The Clearing House®
At the Center of Banking Since 1853®

October 19, 2015

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Proposed Agency Information Collection Activities; Comment Request: Proposal to Revise and Extend the Banking Organization Systemic Risk Report (80 Fed. Reg. 50623 (August 20, 2015)) – OMB No. 7100-0352.

Mr. Frierson:

The Clearing House Association L.L.C. ("**The Clearing House**")[1] appreciates the opportunity to comment on the proposed revisions (the "**Proposal**") by the Board of Governors of the Federal Reserve System (the "**Federal Reserve**" or the "**Board**") to the Banking Organization Systemic Risk Report (the "**FR Y-15**" or the "**Y-15 Report**") and the instructions thereto (the "**Instructions**"). The Y-15 Report is applicable to U.S. bank holding companies ("**BHCs**") with total consolidated assets of at least $50 billion, foreign banking organizations ("**FBOs**") with combined U.S. operations of at least $50 billion in assets and to any U.S.-based organizations designated as globally systemically important banks ("**G-SIBs**") that do not otherwise meet the consolidated asset threshold. The proposed changes to the Y-15 Report would, among other things, increase the frequency of reporting, collect information on short-term wholesale funding ("**STWF**") through the proposed addition of Schedule G, and update the schedules related to the indicators for size, interconnectedness, substitutability and complexity to conform the Y-

[1] Established in 1853, The Clearing House is the oldest banking association and payments company in the United States. It is owned by the world's largest commercial banks, which collectively hold more than half of all U.S. deposits and which employ over one million people in the United States and more than two million people worldwide. The Clearing House Association L.L.C. is a nonpartisan advocacy organization that represents the interests of its owner banks by developing and promoting policies to support a safe, sound and competitive banking system that serves customers and communities. Its affiliate, The Clearing House Payments Company L.L.C., which is regulated as a systemically important financial market utility, owns and operates payments technology infrastructure that provides safe and efficient payment, clearing and settlement services to financial institutions, and leads innovation and thought leadership activities for the next generation of payments. It clears almost $2 trillion each day, representing nearly half of all automated clearing house, funds transfer and check-image payments made in the United States. See The Clearing House's web page at www.theclearinghouse.org.

15 Report with the U.S. supplementary leverage ratio (the "**SLR**")[2] and the G-SIB capital surcharge rule (the "**G-SIB Surcharge final rule**").[3] As currently proposed, the revisions generally would become effective beginning on December 31, 2015, and require quarterly reporting starting March 31, 2016.

While we understand the importance of collecting relevant information that supports the Federal Reserve's efforts to monitor the systemic risk of institutions subject to enhanced prudential standards[4] and appreciate the inclusion in the Proposal of clarifications of many of the Y-15 Report's line items, we are nevertheless concerned that the Proposal does not allow sufficient time for banks to revise their reporting and internal control systems to properly report the additional data the Proposal would require. Additionally, we believe that a number of aspects of the Proposal are inconsistent with other regulatory rules and reporting forms and require adjustment or further clarification, in each case as described in more detail below. These concerns reiterate and build upon our previous discussions and comment letters in this area.[5] For these reasons, we respectfully request that the Proposal be modified as follows:

- With respect to the proposed implementation date and quarterly reporting and except as otherwise described below with respect to certain FBOs:
  - The proposed implementation date for the Proposal should be extended to June 30, 2016, with initial submission should be provided on a "reasonable estimates" basis to allow for effective capital planning; and
  - The proposed quarterly reporting should be phased in allowing for semi-annual reporting in 2016 and full quarterly reporting to begin effective with 2017 reporting;
- Non-year-end quarterly reports should be due no earlier than 65 calendar days following quarter-end to conform to the timing for submissions following year-end;
- The Board should make clear that Schedule G, portions of schedule D (as described herein) and the non-year-end quarterly reports will <u>not</u> be made public and will be treated as confidential, and expressly identify which other portions of the Proposal, if any, will be treated as non-public and confidential;
- Data elements in the Proposal that are derived from other Board reports should be clearly mapped to such reports;

---

2 79 Fed. Reg. 57725.

