BANK POLICY INSTITUTE

December 4, 2020

Via Electronic Mail

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

Re: Revisions to the Financial Statements for Holding Companies (FR Y-9 reports; OMB Control Number 7100-0128) and the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b; OMB Control Number 7100-0086)

To Whom it May Concern:

The Bank Policy Institute[1] welcomes the opportunity to comment on the proposal by the Board of Governors of the Federal Reserve System to revise the Financial Statements for Holding Companies (FR Y-9 reports; OMB Control Number 7100-0128) and the Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b; OMB Control Number 7100-0086).[2]

BPI appreciates the Federal Reserve's efforts to eliminate ambiguity in reporting and to resolve issues stemming from the temporary revisions to the FR Y-9C and FR 2886b that were previously implemented under emergency approval from the U.S. Office of Management and Budget.[3] Consistent with our recent comment letters on the proposed revisions to the Call Reports and the FR 2900, FR

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

2 85 Fed. Reg. 63553 (October 8, 2020) (hereafter, the "Current Proposal").

3 *See* Board of Governors of the Federal Reserve System, June 2020 COVID-19 Related Supplemental Instructions (FR Y-9C report), *available at* https://www.federalreserve.gov/reportforms/supplemental/Final_Revised_Combined%20FR%20Y-9C%201Q2020%20and%202Q2020%20COVID-19%20Related%20Supplemental%20Instructions.pdf.

2910a, FR 2915, FR 2930,[4] our letter on the FR Y-9C and FR 2886b highlights a few areas that require further clarification from the Federal Reserve, primarily regarding the proposed revisions that would implement the Federal Reserve's amendments to Regulation D, which remove the numeric limits on monthly transfers and withdrawals from the definition of "savings deposits" (Regulation D IFR).[5] A number of the recommendations outlined in this letter would also align with further proposed revisions to the Call Report contained in the recent Joint notice and request for comment by the agencies (Call Report Joint Notice).[6] In addition, we also include recommendations regarding the *Proposed Revisions Related to U.S. GAAP* contained in the Current Proposal.

I. A depositor's eligibility to hold a NOW account should not be included in the assessment criteria to determine the reporting of savings deposits for which the six-transfer limit has been removed.

The proposed revisions to the FR Y-9C and FR 2886b would require firms, based on an assessment of certain criteria, to report savings deposits for which the six-transfer limit has been removed, as transaction accounts. Specifically, where the reporting institution has removed the six-transfer limit on an account that otherwise meets the definition of a savings deposit, the firm must report such deposits as a "transaction account" if "the reporting institution retains the reservation of right to require at least seven days' written notice before an intended withdrawal and the depositor is ***eligible*** to hold a NOW account."[7] If all other assessment criteria are met, even if a firm does not offer its clients NOW accounts, firms would be required to report savings deposits as NOW accounts, ATS accounts, or telephone and preauthorized transfer accounts (and as transaction accounts), based on a depositor's eligibility to hold a NOW account.

The proposed revisions, including the assessment criteria, correspond directly to revisions proposed in July to the Call Reports (July Call Report Proposal).[8] However, following the release of the Current Proposal, the agencies issued the Call Report Joint Notice issued which includes further modifications to the proposed revisions to the Call Reports related to the Regulation D IFR. In the Call Report Joint Notice, the agencies agreed with BPI's recommendation from the BPI Reg D Reporting Letters that a depositor's eligibility to hold a NOW account should not be included in the assessment criteria for classification as a "savings deposit" and noted that they are removing it from the assessment criteria for the Call Reports.[9] We are supportive of the removal of NOW account eligibility from the assessment criteria in the Call Reports and similarly recommend its exclusion from the assessment

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4 *See* the Bank Policy Institute Letter re: Call Report, FFIEC 101, and FFIEC 002 Revisions (September 21, 2020), available at https://bpi.com/wp-content/uploads/2020/09/BPI-Comment-Letter-re-Call-Report-FFIEC-101-and-FFIEC-002-Revisions-9-21-2020.pdf; and The Bank Policy Institute Letter re: Revisions to the Reports of Deposits: Report of Transaction Accounts, Other Deposits, and Vault Cash; Annual Report of Deposits and Reservable Liabilities; Report of Foreign (Non-U.S.) Currency Deposits; and Allocation of Low Reserve Tranche and Reservable Liabilities Exemption (October 30, 2020) (collectively, the "BPI Reg D Reporting Letters").

