced for banking organizations with \$10 billion to \$50 billion in total consolidated assets. *See* <https://www.federalreserve.gov/newsevents/press/bcreg/20150602a.htm>.

The FRB uses CCAR to assess whether a banking organization has sufficient capital to continue operations in times of economic and financial stress and to ensure that the organization maintains a robust, forward-looking capital planning process that accounts for the unique risks it faces. *See* <http://www.federalreserve.gov/bankinfo/ccar.htm>. The U.S. banking agencies use DFAST to assess whether a banking organization has sufficient capital to absorb losses and support operations during adverse economic conditions. *See* <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20150602a1.pdf>.

requirements. This request for comment is part of the staff's broad-based review of the Commission's disclosure regime.

As part of this effort, the staff requested public input generally on how the Commission's disclosure system could be improved for the benefit of both companies and investors,⁴⁵ and a concept release on the business and financial disclosure requirements in Regulation S-K⁴⁶ requests comment on the Commission industry guides.⁴⁷ Over 30 of the comment letters submitted in response to these requests addressed Guide 3 specifically or Commission industry guides generally.⁴⁸ Several commenters indicated that the industry guides are helpful and

⁴⁵ Comment letters related to this request are available at <http://www.sec.gov/spotlight/disclosure-effectiveness.shtml>.

⁴⁶ Business and Financial Disclosure Required by Regulation S-K, Release No. 33-10064 (Apr. 13, 2016) [81 FR 23915] (Regulation S-K Concept Release).

⁴⁷ Comment letters related to the Regulation S-K Concept release are available at <https://www.sec.gov/comments/s7-06-16/s70616.htm>.

⁴⁸ See letters from The PNC Financial Services Group (July 14, 2014) (PNC Letter); Tom C.W. Lin (July 30, 2014) (Lin Letter); Global Financial Institutions Accounting Committee of the Securities Industry and Financial Markets Association (Oct. 13, 2014) (SIFMA Letter); Sustainability Accounting Standards Board (Nov. 12, 2014) (SASB Letter); CFA Institute (Nov. 12, 2014) (CFA Institute Letter); Shearman & Sterling LLP (Nov. 26, 2014) (Shearman & Sterling Letter); Disclosure Effectiveness Working Group of the Federal Regulation of Securities Committee and the Law & Accounting Committee of the Business Law Section of the American Bar Association (Mar. 6, 2015) (ABA Letter); Henry T. C. Hu (Oct. 7, 2015) (Hu Letter); Data Transparency Coalition (Oct. 29, 2015) (Data Transparency Coalition Letter); Ernst & Young LLP (Nov. 20, 2015) (EY Letter); Terra Alpha Investments LLC (June 6, 2016) (Terra Alpha Letter); Sustainability Accounting Standards Board (July 1, 2016) (SASB Letter II); US SIF and US SIF Foundation (July 14, 2016) (US SIF Letter); American Bankers Association (July 15, 2016) (American Bankers Association Letter); Deloitte & Touche LLP (July 15, 2016) (Deloitte Letter); U.S. Chamber of Commerce (July 20, 2016) (Chamber Letter); Corporate Governance Coalition for Investor Value (July 20, 2016) (CGCIV Letter); Center for Audit Quality (July 21, 2016) (CAQ Letter); Ernst & Young LLP (July 21, 2016) (EY Letter II); The PNC Financial Services Group (July 21, 2016) (PNC Letter II); KPMG LLP (July 21, 2016); Investment Program Association (July 21, 2016) (Investment Program Association Letter); Committee on Securities Law, Business Law Section, Maryland State Bar Association (July 21, 2016) (Maryland State Bar Letter); PricewaterhouseCoopers LLP (July 21, 2016) (PwC Letter); Crowe Horwath LLP (July 21, 2016) (Crowe Horwath Letter); Allstate Insurance Company (July 21, 2016) (Allstate Letter); Financial Services Roundtable (July 21, 2016) (Financial Services Roundtable Letter); Davis Polk & Wardwell LLP (July 22, 2016) (Davis Polk Letter); Lark Research, Inc. (July 25, 2016) (Lark Research Letter); Shearman & Sterling (August 31, 2016) (Shearman & Sterling Letter II); CFA Institute (Oct. 6, 2016) (CFA Institute Letter II).

relevant,⁴⁹ and several commenters recommended that the industry guides be updated.⁵⁰ Several commenters recommended that the industry guides be revised to eliminate overlap with U.S. GAAP requirements.⁵¹ One commenter recommended that the Commission conduct a comprehensive review of the regulatory disclosures applicable to the financial services industry.⁵² Some commenters suggested that to reduce complexity and redundancy, the staff should consider how U.S. GAAP disclosure requirements interplay with Commission disclosure requirements.⁵³ Some commenters recommended that the industry guides be codified into Regulation S-K or Regulation S-X,⁵⁴ while other commenters recommended that the guides not be codified.⁵⁵ Three commenters made specific recommendations on the disclosures called for by Guide 3.⁵⁶

In this request for comment, we are seeking public input as to whether and in which respects the specific quantitative and qualitative disclosures called for by Guide 3 should be

⁴⁹ See, e.g., CFA Institute Letter; CFA Institute Letter II; Maryland State Bar Letter; Shearman & Sterling Letter II.

⁵⁰ See, e.g., Allstate Letter; American Bankers Association Letter; CAQ Letter; CFA Institute Letter; CFA Institute Letter II; Crowe Horwath Letter; Davis Polk Letter; EY Letter; Financial Services Roundtable Letter; Investment Program Association Letter; PNC Letter II; PwC Letter; Shearman & Sterling Letter; SIFMA Letter.

⁵¹ See, e.g., CAQ Letter; Crowe Horwath Letter; EY Letter; KPMG Letter; SIFMA Letter.

⁵² SIFMA Letter.

⁵³ See, e.g., CFA Institute Letter; Shearman & Sterling Letter.

⁵⁴ See, e.g., Crowe Horwath Letter; Davis Polk Letter; EY Letter;

⁵⁵ See, e.g., Allstate Letter; Investment Program Association Letter; PNC Letter II.

⁵⁶ Deloitte Letter (recommending that the Commission consider whether certain investment portfolio, return on equity and assets and short-term borrowings disclosures continue to be informative or useful for investors, and that the Commission consider increasing the threshold that triggers deposits disclosure); Maryland State Bar Letter (recommending that the threshold that triggers deposit disclosure be increased, and that the scaled disclosure requirements in Guide 3 be made available to all smaller reporting companies and emerging growth companies); SIFMA Letter (providing specific recommendations on whether to retain, eliminate or revise each Guide 3 disclosure).

modified. Such disclosures include statistical disclosures that enable investors to compare results of operations among BHC registrants and evaluate exposures to risk. Portions of Guide 3 may call for the same or similar information as called for by U.S. GAAP or other regulatory reporting requirements that are not subject to the Commission's review. We are considering whether our current disclosure regime for BHC registrants continues to elicit the most relevant and important information for investors. To this end, we are seeking to understand better the types of information investors find important and how our current disclosure regime comports with investor expectations as well as industry practice and trends. In addition, we seek to understand to what degree other disclosure regimes, such as those instituted by U.S. banking agencies, may be used by investors.

We also are considering how Guide 3's disclosures can be most effectively presented from the perspective of both investor protection and promoting efficiency, competition and capital formation.⁵⁷ We also are interested in learning about any challenges that BHC registrants have faced in preparing and providing the categories of information currently covered by Guide 3.

Further, we are considering whether disclosures called for by Guide 3 should be applicable to certain other registrants in the financial services industry.

Request for Comment

1. Does Guide 3 provide important information for investors about BHC registrants? What is the value to investors of the disclosures currently called for by Guide 3?

⁵⁷ Section 3(f) of the Exchange Act requires that, whenever the Commission is engaged in rulemaking under the Exchange Act and is required to consider or determine whether an action is necessary or appropriate in the public interest, the Commission shall consider, in addition to the protection of investors, promotion of efficiency, competition and capital formation. Section 2(b) of the Securities Act also sets forth this same requirement. *See also* Section 23(a)(2) of the Exchange Act.

2. Do the disclosures called for by Guide 3 assist investors with comparing financial condition and results of operations across BHC registrants? Do the disclosures help investors evaluate exposures to risk across BHC registrants?
3. How should the Commission consider the importance of comparability for BHC registrants relative to other industries that do not have defined analytical data or specified disclosures?
4. Which Guide 3 disclosures, if any, should be codified as Commission rules, and why?
5. Excluding Commission filings, on what disclosures (*e.g.*, U.S. banking agency regulatory disclosures) do investors most frequently rely in making investment decisions? How do investors use those disclosures in making investment decisions? How do investors use such disclosures to compare results of operations and evaluate exposures to risks?
6. Should the information from disclosures outside of Commission filings be incorporated into the Commission's disclosure requirements? Why or why not? If incorporated, how should the information be presented to facilitate investors' access to such information?
7. Should the disclosures called for by Guide 3 be extended to other registrants, such as those engaged in the financial services industry? If so, which registrants and which disclosures?

II. Applicable Disclosures

In this section, we describe the disclosures currently called for by Guide 3 and other regulatory regimes. Our discussion of U.S. accounting standards and bank regulatory requirements is neither comprehensive nor interpretive, and it emphasizes only current⁵⁸ disclosure requirements, some of which will or may change in the future.⁵⁹ To focus the discussion, this request for comment describes the disclosures applicable to domestic registrants

⁵⁸ We refer to U.S. GAAP standards that are effective as of the date of this request for comment as “current” and highlight separately throughout this request for comment standards that have been issued but are not yet effective.

⁵⁹ For example, in 2016 the FASB issued two new accounting standards that modify the accounting for and disclosure of financial assets and liabilities. See the discussion of these new standards in Sections 2.B, 2.C and 2.D of this request for comment.

that are not smaller reporting companies⁶⁰ or emerging growth companies⁶¹ and that do not provide scaled Guide 3 disclosures.⁶² We discuss the applicability of these disclosures to foreign registrants, smaller reporting companies, emerging growth companies and smaller bank holding companies in Section III. We also consider whether disclosures beyond or in lieu of those currently applicable would be important for investors.

A. Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rate and Interest Differential (Average Balance, Interest and Yield/Rate Analysis and Rate/Volume Analysis)

1. Background

Net interest income represented more than 64% of total net operating revenue for all FDIC-insured institutions for the first three quarters of 2016.⁶³ Given the significance of net interest income to the results of operations, it is important for investors to understand the reasons for its fluctuations. A BHC registrant's future earnings depend significantly on present and future economic conditions. Changes in interest rates can have a significant impact on a BHC

⁶⁰ Exchange Act Rule 12b-2 [17 CFR 240.12b-2] defines a smaller reporting company as an issuer that is not an investment company, an asset-backed issuer or a majority-owned subsidiary of a parent that is not a smaller reporting company and that has a public float of less than \$75 million. If an issuer has zero public float, it is considered a smaller reporting company if its annual revenues are less than \$50 million.

⁶¹ Section 2(a)(19) of the Securities Act defines an emerging growth company as an issuer that had total annual gross revenues of less than \$1 billion during its most recently completed fiscal year. It retains that status for five years after its initial public offering unless its revenues are \$1 billion or more, it issues more than \$1 billion of non-convertible debt during the previous three-year period, or it qualifies as a large accelerated filer as defined in Exchange Act Rule 12b-2.

⁶² For bank holding companies with less than \$200 million in total assets or less than \$10 million of equity, Guide 3 calls for only two years of data, as opposed to three or five years of data, depending on the item, for all other registrants.

⁶³ Unless otherwise indicated, industry-wide percentages used in this request for comment were calculated using information from FDIC Quarterly, which includes data for all FDIC-insured institutions and is available at https://www.fdic.gov/bank/analytical/quarterly/2016_vol10_4/fdic_v10n4_3q16_quarterly.pdf.

registrant's performance, and that impact may not be evident from analyzing historical results alone.

As called for by Guide 3, average balance sheets⁶⁴ provide investors with an indication of the balance sheet items that have been most affected by changes in interest rates and an indication of a registrant's ability to move into or out of situations with favorable or unfavorable risk/return characteristics. For example, an average balance sheet may provide an indication of whether a registrant is asset-sensitive or liability-sensitive.⁶⁵ Liability-sensitive BHC registrants that rely heavily on short-term and other rate-sensitive funding sources may experience significant increases in funding costs in a rising interest rate environment. Such BHC registrants may be unable to offset higher funding costs with higher yielding assets, which could result in an adverse impact on net interest margins.

2. Current Guide 3 Disclosures

Section I.A of Guide 3 calls for balance sheets that show the average daily balances of significant categories of assets and liabilities, including all major categories of interest-earning assets and interest-bearing liabilities.⁶⁶ Section I.B of Guide 3 calls for disclosure of the:

⁶⁴ Section I.A of Guide 3 calls for balance sheets that show the average daily balances of significant categories of assets and liabilities. If the collection of data on a daily average basis, however, would involve unwarranted or undue burden or expense, weekly or month end averages may be used, provided they are representative of the operations of the BHC registrant. The basis used for presenting averages should be disclosed when not presented on a daily average basis.

⁶⁵ A liability-sensitive banking organization has a long-term asset maturity and repricing structure, relative to a shorter-term liability structure. For example, a liability-sensitive BHC registrants may have significant exposure to longer-term mortgage-related assets that reprice slowly while relying heavily on rate-sensitive funding sources that reprice more quickly.

⁶⁶ Section I.A of Guide 3 indicates that major categories of interest-earning assets should include loans, taxable investment securities, non-taxable investment securities, interest-bearing deposits in other banks, federal funds sold, securities purchased with agreements to resell, other short-term investments and other assets. Major categories of interest-bearing liabilities should include savings deposits, other time deposits, short-term debt, long-term debt and other liabilities.

- interest earned or paid⁶⁷ on the average amount of each major category of interest-earning asset and interest-bearing liability;
- average yield for each major category of interest-earning asset;
- average rate paid for each major category of interest-bearing liability;
- average yield on all interest-earning assets;
- average effective rate paid on all interest-bearing liabilities; and
- net yield on interest-earning assets.⁶⁸

Section I.C of Guide 3 calls for a rate and volume analysis of interest income and interest expense for the last two fiscal years. This analysis should be segregated by each major category of interest-earning asset and interest-bearing liability into amounts attributable to:

- changes in volume (changes in volume multiplied by the old rate);
- changes in rates (changes in rates multiplied by the old volume); and
- changes in rate/volume (changes in rates multiplied by changes in volume).

3. Other Sources of Information

i. Information Available in SEC Filings as Required by Commission Rules and Accounting Standards

Article 9 prescribes the form and content of consolidated financial statements for bank holding companies and requires presentation of interest income and interest expense separately by type and subtotals of total interest income, interest expense and net interest income on the

⁶⁷ The interest earned and interest paid reported on the average balance sheet is based on the amounts reported in the audited financial statements. Under U.S. GAAP, reported interest expense may differ from the cash paid for interest during the period.

⁶⁸ Net yield is net interest earnings divided by total interest-earning assets, with net interest earnings equaling the difference between total interest earned and total interest paid.

income statement or in the footnotes to the financial statements.⁶⁹ In addition, all registrants must discuss their financial condition, changes in financial condition and results of operations in MD&A, including a narrative discussion of the extent to which any material increases are attributable to increases in price or increases in volume. MD&A requires registrants to describe significant components of revenues or expenses that, in the registrant's judgment, should be described in order to understand the results of operations.⁷⁰ In response to this requirement, some bank holding companies provide an analysis of fluctuations in their interest income and interest expense in MD&A. Another source of income for bank holding companies that may be discussed in MD&A is non-interest income. Because Guide 3 currently does not call for specific disclosures regarding this type of income, we discuss non-interest income in Section H. *Potential New Disclosures.*

Other rule provisions require registrants to provide quantitative and qualitative disclosures about market risk sensitive instruments, both trading and other than trading instruments, that affect their financial condition.⁷¹ Interest rate risk generally is a significant market risk exposure for BHC registrants. These disclosures, made in response to Item 305 of Regulation S-K, are intended to provide investors with forward-looking information about a registrant's potential interest rate risk exposure, while the disclosures called for by Item I of Guide 3 focus on the historical effect. Item 305 requires a description of the quantitative impact of market risk and

⁶⁹ 17 CFR 210.9-04. The types of interest income or interest expense include loans, investment securities, trading accounts, deposits, short-term borrowings and long-term debt.

