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June 1, 2017

Mr. Brent Fields  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549

**File Reference No. S7-02-17**

**Re: SEC Release No. 33-10321, *Request for Comment on Possible Changes to Industry Guide 3 (Statistical Disclosure by Bank Holding Companies)***

Dear Mr. Fields:

Deloitte & Touche LLP appreciates the opportunity to respond to the SEC's request for comment on possible changes to Industry Guide 3, *Statistical Disclosure by Bank Holding Companies* ("Guide 3"), which is part of the Commission's disclosure regime for bank holding companies (BHCs) and other registrants with material lending and deposit activities.

**OVERALL COMMENTS**

We support the Commission's consideration of revisions to its disclosure regime for BHCs and whether Guide 3 continues to elicit information that is useful for making investment and voting decisions. As the request for comment notes, Guide 3 was first published in 1976 and last updated in 1986. Since Guide 3's publication, the financial services industry has evolved significantly, and the Commission and the FASB have issued many new disclosure requirements and accounting standards. We therefore support the Commission's efforts to modernize Guide 3.

In response to the Commission's request for comment, we considered whether changes were warranted to the disclosure requirements in Guide 3 to enhance the information provided to investors and promote efficiency, competition, and capital formation. We also considered opportunities for the elimination of redundant or similar information, thus allowing investors to focus on material information that is relevant to BHCs and other registrants with material lending and deposit activities.

In formulating our response, we have drawn on our direct experiences as auditors of many BHCs and other public companies in the financial services industry and from observing the challenges they face when preparing and providing required disclosures.

Overall, we believe that as part of moving forward with changes to Guide 3, the Commission should consider:

- Establishing a well-defined objective for its Guide 3 disclosure requirements that incorporates a principles-based approach.
- Obtaining input from investors and users of the financial statements, as well as the FASB, to determine the current and ongoing importance of Guide 3 disclosures and, if they are deemed useful for investment and voting decisions, retaining and enhancing them on the basis of input received.
- Eliminating Guide 3 disclosure requirements that duplicate or are redundant with U.S. GAAP requirements.

These recommendations, as well as other observations and considerations, are further discussed below.

## **CONSIDERATIONS RELATED TO THE EVALUATION OF CHANGES TO GUIDE 3**

### **Objective, Framework, and Applicability of Guide 3**

We recommend that the Commission establish a well-defined objective for Guide 3 that can be used as a guiding principle for determining whether disclosures that are similar or incremental to those that are (or will be) required under U.S. GAAP would be helpful to investors. We believe that in defining Guide 3's objective, the Commission should consider input from investors and other users of the financial statements to ensure appropriate thought is given to (1) how investors are informed as a result of the Guide 3 disclosure requirements, (2) how investors use the disclosures to make investment and voting decisions, and (3) whether investors believe that incremental disclosures are necessary. To facilitate its gathering of input, the Commission may wish to consider conducting events such as public roundtables with investors, regulators, and preparers.

The Commission should also consider the breadth, depth, and transparency of the FASB's public standard-setting process when evaluating whether to promulgate supplemental disclosure requirements (i.e., those that may be similar or incremental to accounting principles under U.S. GAAP). That process is comprehensive, transparent, independent, encourages broad participation, and objectively takes into account stakeholder views. The Commission may therefore find that few incremental disclosures are warranted for Guide 3.

The Commission should also consider the focus of Guide 3. In general, its disclosure requirements tend to be more prescriptive (e.g., specifying the categories of loans to be disclosed) than principles-based. We believe that disclosures elicited under a principles-based framework would closely align with how registrants manage their business and be more adaptable over time than those resulting from prescriptive and standardized disclosure requirements. In addition, such disclosures may be more helpful to investors and other users of financial information since they permit a registrant to exercise judgment in evaluating various quantitative and qualitative factors in assessing how to comply with the disclosure objective. Further, while prescriptive and standardized disclosure requirements may promote comparability, they generally do not take into account whether disclosed information is material. Accordingly, we encourage the Commission to consider establishing a principles-based disclosure framework when evaluating possible changes to Guide 3.

