American Bankers Association
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[redacted]

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Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Via email: rule-comments@sec.gov

RE: File Number S7-02-17, *Update of Statistical Disclosures for Bank and Savings and Loan Registrants*

Dear Secretary Countryman:

The American Bankers Association[1] (ABA) welcomes the opportunity to comment on the Securities and Exchange Commission's ("Commission") *Update of Statistical Disclosures for Bank and Savings and Loan Registrants* (the Proposal). The Proposal updates and codifies the requirements currently in "Guide 3", which prescribes detailed quantitative information related to a variety of aspects of a banking entity. These requirements then are included in a new Subpart 1400 of Regulation S-K. We appreciate the Commission's continuing efforts to improve reporting requirements. Providing users of financial statements with accurate and usable information is critical and promotes transparency that facilitates appropriate decision-making by investors. An update to Guide 3 has been considered long overdue by many ABA members.

ABA applauds the Commission's effort to harmonize the requirements with other Commission rules and U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). We support the Commission's proposal to remove several requirements in the current Guide 3 that were duplicative to U.S. GAAP, as well as to align required reporting periods with those required in a registrant's financial statements.

Required Disclosures of Credit Metrics Should Be Delayed until CECL Practice Develops

With its requirement to record expected lifetime credit losses at the time of origination, the Current Expected Credit Loss accounting standard (CECL) presents a new paradigm of analyzing credit risk. Under current accounting, for example, increases in the proportion of nonaccrual loans will typically coincide with higher allowance levels and higher credit loss provisions (and vice versa). This relationship is significantly diminished under CECL, as credit performance should effectively be anticipated at origination. During a period of increasing levels

[1] The American Bankers Association is the voice of the nation's $18 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard more than $14 trillion in deposits, and extend $14 trillion in loans.

of nonaccrual loans and charge-offs, the Allowance for Credit Losses (ACL) and credit loss provisions under CECL may decrease for a variety of reasons. For example, the increase in charge-offs may have been less than previously expected, an updated forecast of real estate prices may indicate slower declines than previously forecast, or loan production may have significantly declined. Each of these factors may result in a lower estimate of ACL despite increasing levels of non-accrual loans and charge-offs. Investors will, thus, need to understand the new drivers of the ACL and the lack of a relationship between provision expenses or the ACL to average loans and net charge-offs by average loan balance under the CECL model.

ABA has published a discussion paper that addresses disclosures (both under U.S. GAAP and for supplemental reporting for investors) that bankers may need to consider under the new CECL paradigm.[2] While the issues in the paper are extensive, how they could fit into the tabular disclosure format of Guide 3 is unclear. As a result, further practical experience with the CECL standard will be needed before the Commission should propose further Guide 3 requirements.

ABA also notes that these challenges will be further heightened by the delay of the CECL effective date until 2023 for certain registrants. Due to the dramatic difference that CECL brings to credit loss recognition for longer-tenored instruments, year-to-year trend analysis will be very difficult for many banks that will be attempting to explain results for pre-CECL periods. The 2023 registrants will be subject to these challenges on into 2028 if the Commission elects to require five years of disclosures to be maintained.

ABA cautions that, due to the significant changes in the measurement basis of the allowance for credit losses, the ratio disclosures may be confusing to analysts, not only in comparing pre-2020 ratios to CECL-based disclosures, but also in comparing SEC registrants that are implementing CECL in 2023 to those that are implementing in 2020. Key differences that may impact the comparability between financial periods include the following:

- Credit losses are estimated on an expected lifetime basis under CECL, compared to a probable incurred basis under current accounting.
- Assets purchased with credit-deterioration under CECL will have different income recognition and credit loss provisioning compared to assets purchased with credit impairment under accounting.
- An allowance for credit losses is recorded on purchased performing loans (with no credit deterioration) on top of the fair value adjustment under CECL, while no such double-counting of the credit spread is maintained under current accounting.

