

GUSTAVO H.R. PESSOA

Proposal and Comment Information

Title: Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks; Bank Holding Companies (Reg O and Y), R-1896

Comment ID: FR-2026-0028-01-C45

Subject

Docket No. R-1896; RIN 7100-AH27 — Comments from Gustavo H. R. Pessoa

Submitter Information

Name: Gustavo H.R. Pessoa

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Dear Secretary McDonough,

Please find attached my individual comments on the proposed amendments to Regulations O and Y in Docket No. R-1896, RIN 7100-AH27.

The response addresses Questions 92, 93 and 96. It recommends practical guidance on the different voting calculations for insider transactions, the boundaries of the proposed recordkeeping safe harbors and the transition from current provisions to their proposed new locations. The suggestions draw on existing records and do not propose a new periodic return or mandatory form.

I am an economist and professor at Fundação Getulio Vargas in São Paulo, Brazil, responding in an individual academic capacity. My affiliation is provided for identification only.

Thank you for considering these comments.

Respectfully,
Gustavo H. R. Pessoa
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Clear approval records under Regulation O

Comments on insider transaction approvals and recordkeeping

Docket No. R-1896 | RIN 7100-AH27 | 23 October 2026

Dear Secretary McDonough,

I submit these comments in an individual academic capacity as an economist and professor at Fundação Getulio Vargas in São Paulo. My affiliation is provided for identification only. These comments address Questions 92, 93 and 96. I support clarifying insider transaction approvals and the proposed recordkeeping safe harbors. The final rule would be easier to apply if accompanying guidance explained how existing records can show which approval standard was used, who abstained and what information supported the decision.

Make the approval calculation visible

Question 92 concerns the advantages and disadvantages of clarifying prior approval. I support the clarification that every interested director must abstain from direct or indirect participation in the vote. The proposal would codify a longstanding interpretation, rather than create that principle for the first time. [1] Its practical value would be greater if the Board also made the different statutory voting calculations prominent in its implementation guidance.

For covered credit extensions, approval requires a majority of the entire board. For covered insider asset purchases or sales, the relevant majority is that of the directors without an interest in the transaction. The proposal explains this distinction in footnote 165 and carries it into proposed sections 215.12 and 215.23. [1] A bank should not infer that removing interested directors from the vote always removes them from the denominator.

The Board could bring the worked example in footnote 165 into a short implementation guide alongside the relevant provisions. Its placement matters: a reader consulting the operative approval provisions should be able to find the distinction readily. The guide would explain the statutory calculations without allowing interested directors to vote or reducing either required majority.

Banks could reflect that calculation in their existing approval records: the transaction and provision involved, the board membership used for the calculation, the directors identified as interested, the required affirmative votes, the actual result and the approval date. These items could be recorded in board minutes or linked lending records. I am not proposing a mandatory form, a new periodic return or a separate retention schedule.

The date matters because an otherwise correct vote does not establish that approval preceded the transaction. Where the proposed line-of-credit provision applies, the record could reference the relevant earlier approval and its date rather than repeat the original analysis for each permitted advance. The Board could illustrate how to make that reference while preserving the conditions of proposed section 215.12(b). This would help prevent an economical recordkeeping method from being confused with permission to dispense with an applicable approval.

Clarify the limits of the recordkeeping safe harbors

In response to Question 93, I support making the proposed protections clear. Proposed section 215.30(b) would recognize compliance with the specified recordkeeping requirements when a bank uses the prescribed survey or borrower inquiry method. The relevant methods for affiliate

insiders and for correspondent or respondent bank insiders appear separately in paragraphs (d) and (e). [1] Guidance should preserve those distinctions rather than suggest that any general customer questionnaire suffices.

The benefit of a safe harbor is predictability when relevant information is held outside the bank. One possible disadvantage is uncertainty about its boundaries: staff may mistake protection concerning a recordkeeping method for a conclusion that a particular transaction satisfies the substantive lending restrictions. The Board should explain that the protection addresses the specified recordkeeping requirements. It does not replace an applicable approval, lending limit or terms requirement.

An optional implementation example could show a bank identifying the method it used, the relevant survey or inquiry, and the response retained with the transaction record. That would give an examiner a direct route to the information on which the bank relied without requiring a second dossier. Banks should remain free to use existing systems and permitted alternative methods, subject to the agency determination contemplated by the proposal.

The Board should also explain how the selected method operates when the bank receives a correction or contradictory information. For example, a borrower might correct an earlier reply identifying no affiliate relationship. A useful example would distinguish the original inquiry and response, the later information and the action taken. It should explain the implications for the safe harbor without converting an annual survey option into an unstated duty to investigate every relationship continuously.

Explain the change from the current rule

Question 96 asks how Regulation O could become more understandable. The Board should accompany the final rule with a compact crosswalk from current sections to their new locations, identifying substantive amendments separately from renumbering and codification of interpretations. This would help a bank update policies and system references without mistakenly treating a changed citation as a changed obligation.

For the provisions discussed here, the crosswalk could link prior approval, the treatment of interested directors and the separate recordkeeping methods. Examples should distinguish protections already available under the current framework from relief that would arise only when the final amendments take effect. The proposed higher dollar thresholds and any newly extended safe harbor should not be used prematurely.

The economic purpose of these suggestions is to reduce the cost of reconstructing a decision while preserving the controls against preferential treatment. Clear explanations, references to existing records and precise boundaries for the safe harbors would help achieve that purpose. They would add practical value to the proposed simplification without creating a general new reporting requirement.

Respectfully submitted,
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Sources

[1] Federal Reserve Board, Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks; Bank Holding Companies, 91 FR 49526, 4 August 2026