Although Guide 3 applies only to BHCs, SEC Staff Accounting Bulletin Topic 11.K, "Application of Article 9 and Guide 3," indicates that the disclosures should be applied to any entity engaged in material lending and deposit activities. Accordingly, the Commission should clearly define the applicability of Guide 3 to registrants other than BHCs. As we noted above, the financial services industry has changed significantly since the issuance of Guide 3 in 1976, and many lending activities, such as loan origination or investments in loans, are now conducted by entities that are not BHCs. Those activities may be material to such entities, and information about them may be important to financial statement users for making investment and voting decisions. Clearly defining the applicability of Guide 3 on the basis of a set of criteria or certain activity-based measures will minimize confusion and uncertainty regarding its applicability to non-BHC registrants.

The Commission may also wish to consider making it easier for registrants to locate and use its interpretive guidance by consolidating or incorporating the Guide 3 disclosure requirements into a single source (e.g., Regulation S-K). This approach would be consistent with the codification and reorganization efforts undertaken by the FASB and PCAOB.

Going forward, if the Commission decides to retain specific requirements for BHCs and entities engaged in material lending and deposit activities, it should periodically review them to ensure that its disclosure objective is aligned with the FASB's new and updated guidance and to avoid unnecessary uncertainty related to preparer and auditor compliance.

### **Comparison of Guide 3 Disclosures With Existing U.S. GAAP and SEC Rules and Requirements**

As a result of comparing Guide 3's disclosure requirements with those of existing accounting principles under U.S. GAAP and other SEC rules and requirements (e.g., Regulation S-X, Article 9), we observed that a number of Guide 3's requirements are unique and specific to Guide 3 and that several duplicate, or are redundant with

or similar to, those under U.S. GAAP or Article 9. Our observations are discussed below.

### *Disclosure Requirements That Are Unique and Specific to Guide 3*

The disclosures required under the following Guide 3 sections are generally specific to Guide 3: "I., Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rate and Interest Differential"; "V. Deposits"; and "VI., Return on Equity and Assets." Certain disclosures, such as those required by "I., Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rate and Interest Differential," may be particularly useful to investors for understanding an entity's business and the impact of changes in asset and liability portfolios period over period. Nevertheless, we encourage the Commission to consider these requirements in light of input from investors and outreach with the FASB to determine whether they should be retained or enhanced.

### *Disclosures That Are Similar*

Some disclosure requirements in Guide 3 are similar to those in U.S. GAAP but, since they require a different presentation, are not identical to them. In addition, certain information that must be disclosed under Guide 3 may already be effectively addressed by disclosure requirements in U.S. GAAP. For example, the disclosures required by Guide 3 about potential problem loans, foreign outstandings, and loan concentrations may effectively be addressed by the disclosure requirements in ASC 275, *Risks and Uncertainties*, or ASC 825, *Financial Instruments*. Further, the disclosures required under U.S. GAAP are in many cases more extensive than those required by Guide 3 (e.g., the disclosures required by ASC 310, *Receivables*, for restructured loans and troubled debt restructurings).

In circumstances in which Guide 3 requirements elicit disclosures that are similar, but not identical, to those required under U.S. GAAP and other SEC rules and requirements, we encourage the Commission to consider the usefulness of those similar disclosures. For example, Part D of Guide 3 section V., "Deposits," requires disclosure of the amount of outstanding time certificates of deposit and other deposits in excess of \$100,000. Similar disclosures required under U.S. GAAP (e.g., ASC 942-405-50-1, *Financial Services — Depository and Lending*) have recently been updated to refer to FDIC insurance limits (currently \$250,000). The Commission may want to consider whether the Guide 3 requirement continues to be necessary if its objective is met by the guidance in U.S. GAAP.

