Kathleen McTighe
Senior Counsel
Office of Regulatory Policy
202-663-5331
kmctighe@aba.com

January 3, 2011

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the
Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551

Re: Proposed Agency Information Collection Activities; Comment Request 75 Federal Register 67721; November 3, 2010; FRB: FR Y-9C, FR Y-9LP

Dear Ms. Johnson:

The American Bankers Association (ABA)[1] appreciates the opportunity to comment on the proposed revisions to the FRB Financial Statements for Bank Holding Companies (BHC) FR Y-9C and FR Y-9LP,[2] as issued by the Board of Governors of the Federal Reserve System (the agency). The agency's proposed revisions to the FR Y-9C include several changes and new items to provide additional data that the agency believes are needed for reasons of safety and soundness.

***Proposed revisions to FR Y*-9C**

ABA supports, with recommended changes, the agency's proposed revisions relating to Assets Covered by FDIC Loss-Sharing (L-S) Agreements and appreciates the agency's responsiveness to industry's petition for more granular reporting information for the various categories of assets subject to FDIC loss-sharing agreements entered into with the FDIC as a result of an acquisition. As you know, ABA has frequently called for granularity in such instances to aid the users of such data to understand bank and BHC conditions more clearly.

ABA supports, with a recommendation for an instructional clarification for hybrid account life insurance products, the agency's proposed breakout of the existing data item for life insurance assets in Schedule HC-F, Other Assets, into two new data items for general and separate account life insurance assets.

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[1] The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's $13 trillion banking industry and its 2 million employees. The majority of ABA's members are banks with less than $165 million in assets. Learn more at www.aba.com.
[2] 75 *Fed. Reg.* 67721 (November 3, 2010).

ABA supports the agency's proposed collection of more detailed breakdowns in Schedule HC-K, Quarterly Averages, on securities and loan portfolios, consistent with the data currently reported on Call Report Schedule RC-K, Quarterly Averages.

ABA also supports the agency's proposed instructional guidance that would clarify that all 1-4 family residential mortgage banking activities, whether held for sale or trading purposes, are reportable in Schedule HC-P.

ABA members have expressed no concerns with many of the agency's proposed revisions. However, we urge the agency to consider including in the final revisions to the FR Y-9C and FR Y-9LP the several changes suggested below to the agency's proposed revisions. We also offer a suggestion on an issue that has not been proposed by the agency.

- <u>Troubled Debt Restructurings (TDRs)</u>: ABA recommends that the agency defer the proposed TDR revisions, including the new breakdowns by loan category, of loans that have undergone troubled debt restructurings, to coincide with the final decision on the pending FASB proposal on Troubled Debt Restructurings. ABA also strongly opposes the proposed caption changes and recommends retaining the current captions for Schedule HC-C, Memorandum item 1, and Schedule HC-N, Memorandum item 1, as "restructured" instead of changing them to "troubled debt restructurings."

- <u>Variable Interest Entities (VIEs)</u>: ABA recommends that the agency defer until the September 30, 2011, report implementation of the proposed new Schedule HC-V regarding VIEs.

- <u>Instructional Revisions Relating to Maturity and Repricing Data for Assets and Liabilities at Contractual Ceilings and Floors</u>: ABA opposes the agency's proposed instructional revisions for Schedule HC-B, Securities. ABA recommends that the agency make conforming instructional revisions for Schedule HC-H, line 1, that are consistent with the banking agencies' proposed 2011 instructional revisions for the Call Report Schedule RC-C, Loans and Leases. Thus, ABA recommends that the agency make conforming changes to the FR Y-9C to insure consistent BHC reporting with the banking agencies' proposed loan instructional revisions for the Call Report.

ABA believes these suggested changes would still allow the agency to obtain the information that it needs while avoiding some of the excess regulatory burden borne by BHCs and their customers. These points, as well as additional suggestions for improving the revisions to the FR Y-9C, are set forth below.

Discussion

ABA supports the following items:

<u>Assets Covered by FDIC Loss-Sharing (L-S) Agreements</u>
The agency proposed to distinguish existing items for loans and leases and other real estate owned (OREO) covered by FDIC loss-sharing agreements by loan categories in Schedule HC-M,

Memoranda. It also proposed to break down existing items in Schedule HC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets for reporting past due and nonaccrual U.S. Government-guaranteed loans to segregate loans and leases covered by FDIC loss-sharing agreements from other guaranteed loans. The reporting of the new breakdown of loans and leases covered by FDIC loss-sharing agreements in Schedule HC-N would include a reporting of these loans and leases using the same categories as in proposed revised data item 6.a. of Schedule HC-M.

