The Clearing House
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September 26, 2016

Via electronic mail

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

Re: Proposed Agency Information Collection Activities; Comment Request: Capital Assessments and Stress Testing Information Collection (FR Y-14A/Q/M; OMB No. 7100-0341)

Ladies and Gentlemen:

The Clearing House Association L.L.C.[1] appreciates the opportunity to comment on the proposal by the Board of Governors of the Federal Reserve System to extend for three years, with revisions, the Capital Assessments and Stress Testing information collection applicable to bank holding companies with total consolidated assets of $50 billion or more and U.S. intermediate holding companies established by foreign banking organizations (the "Proposal").

The Clearing House has consistently voiced strong support for the Federal Reserve's ongoing efforts to help ensure that banks have appropriate risk measurement and management processes supporting assessments of capital adequacy. With respect to the Proposal, we believe that there are several specific areas where additional clarifications would be beneficial. Part I of this letter contains specific requests for clarification, with the title of each section representing the corresponding schedule in the draft templates; Part II addresses timing concerns with the December 31, 2016 proposed implementation date and recommends a process to encourage communication between the Federal Reserve and the industry in order to better facilitate timely

[1] The Clearing House is a banking association and payments company that is owned by the largest commercial banks and dates back to 1853. The Clearing House Association L.L.C is a nonpartisan organization that engages in research, analysis, advocacy and litigation focused on financial regulation that supports a safe, sound and competitive banking system. Its affiliate, The Clearing House Payments Company L.L.C., owns and operates core payments system infrastructure in the United States and is currently working to modernize that infrastructure by building a new, ubiquitous, real-time payment system. The Payments Company is the only private-sector ACH and wire operator in the United States, clearing and settling nearly $2 trillion in U.S. dollar payments each day, representing half of all commercial ACH and wire volume.

implementation; and Part III contains a request for clarification with respect to the scope of the Proposal.

<u>Part I. Specific Requests for Clarification.</u>

A. Clarifications requested for FR Y-14A Summary Schedule A.1.d.

The proposed revisions to the Y-14A Summary Schedule (A.1.d) would require firms to estimate supplementary leverage ratios for the DFAST/CCAR planning horizon beginning January 1, 2018 for both baseline and stress scenarios and to report these ratios on Schedule A.1.d. While we support the Federal Reserve's objective of collecting information to assess the capital adequacy of the institutions it supervises, we are concerned that the inclusion of this information on the Y-14A Summary Schedule may suggest that the Federal Reserve will require institutions' projections to remain above the regulatory minimum on a post-stress basis beginning January 1, 2018 and going forward in order to quantitatively pass the 2017 CCAR.

In accordance with the final U.S. Basel III capital rules,[2] banks will become subject to supplementary leverage minimum capital requirements effective January 1, 2018. The transition period prior to the effective date is intended to provide banks with an opportunity to manage and mitigate their supplementary leverage exposure and capital levels to ensure compliance with the rule. Were these requirements to be included in the 2017 CCAR, it would effectively accelerate the supplementary leverage ratio's effective date from January 1, 2018 to December 31, 2016, the proposed effective date for this revision to the Y-14A. Accordingly, we respectfully ask the Federal Reserve to clarify that information regarding the supplementary leverage ratio will be collected for informational purposes only as of December 31, 2016, and that banks would not be expected to meet the post stress supplementary minimum for purposes of the 2017 CCAR.

Similarly, both the leverage and supplementary leverage requirements become effective for the intermediate holding companies of foreign banking organizations on January 1, 2018. For the same reasons as enumerated above, we also respectfully ask the Federal Reserve to clarify that both leverage and supplementary leverage ratios will be collected for informational purposes only on a best efforts basis for IHCs of FBOs as of December 31, 2016, and that these IHCs would not be expected to meet leverage or supplementary leverage post stress minima for purposes of the 2017 CCAR.

B. Clarification requested for FR Y-14A Schedule A.6.

We note that the heading on the schedule for Unit of Measure is proposed to be changed to Risk Segment for Schedule A.6 of the FR Y-14A report. We would appreciate clarification as to whether it is intended that (i) the definition of Risk Segment to be used here is the same definition for Risk Segment contained in the prior instructions (*i.e.,* "the BHC's internal classification of operational risk into granular risk categories used for risk management and

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2 Federal Reserve System, Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule, 78 Fed. Reg. 62,018 (Oct. 11, 2013)

operational risk loss projection purposes”), (ii) the prior definition of Unit of Measure should be applied (*i.e.,* “the level at which the BHC’s quantification model generates a separate distribution for estimating potential operational losses”), or (iii) an alternate definition of Risk Segment should be applied. We would be pleased to discuss our views with the Federal Reserve once that clarification is provided.

C. Clarification requested for FR Y-14A Schedule C.

The proposed revisions to the Y-14A instructions would require firms to resubmit Schedule C for incremental capital action requests at the time a firm seeks approval for or notifies the Federal Reserve of its intention to make additional capital distributions in the period between CCAR exercises. While we support the Federal Reserve’s objective of formalizing a standard process for firms to submit information regarding requests for additional capital distributions in the period between CCAR exercises, we would request that the Federal Reserve institute a threshold, below which firms would not need to resubmit the template. This would enable firms to make small incremental distributions without requiring the internal processes and control structure otherwise needed to resubmit the template outside of the annual CCAR process.

