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 2314, FR 2314S Y-11, Y-11S; OMB No. 7100-0073 Revisions

To Whom It May Concern:

The Bank Policy Institute[1] welcomes the opportunity to respond to the joint notice and request for comment by the Board of Governors of the Federal Reserve System regarding revisions to the Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314) and the Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies (FR Y-11).[2] BPI is supportive of the proposed revisions to the FR Y-11 and FR 2314 that would align the reporting of modifications to borrowers experiencing financial difficulty (MBEFD) to U.S. GAAP. We are also supportive of using the FR 2314 and FFIEC 030 to collect data currently collected in the FR 2502q. However, we have concerns that the current proposal would serve to significantly increase the burden on covered entities both for initial implementation and on an ongoing basis, as opposed to the FFIEC 030 proposal's determination that shifting the FR 2502q items to these forms "would reduce overall respondent burden."[3]

Our comments herein are aimed at aligning the scope of entities that would be required to provide the proposed new items on Schedule BS-Q of the FR 2314 with those currently subject to reporting on the FR 2502q and seeking clarifications on certain proposed revisions to the FR Y-11 and FR 2314. Additionally, given the significance of the changes required and the operational challenges

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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. 48639.

3 89 Fed. Reg. 3708.

presented, to the extent the Federal Reserve implements the proposed changes and maintains the proposed reporting scope, we respectfully request a delayed effective date of at least four quarters following the issuance of final forms and instructions. If the scope of respondents for proposed FR 2314 Schedule BS-Q were to be limited to those who meet the current requirements for reporting on the FR 2502q, firms would only need two additional quarters following issuance of final documentation to implement these revisions.

I. The proposed revisions to replace TDRs with MBEFDs are properly aligned with current U.S. GAAP reporting and should be finalized as proposed.

ASU 2022-02 eliminated the recognition and measurement guidance for TDRs for institutions that have adopted CECL and introduced new disclosure requirements for MBEFDs.[4] 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.[5] We are supportive of the Federal Reserve's efforts in this proposal to "revise the FR 2314 and FR Y-11 forms and instructions to be consistent with adopted changes to U.S. generally accepted accounting principles related to troubled debt restructurings".[6]

BPI has previously commented several times on the importance of affirming the U.S. GAAP standard 12-month lookback period for the reporting of MBEFDs to provide proper insight into the risk profile of existing MBEFDs in accordance with how banks have been managing MBEFDs to date.[7] In Schedule BS-A line item 7(d), the Federal Reserve states that "modified loans reported in this schedule should meet the definition of loan modifications to borrowers experiencing financial difficulty, as described in ASU 2022-02, which includes only those modifications which occurred in the previous 12 months."[8] We commend the Federal Reserve for properly aligning the reporting standard to U.S. GAAP and current firm practices, which will allow for the collection of relevant information without undue regulatory reporting burden to institutions. Further, as previously stated, we would encourage the Federal Reserve to work with the other agencies to implement this 12-month lookback standard on all applicable reporting forms, including the Call Report.

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

5 *Id.* at 12.

6 *Supra* note 2.

7 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/
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.

8 Federal Reserve, Proposed FR 2314 Instructions, available at https://www.federalreserve.gov/apps/reportingforms/Download/DownloadAttachment?guid=BA9A9D5C-59ED-4E4B-8E8F-CBDCE59C2983.

II. To avoid significantly increasing the burden on current FR 2314 filers, the scope of quarterly and annual filers subject to the proposed FR 2314 Schedule BS-Q should be limited to those entities currently in scope for FR 2502q.

BPI is supportive of the Federal Reserve's proposal to add Schedule BS-Q "Due From, Due To, and Other" to the FR 2314 to collect a portion of the information currently collected by the FR 2502q.[9] However, due to scoping differences in the criteria for branches and subsidiaries required to submit the FR 2502q compared to those required to submit the proposed FR 2314, this additional schedule would significantly increase the reporting burden on both quarterly as well as annual FR 2314 respondents. Further, the proposal goes beyond merely incorporating line items from the FR 2502q[10] and adds additional line items to collect more granular detail related to balances due to and from related institutions. These additional breakouts introduce burden on even existing FR 2502q filers and exacerbate the challenges for entities not subject to the FR 2502q that would be required to report this information for the first time on the FR 2314. To implement the desired integration of the FR 2502q into the FR 2314 without creating undue burden on reporters, the scope of quarterly and annual filers subject to the new Schedule BS-Q should be limited to those entities currently in scope for FR 2502q.[11]

