IBC
International Bancshares
Corporation

December 4, 2024

Via email: Comments@fdic.gov

Federal Deposit Insurance Corporation
Attn: James P. Sheesley, Assistant Executive Secretary
Comments - RIN 3064-ZA42
550 17th Street, NW
Washington, DC 20429
Comments@fdic.gov

Re: Comments of International Bancshares Corporation on Request for Information on Deposits (RIN 3064-ZA42).

Dear Mr. Sheesley:

The following comments are submitted by International Bancshares Corporation ("IBC"), a publicly traded, multi-bank financial holding company headquartered in Laredo, Texas. IBC maintains 166 facilities and 257 ATMs, serving 75 communities in Texas and Oklahoma through five separately state-chartered banks ("IBC Banks") ranging in size from approximately $479 million to $9.48 billion, with consolidated assets totaling over $15.5 billion. IBC is one of the largest independent commercial bank holding companies headquartered in Texas. The Federal Deposit Insurance Corporation ("FDIC") is the primary federal regulator of the IBC Banks, and the Federal Reserve Board ("FRB") is the primary federal regulator of IBC.

These comments respond to FDIC's Request for Information on Deposits ("RFI"), which seeks information on additional deposit and characteristics not currently reported on the Consolidated Reports of Condition and Income ("Call Report") or other regulatory reports. The RFI solicits information on the potential use of additional deposit data for a wide variety of topics, including assessing the stability and franchise value of different types of deposits, enhancing liquidity monitoring and supervision, and deposit insurance pricing. The RFI also asks whether additional reporting would provide the general public with more accurate and transparent data on a bank's financial condition.

Comments

The RFI Generally, and the FDIC's Goals Specifically, Are Too Vague and Broad to Provide Meaningful Data and Input.

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As an initial matter, the breadth of the questions within the RFI makes it unclear what the FDIC is ultimately trying to achieve. IBC has serious concerns with the current amount of regulatory reporting requirements placed on chartered banks, and is apprehensive that the RFI indicates that the FDIC intends to enact additional reporting requirements. The RFI is overly broad in scope, and it is unclear to what extent the FDIC is considering changes and/or additions to reporting requirements. While IBC is generally supportive of using deposit information to assist in the FDIC's stated goals, IBC does not believe extensive, onerous additions to regulatory reporting requirements is a prudent way to achieve such goals as it could significantly harm and further hamstring small and mid-sized banks that are less able to leverage resources to meet new reporting requirements.

The FDIC is seeking data for three separate potential uses: (1) liquidity risk supervision and regulation, (2) enhanced market transparency, and (3) informing deposit insurance coverage, pricing and resolutions. [RFI at 63946] From an operational reporting standpoint, many of the questions in the RFI ask for information that is difficult for IBC to provide without knowing the FDIC's ultimate objectives or details regarding any new reporting requirements. For example, the FDIC asks where potential data inputs are located and maintained, if the Call Report should or will be reworked, and whether the information should remain confidential. While these questions are necessary and important, the FDIC's goals are too vague, and it is too early in the process to answer these questions definitively or with certainty.

New Reporting Requirements Must Be Structured With Consideration of the Broader Context of the Banking Landscape.

Almost as a rule, changes to regulatory reporting cause unintended burdens or distortions that are not necessarily apparent at an early, developmental stage. While a new set of data points or a new reporting framework may seem helpful and easy to implement at the outset, the larger context of how that reporting gets operationalized, as well as the effect of that data's disclosure, can quickly bring fundamental problems to light. To ensure that any new reporting or data elements are properly defined and structured, they must be developed with robust industry input. Due to the level of input required to create appropriate and helpful reporting requirements and the broad, vague scope of the RFI, IBC strongly urges the FDIC to conduct industry focus groups through each stage of this initiative, similar to those conducted related to previous Call Report reform. A highly collaborative process will allow for detailed and thoughtful input on potential line items and data points, definitions, and reporting structures from banks of all sizes. Typically, any change to regulatory reporting requirements negatively affects small and mid-sized banks much more significantly than it does their larger peers. Engaging in a highly collaborative process to structure any new reporting or data element requirements will ensure that any additional obligations enacted are relevant to their purpose, and neither redundant nor overly burdensome on small and mid-sized institutions. Furthermore, while the FDIC appears to only be contemplating *additions* to current reporting, IBC recommends the FDIC conduct a comprehensive review of reporting obligations to identify areas that are no longer useful or needed.