⁷⁰ 17 CFR 229.303(a)(3).

⁷¹ Items 305(a) and 305(b) of Regulation S-K [17 CFR 229.305(a) and 305 (b)]. For purposes of Items 305(a) and 305(b), market risk sensitive instruments include derivative financial instruments, other financial instruments and derivative commodity instruments. Each of these terms is defined in General Instruction 3 to Items 305(a) and 305(b).

provides flexibility by allowing one or more of the following three disclosure alternatives to be used:

- A tabular presentation of fair value information and contract terms relevant to determining future cash flows, categorized by expected maturity dates.
- A sensitivity analysis expressing potential loss in future earnings, fair values or cash flows from selected hypothetical changes in market rates and prices.
- Value at risk (VaR) disclosures expressing potential loss in future earnings, fair values or cash flows from market movements over a selected period of time with a selected likelihood of occurrence.

Item 305 of Regulation S-K addresses risks arising from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market risk sensitive instruments and was designed to strike a balance between comparability and flexibility of market risk disclosures by prescribing these alternatives without stipulating standardized methods or procedures specifying how to comply with each alternative.⁷²

Registrants may choose which methods, model characteristics, assumptions and parameters they use in complying with the item, and registrants may use more than one disclosure alternative across each market risk exposure category.⁷³ Consequently, investors may be unable to compare one registrant to another. The staff has observed that large bank holding companies generally elect to use a combination of disclosure alternatives to present different market risk sensitive instruments. An example of how a bank holding company may use multiple disclosure alternatives for its Item 305 disclosures is to use VaR to quantify market risks for its entire trading portfolio while using a sensitivity analysis to quantify interest rate risk for the other than

⁷² See Disclosure of Market Risk Sensitive Instruments Release.

⁷³ Market risk exposure categories include interest rate risk, foreign currency exchange rate risk, commodity price risk and other relevant market risks.

trading portfolio. Registrants must describe the disclosure alternative or alternatives they select to assist investors with evaluating the potential effect of variations in a model's characteristics and assumptions. One consequence of the disclosure alternative approach used in Item 305 is that registrants may provide disclosure using alternatives that differ from the methods they actually use to manage, evaluate and monitor market risk. Commenters have suggested that management's views about market risk and risk management activities, rather than one of the three prescribed methods, represent the most relevant information for investors.⁷⁴ However, when Item 305 was adopted, the Commission believed that a presentation of market risk using a management approach outside of the framework articulated in Item 305 could make it difficult for investors to assess market risk across registrants.⁷⁵

During the last five years, other regulatory agencies and the private sector have given increased attention to market risk disclosures. For example, in 2012 the Financial Stability Board's Enhanced Disclosure Task Force (EDTF), a private sector group composed of members representing users and preparers of financial reports, recommended that banking organizations provide information that facilitates users' understanding of the linkages between line items in the balance sheet and income statement with positions included in the market risk disclosures. The EDTF report included 32 recommendations for improving bank risk disclosures in the areas of report usability, risk governance and risk management, capital adequacy, liquidity and funding, market risk, credit risk and other risks.

⁷⁴ See, e.g., CAQ Letter and KPMG Letter.

⁷⁵ The Commission noted that, in adopting Item 305, it sought to strike a balance between the views of commenters seeking a "management approach" and those supporting a more consistent reporting framework for the sake of comparability. See Disclosure of Market Risk Sensitive Instruments Release.

In addition, the BCBS has focused on whether banking organizations have sufficient capital to cover possible losses due to interest rate changes.⁷⁶ According to the BCBS, adverse movements in interest rates can pose a significant threat to a bank's current capital base and/or future earnings. However, U.S. GAAP does not require a presentation or disclosure of net interest earnings or average balance sheets. Nearly five years ago, the FASB proposed the following standardized quantitative interest rate risk disclosures:

- the carrying amount of classes of financial assets and liabilities segregated according to time intervals based on the contractual repricing of the financial instruments;
- the weighted-average contractual yield by class of financial instrument and time interval as well as the duration for each class of financial instrument;
- an interest rate sensitivity table showing the effects on net income and shareholders' equity of specified hypothetical, instantaneous shifts of interest rate curves as of the measurement date;
- a discussion of the significant changes and reasons for those changes related to the timing and amounts of financial assets and liabilities in the tabular disclosures from the last reporting period to the current reporting period along with any action taken to manage the exposure related to the changes; and
- additional qualitative or narrative disclosure, as necessary, for understanding of exposure to interest rate risk.⁷⁷

During the FASB Exposure Draft's development, the FASB received feedback from users⁷⁸ that it was imperative that liquidity and interest rate disclosures be comparable and that

⁷⁶ See Interest rate risk in the banking book (April 2016), available at <https://www.bis.org/bcbs/publ/d368.pdf>.

⁷⁷ The proposed disclosures would have applied only to entities or reportable segments for which the primary business activity is to (i) earn, as a primary source of income, the difference between interest income generated by earning assets and interest paid on borrowed funds or (ii) provide insurance. See Proposed Accounting Standards Update – Financial Instruments (Topic 825): *Disclosure About Liquidity Risk and Interest Rate Risk* (Jun. 27, 2012) (FASB Interest Rate Risk Exposure Draft), available at www.fasb.org.

⁷⁸ See *Accounting for Financial Instruments Disclosures About Liquidity Risk and Interest Rate Risk Comment Letter Summary*, available at http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocument_Page&cid=1176160500931.

standardized quantitative disclosures provide more decision-useful information than non-standardized disclosures. Although initiated, in part, as a response to these comments, the majority of respondents to the FASB Exposure Draft, 84% of whom were preparers, did not support the proposed disclosures. Most respondents stated that standardizing information about interest rate risk would not be achieved by the proposals. Some commenters questioned whether standardization was an appropriate objective and whether it could ever be achieved.⁷⁹ The liquidity risk and interest rate risk project was last updated in November 2012 and is not on the FASB's active standard-setting agenda.

ii. Information Available Outside of SEC Filings

Banking organizations must report segregated information about interest income and interest expense and quarterly averages of certain balance sheet items in their Call Reports.⁸⁰ While banking organizations are not required to report all balance sheet line items or subtotals of interest-earning assets and interest-bearing liabilities, the Call Report categories for reporting interest income, interest expense and quarterly averages are more disaggregated than what is called for by Guide 3.

Request for Comment

8. Do the distribution of (i) assets, liabilities and stockholders' equity; (ii) interest rates and (iii) interest differential disclosures called for by Guide 3 provide investors with information upon which they base investment and voting decisions? Would such information otherwise be provided under Commission rules (*e.g.*, Regulation S-K) or U.S. GAAP? Are there any particular issues that BHC registrants face in providing these

⁷⁹ For example, respondents noted that expected maturity requires estimates from each entity's asset and loan portfolios, such as prepayment rates relating to the expected behavior of the counterparty, and that the underlying assumptions made for each of those estimates will not be consistent among entities.

⁸⁰ Interest income, interest expense and quarterly averages are segregated by the following: type of loan, type of security, trading assets/liabilities, federal funds sold/purchased and securities purchased/sold under agreements to resell/repurchase, deposits by location and category, subordinated notes and debentures and other. *See* Call Report Schedules RC-1, *Income Statement* and RC-K, *Quarterly Averages*.

disclosures or that investors or analysts face in utilizing these disclosures?

9. Do Commission rules or U.S. GAAP require the same or similar information on the distribution of (i) assets, liabilities and stockholders' equity; (ii) interest rates and (iii) interest differential disclosures as called for by Guide 3? If so, how is the information similar or dissimilar? Please provide a detailed comparison.
10. What improvements could we make to the disclosures called for by Section I of Guide 3? For example, should we require disclosure about how BHC registrants present the effects of hedging of interest rate risk? Should we consider enhancing quantitative interest-rate risk disclosures? If so, what guidance, if any, should we provide to BHC registrants about the presentation?
11. Are there additional interest income and interest expense disclosures that would be important for investors that we should consider? In suggesting additional disclosures, please indicate whether BHC registrants would face any challenges in preparing and providing them. Please describe specifically the evidentiary basis for your knowledge of the challenges faced by BHC registrants in providing such disclosures. In your response, please assess the benefits of such disclosures to investors against the regulatory burdens to BHC registrants.
12. Recognizing the differences between more prescriptive and standardized disclosure requirements, which allow for more comparability, and more principles-based disclosure requirements, which allow registrants to provide disclosures more closely aligned with how their business is managed, would more prescriptive and standardized disclosures about market risks for BHC registrants beyond those called for by Item 305 of Regulation S-K be important for investors? If so, how should we revise our current disclosures? For example, should we limit the disclosure alternatives or assumptions these BHC registrants can use by market risk and/or trading versus other than trading portfolios in Item 305?
13. Alternatively, should we eliminate the prescribed market risk disclosure alternatives in Item 305 for BHC registrants and instead require them to provide market risk disclosures based on the methods they actually use to manage risk? Does the benefit of providing disclosure about the way management assesses market risk outweigh any lack of comparability of these disclosures across BHC registrants for an investor?
14. Should we require any of the interest rate risk disclosures proposed in the FASB's 2012 Exposure Draft in our filings? If so, which ones, and why?
15. Should we revise our market risk disclosures for BHC registrants to better align the disclosures to the financial statements, capital adequacy or other metrics? If so, what revisions should we consider and why?
16. Should we consider requiring that the distribution of (i) assets, liabilities and stockholders' equity; (ii) interest rates and (iii) interest differential disclosures called for

by Guide 3 be presented in a structured data format, such as XBRL, to facilitate investor comparison of data across BHC registrants and usability of the disclosures? Why or why not? If so, what elements of these disclosures should be tagged so that they can be extracted in a structured data format?

17. If we require the Guide 3 tabular disclosures to be submitted in XBRL, are the current requirements for the format and elements of the tables suitable for tagging? If not, how should they be revised?
18. Should the categories used for disaggregation of these Guide 3 disclosures be closely aligned with those called for in Call Reports and other U.S. banking agency regulatory filings? If so, which ones and why?
19. Should we require disclosure of the interest income and expense information provided in Call Reports or other regulatory filings? If so, what information and why?
20. Should the distribution of (i) assets, liabilities and stockholders' equity; (ii) interest rates and (iii) interest differential disclosures called for by Guide 3 be extended to other registrants, such as those engaged in the financial services industry? If so, which registrants and which disclosures?

B. Investment Portfolio

1. Background

The investment portfolio typically is an important component of BHC registrants' total assets. Due to a recent trend of deposits outpacing lending,⁸¹ investment portfolios have expanded in recent years and now represent a much greater percentage of the total assets of FDIC-insured institutions.⁸² In addition, compliance with the LCR requirements may require some large, internationally active banking organizations to alter the mix of assets in their investment portfolios or revise their investment strategies so as to maintain sufficient amounts of

⁸¹ See, e.g., *Shrinking Loan-to-Deposit Ratios Remain Cause for Concern Among Banks*, Forbes (Mar. 10, 2015).

⁸² According to the Aggregate Condition and Income Data for all FDIC-Insured Institutions, Table II-A., in the FDIC Quarterly, investment securities accounted for 15% of total assets as of December 31, 2007. This report is available at <https://www5.fdic.gov/qbp/2007dec/qbp.pdf>.

investments that meet the definition of “high-quality liquid assets.”⁸³ At September 30, 2016, investment securities constituted nearly 21% of the total assets of all FDIC-insured institutions.⁸⁴

Banking organizations typically use their investment portfolios to provide balance sheet liquidity, to generate income and to engage in risk management and market-making. U.S. GAAP currently classifies investment securities into three categories: trading securities, held-to-maturity (HTM) securities and available-for-sale (AFS) securities.⁸⁵ Trading securities include securities acquired for the purpose of selling them within hours or days and securities for which this category has been elected. HTM securities are limited to securities that a registrant has the positive intent and ability to hold to maturity. Securities not classified as trading or HTM are classified as AFS securities. Both trading and AFS securities are measured at fair value on the balance sheet, whereas HTM securities are measured at amortized cost.

In 2016, the FASB issued two new accounting standards for financial instruments.⁸⁶ ASU 2016-01 will change the accounting guidance for equity investments, but does not affect the recognition and initial measurement of investments in debt securities.⁸⁷ This guidance is

⁸³ See LCR Adopting Release and the discussion of concerns raised with respect to assets that would qualify as high-quality liquid assets.

⁸⁴ See FDIC Quarterly.

⁸⁵ ASC 320-10-25-1.

⁸⁶ Accounting Standards Update 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities* (ASU 2016-01).

Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13).

⁸⁷ Equity investments that have readily determinable fair values (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) will be measured at fair value with changes in fair value recognized in net income. This eliminates the ability to classify equity securities as AFS and the reporting of unrealized holding gains and losses in other comprehensive income.

Equity investments that do not have readily determinable fair values will no longer be accounted for using the cost method. Instead, an entity can elect to either measure these equity investments at fair value with

effective for registrants in fiscal years beginning after December 15, 2017. ASU 2016-13 will change the impairment model for most financial assets accounted for at amortized cost, including HTM debt securities, and also makes certain changes to the recognition of impairment for AFS securities.⁸⁸ This guidance is effective for registrants in fiscal years beginning after December 15, 2019 or fiscal years beginning after December 15, 2018 if early adoption is elected. Both ASU 2016-01 and ASU 2016-13 also will change U.S. GAAP disclosure requirements for investment securities.⁸⁹

Guide 3 investment portfolio disclosures provide investors with insight into the types of investments a BHC registrant holds, the earnings potential of those investments and their risk characteristics. For example, the weighted average yield for a category of securities allows investors to calculate estimated future earnings potential for that category of securities. Disclosures about significant amounts of investments in one or a small number of issuers also alert investors to concentration risks.

2. Current Guide 3 Disclosures

Section II.A of Guide 3 calls for disclosure of the book value of investments by specified category as of the end of each reported period. Section II.B calls for a maturity analysis for each

unrealized holding gains and losses in earnings or choose a measurement alternative. There will also no longer be an assessment of whether an impairment loss is “other than temporary” for these investments.

⁸⁸ U.S. GAAP currently requires a two-step process to measure other-than-temporary impairment (OTTI) for HTM and AFS investment securities. When OTTI is recognized, it is reflected as a direct reduction of the amortized cost basis of the investment. The new standard will require an allowance for credit losses for these debt securities instead of a direct reduction. The allowance for credit losses for HTM securities will be based on the same expected credit loss model applied to loans. There will also be an allowance for credit losses for AFS debt securities, but it will be measured in a manner similar to OTTI under current U.S. GAAP.

⁸⁹ The U.S. GAAP standards differ significantly from the International Financial Reporting Standard (IFRS) as issued by the International Accounting Standard Board (IASB) model, IFRS 9, *Financial Instruments*, as described in Section III.B.

category of investments as of the end of the latest reported period, as well as the weighted average yield for each range of maturities.⁹⁰ When the aggregate book value of securities from a single issuer exceeds 10% of stockholders' equity as of the end of the latest reported period, Section II.C calls for disclosure of the name of the issuer and the aggregate book value and aggregate market value of those securities.

3. Other Sources of Information

i. Information Available in SEC Filings as Required by Commission Rules and Accounting Standards

Article 9 requires disclosure of investment securities either on the balance sheet or in the footnotes to the financial statements. Article 9 also currently requires footnote disclosure of the carrying value and market value of securities by specified category, while Guide 3 calls for disclosure of book value.⁹¹

Accounting standards have similar disclosure requirements, although the disclosures required by U.S. GAAP are more extensive than those required by Guide 3.⁹² For example, U.S. GAAP currently requires the following disclosures for AFS securities by major security type:⁹³

⁹⁰ The ranges of maturities are securities due (1) in one year or less, (2) between one and five years, (3) between five and ten years, and (4) after ten years.

⁹¹ 17 CFR 210.9-03. The investment categories specified by Article 9 are the same as those specified by Guide 3. In July 2016, the Commission proposed to amend certain of its disclosure requirements, including Article 9, that may have become redundant, duplicative, overlapping, outdated, or superseded, in light of other Commission disclosure requirements, U.S. GAAP, IFRS, or changes in the information environment. Specifically, the investment securities disclosure in Article 9 was proposed for elimination. *See* Disclosure Update and Simplification, Release No. 33-10110 (July 13, 2016) [81 FR 51607] (Disclosure Update and Simplification Release).

⁹² *See* ASC 320-10-50.

