

November 7, 2011

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551

Re: FR Y-14A and FR Y-14Q (Capital Plans; Proposed Agency Information Collection Activities)

Dear Ms. Johnson:

The Clearing House Association L.L.C. (“**TCH**”), the American Bankers Association (“**ABA**”), The Financial Services Roundtable (the “**Roundtable**”) and the Securities Industry and Financial Markets Association (“**SIFMA**”) (together, the “**Associations**”) ¹ appreciate the opportunity to comment on the proposed annual (the “**FR Y-14A**”) and quarterly (the “**FR Y-14Q**”) data schedules (hereinafter the “**proposals**” or “**schedules**”) ² issued by the Board of Governors of the Federal Reserve System (the “**Board**”).

As the Associations stated in our August 5 letter addressing the broader capital planning notice of proposed rulemaking, there is significant merit to the comprehensive capital adequacy and risk review process envisioned by the Board. Such a comprehensive review, if constructed in a manner that meaningfully incorporates the capital planning processes of firms and respects the traditional role of corporate boards, will assist the Board in ascertaining the appropriateness of capital distributions. The Associations appreciate that the Board elected to publish the schedules for public comment and believe that much of the data sought are relevant to the capital distribution process. However, we have concerns with several components of the schedules, some of which relate to the substance of the data sought and some of which go to the need for further clarification. Part I of this letter addresses the substantive concerns of the Associations with the schedules and worksheets. Part II of the letter sets forth issues that require further clarification.

The Associations also note the existence of several broad concerns:

- As the Board is aware, the proposed capital planning process is, in general, far more comprehensive and detailed than the initial Comprehensive Capital Analysis and Review (the “**CCAR**” process). The Associations agree with the Board that a more robust process will clarify the capital adequacy and risk profiles of individual bank holding companies (“**BHCs**”). That said, the data the Board seeks to collect via the

¹ Full descriptions of the Associations are attached at Annex 1.

² 76 FR 55288 (September 7, 2011).

FR Y-14A and FR Y-14Q, as noted in Part I, differ from existing bank data. As firms transition to the new reporting process, the need for several important clarifications, discussed in Part II, has already arisen.

The Associations are deeply concerned with the anecdotal experiences of firms that indicate significant lag times in Board responses to technical questions seeking clarification. Such delays were a significant problem during the initial CCAR. During that process many firms reported delays of several weeks before answers to questions were provided, if at all. We urge the Board to clearly set forth a robust and transparent process for responding to inquiries in a timely manner and to begin this process today. Given the breadth of data sought in the proposals and the constraining timeframe for completing the templates, the Associations are concerned that the Board's data collection objectives will be undercut by firms not having ample time to know and understand what data is to be provided.

- In the initial stages of the capital planning process, both the Board and covered firms would benefit from enhanced flexibility. The Board's twin objectives of obtaining a detailed view of the risk profiles of firms and conducting horizontal comparisons of capital adequacy could be accomplished using data that exists today. Where possible, existing data and processes should be leveraged.
- It is evident that the data captured by the templates serves multiple purposes and provides varying types of supervisory information. While certain, core templates address capital adequacy, others are of a more general supervisory nature. Given the substantial amount of new data to be provided in these templates, the Associations believe the initial filing of supervisory templates should begin in the first quarter of 2012.
- The timing between the proposed late November 2011 receipt of final templates and required submission dates is extremely challenging particularly given the increased focus on reconciliation to the FRY9, continued requirement for several years of historical data, and the fact that there are multiple inconsistencies across templates that may or may not be resolved in the final templates, which could entail additional and significant efforts to comply by the reporting banks. The Associations urge the Board to recognize that the short time frame for completing the templates makes it challenging for some firms to comply. Some of the data sought is not currently captured by firms at the level of granularity envisioned by the proposals or in a format that easily translates to the provided templates. Incorporating thresholds – in areas where significantly more granularity is being requested than has historically been provided or where time consuming manual processes might be necessary to provide specific data elements – would significantly reduce the burden on firms while still permitting the Board to obtain a very comprehensive view-both immediately and going forward-of reporting firms. In addition, we note that the ability of firms to provide the data sought would be greatly enhanced if the Board elected to provide the supervisory scenario before the templates are finalized.

I. Substantive Concerns

The Associations' substantive concerns pertain to matters of timing, process and discrepancies between data sought and previous Board direction or existing firm practices.

- a. **The proposed Pre-provision Net Revenue ("PPNR") template, by mandating that firms report using both net-interest income and business segment bases, will result in filings that do not allow meaningful evaluation of a firm's results.**

The proposal mandates that any firm whose deposits comprise more than 1/3 of its total liabilities collect and provide data in two distinct formats: according to net-interest income³ and by specifically-defined business segment. For most firms, one format will not provide meaningful insights into how the business is managed. Additionally, for BHCs that manage their businesses with a different segmentation than the ones provided, restating data will require either the development of alternative funds-transfer pricing and equity allocation methodologies to support the new segments, which may be challenging, or rough translations from the existing management reporting, which may not provide meaningful results. We recommend that the Board permit BHCs the flexibility to use the format and business segment definition most appropriate for their operations, similar to the option provided by the Board in the last iteration of the CCAR.

