August 6, 2024

Via Electronic Mail

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

Re: FR Y-9 OMB No. 7100-0128 Revisions; FR 2886b OMB No. 7100-0086 Revisions

To Whom It May Concern:

The Bank Policy Institute[1] welcomes the opportunity to respond to the joint notice and request for comment issued by the Board of Governors of the Federal Reserve System regarding revisions to the Financial Statements for Holding Companies (FR Y-9)[2] and Consolidated Report of Condition and Income for Edge and Agreement Corporations (FR 2886b).[3] BPI is very supportive of the proposed revisions to the Y-9 and FR 2886b in replacing TDRs, which are no longer recognized following the adoption of Accounting Standards Update No. 2022-02,[4] with modifications to borrowers experiencing financial difficulty (MBEFD) reported in accordance with U.S. GAAP. BPI previously submitted comments to the FFIEC and Federal Reserve regarding the importance of conforming reporting standards with U.S. GAAP including in the FR Y-9 series and the Call Reports[5] and we appreciate that these comments appear to

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

2 89 Fed. Reg. 48637.

3 89 Fed. Reg. 48644.

4 FASB, Accounting Standards Update No. 2022-02, available at https://www.fasb.org/Page/ShowPdf?path=ASU+2022-02.pdf.

5 BPI, *Call Report and FFIEC 002 Revisions OMB Control No: OCC 1557-0081, FRB 7100-0036, FDIC 3064-0052 and FR Y-9 Report Revisions OMB Control No: 7100-0128*, available at https://bpi.com/bpi-comments-on-banking-agencies-proposed-revisions-to-call-reports-and-fr-y-9/

have been considered for the current FR Y-9 and FR 2886b proposal. It is critical that any regulatory reporting requirements for MBEFDs remain aligned with existing U.S. GAAP standards. Our comments herein are intended to reinforce this view and highlight the complexities that would arise if the reporting requirements for other regulatory reporting forms are not aligned with the proposed treatment on the FR Y-9 and FR 2886b. Our comments also request that the Federal Reserve propose and implement changes to the reporting of nonpurpose margin loans and NDFI data on the FR Y-9C in line with the recent Call Report proposal[6] and that the proposed changes to the definition of 'Past Due' are aligned between the FR Y-9, FR 2886b and the Call Reports and are implemented concurrently.

I. The proposed FR Y-9 and FR 2886b reporting for MBEFDs should be finalized as proposed, aligned with the U.S. GAAP and SEC reporting requirements.

ASU 2022-02 eliminated the recognition and measurement guidance for TDRs for institutions that have adopted CECL and introduced new disclosure requirements for MBEFDs. Prior to the adoption of CECL, a TDR had a different credit loss recognition measurement than other loans; however, under CECL, all loans are measured under a lifetime loss recognition model and therefore separate TDR accounting is no longer needed. The new FASB standard, established in ASU 2022-02, requires the disclosure of the type and financial effect of MBEFDs for the current reporting period, and receivable performance in the 12 months following a modification.[7] We are supportive of Federal Reserve's efforts in this proposal to "align with the definition of loan modifications to borrowers experiencing financial difficulty, as described in Accounting Standards Update 2022-02, "Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures."[8]

As currently proposed, the reporting changes for the FR Y-9 and FR 2886b would require banks to report MBEFDs for only those modifications which occurred in the previous 12 months. We strongly endorse this proposed requirement, which would provide proper insight into the risk profile of existing MBEFDs in accordance with U.S. GAAP and align with how banks have been managing MBEFDs to date. Further, we would ask that the Federal Reserve implement and endorse this approach across all regulatory reporting forms, including working with the other agencies to incorporate this standard into the Call Reports. This would avoid the need for different reporting standards across regulatory reports, which would introduce significant burden on firms by introducing complexity and requiring firms to have dual reporting systems processes. Firms are currently reporting in accordance with U.S. GAAP for SEC reports and therefore these systems are already in place.

A. The FR Y-9C's definition of MBEFDs should align with the U.S. GAAP definition and not scope in any additional modifications.

