FIFTH THIRD BANCORP

Via Email: prainfo@occ.treas.gov November 27, 2023

Chief Counsel's Office
Office of the Comptroller of the Currency
Attn: OMB 1557-0081
400 7th Street SW, Suite 3E-218
Washington, DC 20219

Via Email: reg.comments@federalreserve.gov

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
Attn: OMB 7100-0036
20th Street and Constitution Avenue NW
Washington, DC 20551

Via Email: comments@fdic.gov

Manuel E. Cabeza, Counsel
Federal Deposit Insurance Corporation
Attn: Comments, Room MB–3128, OMB 3064-0052
550 17th Street, NW
Washington, DC 20429

Re: Proposed Agency Information Collection Activities; Comment Request – Call Report and FFIEC 002 Revisions – 88 FR 66933

Ladies and Gentlemen:

This comment letter is being submitted by Fifth Third Bancorp ("Fifth Third") in response to the notice of proposed rulemaking, dated September 28, 2023 (the "Notice"), issued jointly by the Office of the Comptroller of the Currency, Department of the Treasury; Board of Governors of the Federal Reserve System; and Federal Deposit Insurance Corporation, collectively the "Agencies", regarding the proposed revisions related to the Financial Accounting Standards Board's (the "FASB") Accounting Standards Update 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures". The proposed revisions, among others, require, within the Call Report Schedules RC-C and RC-N, the reporting of modifications to borrowers experiencing financial difficulty for a minimum period of 12 months and until an institution performs a current, well-documented credit evaluation to support that the borrower is no longer experiencing financial difficulty, unless the loan is paid off, charged-off, sold, or otherwise settled.

We at Fifth Third express our appreciation for the work done by the Agencies in preparing the Notice. We understand the need for regulators to continue to address urgent reporting issues and for entities to provide the data needed for monitoring the condition, performance, and risk profile of individual institutions and the industry as a whole. However, we request that the Agencies consider a potential revision to the Notice to establish a fixed 12-month time period for the reporting of loan modifications to borrowers experiencing financial difficulty. We request this modification because a 12-month reporting period is sufficient and we have concerns that compliance with the Notice will create undue operational burden for banks, potential

customer experience challenges, and an unwarranted conflict between regulatory reporting requirements and Generally Accepted Accounting Principles (GAAP).

Background of ASU 2022-02

Prior to the issuance of ASU 2022-02, one of the key concepts embodied by troubled debt restructuring ("TDR") reporting was the "life-of-loan" reporting concept in which a loan modified in a TDR was generally required to be reported as such until the loan was paid off, charged-off, sold, or otherwise settled. This life-of-loan reporting concept for TDRs is rooted in legacy accounting guidance prior to the adoption of ASU 2016-13 under the "incurred loss" methodology for recognizing credit losses where entities could only recognize credit losses once it is probable a loss has been incurred. Upon issuance, ASU 2016-13 eliminated the probable initial recognition threshold and required entities to recognize an estimate of all expected future credit losses both at origination of a loan and at each reporting date. This broadened the information that an entity must consider when developing its expected credit loss estimate and allowed entities to revert to historical loss models for periods that are beyond the time frame for which the entity is able to develop reasonable and supportable forecasts. During FASB's Post-Implementation-Review of ASU 2016-13, the FASB stated,

> Financial statement preparers cited a high cost and complexity associated with determining whether a modification represents a TDR and further measuring the effect of the TDR on an allowance for credit losses. Specifically, preparers indicated that the effect of certain of their TDRs could be captured only through a discounted cash flow model, which can be labor intensive and result in having to utilize a different allowance method for loans that had been modified as a TDR as compared with other similar loans in their portfolios. Preparers also acknowledged that after a loan has been modified as a TDR, the TDR designation remains with it throughout the remaining life of the loan because of the measurement requirements. Additionally, those preparers noted that the effect of using a discounted cash flow model for those loans does not result in a significant adjustment to the allowance for credit losses following the expected lifetime loss estimate required by the amendments in Update 2016-13, suggesting that the cost does not justify the benefits.[1]

As a result, the FASB issued ASU 2022-02, which eliminated the TDR-specific recognition and measurement guidance and required entities to evaluate whether the loan modification represented a new loan or a continuation of an existing loan. The FASB cited that the additional designation of a loan modification as a TDR and the related accounting are unnecessarily complex and no longer provide decision-useful information.

In efforts to simplify the accounting for modifications to borrowers experiencing financial difficulty (previously TDRs), the FASB amended the life-of-loan concept with the guidance in ASC 310-10-50-42, which states that an entity shall disclose, as it relates to modifications of receivables, payment performance in the 12 months after a modification of a receivable is made to a debtor experiencing financial difficulty. The FASB cited that a 12-month monitoring period is more appropriate than life-of-loan reporting as a "cumulative lookback [period] may not provide decision-useful information because some modifications

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[1] Financial Accounting Standards Board (March 2022), *Accounting Standards Update 2022-02 – Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures, Basis for Conclusion – Recent Feedback (BC14)*

that are spaced out over an extended period of time may be unrelated and would be considered minor when evaluated individually"[2].

Sufficiency of 12-Month Reporting Period

A 12-month reporting period is appropriate for modifications to borrowers experiencing financial difficulty for the following reasons: [1] modifications of loans that qualify as performing loans 12 months after their modification should be excluded from these disclosures consistent with ASU 2022-02, as their performance over a 12-month period is likely to be indicative that the borrower is no longer experiencing financial difficulty and [2] modifications of loans that are not performing 12 months after their modification will be captured in the related delinquency, nonaccrual, or charge-off guidance applicable to delinquent modified loans. As such, even though we recommend removing loans from the modified loan reporting after 12 months, delinquent or non-performing modified loans would still be reported in Schedule RC-N as part of the overall pool of delinquent/nonaccrual loans. Since modified loans will either be current (and thus the borrower is likely no longer experiencing financial difficulty) or be delinquent and subject to reporting under Schedule RC-N, the exclusion of modified loans that have not undergone a well-documented credit evaluation from the reporting of modified loans under RC-C and RC-N does not create a significant safety and soundness concern.