5 85 Fed. Reg. 23445 (April 28, 2020).

6 *See* 85 Fed. Reg. 74784 (November 23, 2020).

7 85 Fed Reg 63553 at 63556 (emphasis added).

8 85 Fed. Reg. 44361 (July 22, 2020).

9 *See* 85 Fed. Reg. 74784.

criteria on the FR Y-9C and FR 2886b.[10] Similar to the Call Report, inclusion of depositor eligibility for a NOW account as part of the assessment criteria for the reporting of deposits in the FR Y-9C and FR 2886b, as contained in the Current Proposal, would have several implications for reporting, including that the data reported would not accurately represent the manner in which the accounts transact. As an example, not all savings deposits allow for the prominent features of NOW accounts, which may include checks, debit card purchases, online bill pay or overdrafts. Additionally, as indicated in the BPI Reg D Reporting Letters, this proposed treatment of savings deposits could also create a significant shift in the balances currently reported in Schedule HC-E of the FR Y-9C and Schedule RC-E of the FR 2886b, resulting in variances in reporting from prior submissions making comparisons to prior quarters more difficult.

A further complication of including depositor eligibility for a NOW account in the assessment criteria is the difficulty for *all* firms to capture and track that information. Not all firms currently offer NOW accounts to their customers and such firms do not collect the data necessary to determine a depositor's eligibility for a NOW account and their systems are not set up to capture such data, as it is not relevant to their product offerings. Obtaining the required data would involve substantial business and system changes to flag these depositors and segment them from other savings account holders solely for the purposes of reporting, as they do not currently track any data associated with NOW accounts. Even for those firms that currently offer NOW accounts, data related to depositors' eligibility to hold such accounts is not generally tracked beyond noting which customers have such an account and which do not. As a result, firms do not have the mechanisms in place needed to differentiate those customers that are eligible to hold a NOW account (but do not currently hold a NOW account at the institution) from all others. Therefore, *all* firms, would be required to establish new processes and systems to capture this data of depositor eligibility for both new and existing customers. For these reasons, we recommend that a depositor's eligibility to hold a NOW account be excluded from the assessment criteria on the FR Y-9C and FR 2886b to determine the reporting of savings deposits for which the numeric limits on transfers and withdrawals have been removed. If the Federal Reserve accepts this recommendation, we further recommend providing clear reporting instructions with regard to the revised assessment criteria where firms have eliminated the six-transfer limit, in the absence of the criteria related to depositor eligibility to hold a NOW account.

II. The reporting revisions related to implementation of the Regulation D IFR should be consistent across reports and the effective dates of these revisions should be delayed until the second quarter of 2021.

Beyond the proposed revisions to FR Y-9C, Schedule HC-E, and FR 2886b, Schedule RC-E, the Federal Reserve, along with the other agencies, have recently proposed revisions to the Call Reports and FR 2900 to reflect the recent the Regulation D IFR.[11] While the Current Proposal's changes to savings deposits in the FR Y-9C and the FR 2886b would be consistent with those in the July Call Report Proposal, they are inconsistent with those proposed for the FR 2900. The proposed revisions to the FR 2900 would consolidate the reporting of deposits, ignoring the distinction between savings deposits and transaction accounts. On both the proposed daily and annual FR 2900, firms would be required to report

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10 While we are supportive of this removal, further clarification from the agencies with respect to the Call Report Joint Notice may be needed, specifically on the adjustments to the in the criteria assessment to determine the reporting treatment for savings deposits for which the numeric limits on transfers and withdrawals have been removed. BPI plans to submit a comment letter in response to the notice seeking such clarifications.