A. <u>There are significant scoping differences between the FR 2502q and the FR 2314 that would substantially increase the burden of providing the information reported on the FR 2502q on the FR 2314.</u>

Currently, FR 2502q reporting is limited to the branches or subsidiaries located in the United Kingdom or the Caribbean that meet certain standards.[12] For branches, only those that file the FFIEC 030 and have total assets reported in item 11 of $2 billion or more are required to file the FR 2502q. For subsidiaries, only those that file the FR 2314, have a banking charter and engage in banking business, and report $2 billion or more in total assets in Schedule BS, item 10, and $10 million or more in total deposits in Schedule BS-M, item 6, are required to file the FR 2502q.[13] However, the FR 2314 has a significantly larger scope for required quarterly and annual respondents that would be required to report proposed Schedule BS-Q, partially consisting of information from the FR 2502q, if the revisions are finalized as proposed.

Specifically, the FR 2314 instructions[14] state that a U.S. Banking Organization must file the report quarterly for its foreign subsidiary if the parent U.S. holding company has total consolidated assets of $500 million or more or files the FR Y-9C, or the subsidiary is owned or controlled by a state member bank or an Edge or agreement corporation that has total consolidated assets equal to or greater than

9 *Id.*
10 *Supra* note 2.
11 Federal Reserve, *FR 2502q Instructions*, available at https://www.federalreserve.gov/apps/reportingforms/Download/DownloadAttachment?guid=5162c3bb-13f1-460d-abaa-35ea6d30c378 .
12 *Id.*
13 *Id.*
14 Federal Reserve, *FR 2314 Instructions*, available at https://www.federalreserve.gov/apps/reportingforms/Report/Index/FR_2314FR_2314S

$500 million, and the subsidiary meets any one of several criteria.[15] Further, a foreign subsidiary that does not meet any of the criteria to file quarterly, but has total assets greater than or equal to $500 million and less than $1 billion as of the report date must file the entire FR 2314 report on an annual basis.[16] According to the most recent notice and request for comment on the FR 2502q,[17] the Board estimates only 23 respondents for the form, while the current FR 2314 joint notice and request for comment states that the FRB estimates 434 quarterly respondents and 223 annual respondents.[18] The FR 2314's reporting scope,[19] without geographic limitation to UK and Caribbean branches, includes a significantly larger number of reporters compared to the FR 2502q, resulting in a significantly greater burden on firms that would be reporting this information for additional entities.

The reporting burden introduced by the requirement to report FR 2502q data on these forms would be greatest on respondents that have newly scoped in entities and would be reporting this information for the first time. These respondents would have to develop, test and maintain entirely new reporting systems, or at a minimum make significant modifications to existing systems, in order to report this information for a new group of entities not previously subject to this reporting.

B. The proposed changes and increased granularity of items reported significantly increase the burden on reporting firms.

In addition to the expanded scope of reporters, this proposal contains changes and new line-item breakouts that would introduce significant burden on reporters. These new items, if implemented as proposed in new Schedule BS-Q "Due From, Due To, and Other", would require significant operational enhancements and substantial manual effort to be effectively implemented. For example, line items 1 and 2 of the newly proposed FR 2314 Schedule BS-Q include reportable sub-line items (i.e., 1(a), 1(b), 2(a), 2(b)) that further disaggregate current FR 2314 Schedule BS line items 9 and 16.[20] Current FR 2314 line item 9 reports "Balances due from related institutions, gross" and proposed Schedule BS-Q sub line items 1(a) delineates this value into balances due from related institutions, gross "In the U.S." and "In foreign countries" for 1(b).[21] The additional sub-line items for items 2(a) and 2(b) breakout existing values in the same manner, into U.S. and foreign but for "balances due to related institutions, gross,"[22] related to current FR 2314 Schedule BS line item 16. In order to report this information at the granular level proposed, firms will have to data mine the necessary attributes that will identify head office and

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15 These criteria are (1) Total assets of the foreign subsidiary are equal to or greater than $1billion; (2) The foreign subsidiary's off-balance-sheet activities are equal to or greater than $5 billion; (3) The foreign subsidiary's equity capital is equal to or greater than 5 percent of the top-tier organization's consolidated equity capital; or (4) The foreign subsidiary's operating revenue is equal to or greater than 5 percent of the top-tier organization's consolidated operating revenue.

16 *Supra* note 14 at 2.

17 86 Fed. Reg. 8014.

18 *Supra* note 2.