D. Clarifications requested for FR Y-14A Schedule E.2.

We recognize the importance of identifying all material operational risks that are included in a firm’s risk projections, as well as those excluded from the firm’s risk projections. Rather than creating a new template to capture this information and in order for BHCs to provide the appropriate context and narrative for the material operational risks that are included and excluded from the firm’s risk projections, we believe that the Federal Reserve should continue to look to the supporting CCAR documentation for a fulsome discussion of operational risks, provided that the supporting documentation conforms with all Federal Reserve requirements. In the event the Federal Reserve proceeds with this template, we would appreciate additional clarifications as to the Federal Reserve’s expectations with respect to the reporting of Material Risks in new Schedule E.2, particularly as to the intended definitions of “Risk Name”, “Risk Segment” and “BHC Stress Projection Amount” in this schedule. We would be pleased to discuss our views with the Federal Reserve once those clarifications are provided. Additionally, in order to better conform the items on the schedules to the language used in the relevant section of the NPR and the description, we would appreciate the addition of “Operational” before “Risk(s)” to the (i) title of this schedule, (ii) header of the first column in this schedule, and (iii) descriptions below the aforementioned header.

E. Clarification requested for FR Y-14A Schedule E.3.

Consistent with our request regarding insertion of the word “Operational” into the appropriate locations on Schedule E.2, we would appreciate the addition of the words “Operational Risk” to each of the names of the columns in new Schedule E.3, as well as to the lines for “percentage of the loss estimates” and “total number of scenarios”, so that the names for the columns would read “Operational Risk Scenario Name”, “Operational Risk BHC Baseline”, “Operational Risk BHC Stress”, “Methodology for Applying Operational Risk Scenario

Results", and the two lines of the schedule would read "What percentage of the operational loss estimates were generated using scenarios?" and "Total number of operational risk scenarios used in loss projections". Inclusion of the words "Operational Risk" in these columns and headings would be consistent with the language used in the Proposal and will help clarify the data that should be included in these fields. We also would appreciate the addition of the words "9-Qtr Projection" after "BHC Baseline" and "BHC Stress" to clarify that the total nine quarter projections are the information being sought on this schedule. Lastly, with respect to the title "Methodology for apply scenario results", we believe the title should be changed to "Methodology for applying scenario results"; we also would appreciate additional clarity regarding Federal Reserve expectations for the information being requested in this column and we would be pleased to discuss our views with the Federal Reserve once that clarity is provided.

Part II. December 31, 2016 Implementation Date.

The Clearing House appreciates the burden reduction efforts included in the Proposal, including the elimination of FR Y-14A Schedule E.1, the corresponding elimination of associated columns on Schedule A.6 and the elimination of Schedule HC-M. However, respondent banking organizations will still need additional time to develop internal processes and procedures, integrate the changes with their existing internal controls structure and test their internal control systems in order to comply with the requirements of the proposed data collection. In order to provide greater transparency and to provide more time to respondent banking organizations to make necessary technology and data systems changes to produce the requested information in the Proposal (*e.g.*, Other Counterparty losses), it would be very helpful for the Federal Reserve to provide drafts of revised instructions, forms and especially the technical specifications to the industry in advance of adopting any final rule regarding the proposed changes, so that there is an opportunity to have a meaningful discussion regarding the proposed specifications and for interested parties to raise any material concerns to the Federal Reserve for further consideration. We would be happy to work with you in implementing such a process.

Part III. Application of the Proposal to Institutions Subject to SR Letter 15-19.

In the Proposal, the Federal Reserve notes that several changes to the new FR Y-14 Schedule E is intended to align with the "guidance and expectations contained in recent supervisory letters, notably SR Letter 15-18."[3] SR Letter 15-18 sets out the differences in expectations for LISCC firms and large and complex firms, which are subject to SR Letter 15-18, as compared to large and noncomplex firms that are subject to SR Letter 15-19. Given these differences in expectations, and as the scope of the Proposal includes both institutions subject to SR Letter 15-18 as well as institutions that are subject to SR Letter 15-19, we would appreciate clarification regarding whether the changes to Schedule E would apply to all institutions, or only to those institutions subject to SR Letter 15-18.

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3 Proposal, at 49,657.

The Clearing House appreciates the opportunity to comment on the Proposal. If you have any questions, please contact the undersigned by phone at (212) 613-9883 or by email at *David.Wagner@theclearinghouse.org*.

Respectfully submitted,

David Wagner
Executive Managing Director, Head of Finance & Risk Affairs & Senior Associate General Counsel
The Clearing House Association L.L.C.

cc: Scott Alvarez
Tim Clark
Nuha Elmaghrabi
Mike Gibson
Lisa Ryu
(Board of the Governors of the Federal Reserve System)