11 85 Fed. Reg. 44361 and 85 Fed. Reg. 54577 (September 2, 2020).

ATS accounts, NOW accounts/share drafts, and telephone and preauthorized transfer accounts together with total savings deposits (including MMDAs), without regard to additional criteria. Additionally, the proposed instructions to the FR 2900 for annual items E.1 and E.1.a indicate that "Transaction Accounts" consist of those deposits that meet the definition of savings deposits as defined in FR 2900 line item A.2.[12]

These differences in the treatment of savings deposits would require firms to report savings deposits as nontransaction accounts on the Call Reports (under the July Call Report Proposal), FR Y-9C, and FR 2886, while the same deposits would be classified as transactional on the FR 2900. For example, if a firm has a savings account where the reservation of right to require at least seven days' written notice before an intended withdrawal is maintained, but the firm has suspended the enforcement of the six transfer limit rule on the account, and the depositor is *not* eligible to hold a NOW account, under the Current Proposal, the firm would report such account as nontransactional on the FR Y-9C and the FR 2886b. However, this same account under the Federal Reserve's recent FR 2900 proposal would still meet the definition of a savings deposit in the proposed instructions for Line item A.2 Other liquid deposits and would thus qualify to be reported as a transaction account which would be included in the annual items E.1 Reservable Liabilities and E.1.a Net Transaction Accounts.

Further, even if the Federal Reserve accepts our recommendation outlined in Section I above to eliminate a depositor's eligibility to hold a NOW account from the assessment criteria to determine the reporting of savings deposits for which the six-transfer limit has been removed, there would still be differences in deposit classification across reports. If a firm has not removed the six-transfer limit on a savings account, the savings deposit would be reported as nontransactional in Schedule HC-E, Line items 1(c) and 2(c) Money market deposit accounts and other savings accounts of the FR Y-9C and would be categorized in the same fashion on the Call Reports (either under the July Call Report Proposal or the Call Report Joint Notice)[13] and FR 2886b. The same account would nevertheless still meet the definition of a savings deposit and since it is not explicitly excluded from the FR 2900 transaction account definition from line item A.2, it would also be reported as a transaction account in FR 2900 annual items E.1 and E.1.a.

As we have highlighted in the BPI Reg D Reporting Letters, interseries differences across reports with respect to the classification of savings deposits as transactional on certain reports and nontransactional on others, would ultimately lead to a number of challenges and an associated increase in burden for respondents. Inconsistencies in the classification of accounts, such as the proposed treatment of savings deposits, create burden by eliminating efficiencies such as the potential for cross-report reconciliation. These differences in reporting not only establish a need for separate processes and controls for reporting a similar population of data, but also for additional systems builds to ensure firms follow proper change management protocols. For these reasons, we recommend that the agencies better align the proposed FR Y-9C, FR 2886b, Call Report and FR 2900 reporting, so that savings deposits are classified consistently as transaction or nontransaction accounts across reports, in order to avoid unnecessary burden, consistent with the recommendations previously made in the BPI Reg D Reporting

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12 *See* Board of Governors of the Federal Reserve System, Draft Report of Deposits and Vault Cash. Reporting Form FR 2900 at page 63, *available at* https://www.federalreserve.gov/reportforms/formsreview/FR%202900%20Draft%20Instructions_commercial_banks.pdf.

13 As noted in Section I above, we appreciate the agencies removing the depositor's eligibility to hold a NOW account from the assessment criteria from the Call Reports. However, as further clarification with regard to this change is needed, we have not addressed it in detail in this section.

Letters. We understand that these reports all serve different purposes and therefore there are varied levels of reporting granularity required, and are not recommending that the Federal Reserve and the other agencies match the line items on one report to those of another report. In order to assist with consistent classification across reports, we also recommend that the Federal Reserve provide clear and consistent definitions of "savings deposit," "transaction account," and "nontransaction account."

