March 28, 2024

Office of the Comptroller of the Currency
Chief Counsel's Office
Attn: 1557–0081 Call Report and FFIEC 002 Revisions
400 7th Street SW
Suite 3E–218
Washington, DC 20219

Manuel E. Cabeza, Counsel
Room MB–3128
Attn: Comments–Call Report and FFIEC 002 Revisions
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
Attn: Call Report and FFIEC 002 Revisions
20th Street and Constitution Avenue NW
Washington, DC 20551

Office of Information and Regulatory Affairs
U.S. Office of Management and Budget
New Executive Office Building
Room 10235
725 17th Street NW
Washington, DC 20503

Re: Proposed Agency Information Collection Activities Comment Request; OCC 1557–0081; Document Number 2023-28473; 88 FR 89489 (Dec. 27, 2023)

Dear Ladies and Gentlemen:

Better Markets[1] appreciates the opportunity to provide additional comment on the proposed requirements ("Proposal") for banks' regulatory reporting of lending to nondepository financial institutions ("nonbanks") on the Consolidated Reports of Condition and Income ("Call Reports").[2]

We support the Proposal, along with the suggested changes discussed below, and urge the Office of the Comptroller of the Currency, Federal Reserve System, and Federal Deposit Insurance

[1] Better Markets is a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support the financial reform of Wall Street, and make our financial system work for all Americans again. Better Markets works with allies—including many in finance—to promote pro-market, pro-business, and pro-growth policies that help build a stronger, safer financial system that protects and promotes Americans' jobs, savings, retirements, and more.

[2] Proposed Agency Information Collection Activities Comment Request; OCC 1557–0081; Document Number 2023-28473; 88 FED. REG. 89489 (Dec. 27, 2023), https://www.federalregister.gov/documents/2023/12/27/2023-28473/proposed-agency-information-collection-activities-comment-request.

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Corporation ("Agencies") to implement the new data collection as soon as practicable.[3] Currently, there is far too little information collected and made available to regulators and the public about banks' lending to nonbanks, which presents increased risks to banks' safety and soundness as well as the country's financial stability. Collecting and disseminating more granular data will enable the Agencies and the public to better understand the risks that stem from this lending activity.

COMMENTS

I. ENSURE THAT THE REPORTING FRAMEWORK CONTAINS ENOUGH DETAIL AND GRANULARITY TO MEET THE STATED GOAL OF INCREASED TRANSPARENCY AND VISIBILITY INTO NONBANK LENDING EXPOSURE AND RISK.

We have now reviewed the redlined versions of the Call Report instructions that define the five categories of nonbank lending in the Proposal.[4] Because they were not directly referenced in the Proposal and there was no indication of supplementary material for the Proposal, we were not aware of those materials and therefore had not reviewed them at the time of writing the original comment letter. The limited information in the Proposal led to our prior comment about the definitions of the categories being unclear. Having now reviewed that additional material, we believe that the definitions are sufficiently clear.

However, that supplemental material confirms our concerns that the framework of the five subcategories of nonbank lending will likely result in an unhelpfully large "other" category. This conclusion is based on a comparison of the FFIEC's definition of nonbank lending to definitions from other financial and regulatory authorities such as the Financial Stability Board ("FSB") and the Bank for International Settlements ("BIS").

In its 2023 report on nonbank financial intermediation, the FSB defines the nonbank sector broadly as "all financial institutions that are not central banks, banks, or public financial institutions."[5] It then defines a "narrow measure" of nonbanks as those entities that are "involved