ABA supports the agency's proposed revisions and recommends that the agency adopt the proposed loss-sharing agreements revisions.

We note that there are the following inconsistencies between what the agency proposed for the FR Y-9C loss-sharing revisions compared to the agencies' proposed 2011 revisions to the Call Report and ABA generally recommends that the FR Y-9C be consistent with the Call Report loss-sharing provisions.

- The proposed Call Report revisions for RC-N include a line item for banks to report the guaranteed portion of the total amount of covered loans and leases (75 FR 60503, column 3). This does not appear in the agency's proposed revision to Schedule HC-N (*id*. at 67725, column 3).

- On the draft 3/31/2011 forms:

    - New line 6.a.(4)(c) of Schedule **HC-M** Loans and Leases includes "consumer loans (includes single payment, installment, all student loans, and all revolving credit plans other than credit cards)," which is not included in draft Call Report Schedule **RC-M** item 13.a.(4)(c), or FR Y-9C Schedule **HC-C**, line 6. d.

    - Proposed new Schedule **HC-M** 6.b breakout categories are fewer than the **RC-M** OREO breakout categories in 13.b, and are inconsistent with the BHC categories specified in the Federal Register, which track the categories on the Call Report form. The first 4 category breakouts in each report are the same. However, new **HC-M's** fifth category is "All other," whereas the **RC-M** fifth through seventh breakout categories are: "(5) Nonfarm nonresidential properties (6) Not applicable (7) Portion of covered other real estate owned included in items 13.b (1) through (5) above that is protected by FDIC loss-sharing agreements." Thus, numbers (5) and (7) seem significant in the Call Report but are not similarly broken out in the BHC draft report. ABA recommends that the FR Y-9C be consistent with the proposed OREO Call Report provisions, especially items (5) and (7).

ABA has often advocated the value of additional, more granular information in the bank and thrift regulatory reports for the various categories of assets subject to FDIC loss-sharing agreements. ABA believes that the agency's proposed revisions, as further revised, will provide a more precise, transparent, and accurate picture of a BHC's asset quality, which will be beneficial to regulators, reporting BHCs, investors, and the public.

Life Insurance Assets

ABA supports the agency's proposed breakout of the existing data item for life insurance assets in Schedule HC-F, Other Assets, into two data items for general account life insurance assets and separate account life insurance assets.

ABA also recommends that the agency include clarification in the reporting instructions of those hybrid account life insurance products that have characteristics and attributes of both general and separate account life insurance assets.

Expanding Information Collected on Schedule HC-K, Quarterly Averages

The Agency proposed to collect more detailed breakdowns on securities and loan portfolios, consistent with information that is currently reported on Call Report Schedule RC-K, Quarterly Averages. The agency proposed to add new line item categories for securities and total loans and leases in domestic offices.

ABA supports the agency's proposed collection of more detailed breakdowns in Schedule HC-K, Quarterly Averages, on securities and loan portfolios, which are consistent with the data reported on Call Report Schedule RC-K, Quarterly Averages.

Instructional Revisions Related to 1-4 Family Residential Mortgages Held for Trading in Schedule HC-P

The agency proposed to provide explicit instructional guidance that all 1–4 family residential mortgage banking activities, whether held for sale or trading purposes, are reportable on Schedule HC–P.

ABA supports this proposed instructional clarification that all 1–4 family residential mortgage banking activities, whether held for sale or trading purposes, are reportable on Schedule HC–P since the clarification will enable consistency of reporting within this Schedule across all FR Y-9C respondents.

ABA has concerns with the following items:

Troubled Debt Restructurings (TDRs)

The agency proposed that BHCs report detailed information on loan categories that have undergone troubled debt restructurings. More specifically, it proposed to: (1) use additional loan category breakouts of existing Schedules HC-C, Loans, and HC-N, Past Due and Nonaccrual Loan Memorandum item 1. b., respectively; (2) include in the new breakout consumer loans whose terms have been modified in TDRs, which are currently excluded from reporting in the FR Y-9C; (3) exclude leases; (4) require itemization and description of restructured loans in any category of loans included in restructured "All other loans" if the amount of restructured loans in any category exceeds 10 percent of the amount of restructured "All other loans;" and (5) revise the captions for Schedules HC-C and HC-N, Memorandum item 1, respectively, to indicate that the loans to be reported are troubled debt restructurings.

ABA recommends that the agency defer the proposed TDR revisions, including the new breakdowns by loan category, of loans that have undergone troubled debt restructurings to coincide with the final decision on the pending FASB proposal on Troubled Debt Restructurings by Creditors.[3] The deferral is important in order for the FR Y-9C definition of TDRs to be consistent with the accounting standards for troubled debt restructurings.