Operational Burden

The proposed revisions in the Notice would require Fifth Third to change the existing loan modification reporting processes, related system logic, and data requirements in order to accommodate both a 12-month loan modification reporting period (for GAAP) as well as a variable term reporting period that may likely extend to maturity for certain loans (for regulatory reporting requirements).

Upon issuance of ASU 2022-02 which, among other things, removed the life-of-loan reporting period concept, our reporting processes were modified to track modifications to borrowers experiencing financial difficulty for a period of 12 months after the modification date. This modification to our reporting process required a notable investment by Accounting, External Reporting, Credit Risk, IT, and Line of Business (LOB) personnel. Specifically, these functions were required to [1] source newly required disclosure data; [2] build new data lineage between the loan origination and loan servicing systems; [3] create, implement and test new operational controls; and [4] train LOB personnel to ensure we capture and record the data required for the enhanced disclosures. As such, our current reporting processes have been designed to generate loan modification disclosure data on a 12-month trailing basis. To comply with the proposed revisions in the Notice, a separate process would need to be developed to track those loan modifications that are not subject to a current, well-documented credit evaluation for a period beyond 12 months. The work required to design, implement, and maintain these enhancements would be operationally burdensome and require a significant allocation of resources from Accounting, External Reporting, Credit Risk, IT and LOB personnel at a time when many of these same resources are also working on preparing for the proposed rulemaking to revise the Basel III Capital Rules. In addition, as a result of this divergence between the required disclosures for regulatory reporting and GAAP, incremental complexity would be added to the reconciliation controls necessary to ensure that the information in the two disclosure approaches is presented accurately.

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[2] Financial Accounting Standards Board (March 2022), *Accounting Standards Update 2022-02 – Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures, Basis for Conclusion – Disclosures (BC29)*

Customer Experience

Fifth Third generally obtains a well-documented credit evaluation at the time the borrower requests and is granted a long-term modification. Once the modification is approved, it will be operationally challenging, especially in retail lending relationships, to update the credit evaluation without requiring additional information from the borrower. The potential requirement to perform a second credit evaluation and the need to request additional information from borrowers 12 months after modification creates operational complexities and costs in addition to potentially creating a negative consumer experience. This burdensome need to request additional information from the borrower would be especially disruptive to borrowers who are paying in accordance with their modified terms. As a result, we request that the Agencies consider removing the requirement to obtain a credit evaluation subsequent to the modification or, at a minimum, revising the Notice to clarify that a credit evaluation performed at the time of modification may be utilized in conjunction with observed payment history to meet the requirement to stop reporting a loan as a modification to a borrower experiencing financial difficulty.

Regulatory Reporting Requirements-GAAP Difference

Over the past decade, the Agencies have frequently aligned the regulatory reporting instructions with GAAP for complex accounting topics in accordance with the provision of Section 37(a)(2)(A) of the Federal Deposit Insurance Act (examples include Debt Securities transferred from Available-for-Sale to Held-to-Maturity[3], Goodwill Impairment[4], Presentation of Provisions for Credit Losses on Off-Balance Sheet Credit Exposures[5], Credit Losses on Financial Instruments[6], and Accounting for Hedging Activities[7]). The proposed revisions in the Notice would create an avoidable regulatory reporting-GAAP discrepancy that could cause confusion for the users of Fifth Third's GAAP financial statements and regulatory filings.

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[3] Federal Financial Institutions Examination Council, *Supplemental Instructions – March 2023, Debt Securities Transferred from Available-for-Sale to Held-to-Maturity*

[4] Federal Financial Institutions Examination Council, *Supplemental Instructions – June 2019, Goodwill Impairment Testing*

[5] Federal Financial Institutions Examination Council, *Supplemental Instructions – March 2020, Presentation of Provisions for Credit Losses on Off-Balance Sheet Credit Exposures*

[6] Federal Financial Institutions Examination Council, *Supplemental Instructions – December 2017, Credit Losses on Financial Instruments*

[7] Federal Financial Institutions Examination Council, *Supplemental Instructions – September 2017, Accounting for Hedging Activities*

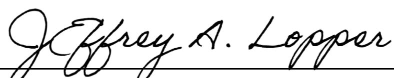
Conclusion

In conclusion, we recommend aligning the proposed rules in the Notice with the guidance issued by FASB's publication of ASU 2022-02. Specifically, the reporting of modifications to borrowers experiencing financial difficulty should only be required for 12 months from the date of modification without regard to whether or not a current, well-documented credit evaluation has been obtained. After 12 months, the borrower will either be performing in accordance with the modified loan terms or will be reported as a delinquent/nonperforming loan (and subject to nonaccrual or charge-off guidance) in Schedule RC-N. The proposed regulatory reporting disclosures represent a divergence from GAAP and are contradictory to FASB's intent with ASU 2022-02. As FASB has previously stated, such an inclusion is unnecessarily complex and does not provide decision-useful information. Further, this proposal will create additional costs, complexity, and operational challenges for entities in the wake of the adoption of ASU 2022-02.

We appreciate the opportunity to comment on this important proposal.

Sincerely,

Mark D. Hazel
Executive Vice President and Bancorp Controller



Jeffrey A. Lopper
Senior Vice President and Assistant Bancorp Controller