With respect to the proposed effective dates of any changes to the FR Y-9C and FR 2886b, the Current Proposal, along with the other recently proposed reporting changes to implement the Reg D IFR, would create a misalignment across the various impacted reports. The Current Proposal would make these revisions to the FR Y-9C and FR 2886b, related to the Regulation D IFR, effective as of the December 31, 2020 report date. The corresponding revisions proposed to the Call Reports, however, would be effective the first quarter of 2021[14] and the relevant revisions proposed to the FR 2900 and FR 2915 would take effect with the report as-of dates April 12, 2021, and June 21, 2021,[15] respectively. While the BPI Reg D Reporting Letters did not include comments on timing, the subsequent proposals related to the treatment of deposits and comparable populations of data, have varied effective dates that would benefit from alignment. Varied implementation timelines for similar populations of data can create burden for firms similar to those issues associated with interseries differences across reports as outlined above and discussed in greater detail in the BPI Reg D Reporting Letters.

As a result of these challenges, we encourage the Federal Reserve and the other agencies to further align the implementation timelines of these revisions across the various reports. We recommend that the proposed revisions resulting from the Regulation D IFR to the Call Reports, FR Y-9C, and the FR 2886b be delayed until the second quarter of 2021, thus better aligning with the proposed effective dates of the FR 2900 and FR 2915. Such change would align the timing of the revisions to the treatment of deposits across reports, while also giving firms additional time to implement any further changes made by the Federal Reserve and other agencies in light of the various comments received in response to the reporting proposals that have been recently put out for comment, as well as those currently proposed that would require substantial time to implement.

III. Further clarification, in line with the guidance offered in the Call Report Joint Notice, is needed with regard to the reporting of retail sweeps arrangements on the FR Y-9C.

The Current Proposal and proposed instructions to the FR Y-9C, much like the July Call Report Proposal, do not offer any additional guidance on the reporting of retail sweep arrangements as a result of Federal Reserve's elimination of reserve requirements on transaction accounts outside of the removal of language related to the six transfer limits. In light of the proposed revisions that would require firms to report certain savings deposits as transaction accounts in the event that the respondent firm has suspended the numeric limits on transfers and withdrawals, it is unclear how firms should treat the nontransaction or savings deposit components of a retail sweep arrangement. Without further guidance, it is not clear if firms should continue to report these nontransaction components or savings deposits of the sweeps arrangements as nontransaction accounts, or if firms should adhere strictly to

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14 *See* 85 Fed. Reg. 44361 (July 22, 2020) and 85 Fed. Reg 74784.

15 *See* Board of Governors of the Federal Reserve System, Supporting Statement for the Reports of Deposits: Report of Transaction Accounts, Other Deposits, and Vault Cash, Annual Report of Deposits and Reservable Liabilities, Report of Foreign (Non-U.S.) Currency Deposits, and Allocation of Low Reserve Tranche and Reservable Liabilities Exemption (FR 2900, FR 2910a, FR 2915, and FR 2930; OMB No. 7100-0087), *available at* https://www.federalreserve.gov/reportforms/formsreview/FR%202900%20OMB%20SS.pdf.

the proposed assessment criteria for the treatment of accounts where the transfer limit has been removed

In the Call Report Joint Notice, the agencies provided additional guidance as to the treatment of sweep arrangements in the Call Reports in light of the Regulation D IFR. The Call Report Joint Notice states that the agencies have modified the description of retail sweep arrangements by removing references to transaction and nontransaction components. It also includes that "institutions should not follow the proposed assessment criteria for the treatment of accounts for which the transfer limit has been removed. Instead, institutions that offer valid retail sweep programs should report each component of the retail sweep arrangement based on the customer account agreement established by the depository institution."[16]

We support these proposed modifications in the Call Report Joint Notice and recommend that the Federal Reserve extend these changes to the FR Y-9C. We also ask that the Federal Reserve confirm that the clarification provided with respect to the Call Reports is also applicable to the reporting of sweep arrangements in the FR Y-9C. Conforming the FR Y-9C to the Call Report, as well as the confirmation sought herein, would provide the necessary clarity on the reporting of the components of retail sweep arrangements needed by respondent firms.

