Ernst & Young LLP
5 Times Square
New York, NY 10036

Tel: +1 212 773 3000
ey.com

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

24 May 2017

Re: Request for Comment on Possible Changes to Industry Guide 3, Statistical Disclosure by Bank Holding Companies (Release No. 33-10321 and No. 34-80131; File No. S7-02-17)

Dear Mr. Fields:

Ernst & Young LLP is pleased to provide comments to the Securities and Exchange Commission (SEC or Commission) for consideration in its review of Guide 3, *Statistical Disclosure by Bank Holding Companies* (Guide 3). Our views are based on our work as independent auditors. We support the Commission's initiative to re-evaluate the relevancy of the disclosure requirements in Guide 3 as well as to modernize and streamline them.

Disclosure objectives

We believe a modernized Guide 3 should contain principles-based disclosure objectives along with non-presumptive, non-exclusive lists of possible disclosures, to help registrants effectively communicate to investors material information that is more relevant, organized and focused on a company's specific facts and circumstances. This recommendation is consistent with our prior recommendations on how the SEC can make disclosures required by Regulations S-K and S-X more effective.[1]

Scope

Guide 3 was designed to apply to bank holding companies. The SEC staff later issued Staff Accounting Bulletin Topic 11.K, *Application of Article 9 and Guide 3*, which provided interpretive guidance recommending that other registrants with material lending and deposit activities (e.g., savings and loan associations) should also make the disclosures required by Guide 3. Based on our experience, it is not always clear when these other entities need to comply with Guide 3 or to which other entities its disclosure requirements apply. As a result, some registrants make disclosures that do not provide investors with any additional insight into the risk characteristics of their lending operations, while others omit disclosures required by Guide 3 that might be relevant.

---

1 See our comment letters related to the SEC disclosure effectiveness initiative, including our 21 July 2016 comment letter on the SEC concept release on business and financial disclosures required by Regulation S-K (Release No. 33-10064; 34-77599; File No. S7-06-16) and our 31 October 2016 comment letter on the SEC proposal, Disclosure Update and Simplification (Release No. 33-10110; 34-78310; File No. S7-15-16).

Therefore, we believe the scope of Guide 3 should be clearly articulated, and its requirements should apply to specific activities (e.g., lending, managing deposits) that are material to an entity's operations. Shifting the focus away from the type of legal entity or financial services sector would make the disclosure requirements more adaptable to the evolving nature of the financial services industry and its regulatory environment. Furthermore, we recommend that upon modernizing the disclosure requirements in Guide 3, the SEC move its content into a separate new section of Regulation S-K to elevate its authoritative status and help streamline preparer application in conjunction with the disclosures required by Item 303, *Management's discussion and analysis of financial condition and results of operations,* and Item 305, *Quantitative and qualitative disclosures about market risk*.

Redundant and obsolete requirements

We recommend that the Commission eliminate all redundant or obsolete disclosure requirements from Guide 3, such as those outlined in Appendices A and B of the comment letter submitted by the Center for Audit Quality on 8 May 2017. We note that Guide 3 has not been updated since 1986. In the meantime, US GAAP, IFRS and other SEC disclosure requirements have evolved to reflect changes in business models and risk management strategies in the financial services sector. For example, the Financial Accounting Standards Board (FASB) issued a comprehensive accounting and disclosure standard for derivative and hedging activities[2] in 1998 and a standard for developing and disclosing fair value measurements[3] in 2006. These and other new standards on financial instruments and leases render a substantial portion of the disclosure requirements in Guide 3 redundant or obsolete. For instance, the requirement to disclose the sensitivity of a loan pool to changes in interest rates is duplicative of requirements in Item 305 of Regulation S-K, *Quantitative and qualitative disclosures about market risk,* and IFRS 7 *Financial Instruments: Disclosures.*

We note that the FASB conducts rigorous constituent outreach in its standard setting and explains in the Background Information and Basis for Conclusions of Accounting Standards Updates the rationale for its decisions. When considering whether to mandate additional disclosure requirements for lending and deposit activities, the Commission may want to consider feedback received in response to its proposal as well as feedback previously analyzed by the FASB in its relevant standard setting projects. For instance, part of the Commission's request for input on possible revisions to Guide 3 overlaps with similar outreach conducted by the FASB in developing Accounting Standards Update (ASU) 2016-13, *Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments,* and by the International Accounting Standards Board (IASB) in developing IFRS 9 *Financial Instruments,* which added disclosures to IFRS 7 *Financial Instruments: Disclosures*. As an example, the FASB reviewed and deliberated[4] feedback received in response to outreach similar to question 46 of this SEC request for comment: "What improvements in the existing summary of loan loss experience disclosures should we consider that would be important to investors?"

---

[2] Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

[3] Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*.

