KPMG

Hot Topic: Guide 3

SEC proposes to streamline bank disclosures

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The SEC's first substantive update to Guide 3 since 1986 proposes[1] to include updated disclosures in Regulation S-K, reduce uncertainty about who must comply and enhance comparability.

Key impacts

Public companies that are banks, bank holding companies, savings and loan associations, and savings and loan holding companies (banks and savings and loans) would be affected by the SEC's proposed changes. The changes would apply to domestic and foreign filers.

— The proposed changes would be codified into a new subpart 1400 of Regulation S-K, which the SEC believes would reduce uncertainty about when these disclosure requirements must be included in SEC filings. The SEC believes that this also would enhance comparability among foreign and domestic banking registrants.

— The SEC did not propose expanding the scope to include other registrants, such as insurance companies, online marketplace lenders or financial technology companies. The SEC believes registrants can easily ascertain whether they are a bank and savings and loan registrant, which will reduce confusion about whether the proposed disclosure requirements apply to non-bank holding companies.

— The SEC proposed to define the term "reporting period" to mean each annual period required by SEC rules for a registrant's financial statements because these proposed disclosure requirements are integrally related to a registrant's financial statements.

— Comments are due 60 days after the proposed rule is published in the Federal Register.

SEC's rationale

Since the last substantive revision to Guide 3 in 1986, the SEC has adopted disclosure requirements and the FASB and IASB have issued accounting standards that have changed the financial reporting obligations for registrants engaged in material lending and deposit activities. Consequently, there is overlap between the Guide 3 disclosures and those required by new SEC rules and accounting standards.

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[1] SEC Release No. 34-86984, Proposed Rule, Updates of Statistical Disclosures for Bank and Savings and Loan Registrants

Foreign filers

The proposed disclosure requirements would apply to both domestic and foreign registrants. The SEC recognizes that there are many differences between US GAAP and IFRS in certain disclosure requirements in Guide 3, such as the measurement of credit losses and financial instruments.

The SEC intends to provide flexibility to allow registrants to identify specific categories and classes of instruments that should be disclosed. In certain instances, the proposed rules would specifically link the disclosure requirements to the categories or classes of financial instruments disclosed in the US GAAP or IFRS financial statements.

The proposed rules would explicitly exempt foreign private issuers applying IFRS from disclosure requirements that are not recognized under IFRS or contradict it. The SEC believes this exemption would substantially address the challenges foreign registrants may face if they had to apply additional disclosure requirements.

What are the proposed updates?

The proposed rules would update the requirements for the following disclosures.

- Distribution of assets, liabilities and stockholders' equity, the related interest income and expense, and interest rates and interest differential (average balance, interest and yield/rate analysis and rate volume analysis).
- Weighted-average yield for each range of maturities by category of debt securities.
- Maturity analysis of the entire loan portfolio by category, including the amounts that have predetermined interest rates, and floating or adjustable interest rates.
- Allocation of the allowance for credit losses and certain credit ratios, such as net charge-offs to average loans outstanding, the allowance for credit losses to total loans and nonaccrual loans to total loans.
- Information about bank deposits including uninsured amounts.