We believe that in circumstances in which the Commission determines that it should retain disclosure requirements that are similar, but not identical, to requirements under U.S. GAAP, the disclosure objective of the Guide 3 requirements should be

clearly distinguished from that under U.S. GAAP to help ensure that the required disclosures provide meaningful, incremental information to investors.

#### *Disclosures That Are Duplicative or Redundant*

We support the elimination of Guide 3 disclosure requirements that duplicate or are redundant with other SEC disclosure guidance (e.g., Article 9) or requirements under U.S. GAAP. We therefore believe that the Commission should consider eliminating many of the disclosures required by the following sections: "II., Investment Portfolio"; "III., "Loan Portfolio"; "IV., Summary of Loan Loss Experience"; and "VII., Short-Term Borrowings," as well as certain requirements in section V., "Deposits."

#### **Comparison of Guide 3 Disclosures With Recently Issued Accounting Standards**

When effective, the FASB's June 2016 Accounting Standards Update (ASU) No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, will (1) replace the current-incurred-loss method with an approach that reflects expected credit losses and (2) require entities to consider a broader range of reasonable and supportable information in assessing credit loss estimates. The amendments in ASU 2016-13 are generally effective for fiscal years beginning after December 15, 2019, for public business entities that are U.S. SEC filers. Although many entities have begun the process of adopting the ASU, the financial services industry is still somewhat early in the implementation process.

ASU 2016-13 generally does not eliminate the disclosures required by existing U.S. GAAP; however, it does require additional disclosures. Accordingly, even after the adoption of ASU 2016-13, there will be overlap between the requirements under Guide 3 and U.S. GAAP unless Guide 3 is revised.

Developing the guidance in ASU 2016-13 was a lengthy and rigorous process that involved outreach by the FASB and the solicitation of feedback from investors and other users of financial statements. We therefore encourage the Commission to consider whether disclosures other than those required by ASU 2016-13 are necessary. If the Commission decides to retain the Guide 3 disclosure requirements, clearly specifying their purpose may help to ensure that any incremental information is useful to investors.

#### **Regulatory Matters and Related Disclosures**

The request for comment contains questions about whether (1) to align the categories used for disaggregation in the Guide 3 disclosures with those called for in the consolidated reports of condition and income ("call reports") and other U.S.

banking agency regulatory filings and (2) the disclosures in the call report or other regulatory filings should be required in Commission filings. We note the following considerations related to those questions:

- The disclosures in the call reports or other regulatory filings were not designed in anticipation of investors' or other financial statement users' objectives. The primary purpose of call reports and other U.S. banking agency regulatory filings is to monitor the safety and soundness of federally regulated and insured institutions. That purpose may differ from the Commission's disclosure objectives.
- Since call reports, unlike MD&A, do not include qualitative explanations and discussion, the information presented in them may be misunderstood by financial statement users.
- Aligning the categories used for disaggregation in the Guide 3 disclosures with those required in call reports may not eliminate their duplication or redundancy with existing U.S. GAAP disclosure requirements.
- Many of the call reports and other U.S. banking agency regulatory filings are presented at the level of individual banking entities rather than that of the BHC, which may include more than one banking entity and may lead to misinterpretation of information by investors.
- Call reports are currently publicly available. Therefore, if investors determine that the reports or other U.S. banking agency regulatory filings contain information that is useful for their decision making, they have access to it.

If the SEC were to require registrants to include in Commission filings certain disclosures from the call reports or other U.S. banking agency regulatory filings (either directly, hyperlinked, or incorporated by reference), the Commission should consider the implications of the auditor's association with the disclosures and reports, including:

- The level of work the auditor would be required to perform with respect to the information and whether PCAOB AS 2710, *Other Information in Documents Containing Audited Financial Statements*, would apply to such information.
- How the information could be labeled to ensure that the auditor's level of involvement (or lack thereof) is identified clearly and transparently.

The Commission should consider making additional inquiries and conducting outreach with investors to understand whether and, if so, to what extent this additional information may affect their decision-making process and whether the

benefits of including the information in filings would outweigh the incremental costs of providing it.