IV. The proposed revisions permitting firms to report provisions for expected credit losses on off-balance-sheet credit exposures as part of the total amount of institutions' provisions for credit losses in Schedule HI of the FR Y-9C should be extended to the other reports tying to the FR Y-9C, including the FR 2314, FR 2886b, FR Y-11, FR 2644, and Schedule G of the FR Y-14Q.

The Federal Reserve is proposing revisions to the FR Y-9C, consistent with those recently proposed to the Call Reports, whereby the instructions to the FR Y-9C would be changed to direct institutions that have adopted Accounting Standards Update No. 2016-13, Topic 326, Financial Instruments—Credit Losses (Topic 326) to report provisions for expected credit losses on off-balance-sheet credit exposures as part of the total amount of institutions' provisions for credit losses (PCL) in Schedule HI, item 4. Additionally, the Current Proposal would add a new Memorandum item 7, ''Provisions for credit losses on off-balance-sheet credit exposures,'' to Schedule HI–B, Part II, Changes in Allowances for Credit Losses. However, conforming revisions related to provisions for expected credit losses on off-balance-sheet credit exposures have not yet been proposed to the Legal Entity Reports, FR 2644, and Schedule G of the FR Y-14Q,as well as to those other reports that also link to the FR Y-9C.

A number of required regulatory reports, including, but not limited to, the FR 2314, FR 2886b, FR Y-11 (Legal Entity Reports), FR 2644, and FR Y-14Q (PPNR Schedule), either anchor implicitly or explicitly to the FR Y-9C. For example, the current instructions to the FR Y-11 state that firms "should refer to the instructions for the preparation of the Consolidated Financial Statements for Holding Companies (FR Y-9C) or the Parent Company Only Financial Statements for Small Holding Companies (FR Y-9SP) for additional information on the items requested on this report."[17]

In light of the linkages between these reports and the FR Y-9C, absent corresponding proposals extending the requirement for firms to report provisions for expected credit losses on off-balance-sheet credit exposures as part of the total amount of institutions' PCL and the relevant additional memorandum item, the Current Proposal would create significant misalignment with the Legal Entity

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16 85 Fed. Reg. 74784 at 74789.

17 Board of Governors of the Federal Reserve System, INSTRUCTIONS FOR PREPARATION OF Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies FR Y-11 and FR Y-11S, *available at* https://www.federalreserve.gov/reportforms/forms/FR_Y-11--FR_Y-11S20190331_i.pdf.

Reports, FR 2644, FR Y-14Q and those other reports that tie to the FR Y-9C. These types of misalignment not only erode the transparency of data provided but also inherently increase reporting burden, as respondents need to develop cross report reconciliations. We do not believe this break in reporting is intentional and would therefore recommend that the Federal Reserve propose corresponding amendments to the Legal Entity Reports, FR 2644, FR Y-14Q, as well as any other reports that have linkages to the FR Y-9C with regard to these line items. Further, we recommend that any proposals to related reports regarding these U.S. GAAP revisions that would produce conformity with the FR Y-9C and the Call Reports, have the same effective date as those for the FR Y-9C and the Call Reports. Consistency in the timeline would prevent any the burden associated with implementing reporting revisions of the same population of data across reports at differing times.

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The Bank Policy Institute appreciates the opportunity to provide these comments and would welcome the opportunity to discuss them further with you. If you have any questions, please contact the undersigned by phone at 646-736-3943 or by email at Alix.Roberts@bpi.com.

Respectfully submitted,

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