Additionally, we do not believe that the granular detail required for every scenario in the PPNR Metrics worksheet is necessary for purposes of evaluating capital adequacy. We believe the following changes would provide the Board with relevant information, while reducing some of the burden on firms to produce data that is inconsistent with current budgeting and forecasting processes:

- a. Proposed: Average fee rate, deal volume, and market share for each Advisory, Equity Underwriting, Debt Underwriting and Corporate Lending.

Recommended: Average fee rate, deal volume, and market share for total IB fees

- b. Proposed: Compensation for Investment Banking and Sales and Trading

Recommended: Compensation for total Investment Bank

- c. Proposed: Commission and fees for Equities, Fixed Income and Commodities

Recommended: Either total markets or principal transaction revenue for Equities, Fixed Income and Commodities

- d. Proposed: Quarter end weighted average maturity of assets and liabilities by Y9C line item

Recommended: Non-critical requirement for 2012 submission

- b. **The "as of" date requirement relevant to trading and counterparty ("CCR") data is problematic and should be liberalized.**

³ The proposal compels BHCs to report net interest come two ways: at the corporate entity level and then at the business segment level. In addition, firms have to provide non-interest income at the business segment level. The concerns addressed in this part are specific to net interest income.

As explained in the proposals, the Board will provide an as-of date for data pertaining to trading and credit valuation adjustments (“CVA”) sometime after it has occurred. During the last year’s CCAR, BHCs were able to supply data from any day within one week of the promulgated as-of date in order to leverage existing risk reporting processes. The Associations believe that similar flexibility should exist in the forthcoming capital planning oversight framework. While it is unclear from the templates whether such flexibility is to exist, we strongly advocate for firms to be allowed to use the closest prior reporting date that is not a bank holiday. Such flexibility would recognize the realities of BHC data collection and storage capabilities, while also providing the level of granularity the Board appears to desire. It is impractical for firms to retain the granularity of data required to complete this submission for every day in case it might be the date chosen. While firms generate this data daily, it would require massive changes and investments to store and retain the information for the entire quarter.

c. The Associations are concerned with the requirement to name and quantify potential litigation exposures under a variety of stress conditions as mandated on the Operational Risk template.

Disclosing internal litigation exposure estimates, as sought in the Operational Risk template, could lead to inappropriate disclosures. The Associations request that the Board implement procedures to clarify that such internal litigation projections will be treated as confidential supervisory information and not made public. Because many firms do not internally classify potential litigation exposures using the same scenarios or methodology envisioned by the template, we note that any public disclosure could lead to inaccurate public conceptions of BHC litigation exposure.

d. The process of exempting firms from completing certain templates should be augmented to include qualitative factors in the materiality analysis, including the views of examiners-in-charge (“EICs”).

The Board has appropriately declined to require every BHC to complete each template. The Associations strongly support the inclusion of meaningful materiality thresholds in the data submission process. We are concerned, however, that limiting the materiality analysis to a simple numerical standard (*i.e.* portfolio asset balances greater than \$5 billion or asset balances relative to Tier 1 capital greater than 5 percent on average for the four quarters preceding the reporting quarter) will result in firms having to complete schedules that offer little insight into their capital adequacy or risk profiles. Absent change, it is clear many firms may end up having to invest significant time and resources to complete schedules that their examiners had deemed unnecessary during the initial CCAR exercise.

The Associations urge the Board to revise the exemption proposal by making it conjunctive, rather than disjunctive. That is, templates should only need to be completed if a portfolio meets both the \$5 billion and 5 percent of Tier 1 capital thresholds.

In addition, we ask the Board to enhance the exemption standard by creating a process for firms to seek approval for exemptions based on qualitative factors beyond the \$5 billion or 5 percent of Tier 1 capital standard. For instance, there should be a process BHCs could use to obtain exemptions for portfolios that have been sold to third parties since the reporting date or those that are largely guaranteed by the United States government. We believe that such a process should permit firms to present the Board with qualitative reasons for exemptions, including the views of EICs.

- e. Because the Counterparty template requires firms to provide data according to normal margin period at risk and with a 10-day margin period at risk, the same level of granularity should not be required.**

According to recent information provided by the Board, the new Counterparty template requires BHCs to conduct data collection efforts under both with the normal Margin Period at Risk and with a 10-day Margin Period at Risk. In practice, this doubles the number of scenarios required from three to six. Given this decision, the Associations urge the Board to require only the use of the 10-day margin period for the Counterparty template data collection. Doing so would streamline the data collection process while focusing on the data the Board has sought to emphasize.

- f. The Associations believe that the inclusion of cross defaulted data in the Commercial Real Estate ("CRE") template is unnecessary and are concerned that the data sought may in fact lead to erroneous judgments concerning the CRE risk within firms.**

Although some firms have been providing quarterly detailed CRE data to the Office of the Comptroller of the Currency ("**OCC**") for two years, they have not been required to provide details for loans below \$1mm; indeed, they were only recently asked to move to \$1mm from the original \$10mm threshold. For every loan under \$1mm, there is a significant and often manual exercise of going back to the original credit files and including data elements in some of these required fields. The Associations are concerned that the proposal's new "cross-defaulted" requirement mandates BHCs report client exposures where there are two properties and there is cross-default language (which is customary for CRE lending). This requirement will bring a significant number of loans below \$1mm into scope and, combined with the manual nature of the data gathering process, will pose particular challenges for institutions given the extremely short time period for filing the completed templates.

