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Federal Deposit Insurance Corporation
(Submitted For Comment Online)

To Whom It May Concern:

The purpose of this letter is to provide comment on the proposed amendments to the Call Report, via revisions to FFIEC 051, FFIEC 041, and FFIEC 031, published in the Request for Comments on 6/27/2017. Document Citation: 82 FR 29147. Document Number: 2017-13442.

The focus of our comments concerns changes we suspect are forthcoming to the regulatory framework and restrictions on ownership of common stock for investment. Those restrictions are contained in FDIC regulation 362.3. We suspect such changes are forthcoming due to the changes in Call Report information gathered that make tracking compliance with 362.3 impractical if not impossible.

We believe the existing regulatory framework governing common stock investment is thoughtful and has served the interests of banks and Safety and Soundness very well. Under 362.3, such investments are limited to portfolios measured at cost, to no more than 100% of Tier 1 Capital, and Tier 1 Capital does not include unrealized gains on such investments. Neither the cost basis nor capital measure are volatile numbers since neither number changes purely by virtue of every wiggle in the market value of stocks.

It appears to us the GAAP accounting change forcing every small change in market price of stock investments through the income statement creates needless volatility in earnings. In both up markets and down this serves no one's interests. This will not properly reflect core earnings from banking operations. We applaud the regulatory response to this issue by providing a clear distinction in the income statement between core earnings, and phantom "earnings" derived from changes in the market value of stocks.

However, it also appears that Tier 1 Capital calculations will be changed. Rather than seeing unrealized gains deducted from capital as part of the calculation to derive Tier 1, that deduction disappears as unrealized gains become a non-existent concept under the new accounting. The impact of this change is that Tier 1 Capital sees an immediate and potentially significant increase for banks who have carefully built a portfolio with gains. Suddenly this becomes a volatile number. In short, neither the capital measure nor the cost measure will be captured in Call Reports and UBPR's, and measurement of compliance under 362.3 cannot be accomplished from these information sources.

Interpretation of both the income statement and balance sheet are important needs for a wide array of audiences, not just regulatory agencies. Tracking financial performance and risk should not be limited to information obtained onsite from non-published information. Certainly banks and regulatory agencies will continue to have access to the information necessary to track compliance under 362.3 regardless of any changes made to Call Reports. But that fails to serve the needs of any other audience, including ratings services who publish their safety and soundness ratings, which is a valuable service to the public at large.

While we absolutely disagree with the GAAP accounting change for unrealized gains, we also appreciate the fact regulatory agencies do not control that. Rather, agencies must fashion a response to the change in GAAP.

In our opinion, all interests are best served by:

1. Preserving the ability of all readers and analysts to measure financial performance and conditions both with and without the effect of phantom income from changes in market value, and provide full transparency.
2. Making the changes to the income statement as proposed.
3. Provide differentiation that does not appear to be proposed, to components of capital that differentiates between capital from changes in unrealized gains and the remaining components of capital.
4. Retain the current measurement of Tier 1 Capital, by finding the accounting means to deduct unrealized gains from other capital in making that calculation.
5. From those changes above, retain the regulatory construct of 362.3, as it currently exists.

While only a subset of banks is empowered to invest in common stocks, it is also true that this number is sizeable, and those banks have an extended history of managing this activity successfully through up markets and down. Regulation 362.3 has served all interests well under a non-volatile Tier 1 Capital measure against a non-volatile cost measure. This should be retained unchanged, and all accounting information needs required to measure compliance under it should be retained.

Sincerely,

[redacted]

F. Winfield Trice, Jr. [redacted]
President, CEO and Treasurer