In accordance with alignment with U.S. GAAP, BPI supports the proposed FR Y-9C glossary definition of 'Loan Modifications to Borrowers Experiencing Financial Difficulty' and related draft

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BPI, *Call Report and FFIEC 002 Revisions; OMB Control No: OCC 1557-0081, FRB 7100-0036, FDIC 3064-0052, FFIEC 7100–0032,* available at https://bpi.com/bpi-recommends-call-report-changes-to-address-troubled-debt-restructuring/
See letter titled *Reporting of MBEFD for Q1 2024 Call Reports and FR Y-9C* from BPI dated April 30,2024.

6 88 Fed. Reg. 89489.

7 FASB, *supra* note 4 at 12.

8 *Supra* note 2.

instructions, which state that "the accounting standards for loan modifications to borrowers experiencing financial difficulty are set forth in ASC Topic 326, Financial Instruments – Credit Losses and ASC Topic 310, Receivables. ASC Subtopic 310-10 requires modifications of receivables to borrowers experiencing financial difficulty where the modification results in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension (or a combination thereof) to be disclosed for financial reporting purposes."[9] This proposal also indicates the desire to align with U.S. GAAP when it proposed to revise the FR Y-9C to "align with the definition of loan modifications to borrowers experiencing financial difficulty as described in [ASU] 2022–02."[10] The four modifications included in the proposed FR Y-9C definition are appropriately aligned with the treatment under U.S. GAAP. It would be helpful for the Federal Reserve to explicitly confirm this definitional alignment with U.S. GAAP and therefore limit the population of MBEFDs for regulatory reporting purposes to those four modifications.

B. The reporting period for MBEFDs in the FR Y-9C and FR 2886b is properly aligned to the 12-months required by U.S. GAAP and any divergence from this in other reporting forms would result in significant operational burden for banks, without any substantial corresponding benefit.

Although BPI is supportive of the definition of 'Loan Modifications to Borrowers Experiencing Financial Difficulty' and the reporting timeline in the proposed FR Y-9C and FR 2886b instructions, we urge the Federal Reserve, as part of the FFIEC, to implement these standards across other reporting forms, such as the Call Reports. As proposed, the reporting standard for MBEFDs "includes only those modifications which occurred in the previous 12 months."[11] As expressed in our prior letters,[12] this standard correctly avoids a RAP-GAAP difference and reduces burden on firms by aligning to current reporting practices. The Federal Reserve should not diverge from this 12 month U.S. GAAP standard on other forms as it would impose significant costs and burdens to financial institutions that are not justified by any commensurate benefit.

Aligning the Call Reports and the FR Y-9 with U.S. GAAP would align with current practices and reduce the burden on firms by eliminating the need to develop and maintain dual processes.

As noted, following the adoption of ASU 2022-02 and CECL, firms have sunset their TDR reporting, including decommissioning the related reported reporting systems and fully transitioned to reporting MBEFDs in alignment with U.S. GAAP. Throughout 2023, in the absence of a final rule from the FFIEC and Federal Reserve, firms have reported MBEFDs on the Call Report and FR Y-9C in accordance with the quarterly supplemental instructions for each form. For each quarter, the FR Y-9C instructions have stated "for FR Y-9C reporting purposes, holding companies should report all loans modified since adoption of the new standard to borrowers experiencing financial difficulty that are performing in

9 Federal Reserve, *Redlined Draft FR Y-9C Instructions*, available at https://www.federalreserve.gov/apps/reportingforms/Download/DownloadAttachment?guid=A01DBC1A-4555-4B05-B2D0-EE64B19BDF2A, at 26.

10 *Supra* note 2.

11 *Supra* note 9 at 4.