We do not object to the reasonable expansion of reporting to include cross-collateralized loans under \$1mm. However, we believe it is very important for the Board to recognize that most BHCs will not be able to provide all 39 data elements sought. It would be more sensible to initially require that BHCs only provide information directly related to stress testing. Additionally, as noted above, BHCs should not initially be required to include cross-defaulted loans separate from those that are cross-collateralized, which would bring into scope a significant number of loans under \$1mm.

Moreover, the Associations are concerned that, without modification, the CRE information proposed to be collected may not give the Board an accurate picture of the risk of a firm's CRE portfolio. Even with the data proposed to be collected, it would not be possible for the Board to calculate debt service and debt service coverage for reported CRE loans, which are key elements of risk. Thus, it is very likely that CCAR modeling and stress testing could produce results at odds with internal ratings and the true risk of the loans. The Associations encourage the Board to review the results of any CRE stress testing with the relevant firm to inform the Board's conclusions.

- g. A minimum threshold should be incorporated into the Corporate template to obviate initial burdens firms will bear in gathering and organizing the necessary data.**

Some BHCs will be severely challenged to deliver every facility with all required (or optional) data elements in the Corporate template by mid December. It is challenging for some firms to transition from existing internal reporting systems to more granular reporting in a matter of weeks. The burden of completing the Corporate template is compounded for some firms because they source loans for HCC (FRY-9C) reporting mainly from the line item detail of their general ledger, not from Credit Systems. Some

banks are not currently able to provide each and every loan from their Credit Systems across all of the required (and optional) data elements.

We believe that the Board should be flexible in developing and implementing the initial Corporate template filing. Doing so will abet BHCs in providing relevant and high quality data in the proposed timeframe. The Associations recommend the Board include a minimum threshold (either a dollar amount, like \$1mm, or based on the size of the banks' portfolio) for Corporate data sought. For direct comparison, in the CRE reporting process, there was an original threshold of \$10mm that was lowered over time to \$1mm. Using a similar process with the Corporate template would allow BHCs to build the necessary reporting systems over time to provide the data the Board seeks.

II. Clarifications

a. **Inconsistencies in the loan detail between the balance sheet and income statement sections of the annual templates need to be addressed.**

There are inconsistencies in the loan detail between the balance sheet and income statement sections of the annual templates, as related to the additional breakout of owner occupied on the balance sheet only. Because the manner in which this inconsistency is addressed will impact the projections and will require considerable re-work, we respectfully request that the Board provide reporting banks guidance on how this inconsistency will be addressed prior to proposed release of the final templates in late November.

b. **It is necessary for firms to know prior to the finalization of the templates if recorded investment data from the FRY-9C must be incorporated into the quarterly schedule data.**

The quarterly templates ask for contractual balances with a requirement to tie to the FRY-9C, but recorded investment is the basis for the FRY-9C numbers. Due to the considerable weight placed on reconciliations in the new filing requirements, if the recorded investment data will be a requirement for the templates, knowing that change in advance of late November would be optimal for the reporting banks.

c. **There is significant overlap between certain templates and submissions that large national banks must provide to other regulators.**

The Associations note that in the credit card, mortgage, home equity, large corporate, and CRE contexts the Board is proposing to collect data that is already provided to other regulators (i.e. the OCC). Now that the Fed and OCC plan to enter into a data sharing agreement, we respectfully request that the Federal Reserve and the OCC work in a cooperative fashion to promptly resolve the differences between their respective, similar reporting requirements.

III. Conclusion

The Associations understand the Board's objectives in transitioning from an *ad-hoc* CCAR process to the permanent capital adequacy review structure the Board plans to institute. We urge the Board to consider the transition costs and burdens that will weigh on institutions as systems are constructed to track and report the data sought by the proposed FR Y 14-A and FR Y 14-Q templates.

* * *

Thank you for considering the concerns raised in this letter. We appreciate the opportunity to share our views and would be happy to discuss any of them further at your convenience. Given the rapidly approaching proposed submission dates and the significant effort involved in gathering the required data and populating the templates, it is critically important for the Board to respond to the Associations' proposals and recommendations in a timely manner.

If you have any questions, please contact Eli Peterson, Vice President and Regulatory Counsel, of TCH at (202) 649-4602 (email:eli.peterson@theclearinghouse.org); Hugh Carney, Senior Counsel II, of the ABA at (202) 663-5324 (e-mail: hcarney@aba.com); Rich Whiting, Executive Director and General Counsel, of the Roundtable at (202) 289-4322 (e-mail: rich@fsround.org); or Kenneth Bentsen, Executive Vice President, Public Policy and Advocacy, of SIFMA at (202) 962-7356 (e-mail: kbentsen@sifma.org).

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