⁹³ ASC 320-10-50-1B notes that major security types should be based on the nature and risks of the security and that an entity should consider all of the following when considering whether disclosure for a particular security type is necessary: (a) shared activity or business sector, (b) vintage, (c) geographic concentration, (d) credit quality, and (e) economic characteristics. ASC 942-320-50-2 defines nine security types that entities within its scope must present in their investment disclosures and the list is more granular than the Guide 3 categories.

- amortized cost basis;
- aggregate fair value;
- total other-than-temporary impairment (OTTI) recognized in accumulated other comprehensive income (AOCI);
- total gains for securities with net gains in AOCI;
- total losses for securities with net losses in AOCI; and
- information about the contractual maturities as of the date of the most recent balance sheet presented.⁹⁴

U.S. GAAP requires similar disclosures for HTM securities, except that gross unrecognized holding gains and losses also must be disclosed.⁹⁵ U.S. GAAP also requires a maturity analysis of both AFS and HTM securities, but it does not require disclosure of weighted average yields.⁹⁶ ASU 2016-13, when effective for registrants in fiscal years after December 15, 2019, will not significantly change the disclosure requirements described above, except that it will require disclosure of the allowance for credit losses rather than OTTI.

U.S. GAAP also requires disclosures related to asset quality and impairment of investment securities.⁹⁷ For example, registrants must disclose the aggregate fair value of investments with unrealized losses and the amount of those losses, segregated by those that have been in a continuous unrealized loss position for 12 months or longer and those that have not, as well as qualitative and quantitative information about impairments. When registrants conclude

⁹⁴ ASC 320-10-50-2. These disclosures will no longer be required for equity securities upon the effectiveness of ASU 2016-01 as equity securities that have readily determinable fair values (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) will be measured at fair value with changes in fair value recognized in net income.

⁹⁵ ASC 320-10-50.

⁹⁶ *Id.*

⁹⁷ *Id.*

that it is not necessary to record OTTI for these investment securities, U.S. GAAP requires that they describe the factors considered in reaching that conclusion.⁹⁸ When OTTI is recorded in earnings, registrants must disclose the methodology and significant inputs they used to measure the credit loss and include a roll-forward⁹⁹ of the amount of credit losses recognized in earnings. When ASU 2016-13 becomes effective, the credit quality and impairment disclosures described above will continue to apply to AFS securities, but not HTM securities. Instead, the credit quality and allowance for credit losses disclosures discussed below in Sections C.3 and D.3 will apply to HTM securities.¹⁰⁰

U.S. GAAP also requires disclosures about fair value measurements for securities measured at or written-down to fair value.¹⁰¹ These disclosures include the valuation techniques and inputs used to develop the fair value measurements, the observability of the inputs used, quantitative information about significant unobservable inputs and the effect of those fair value measurements using significant unobservable inputs on earnings or other comprehensive income for the period.

⁹⁸ OTTI is considered to have occurred if (a) an entity intends to sell an impaired security, (b) it is more likely than not that an entity will be required to sell an impaired security before the recovery of its amortized cost basis, or (c) a credit loss is determined to have occurred based on an analysis of the present value of expected cash flows. ASC 320-10-35.

⁹⁹ A “roll-forward” is a reconciliation of beginning of period and end of period line item balances.

¹⁰⁰ See ASU 2016-13. The new standard still requires a roll-forward of credit losses for HTM securities and a discussion of how the allowance for credit losses was determined. The new standard also includes prescriptive disclosure requirements for loans that do not apply to HTM securities. For example, a registrant is not required to present credit quality indicators for HTM securities by year of origination.

¹⁰¹ ASC 820-10-50.

The Division staff has observed that some BHC registrants discuss the composition of and fluctuations in their investment portfolio in MD&A¹⁰². These BHC registrants also discuss critical accounting estimates¹⁰³ related to their investment portfolios in MD&A, which may include fair value measurements and the determination of OTTI.¹⁰⁴

Some BHC registrants, especially the largest ones, often publish and furnish in a current report on Form 8-K supplements to their earnings releases that provide detailed information about the investment portfolio not required by U.S. GAAP, including information about the duration of the portfolio, management's investment strategy or how new regulations may affect the portfolio. Some BHC registrants also provide detailed information about credit ratings or the valuation of specific investments that may be at risk of impairment or were impaired during the period.

ii. Information Available Outside of SEC Filings

Banking organizations are required to report the amortized cost and fair value of both HTM and AFS securities by security type in Call Reports.¹⁰⁵ Banking organizations also report maturity and repricing data for debt securities and the amounts of income and loss recognized

¹⁰² Item 303 of Reg. S-K requires registrants to discuss their financial condition and material changes in financial condition. It also requires a description of internal and external sources of liquidity, and any material unused sources of liquid assets.

¹⁰³ In the Interpretive Guidance on MD&A, the Commission reminded registrants that they should address the material implications of uncertainties associated with the methods, assumptions and estimates underlying their critical accounting measurements.

¹⁰⁴ See Staff Accounting Bulletin Topic 5:M – Other Than Temporary Impairment of Certain Investments in Equity Securities. The OTTI guidance for equity securities will no longer apply when ASU 2016-01 is adopted.

¹⁰⁵ Call Report Schedule RC-B, *Securities*, identifies more security types than Guide 3.

during the period.¹⁰⁶ Banking organizations must also report regulatory capital components and ratios, including the categorization of investment securities by risk weights in Call Reports.¹⁰⁷

In addition, Pillar 3 disclosures require information about how banking organizations measure credit and market risks in their investment portfolios, along with the associated risk weights of investment portfolio assets.¹⁰⁸ For example, they must quantify the credit risk exposure of their investment portfolio.

Request for Comment

21. Do the investment portfolio disclosures called for by Guide 3 provide investors with information upon which they base investment and voting decisions? Would such information otherwise be provided under Commission rules (*e.g.*, Regulation S-K) or U.S. GAAP? Are there any particular issues that BHC registrants face in providing these disclosures or that investors or analysts face in utilizing these disclosures?
22. Do Commission rules or U.S. GAAP require the same or similar investment portfolio information as called for by Guide 3? If so, how is the information similar or dissimilar? Please provide a detailed comparison.
23. What improvements to the existing investment portfolio disclosures should we consider that would assist investors in making investment and voting decisions? For example, should investment securities that are measured at fair value with changes in fair value recorded in earnings, such as trading securities, fall within the scope of our investment portfolio disclosures? In suggesting improvements, please indicate whether BHC registrants would face any challenges in preparing and providing the disclosures.
24. To promote comparability and consistency of investment portfolio disclosures, should we specify the investment categories that BHC registrants must present when providing their investment portfolio disclosures?¹⁰⁹ Why or why not? If so, which investment categories

¹⁰⁶ Banking organizations may omit the maturity and repricing data for certain branches or subsidiaries located in foreign countries in Call Report Schedule RC-B. A banking organization may exclude its foreign branches or subsidiaries if the assets of the excluded locations combined do not exceed 50% of its total assets in foreign countries and 10% of its total consolidated assets.

¹⁰⁷ Banking organization's assets and off-balance sheet exposures are risk-weighted based on the assigned categories of risk. Call Report Schedule RC-R, *Regulatory Capital*.

¹⁰⁸ See Regulatory Capital Rules Release, Section XI, *Market Discipline and Disclosure Requirements*

¹⁰⁹ While most accounting standards include guidance about disaggregation, the requirements are principles-based instead of prescriptive.

should we specify?

25. While investors do not have experience with the disclosures that will be required by ASU 2016-13, is there information about HTM securities and impairment that would be important for investors under an expected credit loss model? If so, please indicate which information and indicate whether BHC registrants would face any challenges in preparing and providing the information.
26. In addition, is there information about AFS securities that would be important for investors when impairment is reflected through an allowance for credit losses instead of OTTI? If so, please indicate which information and whether BHC registrants would face any challenges in preparing and providing the information. For example, upon adoption of ASU 2016-13, should we require disaggregation of the AFS securities allowance for credit losses roll-forward by security type?
27. Should we consider requiring that the investment portfolio disclosures called for by Guide 3 be presented in a structured data format, such as XBRL, to facilitate investor comparison of data across BHC registrants and usability of the disclosures? Why or why not? If so, what elements of these disclosures should be tagged so that they can be extracted in a structured data format?
28. If we require the Guide 3 tabular disclosures to be submitted in XBRL, are the current requirements for the format and elements of the tables suitable for tagging? If not, how should they be revised?
29. Should the categories used for disaggregation of these Guide 3 disclosures be closely aligned with those called for in Call Reports and other U.S. banking agency regulatory filings? If so, which ones and why?
30. Should we require disclosure of the investment information provided in Call Reports or other regulatory filings? If so, what information and why?
31. Should the investment portfolio disclosures called for by Guide 3 be extended to other registrants, such as those engaged in the financial services industry? If so, which registrants and which disclosures?

C. Loan Portfolio

1. Background

Loans¹¹⁰ often constitute a banking organization's most significant assets and generate a significant portion of revenues. At September 30, 2016, total loans and leases constituted 55% of total assets of all FDIC-insured institutions.¹¹¹ Loan portfolio compositions differ considerably because lending activities are influenced by many factors, including the type of banking organization, management's objectives and philosophies about diversification and credit risk management, the availability of funds, credit demand, interest-rate margins and regulations. A banking organization's loan portfolio may consist of consumer loans, such as residential real estate, credit card and auto loans, as well as commercial loans, such as commercial real estate loans, lease financings and wholesale loans.¹¹² Different types of loans have different risk characteristics. For example, commercial loans tend to have shorter maturities than residential real estate loans and are more likely to have balloon payments at maturity. Further, the composition of a particular banking organization's loan portfolio may vary substantially over time due to factors such as changes in regulations or management philosophies. For example, if management expects interest rates to rise, it may seek to increase the banking organization's offerings of variable-rate mortgages.

¹¹⁰ In this request for comment we use the terms "loans" or "loan portfolio" when we refer to Commission rules or U.S. banking reporting requirements. The loan portfolio for a registrant may also include receivables and leases. Receivables and leases, however, generally do not represent a significant portion of the total loan portfolio.

¹¹¹ *See* FDIC Quarterly.

¹¹² Wholesale banking is often used as a term to refer to the wide range of services that banking organizations provide to various corporations and businesses, as well as to government entities.

To address risks related to the loan portfolio and the allowance for loan losses,¹¹³ the Commission issued Accounting Series Release No. 166¹¹⁴ in 1975, which was the precursor to Guide 3's loan portfolio and loan loss experience disclosures. Among other things, ASR No. 166 provided for the disclosure of information necessary to enable investors to understand the nature and the status of loan portfolios, including a breakdown sufficient to provide investors with insight into investment policies, lending practices and portfolio concentrations. The release also called for consideration of expanded disclosures when loans considered doubtful as to collectability have materially increased, or there have been large increases in delinquent loans, or in loans extended or renegotiated under adverse conditions.

In 2010, the FASB issued updated disclosure guidance that greatly expanded the loan credit quality disclosures required by U.S. GAAP.¹¹⁵ Loan portfolio disclosures provide investors with information about the types of lending in which a registrant engages, and one objective of the FASB's amendments was to increase the transparency of the nature of credit risk inherent in the loan portfolio.¹¹⁶ Further, disclosures of trends in early stage delinquencies can be an early-warning indicator of deteriorating credit quality.

¹¹³ We discuss allowance for loan losses disclosures in Section II.D of this request for comment.

¹¹⁴ Accounting Series Release No. 166 – Disclosure of Unusual Risks and Uncertainties, Release No. 33-5551 (Jan. 15, 1975) [40 FR 2678].

¹¹⁵ Accounting Standards Update 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. (ASU 2010-20).

¹¹⁶ *Id.*

2. Current Guide 3 Disclosures

Section III.A of Guide 3 calls for disclosure of the amount of loans in each specified category¹¹⁷ as of the end of each period.

Section III.B calls for a maturity analysis¹¹⁸ for each category of loans as of the end of the latest reported period and a separate presentation of all loans due after one year with fixed interest rates versus those with floating or adjustable interest rates.

Section III.C.1 calls for disclosure of the aggregate amount of domestic and foreign¹¹⁹ loans in each of the following categories:

- loans accounted for on a nonaccrual basis;¹²⁰
- loans accruing but contractually past due 90 days or more as to principal or interest payments; and
- loans classified as troubled debt restructurings (TDRs)¹²¹ that are not otherwise disclosed as being on nonaccrual status or past due 90 days or more.¹²²

¹¹⁷ The specified categories are, *for domestic loans*: (1) commercial, financial and agricultural, (2) real estate – construction, (3) real estate – mortgage, (4) installment loans to individuals, and (5) lease financing, and *for foreign loans*: (6) governments and official institutions, (7) banks and other financial institutions, (8) commercial and industrial, and (9) other. The loan categories specified in Guide 3 originally conformed to those required in Call Reports but were changed when Guide 3 was amended in 1980 to conform to the loan categories set forth in Article 9. 1980 Guide 3 Amendments Release.

¹¹⁸ The range of maturities are loans due (1) in one year or less, (2) between one and five years, (3) between five and ten years, and (4) after ten years. This information need not be presented for mortgage real estate loans, installment loans to individuals and lease financing. Foreign loan categories may be aggregated.

¹¹⁹ Instruction 7 of Guide 3 clarifies that foreign data need not be presented if the registrant is not required to make separate disclosures concerning its foreign activities pursuant to the test set forth in Rule 9-05 of Regulation S-X.

¹²⁰ The term “nonaccrual” is not defined in U.S. GAAP or Commission rules. Call Report instructions, however, generally require an asset to be reported as nonaccrual if: (1) it is maintained on a cash basis because of deterioration in the financial condition of the borrower, (2) payment in full of principal or interest is not expected, or (3) principal or interest has been in default for a period of 90 days or more unless the asset is both well secured and in the process of collection. Certain loans, such as consumer loans and purchased credit-impaired loans, are not placed on nonaccrual status as discussed in the nonaccrual definitions section of Call Report Schedule RC-N-2. Guide 3 also calls for and U.S. GAAP also requires disclosure of the nonaccrual policy.

Section III.C.2 calls for descriptions of the nature and extent of any potential problem loans¹²³ at the end of the most recent reported period and the policy for placing loans on nonaccrual status. The instructions to Section III.C.2 call for disclosure of the foregone interest income and recognized interest income for nonaccrual loans and TDRs during the period.

If material amounts of the loans described in these sections are outstanding to borrowers in any foreign country, Guide 3 states that each country should be identified and that the amounts outstanding should be quantified.¹²⁴

Section III.C.3 calls for disclosure of the aggregate amount of cross-border outstandings¹²⁵ to borrowers in each foreign country where they exceed 1% of total assets.¹²⁶ These disclosures should be provided by category of foreign borrower specified in Section III.A.

¹²¹ Under U.S. GAAP, a restructuring of a debt is a TDR if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider.

¹²² Guide 3 originally called for disclosure of nonperforming loans and a discussion of the risk elements associated with those loans for which there were serious doubts as to the ability of the borrowers to comply with the present loan payment terms. The current Section III.C.1 disclosures reflect amendments made in 1980 and 1983 to promote consistency with bank regulatory disclosure requirements and comparability among registrants. 1980 Guide 3 Amendments Release; 1983 Guide 3 Revisions Release.

¹²³ Potential problem loans are loans not disclosed pursuant to Item III.C.1, but where known information about possible credit problems of borrowers (which are not related to transfer risk inherent in cross-border lending activities) causes management to have serious doubts as to the ability of the borrowers to comply with the present loan repayment terms and which may result in disclosure of the loans pursuant to Item III.C.1.

¹²⁴ For purposes of determining the amount of outstandings to be reported, loans made to or deposits placed with a branch of a foreign bank located outside the foreign bank's home country should be considered as loans to or deposits with the foreign bank.

¹²⁵ Cross-border outstandings are defined as loans (including accrued interest), acceptances, interest-bearing deposits with other banks, other interest-bearing investments and any other monetary assets which are denominated in dollars or other nonlocal currency. The foreign outstandings disclosure was added in 1983 to consolidate all risk-related disclosure guidelines in one section of Guide 3 and to emphasize the risks present in cross-border lending activities. *See* 1983 Guide 3 Revisions Release.

¹²⁶ For countries whose outstandings are between 0.75% and 1% of total assets, the names of the countries and the aggregate amount of outstandings attributable to them should be disclosed.