With all this in mind, the Commission has proposed requiring disclosure of credit ratios, including the allowance for credit losses to total loans, nonaccrual loans to total loans, the allowance for credit losses to nonaccrual loans, and net charge-offs to average loans, with the

[2] See ABA Discussion Paper Disclosures and Discussions of Credit Risk Under CECL https://www.aba.com/advocacy/policy-analysis/disclosures-discussions-credit-risk-under-cecl

first three ratios disclosed on a consolidated basis and the last being reported by loan category. ABA recommends against requiring any new specific credit-related disclosures, due to the change in paradigm just discussed. CECL is intended to provide flexibility to the preparer to develop the best estimate of expected losses. Choices available to registrants on how to best achieve the estimate will often drive differences that are specific to the registrant. The industry needs time to develop new disclosures in order to communicate most appropriately to their investors, including how best to explain period-to-period changes in expected credit losses, considering loan mix and volume, credit performance related to expectation, changes in key inputs and assumptions, or other factors. At this time, those communications should not be templated or required in a formulaic matter; rather, they belong in the areas of the report that provide the most flexibility in explaining the issues to investors.

On the attached pages, ABA has also directly addressed the specific questions that apply to credit losses.

Average Balance Reporting Should Include Flexibility Regarding Disaggregation Levels

Proposed Item 1402 details prescriptive categories of average balances that must be disclosed within a presentation of average balance sheets:

> Major categories of interest-earning assets must include, at a minimum, loans, taxable investment securities, non-taxable investment securities, interest bearing deposits in other banks, federal funds sold, securities purchased with agreements to resell, and other short-term investments. Major categories of interest-bearing liabilities must include, at a minimum, savings deposits, other time deposits, federal funds purchased, securities sold under agreements to repurchase, commercial paper, other short-term debt, and long-term debt.

Addressing question #19 of the Proposal, ABA notes that the required disaggregation is more granular than current practice and current financial statement requirements. For example, federal funds sold and securities purchased with agreements to resell are typically aggregated on a single line item on the balance sheet. Separating these to disclose on an average balance basis may not be relevant for many institutions or may be confusing to investors. ABA recommends retaining either the current phrase “should include” or “must include, if material” when referring to this disaggregation requirement in order to give financial statement preparers the flexibility to disclose what is most relevant to financial statement users.

The Definition of Uninsured Deposits Needs Clarification

Addressing question #59, the disclosures of uninsured deposits required in proposed Item 1406 (e) & (f), may be operationally challenging as a result of the complex rules relating to various deposit accounts for determining the total insured amounts. For example different jurisdictions may have varying levels of deposit insurance. ABA recommends that the Commission consider the following related to uninsured deposits:

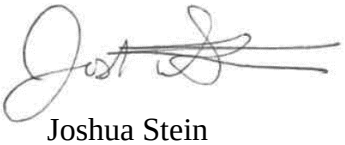
- Clarify that for deposits that are partially insured, the term "uninsured deposits" refers only to the amount in excess of the insured amount.
- Clarify how the definition for uninsured deposits will apply to the other products that are specifically named in Regulation S-K, Item 1406 (e); (e.g. annuities, life insurance products, and mutual funds).
- Consider the impact of the FDIC Part 370 rule[3] in determining the guaranteed amount of deposits. Specifically, current banking regulations regarding the collection and reporting of data on uninsured deposits vary, based on the number of deposit accounts maintained by the institution. It will be important for the Commission to consider these differences when developing the requirements.

The Proposed New Disclosures Should not Be Required in the Notes to the Financial Statements or in a Structured Format

Addressing questions #77 and #78 of the Proposal, ABA supports the Commission's decision not to propose that the disclosures in new Subpart 1400 of Regulation S-K be presented in the notes to the financial statements, nor be required to be filed in a structured data format (e.g. XBRL). The cost of these additional requirements could be significant to registrants.

ABA appreciates the opportunity to share this feedback, which comes from ABA members, as well as from detailed discussions from banking analysts and investors. Thank you for considering our comments. If you need additional information or have questions, please contact the undersigned (jstein@aba.com; 202-663-5318).

