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Regulators Propose More Granular Disclosure for Loans to Private Funds in Call Report Update

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Is one of the greatest mysteries of the universe about to become less mysterious? That's one possible question after U.S. banking regulators **published a request for comment** covering a proposed revision to the call report forms and process that would mandate more granular disclosure on loans made to private equity funds.

By way of background, Consolidated Reports of Condition and Income, or call reports, are a required quarterly filing to be made by every U.S. bank and savings association as well as U.S. branches of foreign banks. These reports summarize key measures of financial condition and income in a standardized way that allows for aggregation across institutions and comparisons between institutions. In practice, extracting meaningful information from call reports, once filed, is **another matter**, but look for an update in FFF on that point in the near future.

Among the call report loan classification categories, loans to nondepository financial institutions (NDFIs) is a relatively recent addition, having been added in 2010. NDFI loans is a catch-all category, and includes loans to insurance companies, BDCs, REITs, mortgage lenders, marketplace lenders, and private funds, among a range of other entities.

As proposed, the call report update would require that the loans to NDFI category be updated to include five new subcategories: (1) loans to mortgage credit intermediaries, (2) loans to business credit intermediaries, (3) loans to private equity funds, (4) loans to consumer credit intermediaries, and (5) other loans to nondepository financial institutions.

In terms of implications, the first-order impact is limited to disclosure, but second-order effects are likely to follow. The additional information would allow regulators to look more closely at outliers in terms of market share and loan concentrations. Peer analysis could also improve. The proposal would apply to institutions with assets of $10 billion or more. The comment period is open until Feb. 26, 2024, and the revisions are proposed to take effect for the June 30, 2024, reporting period.

Back to the mysteries of the universe. A natural question to ask is whether the new data would provide a more empirical approach for defining the size of the U.S. fund finance market. The short answer, by our read, is “not quite.” For starters, loan exposures of non-U.S. banks that are booked somewhere other than a U.S. branch would not be captured. Second, at present, the term “private equity” is not defined in the proposal. Absent future clarification, lines between the newly proposed subcategories (e.g., “private equity” versus “other”) may be too blurry to give us a definitive market size estimate. Of course, definitions could be clarified during the notice and comment process, or could be spelled out in the filing instructions. Stay tuned.