Where current conditions in a foreign country give rise to liquidity problems that are expected to have a material impact on the timely repayment of principal or interest on the country's private or public sector debt, Guide 3 calls for:

- a description of the nature and impact of the developments;
- an analysis of the changes in aggregate outstandings to borrowers in each country for the most recent reported period;
- quantitative information about interest income and interest collected during the most recent period; and
- quantitative information about any outstandings that may be subject to a restructuring.

Section III.C.4 calls for disclosure as of the end of the most recent reported period of any concentration of loans exceeding 10% of total loans not otherwise disclosed as a category of loans pursuant to Section III.A.¹²⁷

Section III.D calls for disclosure as of the end of the most recent reported period of the nature and amounts of any other interest-bearing assets that would be disclosed under Section III.C.1 or III.C.2 if those assets were loans.

3. Other Sources of Information

i. Information Available in SEC Filings as Required by Commission Rules and Accounting Standards

Article 9 requires separate disclosure of total loans and unearned income on the balance sheet or in the footnotes for the same loan categories specified in Guide 3.¹²⁸ Similar to Guide 3,

¹²⁷ Loan concentrations are considered to exist when there are amounts loaned to multiple borrowers engaged in similar activities which would cause them to be similarly affected by economic or other conditions. For example, loans may be concentrated in a specific industry, such as the energy sector, that exceed the 10% threshold.

¹²⁸ 17 CFR 210.9-03.

Article 9 allows bank holding companies latitude in determining loan categories.¹²⁹ Article 9 also requires disclosures about loans made to certain related parties and the aggregate amount of those loans that are disclosed as nonaccrual, past due, restructured or potential problem loans.¹³⁰

U.S. GAAP and Guide 3 have some similar loan presentation and disclosure standards. U.S. GAAP requires major categories of loans to be presented separately either on the balance sheet or in the financial statement footnotes.¹³¹ Although U.S. GAAP does not specify loan categories, it does require that qualitative and quantitative credit quality information be provided for each class of financing receivable,¹³² except loans measured at fair value, under the fair value option, and loans held for sale measured at lower of cost or fair value. These disclosures include:

- a description of each credit quality indicator;¹³³
- the recorded investment in financing receivables by credit quality indicator; and
- the date or range of dates in which information was updated for each credit quality indicator.¹³⁴

¹²⁹ The instructions to Section III.A of Guide 3 and Item 7(b) of Rule 9-03 state that “[a] series of categories other than those specified above may be used to present details of loans if considered a more appropriate presentation.” The staff has observed that bank holding companies commonly provide the Guide 3 and Article 9 loan disclosures by “class of financing receivables” as defined by U.S. GAAP instead of the specified Guide 3 and Article 9 loan categories.

¹³⁰ Item 7(e) of Rule 9-03. Related parties include directors, executive officers, principal equity holders and associates of those persons.

¹³¹ ASC 310-10-45-2.

¹³² U.S. GAAP uses the term “financing receivable,” and a loan is considered a type of financing receivable. A class of financing receivable is defined as a group of financing receivables determined on the basis of all of the following: (a) initial measurement attribute (for example, amortized cost), (b) risk characteristics of the financing receivable, and (c) an entity’s method for monitoring and assessing credit risk.

¹³³ A credit quality indicator is defined as a statistic about the credit quality of financing receivables.

¹³⁴ ASC 310-10-50.

Currently and after implementation of ASU 2016-13, U.S. GAAP requires disclosure, by class of financing receivable, of the same information as specified in Sections III.C.1(a) and (b) of Guide 3 and an aging analysis of past due financing receivables. ASU 2016-13 will increase the credit quality-related disclosures for loans. For example, it will require registrants to present credit quality indicator disclosures by year of origination and require additional disclosures about loans on nonaccrual status. The disclosures about loans on nonaccrual status will include the amortized cost basis at both the beginning and end of the reporting period and the amortized cost basis for those nonaccrual loans without a related allowance for credit losses. In addition, disclosures will be required by class of financing receivable about collateral-dependent loans and the collateral that secures them.¹³⁵

In addition, both Guide 3 and U.S. GAAP, now and after the adoption of ASU 2016-13, call for disclosure of the following accounting policies:

- placing financing receivables on nonaccrual status;
- recording payments received on nonaccrual financing receivables;
- resuming accrual of interest; and
- determining past due or delinquency status for each class of financing receivable.¹³⁶

Currently, U.S. GAAP also requires the following disclosures, by class of financing receivable, for impaired loans:¹³⁷

¹³⁵ The disclosures required for collateral-dependent financial assets include descriptions of (1) the type of collateral, (2) the extent to which collateral secures the asset, and (3) significant changes in the extent to which collateral secures the asset, whether because of general deterioration or some other reason.

¹³⁶ ASC 310-10-50.

¹³⁷ See ASC 310-10-35-13 for the scope of loans evaluated individually for impairment. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. TDRs are also considered impaired

- the accounting policy for recognizing interest income, including how cash receipts are recorded;
- the accounting policy for determining which loans are individually assessed for impairment and the factors considered in determining that a loan is impaired;
- as of each balance sheet date, the recorded investment segregated by the amount for which there is a related allowance versus the amount for which there is no related allowance, and the total unpaid principal balance of impaired loans; and
- for each period, the average recorded investment in impaired loans, the amount of interest income recognized while the loans were impaired and, if practicable, the amount of interest income recognized using a cash-basis method of accounting.¹³⁸

ASU 2016-13 will eliminate the impaired loan concept and the above related disclosures.¹³⁹

U.S. GAAP also requires qualitative and quantitative information, by class of financing receivable, about TDRs for each period for which an income statement is presented. For example, for TDRs occurring during the period, registrants must disclose how the financing receivables were modified and the financial effects of the modifications. In addition, for TDRs that were completed within the previous 12 months and subsequently have payment defaults during the reporting periods, registrants must disclose the types and amounts of financing receivables that defaulted.¹⁴⁰ Registrants also must disclose the amount of commitments, if any, to lend additional funds related to a TDR.¹⁴¹ In contrast, Guide 3 does not call for disclosures specific to TDR activity during the period, but calls for disclosure of the total balance of TDRs

loans in accordance with ASC 310-40-35-10 but are not required to be included in the impaired loan disclosures in years after the restructuring as long as the criteria in ASC 310-40-50-2 are met.

¹³⁸ ASC 310-10-50. For the cash-basis method of accounting, income is recognized only when the interest payment is received.

¹³⁹ We discuss the ASU 2016-13 changes to the allowance and related disclosures in Section II.D below.

¹⁴⁰ ASC 310-10-50.

¹⁴¹ ASC 310-40-50.

as of the end of the period. U.S. GAAP also requires specific disclosures about loans acquired with deteriorated credit quality¹⁴² for each balance sheet presented.¹⁴³

The Division staff has observed that bank holding companies often discuss their loan portfolios and focus on changes in portfolio composition, delinquencies and nonperforming or restructured loans in the results of operations section of MD&A. The Division staff also has observed that BHC registrants with material amounts of nonaccrual loans sometimes provide a reconciliation of the beginning and ending balances of those loans, although they are not required by Commission rules to do so. As described previously, ASU 2016-13 will require disclosure of the beginning and ending nonaccrual loan balances, but will not require disclosure of activity during the period. Information about activity during the period may help investors understand remediation efforts related to the portfolio and changes in credit quality. Therefore, we are considering whether we should require disclosure of activity during the period in addition to beginning and ending balances.

BHC registrants also may discuss higher-risk loans and declines in collateral value when they are reasonably expected to have a material impact on results of operations, liquidity or

¹⁴² ASC 310-30-20. These are loans that were acquired with evidence of deteriorated credit quality since their origination and for which it was probable, at acquisition, that the acquirer would be unable to collect all contractually required payments. Because these loans are identified as having credit risk at the time of acquisition, the accounting treatment is different than for newly originated loans. Any cash flows in excess of those expected at acquisition are recognized as interest income on a level-yield basis over the life of the loan.

¹⁴³ ASC 310-30-50 requires the following disclosures: outstanding balance and related carrying amount of the loans at the beginning and end of the period; the amount of accretable yield at the beginning and end of the period, reconciled for additions, accretion, disposals of loans and reclassifications to/from nonaccretable difference during the period; for loans acquired during the period, the contractually required payments receivable, cash flows expected to be collected and fair value at the acquisition date; and the carrying amount as of acquisition date and at end of period of loans acquired with deteriorated credit quality for which income is not being recognized because the timing and amount of cash flows expected to be collected cannot be reasonably estimated.

ASU 2016-13 revises these disclosures to require a reconciliation of the difference between the purchase price of these loans and the par value of the assets and removes the requirements described above.

capital resources.¹⁴⁴ For example, disclosures about interest-only and adjustable-rate mortgage loans, by year of reset, provide investors with information about a BHC registrant's exposure to higher-risk loans, including the potential effect that changes in repayment terms may have on future cash flows and liquidity. In addition, BHC registrants may disclose in their Commission filings quantitative and qualitative information about their loan portfolios and other significant balance sheet items with material country-specific risk.¹⁴⁵

BHC registrants often publish and furnish, on current reports, Forms 8-K, supplements to their earnings releases that include credit quality statistics that are adjusted or more disaggregated than those provided under Guide 3 or U.S. GAAP. These statistics may exclude certain types of loans that are not typically classified as nonaccrual.¹⁴⁶

ii. Information Available Outside of SEC Filings

Banking organizations must report loan amounts categorized by type of security, borrower or purpose in Call Reports.¹⁴⁷ Loans past due and on nonaccrual status must be reported along with TDRs, both performing and on nonaccrual status.¹⁴⁸ Certain banking

¹⁴⁴ The Division has provided guidance in the form of a sample comment letter regarding provisions and allowance for loans losses. *See* Sample Letter Sent to Public Companies on MD&A Disclosure Regarding Provisions and Allowances for Loan Losses (Aug. 2009) (Sample MD&A Letter), available at <https://www.sec.gov/divisions/corpfin/guidance/loanlossesltr0809.htm>. Types of loans identified as "higher-risk" included option adjustable-rate mortgage products, junior lien mortgages, high loan-to-value ratio mortgages, interest-only loans, subprime loans and loans with initial teaser rates.

¹⁴⁵ In January 2012, the Division issued disclosure guidance providing the Division's views regarding disclosure related to registrants' exposures to certain European countries experiencing financial stress. *See* CF Disclosure Guidance: Topic No. 4, *European Sovereign Debt Exposures*.

¹⁴⁶ For example, the allowance to loan ratios may exclude credit cards and loans acquired with deteriorated credit quality. Registrants also may adjust credit quality statistics for significant sales, litigation settlements or regulatory changes.

¹⁴⁷ Call Report Schedule RC-C, *Loans and Lease Financing Receivables*, specifies more loan categories than Guide 3.

¹⁴⁸ Call Report Schedule RC-N, *Past Due and Nonaccrual Loans, Leases, and Other Assets* and Call Report Schedule RC-C.

organizations also must report specific information about mortgage banking activities, including carrying amount, originations, purchases and sales for both first lien and junior lien loans.¹⁴⁹

Banking organizations also must report regulatory capital components and ratios, including the categorization of loans by risk weights.¹⁵⁰

Pillar 3 disclosures include a description of how banking organizations subject to the disclosure requirements¹⁵¹ measure credit risk in their loan portfolios, how they mitigate those risks and the associated regulatory risk weights of the assets. For example, these organizations must provide quantitative credit risk disclosures¹⁵² based on geography, industry and/or counterparty type. If a banking organization uses its own internal credit risk estimates, such as the probability of default, exposure at default and loss given default, those measures must be disclosed.¹⁵³

Request for Comment

32. Do the loan portfolio disclosures called for by Guide 3 provide investors with information upon which they base investment and voting decisions? Would such information otherwise be provided under Commission rules (*e.g.*, Regulation S-K) or U.S. GAAP? Are there any particular issues that BHC registrants face in providing these disclosures or that investors or analysts face in utilizing these disclosures?

¹⁴⁹ Call Report Schedule RC-P, *Family Residential Mortgage Banking Activities*, must be completed by (1) all banks with \$1 billion or more in total assets, and (2) banks with less than \$1 billion in total assets with greater than \$10 million in mortgage banking activities (determined based on originations, sales or period-end balances) for two consecutive quarters.

¹⁵⁰ Call Report Schedule RC-R, *Regulatory Capital*.

¹⁵¹ Pillar 3 disclosure requirements apply to banking organizations with \$50 billion or more in total assets. *See* Regulatory Capital Rules Release.

¹⁵² The required quantitative credit risk disclosures include total credit risk exposures and average credit risk disclosures, after accounting for offsets in accordance with U.S. GAAP over the period, without taking into account the effect of credit risk mitigation techniques, categorized by major types of credit exposure. Information about impaired and past-due loans also is required.

¹⁵³ Regulatory Capital Rules Release, Section XI, *Market Discipline and Disclosure Requirements*.

33. Do Commission rules or U.S. GAAP require the same or similar loan information as called for by Guide 3? If so, how is the information similar or dissimilar? Please provide a detailed comparison.
34. What improvements to the existing loan disclosures should we consider that would be important for investors? For example, should loans held-for-sale or loans carried at fair value under the fair value option fall within the scope of our loan portfolio disclosures? In suggesting improvements, please indicate whether BHC registrants would face any challenges in preparing and providing the disclosures.
35. How do investors use the TDR disclosures called for by Guide 3 for investment decisions? Is the basis for a modification (*i.e.*, credit risk management purposes versus commercial or other reasons) important in assessing the risk elements in a BHC registrant's loan portfolio?
36. Should we require disclosures of all loan modifications by type of modification and/or credit quality of borrower? Would BHC registrants face any challenges in preparing and providing these disclosures?
37. To promote comparability and consistency, should we prescribe the level of disaggregation that BHC registrants should employ for their loan portfolio disclosures?¹⁵⁴ If so, what threshold should be used and why?
38. Should the categories used for disaggregation of these Guide 3 disclosures be closely aligned with those called for in Call Reports and other U.S. banking agency regulatory filings? If so, which ones and why?
39. While investors do not have experience with the disclosures that will be required by ASU 2016-13, is there information about loans that would be important for investors under an expected credit loss model? If so, please indicate which information and whether BHC registrants would face any challenges in preparing and providing the information? For example, upon effectiveness of ASU 2016-13, should we require disclosure of the current period activity for nonaccrual loans since the new standard will require disclosure of the beginning and ending nonaccrual balances only?
40. Should we consider requiring that the loan portfolio disclosures called for by Guide 3 be presented in a structured data format, such as XBRL, to facilitate investor comparison of data across BHC registrants and usability of the disclosures? Why or why not? If so,

¹⁵⁴ While U.S. GAAP and IFRS standards include guidance about disaggregation, the requirements generally allow management to exercise judgment. For example ASC 310-10-50 includes disclosures by class of financing receivables and portfolio segment, but management determines the classes and segments. IFRS 7 requires disclosures by classes of financing instruments, which are defined as "...classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments."

what elements of these disclosures should be tagged so that they can be extracted in a structured data format?

41. If we require the Guide 3 tabular disclosures to be submitted in XBRL, are the current requirements for the format and elements of the tables suitable for tagging? If not, how should they be revised?
42. Should we require disclosure of the loan information provided in Call Reports or other regulatory filings? If so, what information and why?
43. Should the loan portfolio disclosures called for by Guide 3 be extended to other registrants, such as those engaged in the financial services industry? If so, which registrants and which disclosures?

D. Summary of Loan Loss Experience

1. Background

BHC registrants generally accept and manage significant amounts of credit risk, and most of their credit losses traditionally have come from loans and declines in the value of collateral underlying loans. The allowance for loan losses is a critical accounting estimate and is a primary focus of management, investors and the U.S. banking agencies. This discussion focuses on the allowance for loan loss methodology currently required by U.S. GAAP and highlights only the significant changes that will occur once the new standard, ASU 2016-13, becomes effective.¹⁵⁵

A BHC registrant's methodology for estimating loan losses is influenced by many factors, including its size, organizational structure, business environment and strategy, loan portfolio characteristics, loan administration procedures and management information systems.¹⁵⁶

¹⁵⁵ The currently effective guidance for recognizing credit losses includes ASC 310-10-35-4, which states that an impairment is recognized when it is probable that a loss has been incurred. The new standard replaces the current incurred loss methodology with a methodology that reflects expected credit losses. ASU 2016-13 is not effective for registrants until fiscal years beginning after December 15, 2019, unless early adoption is elected. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein.