As IBC has continued to communicate to its federal regulators, the sheer amount of regulations and the disparity in resources and technical and operational ability means that practically every regulatory change has more negative effects on small and mid-sized community banks than it does their larger peers. These "small enough to fail" banks simply do not have the ability to report the "comprehensive data on the composition of insured and uninsured deposits" that the FDIC is seeking. [RFI at 63947] Neither do these community bank have the ability to reasonably identify and produce that data without considerable cost and effort. On the other hand, the largest banks are able to rely on their economies of scale, existing technical and operational capabilities, and increased access to third party service providers and solutions in order to react to and implement regulatory changes more cheaply and swiftly. For some, increased data element reporting would require the mere flip of a switch, while their smaller counterparts would need to hire a completely new team and build or buy a solution for identifying, compiling, and reporting new data elements. The question seems to be whether the cost to produce that information would justify the usefulness of the data, and for small and mid-sized banks the answer is likely to be a resounding no. In IBC's experience, community banks build close relationships with their depositors, but certainly do not track "characteristics such as length or type of depositor relationship, duration, depositor proximity, or rates paid by account type." [RFI at 63949] Compiling that data would also be problematic. For example, if a depositor has multiple accounts or a business entity has multiple affiliates under the deposit relationship, the open date of a particular account may not reflect when the depositor first established a deposit relationship with the bank without significant research. Additionally, the record retention requirements for closed accounts are generally five years after the account is closed, and a closed account removed from the system that predates accounts that are currently open would certainly impact the date as to when the deposit relationship originally started. Requiring community banks to produce that "comprehensive data" will do nothing to improve the regulatory burden already stymying the growth of community banks.

Turning back to "too small to fail" banks, IBC continues to be deeply concerned that the FDIC own actions in implicitly guaranteeing deposits at institutions subjectively deemed "too-big-to-fail" is the biggest contributor to unease and concerns regarding the Deposit Insurance Fund. The banks that failed in 2023 were in no way institutions that should be considered too-big-to-fail, yet the FDIC functionally insured deposits at those institutions well over what the covered threshold should have been. IBC is quite sure that it would not benefit from the same treatment in the event of a failure. Thus, the FDIC's own actions have created a dual banking system that has increased the disparate treatment between large and community banks, with larger, flashy institutions being the "haves" and community banks the "have-nots."

In addition, the FDIC must work with the Federal Reserve and OCC to ensure a common set of consistent definitions and assumptions behind the assessment of deposit stability and agreement on factors that could mitigate liquidity and other risks. These questions are fundamental to bank safety and soundness and will likely have major consequences for a range of policy matters, including liquidity risk supervision and regulation, and the calibration of related policy, such as deposit insurance.

A bank's liquidity risk and deposit stability are a concern for all federal bank regulators, and any changes to regulatory reporting requirements must be aligned as between those regulators in order to avoid confusion, redundancy, and over-regulation. As discussed elsewhere herein, any disparity amongst the federal regulators will have an outsized effect on small and mid-sized banks, as these banks do not have the same resources and leverage available as compared to their larger counterparts. Any differences in categorization or reporting requirements between the regulators would result in more resources (both financial and human) being required for compliance, which always harms community banks more than their too-big-to-fail peers. Dual reporting, tracking, data management, and other requirements will be easier for large banks to implement because they either have more internal resources to build such frameworks or already have access to such tools because of their vendor relationships. Small and mid-sized banks simply do not have all the bells and whistles of large banks because they do not need them to meet their compliance obligations and operate in a safe and sound manner. To prevent confusion, redundancy, and over-regulation, the definitions and data elements used for any changes to regulatory reporting requirements on deposits should be aligned across the federal bank regulators. This will also help ensure that the federal bank regulators are assessing risk accurately and consistently.