3 80 Fed. Reg. 49081.

4 12 U.S.C. §5365.

5 *See,* (i) The Clearing House et al. comment letter, dated October 29, 2013, to the Board in response to the 2013 revisions to the FR Y-15; (ii) The Clearing House et. al letter, dated March 15, 2013, to Chairman Bernanke and the Board on disclosure issues related to the FR Y-15, and (iii) The Clearing House et. al comment letter, dated October 19, 2012, to the board on the initial FR Y-15 proposed rulemaking. All three letters are available at www.theclearinghouse.org.

- With respect to certain FBOs as described more fully in Section IV, implementation of the Proposal should be coordinated with the implementation of the requirement for certain FBOs to designate or establish a U.S. Intermediate Holding Company ("**IHC**") under Section 165 of the Dodd-Frank Act ("**Section 165**");[6] and

- Additional clarifications to several aspects of the Proposal as described in Section V and Appendix A should be made.[7]

Our detailed comments are provided below.

I. The Federal Reserve should provide additional time to ensure that reporting entities have an appropriate period in which to effectively implement and test required changes to reporting and information technology systems.

The Proposal would currently require any revisions to the final Y-15 Report to be incorporated by December 31, 2015, and reporting generally to begin March 31, 2016. Existing data reporting and information technology systems will require significant modifications to produce much of the additional data included in the Proposal. Current processes, procedures and controls also would need to be revised to deal with these requirements. This is particularly true with respect to the proposed collection and reporting of STWF data on an entirely new Schedule G with an effective date of June 30, 2016. While we appreciate the extension of the comment period for the Proposal from September to late October, the proposed general effective date of December 31, 2015 does not allow reporting entities sufficient time to finalize investment plans and develop and improve internal systems as well as confirm compliance with internal reporting requirements for reporting the Proposal's data elements. Except as discussed in Section IV below, we request, that implementation of the Proposal should be deferred generally to June 30, 2016. This additional time period also would allow the Board to update, conform and/or finalize other reporting forms from which FR Y-15 data is sourced, including the FR 2052a, the FR Y-9C, the Treasury International Capital (TIC) reports, and the Federal Financial Institutions Examination Council's ("**FFIEC**") 031/041, 101, and 009 reports.

The Proposal also would require submission of the Y-15 Report on a quarterly basis beginning with the period ending March 31, 2016. For the reasons discussed above, except as discussed in Section IV below, we request that implementation of quarterly reporting be delayed until 2017 and the Proposal be implemented on a semi-annual reporting basis for 2016 beginning June 30, 2016. Simply put, information reporting and technology resources are not infinite in the face of increasing regulatory reporting and data requirements. Such a phased-in implementation would allow reporting entities the appropriate time to develop and test the appropriate reporting systems to properly provide the information required by the Proposal. Additionally, we request that for purposes of the initial submission of the revised Y-15 Report for the period ending June 30, 2016 in accordance with our request herein, respondents be permitted to make that submission on a "reasonable estimates" basis. This "reasonable

---

[6] 12 CFR Part 252.

[7] The Clearing House anticipates submission shortly of a supplementary letter containing additional requests for clarifications of the Proposal, in addition to those provided in this letter and Appendix A.

estimates" basis would be consistent with the treatment allowed for the initial submissions of the FR Y-15 in 2012. The "reasonable estimates" basis also would allow reporting entities to integrate the proposed changes into their capital planning processes and better utilize the Y-15 Report as an effective capital planning tool.