Sincerely,



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[3] https://www.fdic.gov/news/board/2019/2019-07-16-notice-dis-a-fr.pdf 12 CFR Part 370 ("Record Keeping for Timely Deposit Insurance Determination") requires additional reporting requirements for depository institutions with 2 million or more deposit accounts.

ABA Responses to Certain Credit Loss-Related Questions in the Proposal

40. Would the proposed rules result in the loss of information material to an investment decision? If so, what additional disclosures should be codified to avoid such loss?

    ABA Response: The current "Analysis of the Allowance for Loan Losses" provides little incremental value for analysis purposes. Therefore, ABA believes that eliminating this requirement would not reduce decision-useful information.

41. Should we, as proposed, require a U.S. GAAP registrant to provide the tabular breakdown of the allowance for credit losses, and not codify the existing option of providing an alternative narrative discussion?

    ABA Response: ABA believes that a tabular breakdown of the allowance for credit losses would not be burdensome to prepare and it provides a convenient location for such information to be obtained by analysts and investors.

42. Should we, as proposed, revise the allowance breakdown to be based on the U.S. GAAP loan categories? If not, what alternative breakdown would be more appropriate? Should the proposed rules also require a breakdown of the liability for credit losses on unfunded commitments?

    ABA Response: ABA believes that disclosures should be consistent with how they are reported in U.S. GAAP, which is at the portfolio segment level. There will be significant operational difficulties in allocating the allowance in ways that would not conform to GAAP reporting.

43. The proposed rules would not require IFRS registrants to provide the tabular breakdown of the allowance because IFRS already requires similar information. Would any information material to an investment decision be lost by not requiring this disclosure for IFRS registrants? If so, how should we revise the proposed rules to avoid such loss?

    ABA Response: ABA believes that disclosures in IFRS or in U.S. GAAP should not be duplicated in Guide 3.

44. The proposed rules would require the net charge off ratio to be disclosed on a more disaggregated basis than the level of charge off disclosure that currently exists in U.S. GAAP. Specifically, the proposed rules would require the ratio for each of the U.S. GAAP loan categories or IFRS loan classes disclosed in the registrant's financial statements. Is this level of disaggregation appropriate for this ratio?

    ABA Response: Charge-off ratios should not be more disaggregated than at the portfolio segment level which is consistent with reporting of ALLL for US GAAP purposes.

ABA cautions the commission, however, that current charge-off ratios will have little, if any, relation to credit loss provisions or the allowance for credit losses, especially for loans with longer terms, such as many consumer loan products. Since allowances are initially recorded at origination or commitment and can significantly change based on economic forecasts, charge-off ratios on these product lines might confuse stakeholders who are trying to assess credit performance.

45. Should the proposed rules also require additional expected credit loss information by U.S. GAAP loan category, such as the provision for credit losses for each loan category? Would information at the U.S. GAAP loan category level be available to preparers without significant undue cost or burden?

    ABA Response: ABA believes credit loss information should not be more disaggregated than at the portfolio segment level which is consistent with reporting of ALLL for US GAAP purposes.

46. Are there additional disclosures that registrants with material portfolios of financial instruments with an allowance based on an expected credit loss model (e.g., the New Credit Loss Standard) should provide? If so, what additional disclosures should be required and why? Should these disclosures allow for scalability among registrants, and if so, how?

    ABA Response: ABA supports the Commission's decision not to propose at this time any specific new disclosures related to the Current Expected Credit Loss accounting standard. ABA cautions against any new specific required disclosures to address this change in paradigm. CECL is intended to provide flexibility to the preparer to develop the best estimate of expected losses. Choices available to registrants on how best to achieve the estimate will often drive differences that are specific to the registrant. The industry needs time to develop new disclosures and communicate to their investors, including how to attribute changes in expected credit losses and to define the key drivers of those changes whether they be key inputs or assumptions or other factors. At this time, those communications should not be templated or required in a formulaic matter; rather, they belong in the areas of the report that provide the most flexibility to explain to investors best. To the extent that required disclosures are developed in the future, the level of disclosure should clearly reflect the sophistication of the CECL estimation process, no matter the sophistication of the entity.