19 The outstanding FFIEC 030 proposal to incorporate items from the FR 2502q would subject an even larger population of entities to the requirement to report this information. BPI has previously commented on the proposal to revise the FFIEC 030 to incorporate items from the FR 2502q in *FFIEC 030 or FFIEC 030S Revisions,* available at https://bpi.com/wp-content/uploads/2024/03/BPI-FFIEC-030-or-FFIEC-030S-Comment-Letter-3.19.24-.pdf

20 *Supra* note 8 at 7.

21 *Id.*

22 *Id.*

U.S. branches as opposed to other foreign branches, which requires additional development work to incorporate this information into reporting tools. This disaggregation of existing values into distinct domestic and foreign reporting is burdensome on firms as it requires modifications to existing reporting systems that do not currently capture this data on such a granular level. While certain existing values may be leveraged to supplement the proposed items, such as current FR 2314 Schedule BS line items 10 and 17, "Total Assets" and "Total Liabilities" for proposed Schedule BS-Q line items 3 and 4, these values would have to be refined to appropriately reflect the instructions. Such modifications introduce additional burden on firms; in this instance, firms would be required to narrow the scope of these existing items to only assets/liabilities to U.S. addressees, excluding assets/liabilities to related institutions, and excluding assets/liabilities to depository institutions.

Additionally, certain entities currently covered by FR 2502q reporting have operational challenges when identifying the country of the counterparty's principal address for certain assets and liabilities. As a result, the total balances for these assets and liabilities cannot be reported under "United States" and instead are reported in the "Total, all areas (Total assets must equal total liabilities)" line item of the FR 2502q. However, the proposed FR 2314 Schedule BS-Q does not have a commensurate place to report these items, as the scope of line items 3 and 4 is limited to U.S. addressees only. As such, the balances for those assets and liabilities that firms have challenges identifying as U.S. addressees will not be captured in Schedule BS-Q and will only be included in Schedule BS Line item 10 "Total Assets" and Line item 17 "Total Liabilities". This operational challenge exists for those entities that currently submit the FR 2502q and would extend to the incremental legal entities required to report proposed Schedule BS-Q in the FR 2314, if finalized as proposed.

C. *The scope of respondents for proposed FR 2314 Schedule BS-Q should be limited to those that meet the current criteria to file the FR 2502q.*

In light of the significant scoping differences between the FR 2502q and each of the FFIEC 030 and FR 2314, as well as the additional new line item breakouts, the proposal would introduce a significant burden on reporting firms. These items would impact both current FR 2502q reporters, and those who would be reporting this information for the first time. This proposal would necessitate both the development of new systems, as well as modifications to existing ones which, especially considering the use of manual processes for FR 2502q reporting, making the proposed revisions incredibly burdensome. In consideration of the significant additional burden that would result from an expansion in the reporting population for this schedule, we urge the Federal Reserve to limit the entities subject to proposed FR 2314 Schedule BS-Q to those that meet the current criteria for the FR 2502q.

III. If the scope of respondents required to report on the proposed FR 2314 Schedule BS-Q is not limited to those entities reported on the FR 2502q, firms would need at least four quarters from publication of the final forms and instructions to implement the revisions; however, if the scope were so limited, firms would only need two additional quarters to implement the proposal.

If the Federal Reserve were to proceed with finalizing the FR 2314 changes as proposed, the implementation date of December 31, 2024, would not be possible. 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 the firms. Considering the broadly expanded scope of reporters, as well as the increased granularity of items to be reported, as detailed above, it is evident that significant changes must be made by firms. These adjustments to current practices and processes would also necessitate the modification of reporting controls and data governance procedures, all of which would need to be tested to make them operational and fully compliant prior to the effective date. Therefore, the proposed December 31, 2024, effective date would leave firms with insufficient time to make these necessary systems and governance changes.

If the Federal Reserve implements the changes as proposed, firms would require at least four additional quarters, following the release of final forms and instructions and commensurate revisions to related reporting forms as detailed above, to properly implement systems and procedures. However, if the Federal Reserve were to limit the scope of respondents for proposed Schedule BS-Q of the FR 2314 to those that meet the requirements for the FR 2502q, firms would only require two additional quarters, following the release of final forms and instructions, to implement these measures.

IV. Several clarifications are required for the proposed FR Y-11 and FR 2314 instructions to correct inconsistencies and missing information.