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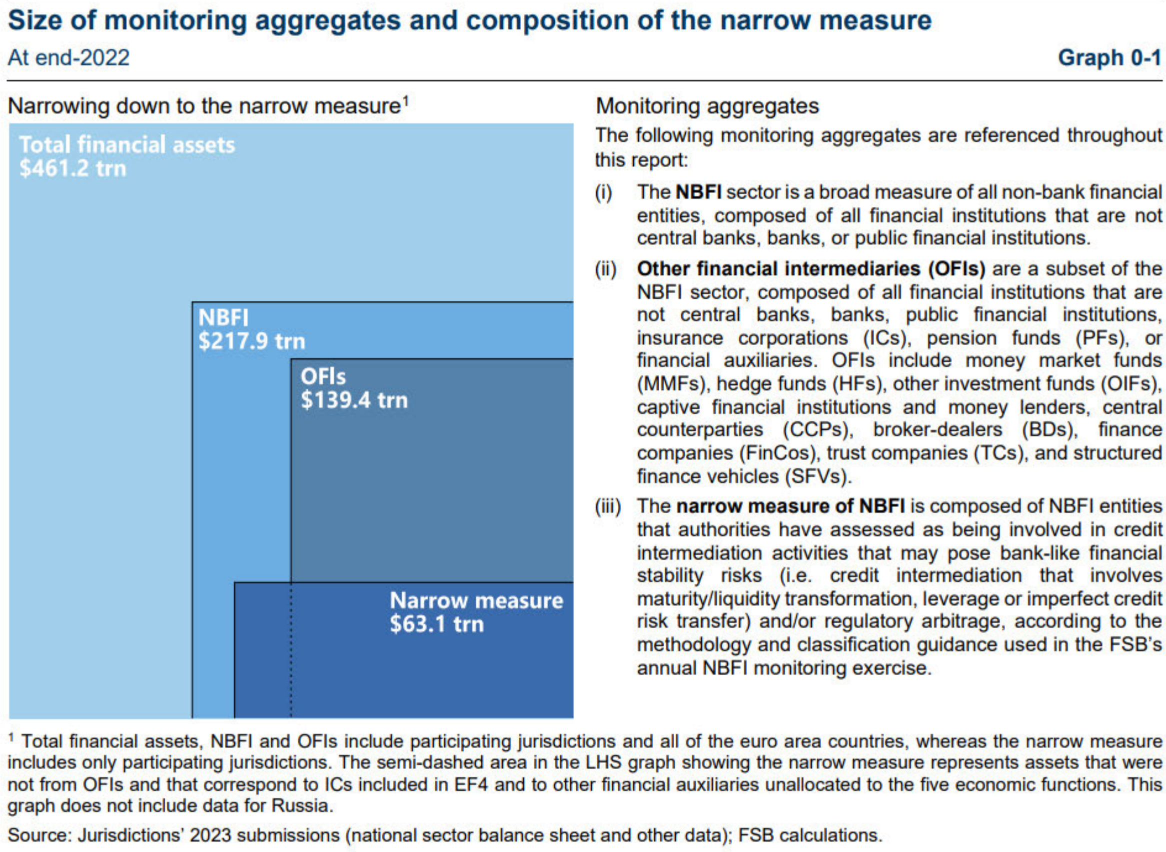
[3] Better Markets Comment Letter, *Proposed Agency Information Collection Activities Comment Request* (Feb. 26, 2024), https://bettermarkets.org/wp-content/uploads/2024/02/Better-Markets-Comment-Letter-Nonbank-Data-Collection.pdf; *see also* Federal Financial Institutions Examination Council, *Draft Instructions for Call Report Revisions Proposed to Take Effect Beginning with June 30, 2024*, https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_20231227_i_draft.pdf; Federal Financial Institutions Examination Council, *Draft Reporting Form for Call Report Revisions Proposed to Take Effect Beginning with June 30, 2024*, https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_20231227_f_draft.pdf.

[4] Federal Financial Institutions Examination Council, *Draft Instructions for Call Report Revisions Proposed to Take Effect Beginning with June 30, 2024*, *supra* note 3.

[5] FINANCIAL STABILITY BOARD, GLOBAL MONITORING REPORT ON NON-BANK FINANCIAL INTERMEDIATION 3 (Dec. 18, 2023), https://www.fsb.org/2023/12/global-monitoring-report-on-non-bank-financial-intermediation-2023/.

in credit intermediation activities that may pose bank-like financial stability risks."[6] According to the FSB's report, the narrow measure of nonbanks accounted for less than 30% ($63.1 trillion) of all nonbank financial assets ($217.9 trillion) (see Figure 1).[7] This leaves a large and opaque "other financial intermediaries" category containing $139.4 trillion in assets, more than double the size of the narrow measure.[8]

Figure 1



The FFIEC's addition of the new first four specifically defined subcategories is certainly an improvement from the current reporting framework and will yield more insight into the risks and exposures that banks have as a result of lending to these nonbank entities. However, the "other" subcategory in the new framework, with nine separate components, confirms that too much will be lumped into that category resulting in material blind spots in lending to nonbanks. While it does not include all components of the FSB's "other financial intermediaries" category, it's only reasonable to expect that much of that will fall into the nine categories:

[6] *Id.*

[7] *Id.*

[8] *Id.*

(a) Loans to holding companies of other depository institutions;

(b) Loans to insurance companies;

(c) Loans to federally-sponsored lending agencies;

(d) Loans to investment banks and all loans to brokers and dealers in securities;

(e) Loans and advances made to the bank's own trust department;

(f) Loans to money market funds, including open- and closed-end mutual funds, as well as index funds, or exchange-traded funds;

(g) Loans to hedge funds;

(h) Loans to pension funds, endowments, family offices and sovereign wealth funds; and

(i) Loans to other investment firms and financial vehicles.