ABA also strongly opposes the proposed caption changes and recommends retaining the current captions for Schedule HC-C, Memorandum item 1, and Schedule HC-N, Memorandum item 1, as “restructured” instead of changing them to “troubled debt restructurings.” This change in the captions, while perhaps seemingly just a technical amendment, could have significant substantive effects.

The term "Troubled Debt Restructurings," as defined by current accounting standards, reflects a population that is not necessarily the same as the regulatory definition of "Restructurings," with the former generally being a subset of the latter. If the FR Y-9C caption is changed as is being proposed, there is an increased likelihood that the amount of TDRs reported to the SEC and those reported in regulatory reports will vary and cause confusion to users of the information.

FASB is currently considering changes to the criteria for loan restructurings to qualify as TDRs. ABA recommends that, until FASB finalizes its changes, this proposed change to the FR Y-9C be deferred. Further, ABA also recommends that this proposal be evaluated in light of any new credit quality information required by ASU 2010-20: *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* that the agency may wish to include in the FR Y-9C. Such new information may diminish the necessity for the specific data requested in this proposal.

In summary, deferring the proposed TDR revisions in the FR Y-9C until the FASB revisions on TDRs are finalized would minimize confusion among BHCs and would provide consistent regulatory and FASB definitions and treatment of TDRs.

VIEs

The agency proposed new Schedule HC-V and breakdown of categories of assets of consolidated VIEs that can be used only to settle the consolidated VIE’s obligations, categories of liabilities of consolidated VIEs for which creditors have no recourse to the BHC’s general ledger, and total amounts of all other assets and all other liabilities of other consolidated VIEs included in the BHC’s total assets and liabilities.

ABA recommends that the agency defer until the report due for September 30, 2011, implementation of the proposed new Schedule HC-V and its proposed breakdown of the categories of consolidated VIEs as noted above.

Member BHCs have indicated that this additional time is needed to make necessary tracking and reporting systems adjustments to capture and report this consolidated data for all the information that BHCs would need to consolidate and report on proposed new Schedule HC-V.

[3] *See* FASB Proposed Accounting Standards Update: Receivables (Topic 310), Clarifications to Accounting for Troubled Debt Restructurings by Creditors. Comments due: December 13, 2010.

Instructional Revisions Relating to Maturity and Repricing Data for Assets and Liabilities at Contractual Ceilings and Floors

The agency proposed instructional revisions to clarify the treatment of assets and liabilities whose interest rates have reached contractual ceilings or floors. These revisions would affect reporting of maturity and repricing data in Schedule HC-B, Securities.

ABA opposes the proposed instructional revisions for Schedules HC-B, Securities. This schedule addresses other types of assets and liabilities, and the reporting may not raise the same sorts of concerns that exist with the reporting of loans as described below. Our members believe that not enough research has been completed at this time to understand the effects on certain financial institutions of reporting certain complex investment products with imbedded calls that could affect the change in a rate. Thus, ABA strongly recommends that the instructional revisions for this schedule not be revised as proposed at this time in order to avoid unintended consequences. ABA's concern with the proposed instructional revisions for Schedule HC-B, Securities, for BHCs is consistent with ABA's concern stated in its Call Report comment letter in which the ABA opposed the agencies' similar proposed instructional revisions to Call Report Schedule RC-B, Securities *(e.g.,* unintended consequences.)

ABA recommends that the agency make conforming instructional revisions for Schedule HC-H, line 1, that are consistent with the banking agencies' proposed 2011 instructional revisions for the Call Report Schedule RC-C, Loans and Leases. ABA supported the proposed instructional revisions for Schedule RC-C, part I, Loans and Leases, in its comment letter to the agencies.

ABA is concerned that the agency has not recommended conforming instructional revisions for the reporting of loans in Schedule HC-H, line 1,[4] which should be consistent with the agencies' proposed Call Report instructional revisions to Schedule RC-C, part I, Loans and Leases. ABA supported the proposed Call Report revisions for loans, and recommended that the agencies adopt the revisions to resolve concerns with the current reporting of long-term loans with rate resets at periodic intervals, subject to a contractual floor. The agency's failure to address the instructions for reporting of loans in Schedule HC–H, line 1, will create a reporting inconsistency between the Call Report and the FR Y-9C.

Although there is not a provision in FR Y-9C Schedule HC-C, similar to the provision in Call Report Schedule RC-C on this loan reporting issue, the same reporting issue appears to exist in the Schedule HC-H, line 1, reporting instructions.