Further, the Proposal would require the proposed quarterly FR Y-15 submissions (for the periods ending March 31, June 30 and September 30) to be filed 50 calendar days after the quarter-end. As stated above, there are several reports from which the FR Y-15 sources or will source data elements that are required to be filed at, or nearly at, the same time. For example, FFIEC 031/041 submissions are due 30 calendar days after quarter-end, FR Y-9C submissions are due 40 calendar days after quarter-end, FFIEC 101 submissions are due along the same timelines as respondents' FR Y-9Cs, and FFIEC 009 submissions are due 45 calendar days after quarter-end. As proposed, therefore, the Y-15 Report would very nearly overlap with the reports it draws data from and will ultimately have to be reconciled to. Although reporting entities will face substantive development programs for any submission of the revised FR Y-15, extending the submission date of the Y-15 Report to no earlier than 65 calendar days after the quarter-end would at least partially ameliorate our concerns and also would align the timing of quarter-end reporting with the annual FR Y-15 submission.

II. The Board should expressly treat Schedule G, portions of schedule D and the non-year-end quarterly reports as confidential and non-public, and should otherwise expressly clarify which additional portions of the Proposal also will be treated as confidential and non-public.

Schedule G contains granular information regarding a reporting entity's STWF, including the term of deposits and type and maturity of securities. This information is proprietary, sensitive, and if made public would put reporting entities at a competitive disadvantage compared to those entities not subject to FR Y-15 reporting. Further, Schedule G's STWF data elements will be sourced from FR 2052a once that reporting template is finalized. Since Schedule G will contain proprietary and sensitive liquidity information and the FR 2052 containing that same information is treated as confidential and non-public,[8] we believe that Schedule G should be accorded the same treatment as it is sourced from the same report. Similarly, Schedule D, Lines 7 and 8 are also sourced from the FR 2052a and should therefore be treated as confidential and non-public information. Additional portions of the Proposal, if any, which will be treated as non-public and confidential should be expressly identified by the Federal Reserve in the final FR Y-15.

Moreover, as we have previously commented,[9] since the majority of banks comprising the denominator of the G-SIB surcharge methodology are non-U.S. banks and report under regimes that in some cases are less granular than the current FR Y-15, entities subject to FR Y-15 reporting already disclose significantly more information than their counterparts not subject to

---

[8] 79 Fed. Reg. 71417 ("information provided by each respondent would be accorded confidential treatment under exemption 8 of the Freedom of Information Act (5 U.S.C. 552(b)(8))."

[9] *See* The Clearing House et. al comment letter, dated April 2, 2015, to the Board in response to the 2014 notice of proposed rulemaking, Implementation of Capital Requirements for Global Systemically Important Bank Holding Companies ("**TCH G-SIB Surcharge Letter**"), available at www.theclearinghouse.org.

FR Y-15 reporting. Public disclosure of the proposed quarterly reports would put entities that report on the FR Y-15 at a further competitive information disclosure disadvantage since entities not required to submit the FR Y-15 are required to report their information only on an annual basis. We also continue to recommend that the Federal Reserve review the reporting rules under which entities not subject to the FR Y-15 report their systemic risk data, and publish for comment an analysis of how those rules compare against the FR Y-15 rules.[10]

III. The Board should provide clear mappings for all data elements that are derived directly from other reports.

The Board should provide a clear mapping of the Y-15 Report on a line item by line item basis for data elements which are drawn directly from companion reports, particularly with respect to Schedule A and Pillar 3 disclosures under the SLR, Schedule G and the FR 2052a. This will both ease implementation concerns and enhance consistency across the industry. We would be happy to assist the Board in reviewing those mappings.

IV. Implementation of the Proposal should be coordinated with the implementation of the requirement for certain FBOs to designate or establish a U.S. IHC under Section 165.