12 *Supra* note 5.

accordance with their modified terms on Schedule HC-C, Part I, Memorandum items 1.a. through 1.g." [13] Similar language was provided for the Call Report quarterly supplemental instructions as well. [14] Importantly, for all quarterly reports in 2023, these instructions were aligned with U.S. GAAP reporting as the replacement of TDRs with MBEFDs was effective as of January 1, 2023 and therefore there was no discrepancy between cumulative reporting of MBEFDs and use of a 12 month lookback period. This view is further supported by the March 2024 FR Y-9C Supplemental Instructions,[15] which explicitly stated that "respondents that report loan modifications to borrowers experiencing financial difficulty may use any lookback window that extends at least 12 months (e.g., respondents may report modifications in a manner that is consistent with U.S. GAAP financial statement disclosures[)]."[16] This explicit guidance for the FR Y-9C, considered with revisions made to the Call Report Supplemental Instructions and the lack of a cumulative reporting requirement in the 2023 TDR Replacement Call Report Proposal, is consistent with the interpretation that firms are able to report MBEFDs using a 12 month lookback window, consistent with U.S. GAAP for the reporting of MBEFDs on the FR Y-9C and the Call Reports. Therefore, a reporting standard aligned with U.S. GAAP would be relatively straightforward for the banks to implement given current reporting practices and would provide the Federal Reserve with the same pertinent information identified by the FASB in their financial reporting standard. As such, we appreciate the Federal Reserve proposing a reporting standard consistent with GAAP and current firm behavior for the FR Y-9 and urge them to advocate for the same 12 month lookback window for MBFED reporting across other regulatory reporting forms.

In addition, an approach that creates alignment between other regulatory reports, such as the Call Reports, and the FR Y-9 would promote consistency across reports and eliminate the need for dual processes. This singular approach would greatly reduce the operational burden on firms as noted in the prior BPI comment letters.[17] Further, a standardized approach aligned with the FR Y-9 proposal and U.S. GAAP would allow institutions to allocate resources more efficiently and focus on accurate and reliable data collection rather than managing multiple reporting criteria. This would also improve data accuracy and comparability, as consistent reporting standards across different reports ensure that financial data is accurate and comparable, benefiting regulators, investors, and other stakeholders who rely on this information for decision-making.

The system alterations required to comply with different MBEFD reporting requirements between reporting forms would be a significant burden

On the other hand, should other regulatory reporting forms, such as the Call Reports, fail to properly align to the FR Y-9C and GAAP 12 month lookback period for MBFED reporting, this would impose significant costs and other burdens on institutions as their systems are not structured for this

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13 Federal Reserve, *December 2023 Y-9C Supplemental Instructions*, available at https://www.federalreserve.gov/apps/reportingforms/Download/DownloadAttachment?guid=e84c65ce-db25-4951-8ab6-23a8f5021a74.

14 Federal Reserve, *December 2023 Call Report Supplemental Instructions*, available at https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_FFIEC041_FFIEC051_suppinst_202312.pdf.

15 Federal Reserve, *March 2024 Y-9C Supplemental Instructions,* available at https://www.federalreserve.gov/apps/reportingforms/Download/DownloadAttachment?guid=9efc2448-46e1-4870-870b-b08e8c55e39e.

16 *Id* at 2.

17 *Supra* note 5.

type of reporting. As detailed above, given that firms' systems are currently aligned to the Y-9 proposal and GAAP, the development of a new reporting system and the subsequent maintenance of dual reporting systems would be required if other regulatory forms choose a different implementation of MBEFD reporting. As with any reporting change that requires the development of new reporting systems, processes and controls, firms would require significant time to effectively implement these changes to complete the proper system builds, testing and verification, in accordance with the expectations of the FFIEC, Federal Reserve and the firms. Therefore, in order to incorporate a different standard that is not aligned to U.S. GAAP into other forms, firms would need to make numerous technology changes to review, source, and compile data; such updates, reviews, and data sourcing are time consuming processes. Additionally, once firms have determined that they can appropriately source the necessary data, they must then adjust internal policies and change databases to create new fields to collect and validate the relevant information for the purposes of this non-GAAP compliant reporting. Further, these adjustments to current reporting processes necessitate the modification of reporting controls and data governance procedures, all of which will need to be tested so they can be operational and fully compliant with the standards of the FFIEC, Federal Reserve and firms prior to the effective date.