¹⁵⁶ See Interpretive Response to Question 2.A in Staff Accounting Bulletin Topic 6:L – Financial Reporting Release 28 – Accounting for Loan Losses By Registrants Engaged in Lending Activities (SAB Topic 6:L).

Most methodologies for estimating loan losses include a risk classification process that involves categorizing loans into risk categories or ratings.¹⁵⁷ U.S. GAAP also requires management to consider all available information reflecting past events and current conditions when developing its estimate of loan losses.¹⁵⁸ Because estimating loan losses involves a high degree of management judgment, the Commission issued a financial reporting release and the staff issued an accounting bulletin that provides its views on the development, documentation and application of a systematic methodology for determining an allowance for loan losses.¹⁵⁹

ASU 2016-13, once effective, will replace the current incurred loss methodology with a methodology that reflects expected credit losses and will require consideration of a broader range of reasonable and supportable information to inform credit loss estimates.¹⁶⁰ The new methodology will require registrants to use forecasted information, in addition to past events and current conditions, when developing their estimates. In addition, it will not specify a method for measuring expected credit losses and will allow registrants to apply methods that reasonably reflect their expectations of the credit loss estimate. As a result of the broader range of items to consider and the required use of forward-looking information, the FASB expanded the disclosure requirements related to financial instruments and impairments.

The guidance was issued in 2001 based on the U.S. GAAP impairment model effective today and has not been updated for ASU 2016-13.

¹⁵⁷ The categorization normally is based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information and current trends.

¹⁵⁸ ASC 310-10-35. Examples of available information include existing industry, geographical, economic and political factors that are relevant to the collectibility of a loan.

¹⁵⁹ See Financial Reporting Release 28, *Accounting for Loan Losses by Registrants Engaged in Lending Activities* and SAB Topic 6:L.

¹⁶⁰ See ASU 2016-13.

Loan loss disclosures, like those required by U.S. GAAP, provide investors with information about how a registrant analyzes and assesses credit risk when determining the allowance for loan losses and the reasons for any changes in how it determines the allowance.¹⁶¹

2. Current Guide 3 Disclosures

Section IV.A of Guide 3 calls for a five-year analysis of loan loss experience,¹⁶² including the beginning and ending balances of the allowance for loan losses, charge-offs and recoveries by loan category¹⁶³ and additions charged to operations. Section IV.A also calls for disclosure of the ratio of net charge-offs to average loans outstanding during the period.

Section IV.B calls for a breakdown of the allowance for loan losses by category along with the percentage of loans in each category. BHC registrants may, however, furnish a narrative discussion of the loan portfolio's risk elements and the factors considered in determining the amount of the allowance in lieu of providing a breakdown. The staff has observed that BHC registrants generally elect to use the tabular format and loan categories in Section IV.B to present the allocation of allowance for loan losses instead of the narrative discussion.

3. Other Sources of Information

i. Information Available in SEC Filings as Required by Commission Rules and Accounting Standards

Article 9 currently requires disclosure of the total allowance for loan losses on the balance sheet or in the footnotes to the financial statements and the changes in the allowance for

¹⁶¹ See "What Are the Main Provisions?" section of ASU 2010-20.

¹⁶² This analysis of activity in the allowance for loan losses is known as a "roll-forward" of the allowance for loan losses.

¹⁶³ The loan categories presented in Section IV.A are the same as in Section III.

loan losses for each period in which an income statement is presented in the footnotes.¹⁶⁴ This requirement is identical to the Guide 3 disclosure.

U.S. GAAP requires disclosure of loan loss information, including the related accounting policies, for each portfolio segment except loans measured at fair value.¹⁶⁵ For example, the accounting policy disclosures shall include:

- a description of the methodology used to estimate the allowance for loan losses, including a description of the factors that influenced management's judgment;¹⁶⁶
- a discussion of risk characteristics relevant to each portfolio segment;
- the identification of any change in accounting policies or methodology from the prior period, the rationale for the change and the quantitative effect of the change; and
- a description of the policy for charging off uncollectible financing receivables.¹⁶⁷

ASU 2016-13, once effective, will add new policy disclosures regarding the changes in the factors that influenced management's current estimate of expected credit losses and reasons for significant changes in the amount of write-offs. In addition, ASU 2016-13 will require disclosures related to the forecasted information management used in developing its allowance for credit losses.¹⁶⁸ U.S. GAAP currently requires disclosure of the allowance for loan losses and the related investment in financing receivables to which the allowance pertains, disaggregated on

¹⁶⁴ 17 CFR 210.9-03. The Commission has proposed to eliminate the changes in the allowance for loan losses disclosure in the Disclosure Update and Simplification Release.

¹⁶⁵ ASC 310-10-20 defines a portfolio segment as the level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses.

¹⁶⁶ ASC 310-10-50 states that both historical losses and existing economic conditions must be included in the description of factors.

¹⁶⁷ ASC 310-10-50-11B.

¹⁶⁸ ASC 326-20-50 requires a description of the factors that influenced management's expected loss estimate, including a discussion of the reasonable and supportable forecasts used and a discussion of the reversion method applied for periods beyond the reasonable and supportable forecast period.

the basis of a registrant's impairment methodology.¹⁶⁹ Both before and after adoption of ASU 2016-13, U.S. GAAP requires a roll-forward of the activity in the allowance for loan losses for each period by portfolio segment.¹⁷⁰

Both before and after adoption of ASU 2016-13, U.S. GAAP requires qualitative information, by portfolio segment, about the impact of TDRs on the allowance for loan losses. For TDRs occurring during each period for which an income statement is presented, U.S. GAAP requires disclosure of how the modifications were factored into the determination of the allowance for loan losses. Similarly, for TDRs that were completed within the previous 12 months and subsequently have payment defaults during the reporting periods, U.S. GAAP requires disclosure of how the defaults were factored into the determination of the allowance for loan losses.¹⁷¹

U.S. GAAP currently also requires specific disclosures about the impact that loans acquired with deteriorated credit quality have on the allowance for loan losses in periods subsequent to acquisition.¹⁷² For example, U.S. GAAP currently requires disclosure of the

¹⁶⁹ To disaggregate the required information on the basis of the impairment methodology, U.S. GAAP provides that a registrant shall disclose the following amounts: (a) amounts collectively evaluated for impairment, (b) amounts individually evaluated for impairment, and (c) amounts related to loans acquired with deteriorated credit quality. *See* ASC 310-10-50-11C.

Since ASU 2016-13 requires the allowance methodology for all loans to reflect the current estimate of expected credit losses, it eliminates this disaggregation requirement.

¹⁷⁰ The staff has observed that some bank holding companies present their Guide 3 roll-forward using their U.S. GAAP portfolio segments instead of the loan categories specified in Guide 3 or Article 9 because Guide 3 provides latitude in determining loan categories.

¹⁷¹ ASC 310-10-50.

¹⁷² Currently under U.S. GAAP, an allowance for loan losses is not recorded upon the acquisition of loans acquired with deteriorated credit quality. These loans are initially recorded at fair value, which factors in an estimate of expected credit losses. An allowance may subsequently be required to the extent that there is an adverse change in the estimated cash flows expected to be collected over the life of the loan.

amount of any additions or reductions to the allowance for loan losses resulting from changes in estimated cash flows expected to be collected over the life of those loans, as well as the amount of the allowance pertaining to those loans at the beginning and end of the period.¹⁷³ ASU 2016-13 will change the required disclosures because, under the new methodology, these loans will be recorded with an allowance for credit losses at the acquisition date. Therefore, there no longer will be separate disclosures related to changes in expected cash flows for these loans, but the roll-forward of the allowance by portfolio segment will include a separate line for the allowance recorded at acquisition.

The staff has observed that bank holding companies consider their methodology for determining the allowance for loan losses, when it could have a material impact on the financial condition or operation performance, to be a critical accounting estimate and provide a discussion of the material implications of uncertainties associated with their allowance methodology and assumptions in MD&A.¹⁷⁴ These bank holding companies also discuss material fluctuations in their provision and allowance for loan losses in MD&A. The Division has provided its views on the appropriate disclosure in MD&A related to the current allowance for loan loss methodology, which includes the following information:

- the historical loss data used as the starting point for estimating current losses;
- how economic factors affecting loan quality are incorporated into the allowance estimate;
- the level of specificity used to group loans for purposes of estimating losses;

¹⁷³ ASC 310-30-50.

¹⁷⁴ In the Interpretive Guidance on MD&A, the Commission reminded registrants that they should address the material implications of uncertainties associated with the methods, assumptions and estimates underlying their critical accounting measurements.

- the application of loss factors to risk-rated loans; and
- any other estimation methods and assumptions used.¹⁷⁵

ii. Information Available Outside of SEC Filings

Banking organizations must report the amount of loans charged off against the allowance for loan losses during the period, as well as the amount of recoveries of loans previously charged off by specified loan category in Call Reports.¹⁷⁶ Banking organizations also must provide a reconciliation of the allowance for loan losses on an aggregate basis. This requirement is similar to the disclosures called for in Section IV.A of Guide 3, except that write-downs arising from transfers of loans to held for sale and any other adjustments must also be reported in the Call Reports.¹⁷⁷ Banking organizations must disclose in their Call Reports the amount of allowance for loan losses established due to decreases in cash flows expected to be collected on loans acquired with deteriorated credit quality.¹⁷⁸ Banking organizations with \$1 billion or more in total assets also must report disaggregated data on the allowance for loan losses and the related recorded investment in loans.¹⁷⁹ This requirement is similar to the U.S. GAAP requirement.

¹⁷⁵ Sample MD&A Letter. The Division is considering the impact that ASU 2016-13 will have on these disclosures and will take into consideration comments received in response to this request for comment as part of its analysis.

¹⁷⁶ The loan categories specified by Call Report Schedule RI-B, *Charge-offs and Recoveries on Loans and Leases and Changes in Allowance for Loan and Lease Losses*, are consistent with those specified by Schedule RC-C.

¹⁷⁷ Loans held for sale are measured at lower of cost or fair value. Therefore, when a loan measured at amortized cost is transferred to the held for sale category, it may result in a write-down.

¹⁷⁸ Memoranda Item 4 in Schedule RI-B.

¹⁷⁹ The loan categories specified by Call Report Schedule RI-C, *Disaggregated Data on the Allowance for Loan and Lease Losses*, represent general categories that best correspond to the characteristics of the related loans and leases, rather than the standardized loan categories defined in Schedule RC-C.

Pillar 3 disclosures provide qualitative and quantitative information about the allowance for loan losses that are more detailed than the disclosures called for by Guide 3 and U.S. GAAP. For example, qualitative disclosures include a description of the approaches used to determine the allowance for loan losses, including statistical methods used and an explanation of the internal rating system and its relationship with external ratings by loan type. Quantitative disclosures include actual losses for the preceding period for each loan category, including how the amounts differ from past experience or the banking organization's estimates of losses compared to actual losses over a longer period.¹⁸⁰

Request for Comment

44. Do the summary of loan loss experience disclosures called for by Guide 3 provide investors with information upon which they base investment and voting decisions? Would such information otherwise be provided under Commission rules (*e.g.*, Regulation S-K) or U.S. GAAP? Are there any particular issues that BHC registrants face in providing these disclosures or that investors or analysts face in utilizing these disclosures?
45. Do Commission rules or U.S. GAAP require the same or similar loan loss experience information as called for by Guide 3? If so, how is the information similar or dissimilar? Please provide a detailed comparison.
46. What improvements to the existing summary of loan loss experience disclosures should we consider that would be important for investors? For example, should BHC registrants disclose the qualitative portion of their allowance or details about their allowance methodology, such as adjustments made due to existing economic conditions? In suggesting improvements, please indicate whether BHC registrants would face any challenges in preparing and providing the disclosures.
47. To promote comparability and consistency, should we prescribe the level of disaggregation that BHC registrants should employ for their summary of loan loss disclosures? If so, what threshold should be used and why?
48. Should the categories used for disaggregation of these Guide 3 disclosures be closely aligned with those called for in Call Reports and other U.S. banking agency regulatory

¹⁸⁰ Pillar 3 instructions do not prescribe the period used for this assessment, but define the period as “a period sufficient to allow for meaningful assessment of the performance of the internal ratings processes.”

filings? If so, which ones and why?

49. While investors do not have experience with the disclosures that will be required by ASU 2016-13, is there information about loan impairment that would be important for investors under an expected credit loss model? If so, please indicate which information and whether BHC registrants would face any challenges in preparing and providing the information? For example, upon effectiveness of ASU 2016-13, should we require separate disclosure of the amount of provision that relates to loans originated during the period in the allowance for credit losses roll-forward? Why or why not?
50. Should we require any of the suggested disclosures from the 2009 Sample MD&A Letter? Why or why not? If so, which disclosures should we require and what challenges, if any, would BHC registrants face in preparing and providing them? For example, should we require the disclosure suggestions related to changes in practices such as the historical loss data used as the starting point for estimating current losses?
51. Should we consider requiring that the summary of loan loss experience disclosures called for by Guide 3 be presented in a structured data format, such as XBRL, to facilitate investor comparison of data across BHC registrants and usability of the disclosures? Why or why not? If so, what elements of these disclosures should be tagged so that they can be extracted in a structured data format?
52. If we require the Guide 3 tabular disclosures to be submitted in XBRL, are the current requirements for the format and elements of the tables suitable for tagging? If not, how should they be revised?
53. Should we require disclosure of any loan information provided in Call Reports or other regulatory filings? If so, what information and why?
54. Should the summary of loan loss experience disclosures called for by Guide 3 be extended to other registrants, such as those engaged in the financial services industry? If so, which registrants and which disclosures?

E. Deposits

1. Background

Deposits are generally the most significant liability on an FDIC-insured institution's balance sheet, and interest paid on deposits generally represents a large portion of expenses. As of September 30, 2016, deposits represented 76% of the total liabilities and capital of all FDIC-

insured institutions.¹⁸¹ During times of economic stress, insured retail deposits have proven to be the most reliable funding source and, therefore, play an integral role in mitigating liquidity risk during crisis scenarios.¹⁸² FDIC-insured institutions also can generate funds by acquiring brokered deposits,¹⁸³ which typically are obtained through arrangements with securities brokerage firms. The use of brokered deposits allows FDIC-insured institutions to raise large amounts of funds quickly with a predetermined maturity structure. Brokered deposits, however, are highly rate-sensitive and when they mature institutions need to match prevailing market rates to roll-over or renew them. FDIC rules limit access to brokered deposits for insured institutions that are not “well capitalized” for purposes of the applicable regulatory capital requirements.¹⁸⁴

Deposit disclosures, together with the level of other disclosed funding sources,¹⁸⁵ may provide transparency with respect to a registrant’s sources of funding and liquidity risk profile. Disclosures about significant amounts of deposits from a small number of depositors also could indicate concentration risk. For example, disclosures about a BHC registrant’s reliance on

¹⁸¹ See FDIC Quarterly.

¹⁸² See page 15 of OCC, Comptroller’s Handbook – Liquidity (June 2012). Retail deposits include demand, savings and time deposits. In addition, retail deposits are assigned a low outflow rate of 3-10% for purposes of the LCR calculations whereas the rates for other types of liabilities (*e.g.*, unsecured wholesale funding provided by a financial sector entity) may be as high as 100%. See LCR Adopting Release.

¹⁸³ As defined by the FDIC, brokered deposits are deposits accepted through a “deposit broker” or “any person engaged in the business of placing deposits, or facilitating the placement of deposits, of third parties with insured depository institutions for the purpose of selling interests in those deposits to third parties.” See Frequently Asked Questions Regarding Identifying, Accepting, and Reporting Brokered Deposits on the FDIC’s website for additional information, available at <https://www.fdic.gov/news/news/financial/2015/fil15051b.pdf>.

¹⁸⁴ 12 CFR 337.6.

¹⁸⁵ ASC 942-470-50-3 requires disclosures related to debt agreements and Section VII of Guide 3 calls for disclosures about short-term borrowings as described below in Section II.G.

brokered deposits as a source of funding may inform investors that the BHC registrant's cost of funding could increase quickly when the brokered deposits mature.