Thus, ABA recommends that the agency make conforming changes to the FR Y-9C to insure consistent BHC reporting with the agencies' proposed loan instructional revisions for the Call Report.

[4] *See* BHC Schedule HC-H, Interest Sensitivity, line item 1, "Earning assets that are repriceable within one year or mature within one year" and the instructions for this line item.

We noted in our comment letter on similar proposed 2011 instructional revisions to the Call Report that "the immediate issue to be resolved concerns the reporting of long-term loans with rate resets at periodic intervals. As ABA stated in its letter to the agencies dated May 6, 2010,

> Affected loans are secured commercial real estate loans for which the interest rate periodically resets, subject to a contractual floor on the interest rate that may or may not come into effect at the time of the rate reset. For example, assume a 20-year loan that has a reset every five years tied to a spread over the amortizing Federal Home Loan Bank of New York rate and that has a floor of 6%. At the time of reset, the rate will be the higher of the rate tied to the FHLB rate or 6%.
>
> The instructions for Schedule RC-C, Part I, Memoranda Item No. 2. state:
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>> When the rate on a loan with a floating rate has **reached** a contractual floor or ceiling level, the loan is to be treated as "fixed rate" rather than as "floating rate" **until the rate is again free to float**. (Emphasis added)
>
> This instruction changes the treatment of the floating rate loan to a "fixed rate" loan. The loan would have to be recorded on Schedule RC-C, Part I, Memorandum Item No. 2.b. as a fixed rate loan that reflects the remaining <u>maturity</u> of the loan, rather than as a floating rate loan that reflects the next <u>repricing</u> date, even though the loan rate resets periodically during the term of the loan. Later, if the index moves up above the floor but the loan is still 3 years away from the reset date, the loan would now be reported as a floating rate at the next repricing date because the loan no longer complies with the instructions which read "[w]hen the rate on a loan with a floating rate has reached a contractual floor…the loan is to be treated as 'fixed rate' rather than as 'floating rate'…".

"The result is that the Call Report data create a misleading impression of the reporting bank's assets. It is not prudent to penalize, on the Call Report or the resulting UPBR report, those institutions that protected their assets in declining interest rate environments by the use of interest rate floors. An identical loan without a floor should no longer be more accurately represented on Schedule RC-C than one with a floor that protects the interest rate risk of the bank. Likewise, it is not prudent to permit the Call Report to reflect a bank's balance sheet as having 15-20 year fixed rates when the rates are reset to market every three or five years. The proposed change to Schedule RC-C, part I, Loans and Leases would address this issue."

ABA recommends clarification of instructions that will accompany the proposed new item

<u>Credit and Debit Valuation Adjustments Included in Trading Revenues</u>
BHCs with total assets of $100 billion or more would be required to report additional information for credit and debit valuation adjustments included in trading revenues for BHCs.

The agency has proposed new reporting in Schedule HI Memorandum 9.f. and 9.g., respectively, of the impact on trading revenue of changes in the creditworthiness of the BHC's derivatives counterparties on the BHC's derivative assets, and the impact on trading revenue of changes in the creditworthiness of the BHC on the BHC's derivative liabilities.

ABA recommends that the instructions that will accompany these new reporting items be explicit on what is required to be reported.

Proposed additional item that is not included the agency's proposal

<u>Inquiry Relating to Reporting Levels of Certain Items in Schedule HC-E, Deposit Liabilities</u>
ABA notes that Schedule HC-E, Deposit Liabilities, has dollar reporting levels for certain items that are not consistent with levels in Call Report Schedule RC-E, Deposit Liabilities. If the agency will revise these dollar levels in Schedule HC-E, we request that the agency provide sufficient time to allow the industry to make appropriately necessary tracking and reporting system adjustments.

Proposed revisions to FR Y-9LP

Like the recommendation above for the FR Y-9C, ABA recommends that the agency defer the proposed TDR modifications to Schedule PC-B, Memoranda item 8, and related instructions that would indicate that loans reported in the data item should be TDRs; exclude leases from the caption of the data item; and include consumer loans. ABA recommends that the deferral should coincide with the final decision on the pending FASB proposal on Troubled Debt Restructurings by Creditors. As with the FR Y-9C, the deferral is important in order for the BHC FR Y-9LP definition of TDRs to be consistent with the accounting standards for TDRs.

Conclusion

ABA appreciates the opportunity to comment on the proposed revisions included in the Proposed Agency Information Collection Activities and Comment Request and the additional issue raised in our comments.

Please contact the undersigned at (202) 663-5331 or kmctighe@aba.com if you have any questions. Thank you for considering our comments and recommendations.

Sincerely,

Kathleen P. McTighe
Senior Counsel