Under Section 165, each FBO with U.S. non-branch assets equal to or greater than $50 billion must designate or establish a U.S. IHC by July 1, 2016, which will then be subject to the regulatory framework applicable to IHCs under Regulation YY, Subpart O.[11] We believe that it is appropriate to adjust the implementation timeline to properly take into account these unique circumstances for certain FBO IHCs. Since the function of the consolidated IHC is essentially to house an FBO's U.S. non-branch operations, the consolidated IHC may include entities that are not currently subject to FR Y-15 reporting. There are a variety of ways in which FBOs can choose to combine their non-branch operations, including a transfer of ownership interests, merger of entities, etc. Each of these options presents considerable operational, reporting, legal and business challenges which need to be addressed prior to July 1, 2016. Depending on the scope, size and complexity of an FBO's U.S. non-branch operations and the complexities involved in the restructuring(s) necessary to form the IHC entity for each FBO, many of the businesses and entities emerging from the IHC formation process may well undergo a significant transformation in their balance sheets, operations, management information systems, etc. The same resources and personnel involved in the restructurings to implement the IHC are substantially the same as the resources and personnel required to implement the FR Y-15. We believe these unique circumstances warrant implementation of the Proposal on an adjusted timeline for certain FBOs[12] to mitigate the impact of implementing both of these significant requirements (*i.e.*, IHC

---

10 *See,* TCH G-SIB Surcharge Letter, §VII.A (p. 52-53).

11 Since Section 165 does not require the designation or establishment of an IHC prior to July 1, 2016, we believe that no IHC should be required to submit the Y-15 for periods ending prior to this date.

12 Specifically, FBOs that presently have no current U.S. BHC in scope of the FR Y-15 and FBOs that that are creating a new IHC to sit above a currently existing U.S. BHC as well as all other non-bank subsidiaries (as opposed to those FBOs that will be using their existing U.S. BHC as the IHC). Additionally, not all FBOs within scope of the IHC requirement have a U.S. bank subsidiary, and therefore not every IHC itself will be subject to the FR Y-15.

implementation and the Proposal) as described below. We respectfully request that the Board further delay the FR Y-15 implementation period for these FBOs, with semi-annual "reasonable estimates" reporting beginning June 30, 2017 and full IHC implementation of the Y-15 for the period ending December 31, 2017.[13]

V. Several additional aspects of the Proposal require clarification before the Proposal is finalized.

There are several additional aspects of the Proposal that require further clarification, particularly to ensure consistency in treatment between the Proposal and other regulatory rules. For example, the G-SIB Surcharge final rule states that a bank's size indicator (reported on Schedule A of the FR Y-15) is measured by "total exposures, which would mean the bank holding company's measure of total leverage exposure calculated pursuant to the regulatory capital rule."[14] The Proposal, however prescribes a methodology for measuring exposures to securities financing transactions ("**SFTs**") that is inconsistent with the SLR. While the SLR permits the netting of on-balance sheet SFTs subject to certain specified criteria, Schedules A and F of the Y-15 Report as proposed require the reporting of SFTs on a gross basis without the benefit of on-balance sheet netting.[15] This inconsistency may result in an unduly expansive view of a reporting entity's reliance on SFTs in the measure of STWF and lead to confusion among various stakeholders regarding industry funding profiles and balance sheet risk. Accordingly, we recommend that the Proposal clarify that SFTs should be reported on a net basis throughout the Y-15 Report, provided that the underlying transactions meet the criteria specified in the SLR.

Additionally, the proposed Instructions seem to expand the scope of included transactions from over-the-counter ("**OTC**") derivatives to both OTC and exchange-traded-derivatives ("**ETD**"), in certain instances. The inclusion of ETDs would be inconsistent with the international G-SIB rules that require only OTC derivatives to be included, creating a competitive disadvantage for the U.S. banks. Please see Appendix A for a more detailed description of this issue.

Additional areas of concern requiring clarification of the Proposal are listed in Appendix A.

* * *

---

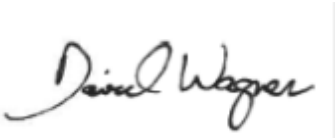
13 For those FBOs with BHCs currently subject to FR Y-15 reporting, in order to prevent a gap in reporting, these FBO BHCs should be permitted to report in 2016 on a semi-annual, "reasonable estimates" basis with respect to its operations and thereafter would cease any FR Y-15 reporting, reflecting its inclusion in the FR Y-15 reports submitted by the applicable FBO IHC commencing in 2017.