The current instructions for Schedule IS Line item 4 on the FR Y-11 and FR 2314 should be modified to remove the requirement to exclude the provision for credit losses on off-balance-sheet credit exposures from Line item 4 and instead report on Line item 7, Noninterest expense. The proposed instructions for this line item state that "[e]ntities that have adopted ASU 2016-13, which governs the accounting for credit losses, report the amount expensed as the provisions for credit losses, during the calendar year-to-date" and have been revised to add "on all financial assets and off-balance-sheet credit exposures."[23] Proposed language defining provisions for credit losses on off-balance-sheet credit exposures has also been added to Line item 4 instructions. However, despite these revisions, contradictory language stating to "exclude provision for credit losses on off-balance-sheet credit exposures...which should be reported in item 7, "Noninterest expense"" remains in the current instructions.[24] Moreover, the language in Schedule IS line item 7(a) that states to "report any provision for credit losses related to off-balance sheet credit exposures"[25] should be removed. In order to clarify the reporting treatment for provisions for credit losses on off-balance-sheet credit exposures, the Federal Reserve should remove the exclusion in FR Y-11 and FR 2314 Schedule IS line item 4 and correct the instructions for line item 7(a). The instructions would then be consistent with the proposed addition of Schedule IS-B memoranda line item M3, provisions for credit losses on off-balance-sheet credit exposures, which states to "report in this item the year-to-date amount of provisions for credit losses (or reversals of provisions) on off-balance-sheet credit exposures included in the amount reported in Schedule IS, item 4."

Clarification is also needed on the treatment for proposed FR 2314 Schedule BS-Q line items 3 and 4. Currently, the general instructions for proposed FR 2314 Schedule BS-Q state to "exclude balances with related institutions from line items 3 and 4 on this schedule," while line items 1 and 2

23 *Supra* note 8 at 2.
24 *Id.*
25 *Supra* note 14 at 15.

represent balances due from and to related institutions, gross.[26] The instructions should be revised to explicitly clarify that these balances reported in Schedule BS-Q line items 1 and 2 should be excluded when reporting the balances in line items 3 and 4.

We are also seeking clarification on the reporting of claims/liabilities with related institutions on the FFIEC 030. In the proposed instructions for the recent FFIEC 030 proposal to incorporate FR 2502q items,[27] Schedule RAL-A line items 5 and 6 state to "Report claims[/liabilities] on U.S. addressees other than parent bank and other depository institutions"[28] and contain no specific instructions on how to treat claims/liabilities with related institutions. However, on the proposed FR 2314 Schedule BS-Q line items 3 and 4 covering similar information, the instructions explicitly state to "exclude balances with related institutions."[29] Given the relation of these items to those on the FFIEC 030, we ask that the Federal Reserve work with the other agencies to clarify that balances with related institutions, as defined in the FFIEC 030S and reported in FFIEC 030 proposed Schedule RAL-A items 1-4, should be excluded for the purposes of FFIEC 030 Schedule RAL-A items 5 and 6.

The proposed revisions to the forms for FR Y-11 and FR 2314 Schedule IS-B Memoranda line items M3 and M4 also require correction. Both items are added in 'Insert A' of the proposed forms[30] and contain a reference to a footnote 6 following the name of the line item. However, there is no citation to footnote 6 on the form. Footnote 6 should be added and after release, respondents should have an opportunity to ask any relevant questions or comments on this item.

Finally, additional clarity is needed around the items from the FR 2502q that are proposed to be implemented into the FR 2314. Specifically, the proposal states that "the Board proposes to incorporate six line items from the FR 2502q into the FR 2314;"[31] however, only one item, line item 1.c., Claims on, and liabilities to, U.S. addressees other than depository institutions, has been incorporated. Although there are 6 line items on the proposed FR 2314 Schedule BS-Q, only line items 3 and 4, which break out FR 2502q line item 1.c., are from the FR 2502q. Additional clarification is needed on what is meant by the statement that six line items would be incorporated into the FR 2314 when it appears that only one line item is included.

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[26] *Supra* note 9 at 7.

[27] 89 Fed. Reg. 3708.

[28] Federal Reserve, *Proposed FFIEC 030 Instructions*, available at https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC030_20240119_i_draft.pdf

[29] *Supra* not 8 at 7.

[30] Federal Reserve, *Proposed FR Y-11 Form*, available at https://www.federalreserve.gov/apps/reportingforms/Download/DownloadAttachment?guid=308B4BF2-333A-465C-8479-5D721F8D58A3
Federal Reserve, *Proposed FR 2314 Form*, available at - https://www.federalreserve.gov/apps/reportingforms/Download/DownloadAttachment?guid=860E8491-89A1-4A1F-A6EB-BC3075DFF269

[31] *Supra* note 2.

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