



Financial Services Management

NBFI Data Reporting

Cite

FRB, OCC, FDIC; Joint Notice and Request for Comment

Recommended Distribution

Policy, Regulatory Reporting, Legal, Government Relations

Website

<https://www.govinfo.gov/content/pkg/FR-2023-12-27/pdf/2023-28473.pdf>

Impact Assessment

- Larger banks would need quickly to ramp up granular data on NBFI exposures, likely requiring significant new internal reports and controls complying with the proposed definitions.
- Entities reporting large or outlier exposures could find themselves subject to regulatory and/or market discipline.
- Covered nonbanks could see a decrease in credit availability.

Overview

The banking agencies have proposed significant changes to call-reporting data illuminating how banking organizations are inter-connected with nonbank financial intermediaries and to implement pending requirements for long-term debt (LTD) issuance.¹ New NBFI transparency is likely to result in additional supervisory scrutiny and market discipline.

Impact

The new NBFI reports reflect global regulatory consensus that NBFIs pose a growing systemic risk that cannot be effectively addressed in the absence of sound data focused in part on interconnections between NBFIs and the banking sector.² The Financial Stability Oversight Council expressed similar concerns in its latest annual report with particular regard to private creditors, hedge funds, and nonbank mortgage intermediaries.³ The agencies also indicate that the proposals for considerably more granular data (see below) are warranted by the sharp spike in bank exposures to NBFIs; these have grown from 0.8 percent of gross loans in 2019 to 6.4 percent of total loans. The sharp spike in asset growth (\$56 billion to \$786 billion) also makes clear that, while a small percentage when considered

¹ See **TLAC9**, *Financial Services Management*, September 6, 2023.

² See *Client Report NBF12*, November 14, 2022.

³ See *Client Report FSOC29*, December 18, 2023.

across all banks, the largest banks with massive balance sheets have amassed considerable NBFI risk. Nothing in the reports would directly control NBFI exposures.

The agencies' impact analyses vary, but the largest banking organizations are said to need only about a week's worth of work to comply with these new requirements. Agency estimates are often unduly optimistic about how quickly banks in practice can gather required data, but the impact of the proposal extends beyond the reporting burden. With this new data, supervisors could identify new NBFI exposures and curtail them at possible cost to affected banks and improved resilience across the financial system if resulting reductions in bank exposures do not suddenly disrupt broader markets.

What's Next

As required by law, the agencies must seek comment on proposed reporting changes in connection with the review of their paperwork burden by the Office of Management and Budget. Comments on this request are due February 26. NBFI-related reporting would be due for exposures as soon as the second quarter of 2024. The LTD reports would be due the next reporting date on or after the final rule becomes effective.

Analysis

The proposal also lays out for comment a new approach to electronic signatures related to these or other reports.

A. NBFI Credit Exposures

These would be reported by banking organizations with assets over \$10 billion.

1. Loans

These would need to be reported for each IDI and consolidated across the banking organization and be differentiated for:

- securities broker-dealers;
- investment firms and mutual funds;
- all margin loans;
- mortgage credit intermediaries;
- private-equity funds;
- consumer-credit intermediaries; and
- other non-depository financial institution direct loans.

2. Unused Commitments

The agencies would also collect information on unused commitments to non-depository financial institutions differentiated by the same types of entities noted above.

3. **Past-Due and Nonaccrual Loans**

Granular reporting related to NBFIs is also to be mandated for these exposures along the lines noted above.

B. **Guaranteed Structured Financial Products**

Reporting would also be required on exposures to guaranteed structured instruments backed by U.S. agencies or GSEs related to the total amortized cost and fair value of HTM and AFS securities. The agencies' interest was initially sparked by Freddie Mac structured multi-family notes where the agency securitizes loans also backed by third parties in a structure in some ways akin to covered bonds but the agencies received considerable comment on an initial proposal to clarify call reporting only with regard to the Freddie Mac multi-family notes, and the proposal now extends the reporting and expands its scope to all USG sovereign and agency guaranteed structured instruments. The new reports would also capture forms of credit-risk transfer in which agencies issue tranches of securities backed by third parties.

Nothing in the reporting requirement would limit the extent to which banks could engage in these transactions, but new data on mark-to-market valuations ensure that these positions will be captured if the agencies proceed, as likely, to finalize new capital proposals to recognize AOCI at all large banking organizations.⁴

C. **Long-Term Debt**

These reports would need to come from IDIs (but not also their BHCs) subject to the LTD final rule, with the proposal setting this at a \$100 billion or above threshold. Amounts of LTD as defined in the rule would be reported.

D. **Request For Comment**

Views are expressly sought on:

- NBFI-data granularity;
- the accuracy of the agencies' proposal; and
- any other considerations.

⁴ See **CAPITAL230**, *Financial Services Management*, August 1, 2023.