47. Would disclosure of the key inputs and assumptions used in an expected credit loss model (e.g., the New Credit Loss Standard) provide information material to an investment decision? If so, what key inputs and assumptions would be material?

    ABA Response: Inputs and assumptions made to CECL models will be critical to credit loss estimates and, thus, will be important to investment decisions. While disclosure of inputs such as the forecast of economic conditions appears initially helpful to investors, ABA cautions that the complexity of credit loss modeling (for example, non-linear

relationships of changes in certain economic conditions to loss given default) will likely frustrate many investors who wish to use such inputs in their own modeling.

A detailed requirement of disclosures may also often result in confusion, based on how a bank performs its estimates. An example is disclosure of "reasonable and supportable (R&S) forecast periods." Bank A, for example, may use the economic forecast of a third-party forecasting registrant for one year and then revert to long-term historical experience over the next two years. This bank may report an R&S forecast period of one year.

Bank B relies on its chief economist to provide economic forecasts. As part of her forecasting methodology, the chief economist uses reversion techniques for her long-term forecasts. Bank B may report its R&S forecast period to be three years. In substance, Bank A and Bank B may have similar economic forecasts. Therefore, it may be very challenging to achieve comparability even in forecasting methodologies.

With this in mind, we recommend the Commission to wait for industry practice to develop over the next few years before proposing any required disclosures related to inputs.

48. Are there other disclosures about allowance for credit losses we should consider requiring? For example, should we require registrants to disclose the material qualitative adjustments used in the estimation of the allowance for credit losses and how those adjustments were determined? Should we require registrants to provide a description of any material changes in the key inputs/assumptions disclosed from period-to-period, including quantitative and/or directional information as to how the inputs and assumptions changed, and the factors driving the changes? If so, how would these disclosures be used? At what disaggregation level, for example, at a loan category level or portfolio segment level, should they be presented?

ABA Response: Due to the broad range of credit loss modeling methods that will be performed by banks, there will be little agreement related to qualitative adjustments made to initial modeling results. Among other things, qualitative adjustments may be made to modeling inputs (e.g. adjustments made to independently forecasted economic conditions), intermediate outputs (e.g. loss given default calculations), and final outputs (which may include overlays that address past imprecision in modeling or to address aspects of credit risk not fully addressed in the model). For that matter, the level of qualitative adjustments may change based on the specific historical experience used in the model, as well as the level of disaggregation used in the model. ABA expects there to be wide diversity in how qualitative adjustments are defined and applied, not only between registrants, but also between periods within a registrant. ABA, therefore, recommends that qualitative adjustments not be a required tabular disclosure.

ABA believes that banks that adopt CECL in 2020 will likely disclose certain key inputs and assumptions used in their estimates, as well as corresponding period-to-period

changes.[4] However, ABA cautions that differences in portfolio segmentation, estimation methods used, and methods to address "reasonable and supportable" forecast periods will frustrate investors who desire comparability or the ability to use such disclosure in their own modeling. Key inputs can often differ, for example, based on a bank's geographic footprint, as well as borrower profile. With this in mind, ABA recommends that the Commission observe bank practice over the next few years prior to proposing specific items.

Proposed New Disclosure – Credit Ratios

49. Are the proposed new disclosures appropriate? Would the proposed ratio disclosures help investors better understand how the credit trends in the loan portfolio change over time? Should different or additional credit ratios be included?

    ABA Response: ABA believes that many analysts and investors are already calculating and monitoring these ratios. Disclosing these ratios will not be substantially burdensome to banks. However, as with a net charge-off ratio, changes in current credit metrics such as nonaccrual loans will often conflict with allowance and credit loss provisions under CECL. Nonaccrual status may often not be a significant input, for example, in bank estimation models. ABA recommends that the Commission not proceed with codifying such changes until CECL practice settles down.

50. Would there be a significant cost or burden to registrants in providing the proposed ratio disclosures, including for 5 years in initial registration and initial Regulation A offering statements? Would registrants have the information readily available from the information they report to the U.S. banking agencies?