### **Applicability to Foreign Registrants**

In response to the Commission's consideration of the scope and applicability of Guide 3 to foreign private issuers (FPIs), we note the following on the basis of our knowledge of International Financial Reporting Standards (IFRSs) and interaction with FPIs:

- The disclosures required by Guide 3 are generally different from those required under IFRSs, and there is less duplication and redundancy with IFRSs than with U.S. GAAP.
- Some of Guide 3's prescriptive disclosure categories may be less relevant to FPIs of, for example, investments in obligations of the U.S. Treasury and other U.S. government agencies and corporations and states of the United States and political subdivisions.
- Certain of the Guide 3 disclosures require specific yield/rate information by asset or liability category whereas IFRS disclosures are generally focused on fair value and credit-based measures.
- Some of the U.S. GAAP and other concepts underlying Guide 3 disclosures (e.g., troubled debt restructurings and nonaccrual loans) do not exist under IFRSs.
- Disclosures about financial instruments under IFRSs (if IFRS 9 has been adopted) are qualitative in nature, and the entity has more discretion to disaggregate and provide information about investments and loan portfolios.

These and other factors may affect the incremental costs and burden that FPIs incur in providing the information required by Guide 3. We encourage the Commission to consider the above observations as well as whether the existing disclosure requirements in IFRSs elicit sufficient decision-useful information for investors and other financial statement users.

## Other Matters

### *Reporting Periods*

Guide 3 currently requires a five-year presentation of data related to loan portfolios and allowances for loan losses,<sup>1</sup> whereas Regulation S-X generally requires only two years of balance sheets and three years of income statements.<sup>2</sup> As a result, a registrant would need to provide Guide 3 disclosures for annual periods earlier than those periods included in its audited financial statements (years 3, 4, and 5). Given the ease of access to historical financial information through EDGAR and other electronic means, the Commission should consider whether providing information for years 3, 4, and 5 continues to benefit investors and other users. Note that this is consistent with our recommendation that the Commission consider the value of disclosing five years of selected financial data under Regulation S-K, Item 301, as discussed in our July 15, 2016, [response](#) to the SEC's request for comment on the business and financial disclosure required by Regulation S-K.

### *Technological Advances and Consideration of Structured Data Format, Such as XBRL*

We support the Commission's consideration of whether its "disclosure regime should better utilize technological advances that have occurred over the years that allow information to be provided in a more accessible manner." In addition to benefitting investors, such advances can help audit firms, which are actively implementing technology-based tools for analyzing financial information and data to increase the efficiency and effectiveness of audits.

In addition, we suggest that when the Commission evaluates whether certain Guide 3 disclosures should be presented in a structured data format, such as XBRL, it consider (1) whether such a data format would be useful, particularly if duplicative or similar disclosures in the financial statements are already presented in XBRL; (2) the potential challenges of providing structured data for Guide 3 disclosures that are traditionally presented in MD&A (which otherwise is not presented in a structured data format); and (3) matters related to auditor association (and observations related to inline XBRL) as discussed in our [comments](#) on the Commission's proposed rule *Inline XBRL Filing of Tagged Data*.

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<sup>1</sup> Paragraph 3(c) in Guide 3's General Instructions also specifies that registrants below certain thresholds may provide disclosure for each of the past two fiscal years instead of each of the past three or five years.

<sup>2</sup> Except for smaller reporting companies and emerging growth companies.



We appreciate the opportunity to provide our perspectives on the request for comment. If you have any questions or would like to discuss our views further, please contact Dave Sullivan at (██████████).

Sincerely,

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

Deloitte & Touche LLP

Cc: Jay Clayton, Chair  
Michael Piwowar, Commissioner  
Kara Stein, Commissioner  
William Hinman, Director, Division of Corporation Finance  
Mark Kronforst, Chief Accountant, Division of Corporation Finance  
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