2. Current Guide 3 Disclosures

Section V.A of Guide 3 calls for presentation of the average amounts of and the average rates paid for specified deposit categories that exceed 10% of average total deposits.¹⁸⁶ Most BHC registrants provide this disclosure by disaggregating the deposit categories in the average balance sheet required by Section I of Guide 3. Section V.A also calls for disclosure of the aggregate amount of deposits by foreign depositors in U.S. offices, if material. Sections V.D and V.E of Guide 3 focus on the disclosures of time certificates of deposits and other time deposits in amounts of \$100,000 or more.¹⁸⁷ Section V.D calls for a maturity analysis of time deposits,¹⁸⁸ and Section V.E calls for disclosure of time deposits in excess of \$100,000 issued by foreign offices.¹⁸⁹

¹⁸⁶ The specified deposit categories are: (1) noninterest-bearing demand deposits, (2) interest-bearing demand deposits, (3) savings deposits, (4) time deposits, (5) deposits of banks located in foreign countries including foreign branches of other U.S. banks, (6) deposits of foreign governments and official institutions, (7) other foreign demand deposits, and (8) other foreign time and savings deposits. Categories (1) to (4) are deposits in U.S. bank offices and categories (5) to (8) are deposits in foreign bank offices. Other categories may be used for U.S. bank offices if they more appropriately describe the nature of the deposits.

¹⁸⁷ The \$100,000 thresholds were established in 1976 when the FDIC insurance limit was \$40,000.

¹⁸⁸ The ranges of maturities are by time remaining until maturity: (1) 3 months or less, (2) over 3 through 6 months, (3) over 6 through 12 months, and (4) over 12 months.

¹⁸⁹ If the aggregate of certificates of deposit and time deposits over \$100,000 issued by foreign offices represents a majority of total foreign deposit liabilities, this disclosure need not be provided if a statement to that effect is provided.

3. Other Sources of Information

i. Information Available in SEC Filings as Required by Commission Rules and Accounting Standards

Article 9 requires separate presentation on the balance sheet of noninterest-bearing deposits and interest-bearing deposits.¹⁹⁰ U.S. GAAP requires limited disclosures about deposits. For example, U.S. GAAP requires disclosures about deposits received on terms other than those available in the normal course of business and the aggregate amount of time deposits equal to or exceeding the FDIC insurance limit,¹⁹¹ which is currently \$250,000.¹⁹² The time deposit disclosure requirement previously contained a \$100,000 threshold, similar to Guide 3. In March 2014, the FASB replaced the \$100,000 threshold with the term “FDIC insurance amounts.”¹⁹³ As a result, BHC registrants generally provide separate time deposit disclosures at both the \$100,000 and the \$250,000 thresholds to comply with both Guide 3 and U.S. GAAP.

As part of the standard-setting process for ASU 2016-01, in 2013 the FASB proposed a definition of “core deposit liabilities” and related disclosures.¹⁹⁴ The proposal would have required registrants with core deposit liabilities to disclose the following by significant type of core deposit account:

¹⁹⁰ 17 CFR 210.9-03. If the disclosures on foreign activities in Rule 9-05 apply, the amount of noninterest-bearing deposits and interest-bearing deposits in foreign banking offices also must be presented separately.

¹⁹¹ ASC 942-405-50-1.

¹⁹² <https://www.fdic.gov/deposit/deposits>.

¹⁹³ FASB Editorial and Maintenance Update 2014-07 (Mar. 17, 2014), available at <https://asc.fasb.org/imageRoot/89/51570489.pdf>. In the update, the FASB states that the revision maintained the original intent of the disclosure and was made to accommodate any future changes to the FDIC insurance limit.

¹⁹⁴ “Core deposit liabilities” was defined as “deposits without a contractual maturity that management considers to be a stable source of funds, which excludes surge balances due to seasonal factors or economic uncertainty and other balances that management believes are transient (such as highly interest rate sensitive accounts.)”

- the core deposit liability balance;
- the implied weighted-average maturity period; and
- the estimated all-in-cost-to-service rate.¹⁹⁵

The FASB did not include these disclosures in the final standard due to input from financial statement preparers indicating that the cost of providing the information would be significant and that they could result in the disclosure of proprietary information. In addition, respondents expressed concern that the disclosures would not be comparable because the definition of core deposit liabilities would be based on management's determination.¹⁹⁶ Because the respondents to the FASB proposal consisted mostly of preparers and included only one user,¹⁹⁷ we are seeking feedback about whether there are additional disclosures about deposits, such as those considered by the FASB, that would be important for investors.

The staff has observed that BHC registrants generally discuss in MD&A material changes to or key metrics for deposits when deposits are a material source of liquidity.¹⁹⁸ For example, many BHC registrants discuss loan-to-deposit ratios and some present this information by reportable segment. They also generally include a discussion of deposits as a source of funding, including a description of deposit inflows and outflows during the period, in the liquidity section

¹⁹⁵ Proposed Accounting Standards Update (Apr. 12, 2013), available at http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176162349236&acceptedDisclaimer=true. The all-in-cost-to-service rate was defined as "a rate that includes the net direct costs to service core deposit liabilities, including interest paid on those deposits and the expense of maintaining a branch network minus fee income earned on those deposit accounts."

¹⁹⁶ See ASU 2016-01, paragraph BC138.

¹⁹⁷ See http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176162921974.

¹⁹⁸ Item 303 of Reg. S-K requires registrants to discuss their financial condition, material changes in financial condition, and a description of internal and external sources of liquidity.

of MD&A. Some include total deposits or time deposits in the maturity of contractual obligations table.¹⁹⁹

ii. Information Available Outside of SEC Filings

Banking organizations must separately report deposits held at U.S. bank offices and deposits held at foreign bank offices²⁰⁰ in their Call Reports.²⁰¹ Maturity data for brokered deposits, time deposits less than \$100,000, time deposits between \$100,000 and \$250,000, and time deposits of \$250,000 or more must also be provided.²⁰² Banking organizations must also provide quarterly average balances of interest-bearing deposit transaction accounts and non-transaction accounts in Call Reports. Call Reports contain more information about deposits and categorize deposits by more and sometimes different factors than Guide 3. For example, banking organizations must provide information about whether deposits are insured or uninsured and the intended uses of the deposit products in Call Reports.

Request for Comment

55. Do the deposit disclosures called for by Guide 3 provide investors with information upon which they base investment and voting decisions? Would such information otherwise be provided under Commission rules (*e.g.*, Regulation S-K) or U.S. GAAP? Are there any particular issues that BHC registrants face in providing these disclosures or that investors or analysts face in utilizing these disclosures?
56. Do Commission rules or U.S. GAAP require the same or similar deposits information as called for by Guide 3? If so, how is the information similar or dissimilar? Please provide

¹⁹⁹ Deposits, including time deposits, normally do not meet the definition of long-term obligations in Item 303(a)(5)(ii) of Regulation S-K.

²⁰⁰ For definitions of U.S. bank offices and foreign bank offices, see the Glossary in *Instructions for Preparation of Consolidated Reports of Condition and Income (FFIEC 031 and 041)*.

²⁰¹ Call Report Schedule RC-E, *Deposit Liabilities*.

²⁰² The maturity periods specified by Schedule RC-E, are one year or less for brokered deposits and, for time deposits, (a) three months or less, (b) over three months through 12 months, (c) over one year and through three years, and (d) over three years.

a detailed comparison.

57. What improvements to the existing deposits disclosures should we consider that would be important for investors? For example, should BHC registrants disclose the amount and maturity of brokered deposits? Should we require disclosures about core deposits and, if so, what disclosures? In suggesting improvements, please indicate whether BHC registrants would face any challenges in preparing and providing the disclosures.
58. How do investors use the time deposit disclosures? Should we retain the \$100,000 threshold for these disclosures or should we change it to another threshold, such as the FDIC insurance limit? Why or why not?
59. Should we require disclosure of an estimate of the quantitative and qualitative benefits of using government guaranteed deposits?
60. Should we consider requiring that the deposit disclosures called for by Guide 3 be presented in a structured data format, such as XBRL, to facilitate investor comparison of data across BHC registrants and usability of the disclosures? Why or why not? If so, what elements of these disclosures should be tagged so that they can be extracted in a structured data format?
61. If we require the Guide 3 tabular disclosures to be submitted in XBRL, are the current requirements for the format and elements of the tables suitable for tagging? If not, how should they be revised?
62. Should the categories used for disaggregation of these Guide 3 disclosures be closely aligned with those called for in Call Reports and other U.S. banking agency regulatory filings? If so, which ones and why?
63. Should we require disclosure of any deposit information provided in Call Reports or other regulatory filings? If so, what information and why?
64. Should the deposit disclosures called for by Guide 3 be extended to other registrants, such as those engaged in the financial services industry? If so, which registrants and which disclosures?

F. Return on Equity and Assets

1. Background

Financial ratios allow investors to compare registrants in the same industry. Section VI of Guide 3 calls for disclosure of four specific ratios. Two are profitability ratios, one is an

indicator of how much capital a BHC registrant returns to investors, and the other is an indicator of solvency.

While useful to investors for comparing BHC registrants and making investment decisions, the ratios called for by Guide 3 are not specific to the financial services industry. Moreover, Guide 3 does not call for other industry-specific ratios, other than the ratio of net charge-offs to average loans outstanding in Section IV.A. Examples of industry-specific ratios that investors may use to evaluate BHC registrants and make investment decisions include the efficiency ratio,²⁰³ allowance for loan losses to total loans, allowance for loan losses to total nonaccrual loans and nonaccrual loans to total loans. Although not specifically referenced in Guide 3, BHC registrants generally disclose these ratios. We are considering whether specific ratio disclosures for BHC registrants would be important for investors or whether these BHC registrants already disclose the ratios that are important for investors in response to Regulation S-K requirements.

2. Current Guide 3 Disclosure Requirements

Section VI of Guide 3 calls for the following ratios for each reported period:

- return on assets (ROA);
- return on equity (ROE);
- dividend payout ratio; and
- equity to assets ratio.²⁰⁴

²⁰³ The efficiency ratio measures the proportion of net operating revenues that are absorbed by overhead expenses, so that a lower value indicates greater efficiency. FDIC Quarterly.

²⁰⁴ Instruction 1 to Section VI calls for a dual presentation of the return on equity and equity to assets ratios if mandatorily redeemable preferred stock is outstanding. The dual presentation provides the ratios calculated both with and without preferred stock.

Instruction 2 of Section VI indicates that BHC registrants should provide any other ratios they deem necessary to explain their operations.

3. Other Sources of Information

No other Commission rules, U.S. accounting standards or bank regulatory requirements specifically require disclosure of the four ratios included in Guide 3. These ratios, however, can be calculated using financial information disclosed in Commission filings. ROA, ROE and equity to assets can be derived from amounts reported on the income statement and the average balance sheet called for by Section I.A of Guide 3.²⁰⁵ BHC registrants also generally disclose their ROA and ROE ratios in their earnings releases. The dividend payout ratio can be calculated based on the disclosures required by Article 3 of Regulation S-X.²⁰⁶ Also, although Commission rules do not specifically require these ratios, the Interpretive Guidance on MD&A highlights the potential need for disclosure of industry-specific or key performance measures when they are used to manage the business and would be material to investors.

Bank holding companies also disclose non-GAAP measures in Commission filings. For example, they commonly present non-GAAP versions of ROE, return on average equity, and book value per common share using tangible equity²⁰⁷ instead of shareholders' equity. Another common non-GAAP measure used by bank holding companies is taxable equivalent interest

²⁰⁵ In the case of average amounts, current and prior year amounts presented on the balance sheet can be used to calculate the average.

²⁰⁶ 17 CFR 210.3-01 through 3-20. Rule 3-04 of Regulation S-X requires disclosure of dividends per common share in the changes in stockholders' equity and noncontrolling interests statement or footnote.

²⁰⁷ Tangible equity is not defined in Commission rules or U.S. GAAP. Generally, tangible common equity is U.S. GAAP shareholders' equity minus any intangible asset (such as deferred costs or goodwill), net of deferred tax liabilities.

income and the related net interest margin.²⁰⁸ In addition, banking organizations are subject to a minimum “leverage ratio” requirement as part of their regulatory capital requirements. The leverage ratio and its inputs are reported on the Call Report.²⁰⁹

Request for Comment

65. Do the return on equity and assets disclosures called for by Guide 3 provide investors with information upon which they base investment and voting decisions? Would such information otherwise be provided under Commission rules (*e.g.*, Regulation S-K) or U.S. GAAP? Are there any particular issues that BHC registrants face in providing these disclosures or that investors or analysts face in utilizing these disclosures?
66. Do Commission rules or U.S. GAAP require the same or similar ratios as called for by Guide 3? If so, how are the ratios similar or dissimilar?
67. What improvements to the existing return on equity and assets disclosures should we consider that would be important for investors? For example, should we require other industry-specific ratios, such as nonaccrual loans to total loans, and if so, which ones? In suggesting improvements, please indicate whether BHC registrants would face any challenges in preparing and providing the disclosures.
68. What non-GAAP financial measures do BHC registrants disclose? Which of these measures help make investment decisions and why? Should we require disclosure of any of these measures to enhance the comparability of information for investors?
69. Are there any bank regulatory capital metrics, such as risk-weighted assets or liquidity ratios, that BHC registrants are not already required to disclose under accounting standards or Commission rules that would be important for investors? If so, which ones and how do investors use them?
70. Banking organizations typically are afforded a transition period to comply with new bank regulatory capital metric requirements. For recently issued accounting standards that have not yet been adopted, registrants generally discuss the potential effects of adoption

²⁰⁸ Net interest income is adjusted to reflect tax-exempt income on an equivalent before-tax basis with a corresponding increase in income tax expense. See Staff Accounting Bulletin Topic 11:G – Tax Equivalent Adjustment in Financial Statements of Bank Holding Companies (SAB Topic 11:G) for additional discussions related to tax equivalent adjustments.

²⁰⁹ Tier 1 leverage ratio is calculated by dividing Tier 1 capital, as defined by the U.S. banking agencies, by average total consolidated assets. Call Report Schedule RC-R, *Regulatory Capital*.

in registration statements and reports filed with the Commission.²¹⁰ However, there is no related disclosure guidance for bank capital metrics that have been issued but not yet implemented. Would disclosure of the calculation of a new metric provide important information for investors even before the organization is required to comply with the requirement? What challenges, if any, would BHC registrants face in preparing and providing it?

71. Should we consider requiring that the return on equity and assets disclosures called for by Guide 3 be presented in a structured data format, such as XBRL, to facilitate investor comparison of data across BHC registrants and usability of the disclosures? Why or why not? If so, what elements of these disclosures should be tagged so that they can be extracted in a structured data format?
72. If we require the Guide 3 tabular disclosures to be submitted in XBRL, are the current requirements for the format and elements of the tables suitable for tagging? If not, how should they be revised?
73. Should the return on equity and assets disclosures called for by Guide 3 be extended to other registrants, such as those engaged in the financial services industry? If so, which registrants and which disclosures?

G. Short-Term Borrowings

1. Background

BHC registrants often use short-term borrowings to supplement their deposits and diversify their funding sources. Short-term borrowings may include federal funds transactions,²¹¹ repurchase agreements,²¹² commercial paper,²¹³ traditional loans from other banks, and any other

²¹⁰ See Staff Accounting Bulletin Topic 11:M – Disclosure Of The Impact That Recently Issued Accounting Standards Will Have On The Financial Statements Of The Registrant When Adopted In A Future Period. (SAB Topic 11:M)

²¹¹ The federal fund rate is the interest rate that banks charge one another for borrowing funds overnight. Federal funds are excess funds that banks deposit with the FRB for lending to other banks.

²¹² ASC 860-10 defines a repurchase agreement as an arrangement under which a transferor (repo party) transfers a security to a transferee (repo counterparty or reverse party) in exchange for cash and concurrently agrees to reacquire the security at a future date for an amount equal to the cash exchanged plus a stipulated interest factor.

²¹³ Commercial paper consists of short-term promissory notes issued primarily by corporations. Maturities range up to 270 days but average about 30 days.

short-term borrowings reflected on the BHC registrant's balance sheet.²¹⁴ Federal funds transactions can be an important tool for managing liquidity, while repurchase agreements can provide a cost-effective source of funds and may allow a BHC registrant to leverage its securities portfolio for liquidity and funding needs. Short-term borrowings and the reliance on them for financing are especially important to the liquidity of many of the largest BHC registrants and, industry-wide, may have a global impact on the financial markets and systemic stability. Illiquidity in the markets as a whole can affect short-term borrowings, sometimes severely and rapidly, which can present increased risks for registrants that rely heavily on short-term borrowings as a funding source. Because of these potential risks, banking regulators across the globe have focused on liquidity and funding sources and have adopted new liquidity measures, such as the LCR and NSFR requirements. These new liquidity measures are designed to create incentives for certain large banking organizations to fund their activities with more stable sources of funding, which may cause banking organizations to replace some of their short-term borrowings, like federal funds purchased, with long-term debt. For example, the NSFR generally is calibrated assuming that long-term liabilities are more stable than short-term liabilities.²¹⁵

A BHC registrant's use of short-term borrowings can fluctuate significantly during a reporting period. As a result, the presentation of period-end amounts alone may not accurately reflect a BHC registrant's funding needs or use of short-term borrowings during the period.