14 80 Fed. Reg. 49081, §III.A.

15 *See*, Schedule A, Line 2(a); Schedule F, Lines 6 and 7.

We appreciate the opportunity to provide comments on the Proposal. We greatly appreciate your consideration of our comments and would welcome the opportunity to discuss them further with you at your convenience. If we can facilitate arranging for those discussions, or if you have any questions or need further information, please contact me at (212) 613-9883 (email: david.wagner@theclearinghouse.org).

Respectfully Submitted,



David Wagner
Executive Managing Director, Head of Finance, Risk and Audit Affairs
The Clearing House Association L.L.C.

CC: Anna Lee Hewko
Board of Governors of the Federal Reserve System

Constance Horsley
Board of Governors of the Federal Reserve System

Christine E. Graham
Board of Governors of the Federal Reserve System

Cynthia Ayouch
Board of Governors of the Federal Reserve System

Adam S. Trost
Board of Governors of the Federal Reserve System

Kevin Littler
Board of Governors of the Federal Reserve System

1. Schedule A

a. Line Item 3.b, Regulatory Adjustments. This item in the Proposal directs reporting firms to calculate the average amount of regulatory adjustments from common equity tier 1 capital and additional tier 1 capital under the fully phased-in requirements of Regulation Q (see 12 CFR 217.22) using *daily data* [emphasis added]. As a result, this item would require reporting firms to calculate the deduction of goodwill and intangibles, deferred tax assets, and hedging gains and losses (the "**deductions**") on a daily basis. In contrast, the same deductions are calculated as of quarter-end for the purposes of the SLR. The change to an average using daily data would pose significant operational challenges. We do not believe that using the value as of quarter-end for this item rather than averages based on daily data will provide any meaningfully less useful information nor will it hinder the Board's stated goal of monitoring the systemic risk profile of subject institutions. Additionally, this item has no impact on the GSIB score for a reporting firm as it does not factor in the score calculation and is requested only for informational purposes. In conclusion, we request that the Instructions be amended to require reporting firms to calculate this item as of quarter-end rather than an average using daily data for each quarter.

2. Schedule B

a. **Offsetting Short Positions**. Schedule B, line item 3(f) requires reporting of offsetting short positions for the equity securities included in line 3(e). The line item Instructions read, "Report the fair value of the banking organization's liabilities resulting from short positions held against the stock holdings included in item 3(e)." The Instruction's glossary defines a short position as "a transaction in which a banking organization has borrowed or otherwise obtained a security from a counterparty and to sell to another counterparty, and the banking organization must return the security to the initial counterparty in the future." However, we believe the view of the Basel Committee on Banking Supervision ("**BCBS**") is to allow short legs of derivatives used to hedge equity securities (e.g., equity total return swaps) to be included as an offsetting short position. We request that the Instructions be amended to remain consistent with the BCBS international standard in recognizing the risk reducing effects of short positions through total return swaps in line item 3(f).

b. **Treatment of Cleared Derivatives**. The Instructions for the Interconnectedness Indicator, line Item 5 appear to expand the scope of included transactions from OTC derivatives to both OTC and ETDs. This would be inconsistent with the requirements of the Complexity Indicator line Items 1 and 2 which explicitly carve out ETDs. Exclusion of ETDs in the Complexity schedule is consistent with the regulators' objective of encouraging cleared[16] activity and we assume the same exclusion was intended to apply to the Interconnectedness schedule. The inclusion of

[16] "The greatest focus, as mandated under Titles VII and VIII of Dodd-Frank, has been on making derivatives markets safer through requiring central clearing for derivatives that can be standardized and creating margin requirements for derivatives that continue to be written and traded outside of central clearing facilities" (Governor Tarullo's remark at the Peterson Institute for International Economics on May 3, 2013), available at, http://www.federalreserve.gov/newsevents/speech/tarullo20130503a.htm.