    ABA Response: ABA believes that such information would not be burdensome to produce. However, ABA cautions that, due to the significant changes in the measurement basis of the allowance for credit losses, the ratio disclosures may be confusing to analysts, not only in comparing pre-2020 ratios to CECL-based disclosures, but also in comparing SEC registrants that are implementing CECL in 2023 to those that are implementing in 2020.

51. The proposed rules would require the ratio of Net Charge-offs to Average Loans to be provided on a disaggregated basis, with the other ratios provided on a consolidated basis. Should we require further disaggregation for the other credit ratios? If so, at what disaggregation level? Is there a significant cost or burden to registrants in providing this information?

    ABA Response: ABA believes that further or different disaggregation would be operationally difficult for most banks.

[4] Such information will be required to be disclosed in U.S. GAAP, though it is likely that disclosure may be qualitative, without quantitative details.

52. Should we require, as proposed, the disclosure of each of the components used in the calculation of the ratios for each period, along with a discussion of the drivers of the material changes in the ratios? If not, why not?

    ABA Response: Nonaccrual loans and charge-offs result from credit deterioration events, which are not necessarily direct drivers of the CECL estimate. Estimated credit losses are initially recorded at origination under CECL and will include an expectation of future credit events that drive loss (e.g. non-payment and charge-offs). In other words, with a perfect forecast, charge-offs should be effectively fully anticipated at the time of commitment or origination. Therefore, they would not necessarily drive changes in ratios to the extent they had been accurately forecast. As a result, a discussion of these metrics may be confusing to the analyst or investor. Given the complexity of what can drive the CECL estimate, registrants should have flexibility in communicating those drivers and no specific discussion should be required unless the registrant believes it to be relevant.

53. Is the proposed five years of disclosure in initial registration and initial Regulation A offering statements a sufficient time period for evaluation of the loan portfolio credit trends? Would a shorter time period capture the same credit trends? Are there other registration statements, Regulation A filings, or periodic filings that should include the five years of credit ratios?

    ABA Response: ABA cautions that CECL's forward-looking aspect of credit loss provisions substantially diminishes the relevance of historical credit trends for various longer-termed lending products. Any set period of years may add limited value to such a disclosure requirement.

54. Should we require, as proposed, five years of credit ratios for initial registration or initial Regulation A offering statements filed by EGCs and SRCs or should we limit the requirement to the periods presented in the financial statements provided by those types of registrants?

    ABA Response: ABA has no response to this question.

55. The proposed rules would not require disclosure of the ratio of Nonaccrual Loans to Total Loans or the Allowance for Credit Losses to Nonaccrual Loans for IFRS registrants since there is no concept of nonaccrual loans in IFRS. Should the proposed rules require disclosure of these ratios, calculated on a U.S. GAAP basis, to aid in comparability? Are there different ratios that should be required for IFRS registrants that would provide similar information?

    ABA Response: ABA believes that the Commission should explore how "Stage 3" assets under IFRS 9 may be considered comparable to nonaccrual loans within U.S. GAAP.

56. Would the ratio of the allowance for credit losses to total nonaccrual loans continue to be necessary upon the adoption of the New Credit Loss Standard by U.S. GAAP registrants?

    ABA Response: Estimated credit losses are initially recorded at origination under CECL and may not be directly related to events that reflect credit deterioration as those events unfold. In other words, with a perfect forecast, the ultimate levels of nonaccrual loans should be effectively fully anticipated at the time of commitment or origination. Rather, as current events unfold the difference between what was expected and what actually occurred, and how that drives future expectations will have the most impact on allowance levels. In contrast, the nonaccrual status of a loan is dependent on credit events on individual loans. ABA believes, therefore, that a ratio of ACL to total nonaccrual loans may not be relevant, especially for loan products that are significantly longer than one year. With this in mind, the ratio of the allowance for credit losses to total nonaccrual loans should not be necessary upon the adoption of CECL, but registrants should be allowed to provide such disclosure when it is relevant to their portfolio.