Further, firms will have to maintain this second system alongside the existing system aligned to the Y-9 as proposed and U.S. GAAP, which increases inefficiencies and costs. This would require separate tracking, monitoring, and reporting mechanisms for each report, increasing the complexity and workload for financial reporting teams. These dual practices inherently increase the costs associated with reporting as firms must allocate additional resources, both in terms of personnel and systems infrastructure, to handle the divergent reporting requirements effectively. This additional financial and reporting burden would not be commensurate with any perceived benefit. In fact, divergence in reporting standards may cause confusion among stakeholders, including regulators, investors, and analysts, who rely on consistent and comparable data for decision-making. It is crucial to maintain uniformity across different regulatory reports to ensure clarity and reliability of the financial information.

As such, we urge the Federal Reserve to implement the revisions to MBEFDs on the FR Y-9 as proposed and, as a member of the FFIEC, finalize the proposed changes to the Call Reports to align reporting with the 12-month lookback reporting standard for MBEFDs. Disparate reporting standards would create immense burden on firms and necessitate the development of and maintenance of dual processes. <u>However, in any event, the Federal Reserve should not modify the proposed FR Y-9 revisions to bring the reporting in line with the outstanding proposal on the Call Reports.</u>

II. The FR Y-9 and FR 2886b proposed definition of Past Due Loans should be implemented consistently with the Call Reports and be effective concurrently.

BPI is supportive of the Federal Reserve's efforts to define 'Past Due' to improve the consistency of reporting across institutions; however, there are outstanding concerns with the changes to the definition found in the May 2024 Call Reports notice that "the agencies have deferred any proposed changes in order to conduct further review."[18] BPI previously commented on these proposed changes to

[18] 89 Fed. Reg. 45046.

the definition of Past Due on the Call Reports, and retains the concerns expressed in that letter.[19] Specifically, that the Agencies should confirm that loans that are current and in the process of restructuring do not meet the definition of past due, in alignment with the definition found in the proposed Call Report instructions and current standards. Given that no changes to the Past Due definition were finalized on the Call Reports, and the Federal Reserve is proposing to implement the same definition on the FR Y-9C and FR 2886b, we ask that the Federal Reserve implement any changes to the definition of Past Due on the FR Y-9 and FR 2886b once these reports are properly aligned. As detailed above with respect to the reporting of MBEFDs, alignment between the FR Y-9C and other regulatory reporting forms, such as the Call Reports, greatly reduces the burden on firms and reduces the need for the maintenance of dual processes. Considering the burden of misalignment and outstanding concerns with this definition on the Call Reports, these proposed changes to the definition of Past Due for the FR Y-9 and FR 2886b should be implemented concurrently with the corresponding changes to the Call Reports and incorporate our feedback into the revised definition.

III. The FR Y-9C should revise the reporting of nonpurpose margin loans in Schedule HC-C, Line 9.b.(1) consistent with the recent Call Report proposal.

It is critical that the Federal Reserve implement changes requiring all non-purpose loans to be reported in Schedule RC-C Line 9.b.(1). This revision to the reporting of non-purpose loans in Schedule RC-C Line 9.b.(1) was proposed by the Agencies in the recent Call Reports Proposal[20] with an effective date of December 31, 2024. The substance of the proposed revisions is heavily supported by our prior comments, which also contain further refinements to the reporting as proposed.[21] As noted by the Agencies this would simplify loan reporting practices for firms, and also further the Agencies' stated intention to increase transparency and consistency in reporting of these items by "group[ing] together loan exposures that exhibit similar underlying risk characteristics."[22] Further, the Agencies expressed that reporting non-purpose loans in Line 9.b.(1) "would allow for more accurate analysis of bank financial statements for applicable institutions and performance metrics." These goals are broadly applicable across other regulatory reports, including the FR Y-9C, where the same benefits of increased transparency and accuracy could be achieved through this same revision. Also, this adjustment to non-purpose loan reporting is critical to firms as it would bring these forms into further alignment which, as discussed, would allow greater efficiency for firms, reducing burden and the need to maintain multiple reporting systems. With this in mind, similar changes should be proposed and implemented to the reporting of all non-purpose loans on the FR Y-9C Schedule HC-C Line 9.b.(1). However, we continue to urge the Agencies to remove the condition that requires those non-purpose margin loans be

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19 BPI, *Call Report and FFIEC 002 Revisions; OMB Control No: OCC 1557-0081, FRB 7100-0036, FDIC 3064-0052, FFIEC 7100–0032*, available at https://bpi.com/bpi-recommends-call-report-changes-to-address-troubled-debt-restructuring.