The BIS identifies specific financial stability and systemic risks for several of these nine components, including insurance companies, pension funds, hedge funds, and sovereign wealth funds (see Figure 2).[9]

Figure 2

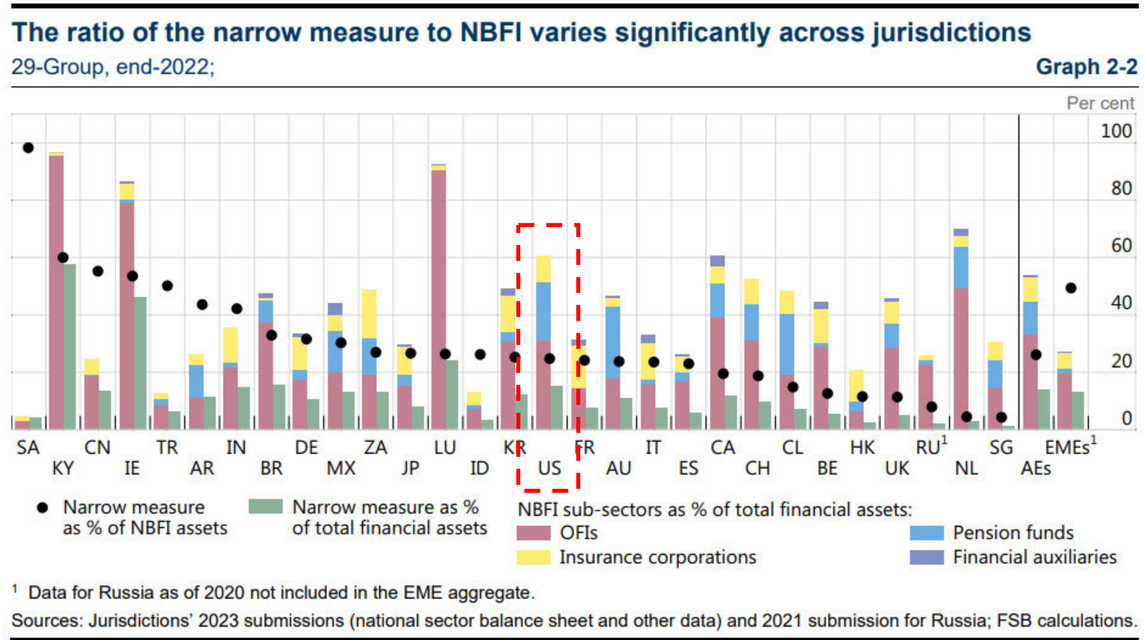
Broad categories	Intermediaries	Key characteristics from a financial-stability perspective	Main systemic risks
Institutional investors and asset managers	Insurance companies	Premia collected from insured parties are invested in various assets, often long-lived and illiquid	Some leverage, some liquidity transformation
	Pension funds	Contributions by participants are invested in a mix of public-market and private-market assets	Some credit-risk transformation
	Sovereign wealth funds	Vehicles managed by state-affiliated entities, often focused on long-term illiquid assets	Possibly leverage
	Hedge funds*	Investors' capital is augmented with leverage and deployed through strategies that may involve arbitrage	Leverage, some liquidity transformation (limited by redemption notices)
	Exchange-traded funds*	Shares trade in secondary markets and are generally redeemed in-kind only by selected intermediaries	Some liquidity transformation (limited by the redemption mechanism)
	Mutual funds*†	Shares can be redeemed daily even if underlying assets are illiquid (if open-ended, incl. money-market funds)	Liquidity transformation (if open ended), possibly leverage
	Securitisations†	They invest in various assets, possibly risky, and issue notes with different seniority, including AAA-rated	Credit-risk transformation
Market intermediaries	Broker-dealers*	They use relationships or own inventory to facilitate client trades. They often enable leverage for their clients	Leverage, liquidity transformation
	Principal trading firms*	High-frequency buyers and sellers in electronic markets, holding minimal end-of-day inventories	Pro-cyclicality in liquidity provision, intra-day leverage
Financial market infrastructures	Exchanges & electronic trading platforms*	Marketplaces for trading securities and/or financial contracts like derivatives	Technical disruptions (eg, due to operational or cyber risks) could affect broader financial markets
	Central counterparties*	They act as counterparties to holders of certain financial contracts, netting and managing counterparty risk	Pro-cyclicality in market-wide leverage due to changes in initial margins, technical disruptions