[4] Accounting Standards Update 2016-13, *Financial Instruments — Credit Losses (Topic 26), Measurement of Credit Losses on Financial Instruments*, BC106, BC111 through BC114.

Time periods for statistical disclosures

Guide 3 requires bank holding companies to make certain statistical disclosures for up to five years regardless of the type or filing status of the registrant. In contrast, financial statements are required only for two or three years, depending on a registrant's filing status, and are supplemented by management's discussion and analysis of the same periods. Further, Item 301 of Regulation S-K requires selected financial data for a period of up to five years to help users better understand trends.

We encourage the Commission to assess the relevancy of the time periods currently stipulated in Guide 3 and consider limiting the required disclosures to those periods for which financial statements are included in the filing. If the SEC determines that such information for additional fiscal years is needed to understand trends, we believe that entities should be required to provide it for no more than the number of years for which they are required to present selected financial data under Item 301 (which could be less than five years for emerging growth companies, smaller reporting companies and foreign private issuers).

Incorporation of other disclosures in SEC filings

The SEC also solicited feedback on whether disclosures required by banking regulations (e.g., call reports, stress tests, resolution plans) should be incorporated in SEC filings and whether this would improve investor understanding or contribute to investor confusion. The Commission acknowledged that securities and banking disclosures serve different purposes due to the different missions of their respective regulatory regimes. While the SEC's securities disclosure regime serves to protect investors and promote capital formation and fair and efficient markets, the US banking agency regulatory regime seeks largely to foster the safety and soundness of banking organizations.

While it may be appropriate for the SEC to incorporate some banking regulatory disclosure requirements into Guide 3 if such disclosures would serve the needs of investors, we have the following concerns:

- Many bank holding companies have subsidiaries that are registrants but that are not required to file with banking regulators, and non-bank holding companies may have subsidiaries that don't file separately with the SEC but do file with banking regulators. Requiring parents and subsidiaries to cross reference to banking regulatory disclosures related to their affiliates would likely make it challenging for investors to analyze the data in the context of the consolidated financial statements.

- Requiring hyperlinks to other regulatory filings could create confusion about why the information is available for some bank holding company registrants but not those that are not required to make banking regulatory disclosures.

- Incorporating by reference additional regulatory filings and disclosures would increase the volume and diversity of information in SEC filings containing audited financial statements that the registrant's independent auditor would have to review for inconsistency with the audited financial statements, as required by the Public Company Accounting Oversight Board's Auditing Standard No. 2710, *Other Information in Documents Containing Audited Financial Statements*. This would likely increase audit fees for registrants.

Foreign private issuers

Most foreign registrants that are banking organizations meet the definition of a foreign private issuer (FPI), file their annual reports with the SEC on Form 20-F or Form 40-F, and report on the basis of IFRS as issued by the IASB without reconciliation to US GAAP. As a result, substantially all SEC disclosure requirements in Guide 3 apply to FPIs if the information is available and can be compiled without undue burden or expense. However, many of the classifications and terminologies of the disclosure requirements in Guide 3 correspond to US GAAP as it existed approximately 30 years ago when Guide 3 was last updated.

For instance, current US GAAP and Guide 3 require disclosure of loans on non-accrual status and loans that have undergone a troubled debt restructuring (TDR), but these concepts do not exist in IFRS. As a result, many FPIs that report under IFRS find it challenging to identify which classes of loans to disclose to comply with Guide 3, and they either (1) incur additional reporting and compliance costs or (2) report other pools of loans (e.g., all impaired loans, all loans that have been modified).

The latter practice introduces inconsistency in the types of loans classified in the non-accrual and TDR categories between bank holding companies that report under US GAAP and those that report under IFRS. In light of these challenges, we recommend that the Commission align Guide 3 disclosures for FPIs reporting under IFRS with the measurement and disclosure principles in current IFRS and in the amendments to IFRS 9 and IFRS 7, which FPIs will adopt on 1 January 2018. For instance, if one of the objectives of Guide 3 is to elicit disclosures of higher-risk pools of loans and the reporting entity's judgment in establishing changes in the allowance for such loans from period to period, Guide 3 could refer preparers to disclosure requirements in amended IFRS 7, paragraphs 31 to 42. If Guide 3 requirements go beyond what is required by IFRS, FPIs should be able to consider the stated disclosure objective and provide information determined in a manner consistent with their accounting or financial reporting framework.

* * * * *

We would be pleased to discuss our comments with the Commission or its staff at your convenience.

Yours sincerely,

Ernst + Young LLP

Copy to: Wesley R. Bricker, Chief Accountant, Office of Chief Accountant
William Hinman, Director, Division of Corporation Finance
Mark Kronforst, Chief Accountant, Division of Corporation Finance
Russell Golden, Chairman, Financial Accounting Standards Board