ETDs in Interconnectedness would also be inconsistent with the international G-SIB rules[17] that require only OTC derivatives to be included. This additional requirement in the U.S. rules creates a level playing field issue internationally, and penalizes clearing for the U.S. banks. Interconnectedness line Item 5 should be conformed to the Complexity Indicator as well as international rules to exclude ETDs by (i) re-inserting the term "OTC" where relevant, and (ii) replacing the reference to 12 CFR 217.2 with references to ASC Topic 815, Derivatives and Hedging, and the FR Y-9C Glossary entry for "derivative contracts."

3. Schedule D

a. **Level 3 Asset Double Count.** Trading and Available for Sale ("**AFS**") securities (line items 4-5) capture all assets which meet the trading or AFS classification, including Level 3 assets. While there are adjustments for Level 1 and Level 2 liquid assets, which reference the LCR rule classification rather than U.S. Generally Accepted Accounting Principles ("**U.S. GAAP**") classification, Level 3 assets would remain included. As a result, Level 3 assets would be captured in Total adjusted trading and AFS securities (line item 9), which is the reference value for the Trading AFS Securities indicator, impacting the Bank's G-SIB score. In addition, assets valued for U.S. GAAP purposes using Level 3 measurement inputs (line item 10) also would explicitly capture Level 3 assets regardless of their classification as trading or AFS securities and serve as the reference value for the Level 3 Assets indicator of the U.S. G-SIB Surcharge final rule, impacting a bank's G-SIB score.

While it is not unintended to include the same item across different indicators, the treatment described above is contrary to the principle of not double counting an item within the same indicator. We are therefore requesting an amendment to the Instructions and FR Y-15 templates to exclude Level 3 assets from the Trading and AFS Securities line items.

4. Schedule G

a. **Line Item 7, Average risk-weighted assets.** We request clarification regarding the computation of average total risk-weighted assets ("**RWA**"). The G-SIB Surcharge final rule defines average RWA (the denominator in a bank's STWF score) as the "four-quarter average of the measure of total risk-weighted assets associated with the lower of the bank holding company's common equity tier 1 risk-based capital ratios, as reported on the bank holding company's FR Y–9C for each quarter of the previous calendar year."[18] Despite this reference to the four-quarter average, the revised FR Y-15 Instructions indicate that banks with more than $700B in total assets (and banks with more than $250B total assets starting June 30, 2017), should report all items on Schedule G as "the average value over the last twelve months using daily data" and all other respondents must "report the average value using monthly data." In some cases certain components of RWA are currently only obtained at quarter-end, therefore some banks will need to develop comprehensive processes to calculate daily/monthly averages for these balances. We request clarification that average RWA should be based on average value using quarterly data for the previous four quarters in accordance with the G-SIB Surcharge final rule.

---

[17] *See*, item 3.e in the "Instructions for the end-2014 G-SIB assessment exercise", available at, https://www.bis.org/bcbs/gsib/instr_end14_gsib.pdf.

[18] 80 Fed. Reg. 49081 §217.401(c).

5. General Instructions

a. Central Counterparty ("CCP") Facing Legs. The proposed Instructions require banks to include the CCP facing legs where they act as a financial intermediary for the Size, Interconnectedness and Complexity indicators (Schedules A, B and D). The term "financial intermediary" is not defined; however, we assume that it is intended to refer to cleared transaction flows in which the bank, acting as clearing member, guarantees the performance of the CCP, and would thus have a payment obligation to the clearing member client in the event of a CCP default. This would be consistent with the U.S. Agencies' supplementary leverage ratio rule, which excludes CCP-facing legs where banks do not have default risk to the CCP, given "requiring the clearing member banking organization to include an exposure to the CCP in its total leverage exposure would generally result in an overstatement of total leverage exposure," while penalizing central clearing.[19] We ask that the Proposal confirm this understanding; *i.e.*, that the term "financial intermediary" refers to when a clearing member guarantees the performance of the CCP.

[19] 79 Fed. Reg. 57735, available at, http://www.gpo.gov/fdsys/pkg/FR-2014-09-26/pdf/2014-22083.pdf.