Evaluation of Liquidity Risk

The characteristics that make a deposit stable or volatile depends on many factors, including the underlying business environment, a bank's overall funding strategy and business model, the underlying service or product offered, the depositor's relationship with the bank, the bank's experience with certain customers, products and activities, and the term of the deposit. Another important factor is how the bank acquired the deposit: was it based on a broad-reaching advertisement promising a high rate of interest, or was is through a relationship-based approach where the bank actually knows the customer and builds its reputation and business around supporting its customers and their businesses? Any changes to liquidity exposure and risk evaluation criteria must be sure to take a holistic view of deposits so that regulators do not incorrectly focus on single, siloed data points that may not fully incorporate the larger liquidity or deposit risk profile of a bank. It would also not support the FDIC's goals to simply paint certain deposits with a broad brush, labelling specific categories of deposits as patently high or low risk. Any evaluation of or changes to deposit reporting and risk assessment must consider deposit characteristics and bank business models in their full context, and not as singular data points that represent black and white stability or volatility.

Deposits should not only be evaluated in the context of their character as a specific type of deposit, but also in the larger context of a bank's business model. To wit, liquidity risk is managed on both sides of a bank's balance sheet through a mix of funding types on the liabilities side and a reserve of cash and monetizable loans and securities on the assets side. Deposits are only one component of a bank's business model and overall balance sheet.

As demonstrated by the 2023 bank failures, market participants and the media focused heavily on one or two data points, impairing the ability of many liquid and well-capitalized institutions to counter what was often a predetermined, potentially misleading and overly simplistic narrative. Indeed, even the bank regulators themselves focused on uninsured deposits as a facile proxy for liquidity risk, even though that term encompasses a broad spectrum of deposits, which includes both "sticky" and "non-sticky" deposits, and, when taken from the Call Report, is based on an inadequate line item that is not meant to be a proxy for liquidity risk.

The potential for Call Report users to focus on and exaggerate the importance of one element of a bank's balance sheet is currently quite high, and the FDIC should be cautious to exacerbate this predilection further, either by confirming this approach itself by focusing on binary characteristics of deposits to evaluate their risk or revising reporting requirements to ostensibly create data points meant to function as proxies for liquidity risk. To mitigate this, any new or additional reporting geared toward greater market transparency should allow for a holistic assessment of liquidity risk exposure and its mitigants, on both the funding and asset side, based on the unique business model of the bank at issue. Furthermore, to the extent examiners need additional information, a potential reporting of additional items should align with current regulatory and business definitions and uses, with components kept confidential as needed and appropriate. The FDIC must leverage current reported data points and regulatory definitions so that banks have a clear understanding of what data may be covered and are not toiling under competing regulatory definitions. For example, if the FDIC requires additional reporting on brokered deposits (or deposits held under an exception to the Brokered Deposit Rule), the FDIC's reporting requirements should leverage the definitions and terms of that Rule to structure the new reporting requirement. Otherwise, banks will have one definitional overlay for general regulatory compliance and a separate overlay for regulatory reporting. Additionally, the benefits of additional reporting—for supervisory, market transparency or other purposes—must be weighed against its costs and tradeoffs including its potential to cause, rather than mitigate, contagion. Perfectly transparent insight into a bank's deposit base would be a boon for regulators, but the cost of implementing such reporting would vastly outweigh any incremental increase in the benefits. Moreover, singular data points and overly small data sets can easily misrepresent reality and cause confusion and inappropriate conclusions. Any changes to public reporting requirements must consider what effect the new requirements could have, including fundamental and unwarranted harms to banks due to misinterpretations of reported data.

<u>The FDIC Should Focus on Leveraging Current Reporting and Regulations</u>

As discussed above and in addition to leveraging existing regulatory definitions, IBC strongly recommends that, in trying to assess depositor stability and behaviors, the FDIC coordinate with the other federal bank regulators and take into account existing reporting requirements and data points. For example, the Liquidity Coverage Ratio ("LCR") , which was implemented by all three federal bank regulators in 2014, already represents a framework for distinguishing between certain types of deposits based on various risk factors.