The Guide 3 short-term borrowings disclosures provide investors with information beyond the period-end borrowings balance. These disclosures focus on the activity in short-term

²¹⁴ 17 CFR 210.9-03.13(3).

²¹⁵ *Basel III: the net stable funding ratio* (October 2014), available at <http://www.bis.org/bcbs/publ/d295.pdf>.

borrowings and related interest expense throughout the period and may help investors better understand the role of this form of financing and its related risks to BHC registrants.

2. Current Guide 3 Disclosures

Section VII of Guide 3 calls for the following short-term borrowings disclosures by category:

- the period-end amount outstanding;
- the average amount outstanding during the period; and
- the maximum month-end amount outstanding.²¹⁶

Section VII also calls for disclosure, by category of borrowing, of the weighted average interest rates at period-end and during the period, and the general terms of the borrowing. The disclosures in Section VII need not be provided for categories of short-term borrowings for which the average balance outstanding during the period was less than 30% of stockholders' equity at the end of the period.

3. Other Sources of Information

i. Information Available in SEC Filings as Required by Commission Rules and Accounting Standards

Article 9 requires separate disclosure of the period-end balances of federal funds purchased and securities sold under agreements to repurchase, commercial paper and other short-term borrowings on the face of the financial statements or in the footnotes.²¹⁷ U.S. GAAP

²¹⁶ Section VII refers to Rule 9-04.11 for categories of short-term borrowings. The correct reference, however, is Rule 9-03.13. Registrants often provide the average short-term borrowings disclosures as part of their average balance sheet disclosures.

²¹⁷ 17 CFR 210.9-03.

requires disclosure of period-end balances of significant categories of borrowings.²¹⁸ U.S. GAAP also requires disclosures about repurchase agreements and securities lending transactions. For example, BHC registrants must reconcile the amount of the gross liability for repurchase agreements and securities lending transactions accounted for as secured borrowings to the net liability amount presented on the balance sheet.²¹⁹

The staff has observed that BHC registrants typically discuss their sources of funding and outstanding borrowings in their liquidity section of MD&A. In 2010, the Commission issued interpretive guidance on liquidity and capital resources disclosures that highlighted important trends and uncertainties related to liquidity for registrants to consider in their MD&A disclosures.²²⁰ The guidance noted as examples of trends and uncertainties the reliance on commercial paper or other short-term financing arrangements for liquidity and intra-period variations in borrowings in circumstances where borrowings during the period are materially different than the period-end amounts. The guidance also specifically indicated that bank holding companies should consider additional MD&A disclosures, including their policies and practices for meeting applicable bank regulatory guidance on funding and liquidity risk management, or any policies and practices that differ from applicable bank regulatory guidance.

Regulation S-K also requires a discussion of off-balance sheet arrangements when the arrangements have or are reasonably likely to have a current or future effect on the registrant's financial condition, results of operations, liquidity, capital expenditures or capital resources that

²¹⁸ ASC 942-470-45.

²¹⁹ ASC 860-30-50 and ASC 210-20-50 permit offsetting of derivatives, repurchase agreements and securities lending transactions in the financial statements. ASC 860-30-50 requires disclosure of gross and net liabilities related to these transactions.

²²⁰ Commission Guidance on Presentation of Liquidity and Capital Resources Disclosures in Management's Discussion and Analysis, Release No. 33-9144 (Sept. 17, 2010) [75 FR 59894].

is material to investors.²²¹ When these disclosures were adopted in 2003, the definition of “off-balance sheet arrangement” focused on the means through which registrants typically structure off-balance sheet transactions or otherwise incur risks of loss that are not fully transparent to investors. For example, a registrant sometimes provides financial support as part of its involvement in activities of an unconsolidated entity.²²² Commenters on the Regulation S-K Concept Release expressed differing views about whether the Commission should retain, expand or eliminate this disclosure item. One commenter recommended expanding it to include detailed information about the underlying assets of asset-backed securities.²²³ Commenters often cited redundancy with disclosures required by U.S. GAAP as the reason for eliminating the disclosure requirement.²²⁴ We are considering whether there are disclosures about off-balance sheet arrangements specific to BHC registrants that investors find important. Further, we are considering whether disclosures about off-balance sheet arrangements should be considered for other registrants in the financial services industry.

Short-term borrowing levels and deposit levels also factor into the LCR calculation, because it is based on projected cash outflows during a 30-day stress period.²²⁵ Banking organizations subject to the LCR requirement typically disclose whether or not they comply with

²²¹ 17 CFR 229.303(a)(4)

²²² Disclosure in Management’s Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations, Release No. 33-8182 (Jan. 28, 2003) [68 FR 5982] (Off-Balance Sheet and Contractual Obligations Adopting Release).

²²³ CFA Institute Letter.

²²⁴ *See, e.g.*, Chamber Letter; SIFMA Letter; KPMGLLP; Davis Polk Letter; and Financial Services Roundtable Letter.

²²⁵ *See* LCR Adopting Release.

the rule in their Commission filings. We are considering whether to require additional quantitative and qualitative disclosures about funding and liquidity risks.

ii. Information Available Outside of SEC Filings

Banking organizations must report the year-end balance, quarterly average balances and interest expense on federal funds purchased and securities sold under agreements to repurchase, and other borrowings in their Call Reports.²²⁶ Global systemically important bank holding companies (GSIBs) are subject to a risk-based capital surcharge in excess of their minimum capital requirements.²²⁷ One of the methods for calculating the risk-based surcharge focuses on a GSIB's reliance on short-term wholesale funding because reliance on this type of funding may cause vulnerability to runs and fire sales. Pillar 3 disclosures discuss risks related to borrowings and liquidity and include borrowings as an input to certain disclosure requirements, including the LCR and GSIB risk-based capital surcharge.

Request for Comment

74. Do the short-term borrowings disclosures called for by Guide 3 provide investors with information upon which they base investment and voting decisions? Would such information otherwise be provided under Commission rules (*e.g.*, Regulation S-K) or U.S. GAAP? Are there any particular issues that BHC registrants face in providing these disclosures or that investors or analysts face in utilizing these disclosures?
75. Do Commission rules or U.S. GAAP require the same or similar short-term borrowing information as called for by Guide 3? If so, how is the information similar or dissimilar? Please provide a detailed comparison.
76. What improvements to the existing short-term borrowings disclosures should we consider? For example, should BHC registrants discuss the degree of reliance on

²²⁶ Year-end balances are required to be reported on Call Report Schedule RC, *Balance Sheet*. Quarterly average balances are required to be reported on Call Report Schedule RC-K, *Averages*. Interest expense is required to be reported on Call Report Schedule RI, *Income Statement*.

²²⁷ Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies (Aug. 14, 2015) [80 FR 157]. The surcharge became effective on January 1, 2016.

wholesale or short-term funding sources? Should they describe the nature, timing, and extent of volatile short-term funding? In suggesting improvements, please indicate whether BHC registrants would face any challenges in preparing and providing the disclosures.

77. Are there disclosures about off-balance sheet arrangements in the financial services industry that investors find important? If so, which disclosures? Would such information otherwise be provided under Commission rules (e.g., Regulation S-K) or U.S. GAAP? If not, in what manner should these disclosures be provided?
78. Are there quantitative and qualitative disclosures that would add transparency about ongoing liquidity risk exposure for BHC registrants? For example, should BHC registrants describe the liquidity risks arising from their assets, derivatives and off-balance-sheet activities? If so, what disclosures would be important for investors and in what manner should they be provided? For example, should we require these BHC registrants to disclose their compliance with and the calculation of their bank regulatory LCR?
79. What non-GAAP financial measures do BHC registrants provide concerning short-term funding? Should we require BHC registrants to disclose any of these measures to enhance the comparability of information for investors?
80. Do the short-term borrowings disclosures properly balance the benefits to investors and the costs to BHC registrants? If no, why?
81. Should we consider requiring disclosure of a liquidity mismatch index (MMI)²²⁸ or other measure of maturity mismatch for BHC registrants? If so, what measure would be useful for investors in making investment decisions?
82. Should we consider requiring that the short-term borrowings disclosures called for by Guide 3 be presented in a structured data format, such as XBRL, to facilitate investor comparison of data across BHC registrants and usability of the disclosures? Why or why not? If so, what elements of these disclosures should be tagged so that they can be extracted in a structured data format?
83. If we require the Guide 3 tabular disclosures to be submitted in XBRL, are the current requirements for the format and elements of the tables suitable for tagging? If not, how should they be revised?

²²⁸ MMI is a liquidity measure proposed by researchers from the National Bureau of Economic Research in 2011 to measure the mismatch between the market liquidity of assets and the funding liquidity of liabilities. See Brunnermeier, M. K., G. Gorton, and A. Krishnamurthy, 2011, *Risk Topography*, *NBER Macroeconomics Annual*, available at <http://www.nber.org/chapters/c12412>.

84. Should the categories used for disaggregation of these Guide 3 disclosures be closely aligned with those called for in Call Reports and other U.S. banking agency regulatory filings? If so, which ones and why?
85. Should the short-term borrowings disclosures called for by Guide 3 be extended to other registrants, such as those engaged in the financial services industry? If so, which registrants and which disclosures?

H. Potential New Disclosures

As originally published, Guide 3 focused on eliciting what the Division of Corporation Finance believed at the time to be the most significant statistical disclosures relating to the operations of bank holding companies. Over the intervening four decades, and particularly following the passage of the Gramm-Leach-Bliley Act,²²⁹ which repealed certain provisions of the Glass-Steagall Act,²³⁰ the scope of activities permitted to bank holding companies has expanded significantly. For example, today, some bank holding companies and financial holding companies may engage in operations involving physical commodities, insurance, investment management, asset management and broker-dealer activities that were limited or impermissible at the time of Guide 3's initial publication.

We are considering whether and to what extent refinement of Guide 3 to account for the shifting landscape of the financial industry would yield important information for investors in their evaluation of BHC registrants. Part of this shifting landscape is supervisory or regulatory in nature. For example, in recent years CCAR, DFAST and resolution planning were implemented

²²⁹ Pub. L. No. 106-102, 113 Stat. 1338 (1999).

²³⁰ Pub. L. No. 73-66, 48 Stat. 162 (1933). The Glass-Steagall Act contained provisions limiting commercial bank securities activities and affiliations with investment banks. The Gramm-Leach-Bliley Act repealed those anti-affiliation provisions and permitted banks to affiliate with companies engaged in a broad range of financial activities.

for certain large banking organizations.²³¹ Consequently, we are seeking input about the effects of regulation on BHC registrants, including with regard to their operations, capital structures, dividend policies and treatment in bankruptcy.

We also are mindful of how our disclosure regime interacts with the various disclosure requirements of the U.S. banking agencies. In some cases, our disclosure regime and the regimes of the U.S. banking agencies require different types of information or present information in inconsistent ways; in other cases, the various regimes may overlap with or duplicate one another. Guide 3 was originally intended to conform to the information required in reports to the U.S. banking agencies to the “fullest extent possible, consistent with the public interest and the protection of investors,”²³² although gaps between the two regimes have formed over the decades. We are interested in understanding the interrelationships between the securities and banking disclosure regimes, how they differ and whether and how the existing banking disclosures can be leveraged to improve our own disclosure regime. We are cognizant of the fact that securities and banking disclosures serve different purposes in light of the different missions of their respective regulatory regimes. Where our disclosure regime serves our core missions of investor protection, fair, orderly, and efficient markets, and capital formation, the U.S. banking agency regulatory regime is premised largely on ensuring safety and soundness of banking organizations.

Guide 3 disclosures currently focus on interest-earning and interest-bearing activities and do not address other revenues that a BHC registrant may earn. Non-interest income represented

²³¹ Banking organizations with \$50 billion or more in total consolidated assets are subject to the full scope of CCAR and DFAST. DFAST testing and disclosure requirements are significantly reduced for banking organizations with \$10 billion to \$50 billion in total consolidated assets.

²³² Guide 3 Release.

more than 35% of total net operating revenue for all FDIC-insured institutions for the first three quarters of 2016.²³³ Examples of non-interest income include trading revenue, fee income from deposits and servicing income. Given the significance of non-interest income, it is important for investors to understand the reasons for its fluctuations. Non-interest income, generally, is a material component of net operating revenue for large FDIC-insured institutions. Trading revenues accounted for more than 24% of net operating revenues for FDIC-insured institutions, with more than \$250 billion in assets for the first three quarters of 2016, but accounted for approximately 1% of net operating revenues for FDIC-insured institutions with less than \$1 billion in total assets.²³⁴ Banking organizations must report disaggregated information about their noninterest income activity in Call Reports.²³⁵ We are considering whether to expand Guide 3 to include disclosures on non-interest income activities.

We also are considering whether or not more prescriptive disclosures not related specifically to the financial statements would be important for investors. An example is risk management disclosure. In May 2012, the Financial Stability Board established the EDTF with the goal of improving risk disclosures in the financial services industry. In October 2012, the EDTF published a report containing a number of recommendations for enhancing risk disclosures.²³⁶ Since 2012, the EDTF has published additional recommendations for enhancing

²³³ See FDIC Quarterly.

²³⁴ *Id.*

²³⁵ Schedule RI-E, RC-P, and RC-T

²³⁶ *Report of the Enhanced Disclosure Task Force to the Financial Stability Board, Enhancing the Risk Disclosures of Banks* (Oct. 29, 2012), available at http://www.financialstabilityboard.org/publications/r_121029.pdf.

disclosures and status reports on the implementation of the 2012 recommendations.²³⁷ Several of the EDTF's recommended disclosures are already addressed by Commission rules, accounting standards or U.S. banking agency disclosure requirements.²³⁸ Some of the EDTF's recommendations are intended to help investors better compare banking organizations but would require more standardized or detailed disclosures than currently required by either Commission rules or U.S. GAAP.²³⁹ Comparability was a fundamental principle identified by the EDTF for risk disclosures, with a focus on global comparability. We are considering whether industry-specific rules or guidance for these non-financial statement disclosures are needed to elicit more comparability.

Finally, we are considering whether our disclosure regime should better utilize technological advances that have occurred over the years that allow information to be provided in a more accessible manner. For example, interactive data allows users to search disclosure documents and extract specific information and compare it to information from other companies, performance in past years and industry averages. Commission rules require registrants to provide their financial statements, including notes and financial statement schedules, in interactive data format using eXtensible Business Language Reporting (XBRL) by filing them

²³⁷ See, e.g., the EDTF's position on the disclosure of emergency liquidity assistance (Dec. 7, 2015), available at <http://www.fsb.org/2015/12/edtf-position-on-the-disclosure-of-emergency-liquidity-assistance/>.

²³⁸ See, e.g., Items 305 and 503(c) of Regulation S-K and ASC 815 for disclosures about derivatives and Pillar 3 for disclosures about risk-weighted assets.

²³⁹ For example, the EDTF recommends a quantitative analysis of the components of the liquidity reserve held to meet liquidity needs, ideally by providing averages as well as period-end balances. The description would be complemented by an explanation of possible limitations on the use of the liquidity reserve maintained in any material subsidiary or currency.

with the Commission and posting them on their corporate websites.²⁴⁰ Commission rules do not require Guide 3 disclosures to be submitted in XBRL format.