20 *Supra* note 18.

21 BPI, *Call Report and FFIEC 002 Revisions*, available at https://bpi.com/wp-content/uploads/2024/02/BPI-Comment-Letter-Call-Report-and-FFIEC-002-Revisions.pdf
BPI, *Call Report and FFIEC 002 Revisions, OCC 1557-0081*, available at https://bpi.com/bpi-responds-to-banking-regulators-call-report-revisions/

22 *Supra* note 6.

predominately secured by securities with readily determinable fair values, in line with our prior comments.[23]

IV. The FR Y-9C should also be modified to align the reporting of NDFI data consistent with our comments on the recent Call Report proposal.

In order to further align the FR Y-9C with the Call Reports, the Federal Reserve should propose and implement the reporting changes for nondepository financial institutions (NDFI) data consistent with our comments[24] on the recent Call Report proposal.[25] Specifically, to ensure consistency between the two forms, the instructions for FR Y-9C Schedule HC-C should be aligned with the recent NDFI revisions to the Call Report Schedule RC-C. As the current FR Y-9 proposal does not include any changes for NDFI reporting, this would create inconsistencies for reporting across the Call Report and FR Y-9C. Similar to the prior discussion on MBEFD reporting, this misalignment would create inconsistencies and additional complexities in reporting, potentially leading to errors and inefficiencies. Additionally, it would require the maintenance of dual processes, as the FR Y-9C would necessitate use of the existing system, while the Call Reports operate on a newly developed and modified system. On the other hand, if the Federal Reserve were to propose and implement the NDFI reporting changes, aligning the FR Y-9C and Call Report, this would maintain the existing reporting processes and reduce the burden on financial institutions.

V. The proposed effective date as of December 31, 2024, would not be possible and the effective date should be aligned with the Call Report and Y-14 changes, four quarters after final forms and instructions are available for all reports.

As detailed above, with any reporting change that requires the development of new systems, processes and controls, firms require significant time to effectively implement these changes to complete the proper system builds, testing and verification, in accordance with the expectations of the Federal Reserve and firms. Such adjustments to current practices and processes would necessitate the modification of reporting controls and data governance procedures, all of which will need to be tested to make them operational and fully compliant prior to the effective date.

Further, alignment across reporting forms is critical for firms' reporting systems and governance processes. There are currently outstanding proposals on the FR Y-9C, Call Reports and FR Y-14 that, while they generally cover similar subject matter, are not consistent in either the reporting or effective dates for the outstanding changes. Further, there are significant clarifications required to address outstanding questions from respondents and further align these forms. It is crucial that firms are able to implement these changes across their reporting systems on the same timeline to allow firms reporting systems to function normally without significant manual adjustments. However, to the extent that the Federal Reserve and the Agencies implement changes in accordance with SEC reporting, consistently across reports and in line with BPI's comments, some firms may be able to implement the revisions more quickly and should be permitted to early adopt the new standard on an earlier timeline [(e.g. as of

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23 *Supra* note 21.
24 *Id*.
25 *Supra* note 6.

December 31, 2024)]. As stated above, allowing firms to remain consistent with reporting across their regulatory reports would significantly ease implementation burden.

The Federal Reserve should work with the other agencies to align these forms in both substance (where applicable) as well as effective dates. Implementation should be mandatory no earlier than 4 quarters following the issuance of final forms and instructions for these proposed changes to the FR Y-9 and the other outstanding revisions that must be made to the Call Reports and FR Y-14. However, as some firms may be able to implement the revisions on an earlier timeline, firms should be permitted to early adopt the new standard as of December 31, 2024.[26]

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BPI appreciates the opportunity to comment on the proposal. If you have any questions, please contact the undersigned by phone at 202.589.1932 or by email at jack.stump@bpi.com.

Respectfully submitted,

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

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[26] If the Call Report and Y-9C were aligned.