(*) asterisks indicate intermediaries that can affect imbalances in the demand and supply of financial market liquidity more directly, and that we focus on in this paper
(†) entities engaged in elevated liquidity or credit-risk tranformation, such as most money-market funds or certain securitisations, are often considered shadow banks (eg, Adrian (2017))

9 Sirio Aramonte, Andreas Schrimpf & Hyun Song Shin, *Non-Bank Financial Intermediaries and Financial Stability*, Bank for International Settlements Working Papers, No. 972, 2 (Oct. 29, 2021), https://www.bis.org/publ/work972.htm.

Furthermore, the FSB data shows that some of the nine components that are currently contained in the FFIEC's "other" category are substantial in size in the US. For example, pension funds account for about 20% of total nonbank assets and insurance corporations account for about 10% (see the light blue and yellow segments of the "US" column in Figure 3).[10]

Figure 3



In summary, the fact that the proposed "other" category contains nine components, some of which are clearly large and have known financial stability and systemic risks, makes plain the inadequacy of the first four specifically-defined subcategories. That means that the Proposal misses, likely in a material way, the stated goal of increasing transparency of banks' exposure to nonbanks.

To achieve the stated goal of the Proposal, we therefore recommend that the number of subcategories in the FFIEC's new framework **be expanded to separately disclose bank lending to several entities** that are currently contained in the "other" category:

- Loans to pension funds, endowments, and sovereign wealth funds;
- Loans to insurance companies;
- Loans to investment banks and all loans to brokers and dealers in securities;

[10] FINANCIAL STABILITY BOARD, *supra* note 5, at 32.

- Loans to money market funds, including open-and closed-end mutual funds, as well as index funds, or exchange-traded funds; and
- Loans to hedge funds and family offices.

These proposed changes will provide the necessary insight into the largest and riskiest components of nonbank lending, the goal of the Proposal. Additionally, since banks have already been accounting for some of these as components of the current nonbank lending aggregate on the Call Reports, the cost or complexity to add categories would not be high or unreasonable for the reporting banks.

II. EXPAND THE REPORTING ON DELINQUENCY TO MATCH THE FIVE CATEGORIES FOR OUTSTANDING LOANS TO NONBANK BORROWERS.

As explained in our initial comment letter, one of the biggest current impediments to understanding the risk in nonbank lending is the lack of transparency resulting from the existing requirement that loans to nonbank borrowers be reported as one aggregate total.

We support the proposed expansion to new subcategories, which group loans to nonbanks by activity:

- Loans to mortgage credit intermediaries;
- Loans to business credit intermediaries;
- Loans to private equity funds;
- Loans to consumer credit intermediaries; and
- Other loans to nondepository financial institutions.[11]

The redlined Call Report provided on the Federal Financial Institutions Examination Council ("FFIEC") website, shows that these five subcategories will be used for reporting outstanding loans—on Schedule RC-C—and unused commitments—on Schedule RC-L.[12]

However, the reporting of loan performance—on Schedule RC-N— is only proposed as two aggregates, lending to US and foreign nonbank entities. Loan delinquency detail for each subcategory of nonbank lending is not proposed.[13] This is a missed opportunity and should be added to the final Call Report structure.

As explained in our prior comment letter, since banks will have identified each loan as belonging to one of the subcategories for the required reporting on outstanding loans, extending

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[11] Proposed Agency Information Collection Activities Comment Request, *supra* note 2, at 89492.

[12] Federal Financial Institutions Examination Council, *Draft Reporting Form for Call Report Revisions Proposed to Take Effect Beginning with June 30, 2024*, *supra* note 3.

[13] *Id,* at 2.

that framework to delinquency should not add significant cost or complications. Furthermore, this additional reporting will benefit the Agencies and the public to better understand emerging risks related to loans that are moving into and among the delinquency categories.

CONCLUSION

We hope these comments are helpful as the Agencies move expeditiously to finalize the Proposal.

Sincerely,

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