Request for Comment

86. Are there activities in which BHC registrants engage that are not covered by Guide 3 about which we should require disclosure? For example, should we require disclosure, in addition to that already required by accounting standards, about commodities, asset management or broker-dealer activities? If so, what information is important for investors and what challenges, if any, would BHC registrants face in preparing and providing it? What thresholds should trigger any disclosure requirements we consider?
87. Are there additional disclosures, either potential new disclosures or disclosures required by other regimes, not already discussed in this request for comment that we should consider for BHC registrants that would be important for investors? If so, what disclosures and how are they similar or dissimilar to the disclosures called for by Guide 3? What challenges, if any, would BHC registrants face in preparing and providing them?
88. Are there other Commission rules or disclosure guidance we should consider as part of this project that are not already discussed in this request for comment?
89. Should we require disclosures about non-interest income and/or non-interest expense for BHC registrants? If so, what disclosures should we require and how should these disclosures be presented? For example, should we require statistical disclosures about trading revenue?
90. Do the current distinctions between Guide 3 disclosures and the Call Reports and other bank regulatory filings enhance investor understanding or contribute to investor confusion? Please indicate which distinctions enhance investor understanding versus contribute to investor confusion and why.
91. The Dodd-Frank Act requires bank holding companies with total consolidated assets of \$50 billion or more and nonbank financial companies designated by the Financial Stability Oversight Council for supervision by the FRB to periodically submit resolution plans to the FRB and the FDIC.²⁴¹ The plans describe the companies' strategies for rapid and orderly resolution in the event of material financial distress or failure.²⁴² The plans

²⁴⁰ Regulation S-K Item 601(b)(101) and Regulation S-T Item 405. 17 CFR 229.601(b)(101) and 17 CFR 232.405.

²⁴¹ Dodd-Frank Act § 165(d).

²⁴² See <http://www.federalreserve.gov/bankinforeg/resolution-plans.htm> and <https://www.fdic.gov/regulations/reform/resplans/>.

contain a confidential section and a section that the FRB and FDIC make available to the public. Should we require the disclosure in Commission filings of information related to the resolution plans? If so, what types of information should be included and to what extent should BHC registrants describe their plans? What challenges, if any, would BHC registrants face in preparing and providing this information?

92. In recent years, BHC registrants have become subject to many new bank regulatory and capital requirements, including pursuant to the Dodd-Frank Act. Should we specifically require BHC registrants to discuss the effects, when material, of such regulations on their business, financial condition and results of operations? For example, should we require disclosure of the effects of these regulations on their dividend policy or disclosure of an estimate of the costs of such regulations? Why or why not?
93. Should we require disclosure that summarizes the inputs and results of the various stress testing scenarios that bank holding companies perform? For example, should we require disclosures related to DFAST and its results. Why or why not?
94. Should we require any of the disclosures recommended in the EDTF report that are not addressed specifically by Commission rules or U.S. GAAP? If so, which ones? For example, should a reconciliation of risk-weighted assets at the beginning and ending of the period be disclosed?
95. For disclosure areas already addressed by Commission rules or U.S. GAAP, should we consider any EDTF recommendations that could potentially elicit additional or better information? If so, which ones?
96. Should we expand the scope of our XBRL requirements to apply to the Guide 3 statistical tabular disclosures to facilitate investor comparison of data across BHC registrants? Why or why not?
97. If we require the Guide 3 tabular disclosures to be submitted in XBRL, are the current requirements for the format and elements of the tables suitable for tagging? If not, how should they be revised?
98. Should we require disclosure of any of the information provided in Call Reports or other regulatory filings? If so, what information and why? How should the information be presented or included in a Commission filing? Should we require hyperlinks directly to the Call Reports or other regulatory filings that are available on third-party government websites? Should it be incorporated by reference?

III. Applicability of Disclosure Requirements

A. Applicability to Registrants Other Than Bank Holding Companies

Some Commission disclosure requirements and guidance, including Guide 3, apply only to bank holding companies.²⁴³ The staff, however, has indicated that such disclosures should also be provided by other registrants with material lending and deposit activities.²⁴⁴ We are considering whether to expand the applicability of those disclosures and others discussed in this request for comment to other registrants. For example, marketplace lenders generally have material amounts of lending activities and may be exposed to some of the same risks as bank holding companies.²⁴⁵ Insurance companies and real estate investment trusts are examples of registrants that also may have material activities in the disclosure areas discussed in this request for comment. Typically registrants in those industries have material investment portfolios and in some cases have material amounts of lending activities. Therefore, we are considering whether the disclosures discussed in this request for comment should employ an activity-based scope rather than a narrow industry-based scope. For example, using an activity-based approach, the disclosures called for by Section II and certain aspects of Section I of Guide 3 could be required to the extent that investments are material to a registrant's operations, whether or not the registrant is a bank holding company.

²⁴³ General Instruction 1 to Guide 3 states that the guide applies to bank holding company Securities Act registration statements for which financial statements are required and to bank holding company registration statements on Form 10, proxy and information statements relating to mergers, consolidations, acquisitions and similar matters and reports filed on Form 10-K. Rule 9-01 of Regulation S-X indicates that Article 9 applies to consolidated financial statements filed for bank holding companies and to any financial statements of banks that are included in filings with the Commission.

²⁴⁴ See SAB 11:K.

²⁴⁵ Areya Aranoff, "BankThink Line Between Banks and Marketplace Lenders Thinner than You Think," American Banker, March 11, 2016, available at <http://www.americanbanker.com/bankthink/line-between-banks-and-marketplace-lenders-thinner-than-you-think-1079840-1.html>.

Request for Comment

99. Should the disclosures called for by Guide 3 apply to registrants other than BHC registrants in the financial services industry? Why or why not? If so, which categories of non-BHC registrants should we consider?
100. Should Guide 3 employ an activity-based approach? If so, how should the disclosures be triggered?
101. Some Guide 3 disclosures, such as short-term borrowings, employ bright-line percentages or dollar amount thresholds to trigger disclosures. While the use of thresholds provides BHC registrants with certainty and promotes consistency, it does not allow BHC registrants to apply judgment to all facts and circumstances. Would employing a principles-based approach instead of using specific quantitative thresholds improve the effectiveness of the disclosures? Why or why not? What practical issues might arise if registrants apply judgment?

B. Applicability to Foreign Registrants

Foreign registrants that qualify as foreign private issuers²⁴⁶ may present their financial statements in accordance with any of the following:

- U.S. GAAP;
- another comprehensive body of accounting with reconciliation to U.S. GAAP; or
- IFRS as issued by the IASB without reconciliation to U.S. GAAP.²⁴⁷

Foreign registrants that do not qualify as foreign private issuers must present their financial statements in accordance with U.S. GAAP and must use the same registration and reporting forms as domestic registrants. The staff has observed that most foreign registrants that are banking organizations meet the foreign private issuer definition and file their annual reports on

²⁴⁶ “Foreign private issuers” are foreign issuers (other than foreign governments) except issuers meeting the following conditions: (1) more than 50% of their outstanding voting securities are directly or indirectly owned of record by residents of the United States, and (2) any of the following: (a) the majority of their executive officers or directors are U.S. citizens or residents, (b) more than 50% of their assets are located in the United States, or (c) their businesses are administered principally in the United States. Securities Act Rule 405 and Exchange Act Rule 3b-4(c). 17 CFR 230.405 and 17 CFR 240.3b-4(c).

²⁴⁷ See Item 17(c) of Form 20-F.

Form 20-F or Form 40-F. As a result, most of the Commission disclosure requirements described in Section II of this request for comment apply to them.²⁴⁸ Instruction 6 to Guide 3 indicates that the disclosures apply to these registrants to the extent the information is available or can be compiled without unwarranted or undue burden or expense. The staff has observed that foreign registrants that are banking organizations typically provide the Guide 3 disclosures.

Because the categories and classifications specified by Guide 3 are influenced heavily by U.S. banking regulation and U.S. GAAP, some categories and classifications may not be relevant for understanding their operations. In addition, the Commission accepted IFRS without reconciliation to U.S. GAAP, for foreign private issuers, only in the last ten years, and Guide 3 was last substantively updated more than 30 years ago. Therefore, Guide 3 does not address the fact that some of its disclosures are not recognized concepts under IFRS. As a result, the staff has observed diversity in the manner in which foreign registrants that are banking organizations and file IFRS financial statements provide this information. For example, because nonaccrual is not a recognized concept under IFRS, the staff has observed disclosure of total impaired loans or disclosure of all past due loans in lieu of providing the nonaccrual loan disclosures called for by Item III.C.1 of Guide 3. Similarly, because the concept of TDRs is not recognized under IFRS, the staff has observed disclosure of all loan modifications, regardless of whether they were undertaken for credit risk management purposes or for commercial or other reasons.

Further, Guide 3 does not address the differences between U.S. GAAP and IFRS, which are significant. For example, the IASB issued a new accounting standard in July 2014, IFRS 9,

²⁴⁸ Instructions to Item 4 of Form 20-F indicate that the information specified in any industry guide that applies to the registrant must be furnished. Form 20-F Items 4, 5 and 11 require disclosures similar to Regulation S-K Items 101 (Description of business), 303 (MD&A) and 305 (Quantitative and qualitative disclosures about market risk). Form 40-F does not have a similar requirement, but the staff has observed that Canadian foreign private issuers typically provide Guide 3 disclosures in their Form 40-F filings.

that will have a significant impact on the accounting and disclosures for financial instruments. This standard differs from the FASB's two new financial instruments standards, ASU 2016-01 and ASU 2016-13.²⁴⁹ One main difference is that IFRS 9 will require a 12-month expected credit loss measurement unless there has been a significant increase in credit risk, in which case it is lifetime, whereas U.S. GAAP will require only the lifetime expected credit loss measurement. Another difference is that IFRS 9 will allow a registrant to make an election at initial recognition to present subsequent changes in fair value in other comprehensive income for particular investments in equity instruments that otherwise are measured at fair value through profit or loss. At the same time the IASB issued IFRS 9, it also amended IFRS 7 to increase the financial instruments disclosure requirements when IFRS 9 is effective. For example, after adoption of IFRS 9, the standard will require more disclosures about how registrants measure expected credit losses and assess changes in credit risk. There is still no concept of TDRs, but IFRS 7 will require disclosure about financial assets where contractual cash flows have been modified during the period.²⁵⁰

We are considering generally the applicability of the Guide 3 disclosures to foreign registrants that are banking organizations, as well as the accommodation provided to them if the information is not available or cannot be compiled without unwarranted or undue burden or expense. We also are considering whether IFRS accounting and disclosure requirements elicit disclosures that are duplicative of or substantially similar to those called for by Guide 3, or whether the disclosures called for by Guide 3 should be different for foreign registrants that are

²⁴⁹ IFRS 9, *Financial Instruments*, is effective for annual periods beginning on or after January 1, 2018 and permits early application. Both IFRS 9 and ASU 2016-13 eliminate the current incurred loss model, but each standard approaches the expected credit loss model differently.

²⁵⁰ *Id.*

banking organizations. Since there are significant differences between U.S. GAAP and IFRS, we are considering whether investors in foreign registrants that are banking organizations and that prepare their financial statements in accordance with IFRS would lose any important information if we eliminated all duplicative or overlapping Guide 3 disclosures in favor of those in U.S. GAAP.

Request for Comment

102. Should foreign registrants that are banking organizations provide the disclosures discussed in this request for comment? Why or why not?
103. Is the information called for by Guide 3 generally available to foreign registrants that are banking organizations without unwarranted or undue burden or expense such that an accommodation should no longer be provided to these registrants? Why or why not?
104. Does IFRS require the same or similar information as called for by Guide 3? If so, how is the information similar or dissimilar? Please provide a detailed comparison.
105. What concepts or disclosures called for by Guide 3 are not recognized or contradict with IFRS? Please provide a detailed list.
106. Would investors in foreign registrants that are banking organizations and that prepare their financial statements in accordance with IFRS lose any important information if we were to eliminate all Guide 3 disclosures that are duplicative of or overlap with current U.S. GAAP? If so, which information would be lost?
107. While investors do not have experience with the disclosures that will be required by IFRS 9, is there information about financial instruments under an expected credit loss model that would be useful for investors in making investment and voting decisions? If so, please indicate which and whether registrants would face any challenges in preparing and providing the information?

C. Size Thresholds and Reporting Periods

Guide 3 applies to all bank holding company registrants, regardless of size. However, Guide 3 calls for those registrants with less than \$200 million in total assets or less than \$10

million of equity to provide scaled disclosures in terms of the number of periods presented.²⁵¹

Commission rules also make certain scaled disclosures available to registrants that meet the definition of smaller reporting company and emerging growth company. Because the number of registrants eligible for scaled disclosures under those definitions is larger than the number that are eligible for Guide 3 scaled disclosures, we are considering whether the disclosures called for by Guide 3 should be scaled further.

Guide 3 currently calls for five years of loan portfolio and summary of loan loss experience data and three years of data for all other information.²⁵² In addition, Guide 3 reporting periods include interim periods only when necessary.²⁵³ Regulation S-X generally requires two years of balance sheets and three years of income statements,²⁵⁴ except that smaller reporting companies may present only two years of income statements²⁵⁵ and emerging growth companies may present only two years of financial statements for initial public offerings of common equity securities.²⁵⁶ In some instances, U.S. GAAP and/or Regulation S-X require similar disclosures to those specified in Guide 3, but for different periods. For example, Guide 3, Article 9 and U.S. GAAP all contain categorized investment portfolio disclosures, but Article 9

²⁵¹ General Instruction 3 to Guide 3 provides that registrants below the prescribed thresholds may provide disclosures for each of the past two fiscal years instead of each of the past three or five years.

²⁵² Guide 3 originally called for five years of disclosures for all items, but the reporting periods were generally reduced in 1980. 1980 Guide 3 Amendments Release.

²⁵³ Instruction 3(d) of Guide 3.

²⁵⁴ 17 CFR 210.3-01 and 3-02.

²⁵⁵ 17 CFR 210.8-02.

²⁵⁶ Securities Act § 7(a)(2)(A).

and U.S. GAAP²⁵⁷ require disclosures for the balance sheet periods presented, generally two years, while Section II.A of Guide 3 calls for three years.

Guide 3's five-year presentation of loan portfolio and allowance for loan losses data provides a basis for statistical trend analysis and identifies unusual or non-recurring events which may have affected the loan portfolio and its related provision for loan losses.²⁵⁸ Similarly, the selected financial data requirement in Item 301 of Regulation S-K²⁵⁹ that generally requires five years of information²⁶⁰ was designed to highlight historical trends in significant data relating to financial condition and results of operations over a five-year period.²⁶¹ We are considering whether the Guide 3 reporting periods, which generally are greater than most Commission disclosure requirements except for interim periods, facilitates trend analysis that investors rely upon or if the periods should be modified to be consistent with the requirements of Regulation S-X for both annual and interim reporting.

Request for Comment

108. Should the reporting periods called for by Guide 3 be modified, and if so, how? For example, should the Guide 3 reporting periods be reduced to match the Regulation S-X

²⁵⁷ ASC 320-10-45.

²⁵⁸ Information about nonperforming loans was originally proposed to cover a three-year period but was increased to five years because the staff believed the data would show trends indicative of management policies concerning non-performing loans. Guide 3 Release.

²⁵⁹ 17 CFR 229.301.

²⁶⁰ Smaller reporting companies are not required to present selected financial data. *See* Item 301(c) of Regulation S-K. Emerging growth companies are not required to present selected financial data for any period earlier than the earliest audited period presented in connection with their initial public offerings. *See* Securities Act § 7(a)(2)(A) and Exchange Act § 13(a).

²⁶¹ *See* Staff Report on Review of Disclosure Requirements in Regulation S-K (Dec. 2013) available at <http://www.sec.gov/news/studies/2013/reg-sk-disclosure-requirements-review.pdf>. *See also* Amendments to Annual Report Form, Related Forms, Rules, Regulations and Guides; Integration of Securities Acts Disclosure Systems, Release No. 33-6231 (Sept. 2, 1980) [45 FR 63630] (stating that “the Commission believes that five-year information is relevant primarily where it can be related to trends in the registrant’s continuing operations”).

requirements and the scaled disclosure requirements for smaller reporting companies and emerging growth companies?

109. Should the Guide 3 reporting periods explicitly include interim periods so investors receive the information more frequently than once a year?
110. Should we eliminate the reporting period size threshold in Guide 3? Why or why not?
111. What is the minimum number of periods an investor needs to analyze and comprehend changes in trends? Do investors need five years of information to analyze and comprehend fully changes in trends in asset quality and loan losses?
112. If the reporting periods are reduced, should BHC registrants without reporting histories or publicly available financial information provide additional years of disclosures?

IV. Closing

This request for comment is not intended to limit the scope of comments, views, issues or approaches to be considered. In addition to investors and registrants, the Commission welcomes comment from other market participants and particularly welcomes statistical, empirical and other data from commenters that may support their views and/or support or refute the views or issues raised.

By the Commission.

Dated: March 1, 2017

Brent J. Fields
Secretary