December 18, 2018

Brent J. Fields, Secretary
Securities & Exchange Commission
100 F St. NE
Washington DC 20549-1090

By email to rule-comments@sec.gov

RE: S7-02-17 – (Request for Comment on Possible Changes to Industry Guide 3 (Statistical Disclosure by Bank Holding Companies))

Dear Mr. Fields,

I am submitting this letter for consideration of the Commission's Proposed Rule Changes to Industry Guide 3.

Please feel free to contact me at (415) 646-7620 if you would like to discuss this important issue with us.

Sincerely,

Elizabeth F. Mooney

Elizabeth F. Mooney

CAPITAL
GROUP®

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Los Angeles, California 90071-1406

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December 14, 2018

Mr. Russell Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856

By email to director@fasb.org

RE: Disclosures by banking institutions

Dear Mr. Golden,

Capital Group International and Capital Strategy Research are affiliates of Capital Group, one of the oldest and largest asset management firms in the nation. We serve individual investors, financial intermediaries and institutions around the world through a broad range of products and services that include American Funds, one of the largest mutual fund families in the U.S. by assets under management. Our investment process and philosophy are based on extensive, fundamental company research; accordingly, we rely heavily on financial statements prepared by public companies. We have provided substantial amounts of debt and equity capital to the U.S. banking system for many decades.

We support your ongoing efforts as a standard setter to increase the public trust in our country's capital markets including by aiming to strengthen the financial reporting of public banking institutions. We recognize that FASB adheres to an independent, well-established and lengthy due process to arrive at its conclusions, including for the new accounting standard for credit impairments of loans and receivables, ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, ('the ASU').

We echo concerns raised by others that the Current Expected Credit Loss model (CECL) reflected in the ASU will have significant unintended consequences. We believe it will reduce, rather than enhance, our ability to analyze credit risk and other important factors. Because of the embedded assumptions that will be required, we fear up-front provisioning for expected impairments over the life of a loan will not be useful in understanding the financial condition or the earnings of a business.

If you wish to move forward with the ASU, then at a minimum you should require more granular disclosure about the assumptions being made in the accounting and how those judgments and actual experience are occurring and changing over time. Absent this information, we are concerned that the proposed disclosures could result in opaque, highly judgmental numbers that could significantly limit the comparability of financial disclosures among banks.

More specifically, we view the following disclosures as crucial elements in the operationality of the new standard for analyzing loan assets and loss provisions:

- transparency around loan loss reserves at origination
- change in estimate of the loan loss reserve disaggregated by year of loan origination (aka vintage) and type of loan
- rollforward of the allowance for credit losses
- gross and net charge offs and recoveries each period by vintage, and
- disaggregation of credit quality indicators by vintage including loan-to-value, internal risk rating, and geography.

Moreover, we believe that disclosure of certain additional data is long overdue and will be necessary in order for us to use the new accounting for current expected credit losses, most notably provisions and reserves of each vintage, as well as the aging of bank loans (0-30, 31-60, 61-90, 91-120, 121-180, and >180 days) by type of loan.

We hear arguments that investors can “back into” some of this data by using disclosures to be provided by the ASU. We respectfully disagree. Having studied the new disclosures, we would have to make significant assumptions in the dark about originations, paydowns and chargeoffs. We believe that having loan loss provisioning by vintage, similar to how insurance companies disclose loss reserve vintages today, will be critical for successfully investing in banking institutions.

In addition, we strongly recommend requiring disclosure of bank *CAMELS* ratings, as was recommended by Federal Reserve’s industry working group years ago.[i] These ratings, along with disclosure of the imminence of a downgrade if conditions worsen, are important bank-related information that investors need to know. The ratings represent a critical assessment of a bank’s condition, including capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk. They are relied upon by top management, boards, auditors and regulators and are important for capital providers to understand as well on a timely basis as this information has the potential to better inform and sometimes change our investment decisions.

We ask that FASB consider requiring that the aforementioned information be made public to investors through disclosure requirements to increase the quality of financial reporting. We believe such required disclosures will provide investors with transparent, relevant and useful information, in order to improve public trust in the U.S. capital markets and confidence in the nation's banking system, and, in turn, reduce the cost of capital.

In the context of balancing costs with benefits of requiring these disclosures, capital allocators to companies ultimately bear the costs of disclosures, and we feel that the benefits to market transparency and efficiency which these disclosures will provide will outweigh the additional costs to prepare them.

We appreciate your consideration of our views. Please feel free to contact Elizabeth Mooney at [redacted] if you would like to discuss this important issue with us.

Sincerely,

Michael J. Thawley	Elizabeth F. Mooney	Dane Mott
Vice Chairman	Partner	Accounting Analyst
Capital Group International	Capital Strategy Research	Capital Strategy Research

cc: Mr. Jay Clayton, Chairman, Securities & Exchange Commission
Mr. Michael Gibson, Director, Banking Supervision and Regulation, Federal Reserve System

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[i] *See* https://www.federalreserve.gov/boarddocs/press/general/2001/20010111/default.htm