While the LCR is not perfect, it does provide a well understood basis for the types of factors that contribute to deposit stability during periods of short-term stress. And again, leveraging the LCR's framework as a starting point would help to ensure that any additional reporting the FDIC is considering is consistent with current regulatory definitions. This includes the clear, well-defined requirements which apply to operational deposits.

The Current Reporting Structure of Uninsured Deposits Is Not Ideal and Any Changes Should Leverage Useful Pieces of That Structure While Doing Away with Reporting and Data Elements That Are Not Useful.

The current Call Report requirements regarding uninsured deposits may be confusing for examiners, market participants, policymakers, and other stake holders as the line item reflects a wide variety of depositors, counterparties and deposit product types. Given the mix of deposits contained in the current category "estimated uninsured deposits," the line item as currently reported is not appropriate for either the evaluation of a bank's liquidity risk or as a factor in the pricing of deposit insurance.

Uninsured deposits represent a broad array of deposits that are derived from a range of financial services, product features, and behavioral characteristics. Accordingly, among those deposits reported in the "estimated uninsured deposits" line item, there are significant, fundamental differences in risk, liquidity, and stickiness. For many uninsured deposits, the bank relationship or the purpose and function of the deposit ensures their stability. For example, some uninsured deposits are defined contractually so they cannot be taken out of the bank quickly or prematurely in the face of stress. Other deposits, such as those from municipal and local entities, are collateralized, while still others, such as operational deposits, are the result of specific financial services provided to the customer as defined in regulation (e.g., cash management, clearing, or custody). All these factors, serve to make deposits more stable, even when uninsured. It is confusing for them to be disclosed to stakeholders who are unaware of these nuances or have no insight into the breakdown of the line item for those deposits.

One simple way the FDIC could begin to acknowledge and address the disparities amongst deposits included in the "estimated uninsured deposit" line item is to include operational deposits (as defined in the LCR rule) in the Call Report, either as a sub-item of, or completely removed from, the "estimated insured deposits" line item. Operational deposits are limited to deposits that result from the provision of clearing, custody, and cash management services, where the client receiving these services must place or leave deposits with a bank in order to facilitate their access and ability to use payment and settlement services, and otherwise make payments. See 12 C.F.R. 329. Unlike other categories of deposit liabilities, operational deposits must meet a series of stringent requirements to be considered an operational deposit for the purposes of the LCR rule. Because the requirements for recognizing operational deposits specifically exclude any balances in excess of those required for the provision of operational services, the federal banking regulators require banks to implement detailed and empirically driven processes to identify their operational deposit balances.

Because this type of deposit is already specifically defined by regulation, contains all the characteristics of stable, low-risk deposits, and is already being calculated by federally regulated banks, leveraging this existing process into Call Reporting would be a much easier, clearer, and less resource-intensive undertaking than crafting wholly new deposit definitions and reporting schemes.

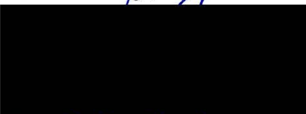
In addition to leveraging the definitions and data elements related to operational deposits, the FDIC can also leverage the same for inter-company and collateralized deposits. Like operational deposits, inter-company and collateralized deposits are more stable, low-risk, and "sticky," thus they do not present the same broad risk profile that uninsured deposits do writ large. Inter-company and collateralized deposits are typically already tracked by banks, and at the very least would likely require little effort and resources to identify to the extent they are not already.

Conclusion

To receive robust, helpful, and actionable feedback, IBC urges the FDIC to systematically assess each policy, goal, or reporting objective, consider the data available from existing reporting, clearly define any relevant gaps, and determine whether the solution requires public or supervisory reporting, working together with the other banking agencies as appropriate. Once a clearer and narrower purpose has been identified, IBC recommends that the FDIC issue subsequent RFIs in advance of any proposed rulemaking. At this time, IBC is hesitant to believe the FDIC would be able to enact comprehensive deposit reporting reform based on the feedback it will receive from the RFI. Instead, the RFI should be treated as a jumping off point to begin conversations with stakeholders to understand what reforms will be most beneficial to all parties without being an undue burden on the backbone of the banking industry: community banks.

IBC appreciates the opportunity to comment on these proposed revisions.

Sincerely,



Dennis E. Nixon
President and CEO