THE FINANCIAL SERVICES ROUNDTABLE
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August 26, 2013

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

Re: FR Y-14A, FR Y-14Q, and FR Y-14M

Dear Mr. Frierson:

The Financial Services Roundtable[1] and The Clearing House Association L.L.C.[2] (collectively the "Associations") appreciate the opportunity to comment on the Federal Reserve Board's (the "Board") proposed schedules and instructions for forms FR Y-14A, FR Y-14Q, and FR Y-14M. Our comments and recommendations are intended to enhance the quality, utility, and clarity of the information that is collected by these forms, and to minimize the burden on reporting companies. We also believe that our recommendations will reduce the supervisory burden on Board and Federal Reserve Bank personnel. Our comments and recommendations are divided into four sections:

- Communications between Board and Reserve Bank personnel and reporting companies;
- Edit checks;
  Reporting deadlines; and
- Proposed changes to the Wholesale Corporate Loan and Securities Schedules.

[1] The Financial Services Roundtable represents 100 integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for $98.4 trillion in managed assets, $1.1 trillion in revenue, and 2.4 million jobs.

[2] Established in 1853, The Clearing House is the oldest banking association and payments company in the U.S. It is owned by the world's largest commercial banks, which collectively employ over 2 million people and hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing—through regulatory comment letters, amicus briefs and white papers—the interests of its owner banks on a variety of systemically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost $2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the U.S. *See* The Clearing House's web page at www.theclearinghouse.org.

Communications Between Board and Reserve Bank Personnel and Reporting Companies

Reporting companies often have found it difficult to obtain guidance on the FR Y-14 worksheets. Currently, guidance is provided primarily through an FAQ process. This process, however, provides no acknowledgment of the receipt of a question, requires reporting companies to scroll through hundreds of responses to determine if a question posed by the company has been addressed, and often simply restates instructions without any further guidance or interpretation.

In order to enhance the quality, utility, and clarity of the information that is collected by these forms and minimize the burden on reporting companies, we recommend the following enhancements to communications between Board and Federal Reserve Bank personnel and reporting companies:

- Supplement the FAQ process with the designation of a specific contact person for each sub-category of FR Y-14 data as shown in the illustration on page 5 of Attachment A. As the illustration indicates, we find that FR Y-14 questions fall into three subject areas and take three forms: general questions, technical questions and specific data questions. We recommend that the Board and each of the Federal Reserve Banks designate someone in each of the three subject areas to serve as a point of contact for FR Y-14 questions.

- Establish a repository of the most common questions and responses that can be searched by reporting companies. Reporting companies would view this repository as a "first point of access" in trying to address compliance questions.

- Establish a timeline for addressing questions submitted by reporting companies. This would help to ensure that reported data is reported correctly.

- Integrate settled FAQs into the instructions.

Edit Checks

Failed edit checks diminish the utility of data submitted to the Board. We recently undertook an analysis of failed edit checks within the various reporting schedules. We found that the failures fell into two general categories: (1) Edit Checks in Question, which are failures caused by illogical edit checks, failures caused by low tolerance levels, and failures caused by a valid business reason; and (2) Data Gaps, which are failed edit checks caused by a lack of data.

Attachment B lists 103 edit checks that fall into these two categories. In each instance, the Attachment explains the failure and recommends a solution. In many cases, the solution is to increase the tolerance level on the data. Relatively minor adjustments in tolerance levels would eliminate much of the edit check problems, without compromising the quality of the data submitted to the Board.

<u>Deadlines</u>

We believe that the quality, utility, and clarity of the information reported on the FR Y-14 forms would be enhanced by some modifications in the filing deadlines and time frames for implementing changes initiated by the Board (final instructions) and for the reporting of data of recently acquired portfolios. Toward that end, we recommend:

- A one week lag period between the FR Y-9 and FR Y-14 submissions;

  The establishment of a six month period from the date final instructions are published in the Federal Register for all filers to comply with changes;
- A one year period for reporting companies to incorporate acquisition data into reports; and

- The establishment of time limits for the provision of historical data on acquired portfolios, e.g., no more than 5 years.

Each of these recommendations is discussed in greater detail below.

Aligning the FR Y-9 and FR Y-14 Submissions

Bank holding companies have been filing FR Y-9C reports since the late 1970s. Since then, reporting companies have implemented internal control processes to ensure the accuracy and completeness of the data included in the FR Y-9C reports. Currently, however, the FR Y-14 schedules must be filed on the same day as the FR Y-9C reports, and must be reconciled against the FR Y-9C filing. This same-day reporting requirement not only creates a compliance challenge for reporting companies, but can compromise the quality of the data submitted.

We agree that it is a sound practice for companies to reconcile the FR Y-14 to the FR Y-9C reports. However, having these two reports due on the same day causes significant challenges to reporting companies. Oftentimes the FR Y-14 reports must wait for the final balance from the FR Y-9C report for reconciling and research purposes. Moreover, in many cases both FR Y-9C and FR Y-14 reports rely on the same source data providers and the same subject matter experts. A reasonable lead time of one week between these two reporting dates would accomplish much to reduce these problems and improve the quality of FR Y-14 reporting overall.

Change Requests

The System Development Lifecycle ("SDLC") process is an industry accepted methodology to ensure that data changes are implemented in an appropriate manner. This process involves a thorough analysis to support the accurate delivery of the new data request; formal documentation, reviews, and approvals; data extract programing, including schedules, error checking controls, and data validations; and appropriate testing cycles.

Currently, however, change requests can result in a reporting company not having sufficient time to implement the SDLC process. This occurs for a number of reasons, including ambiguity in a new data request, which takes time to interpret; requirements that are not communicated to reporting companies via a consistent format (e.g., verbal or FAQs); data requirements that are conflicting across schedules or within the same schedule; and delays in the publication of edit check rules. Moreover, as change requests occur further along in the SDLC process, it becomes increasingly challenging for reporting companies to maintain the internal control and governance processes that are so critically important to supervisors and the reporting companies to ensure the accuracy of the data reported.

The charts on pages 13 to 17 of Attachment B illustrate some average and actual SDLC time frames related to change requests. The chart on page 13 of Attachment B displays an approximate percentage of time required for each phase of a standard SDLC process based on industry averages.

The charts on pages 14 and 15 of Attachment B show the average time required, in percentage terms, for the different SDLC processes conducted in connection with FR Y-14 Q and M change requests.

Finally, the chart on page 17 of Attachment B shows the actual time, in weeks, for one reporting company to produce a single counterparty gross credit exposure report using a specific data metric.

Based upon this data, we recommend that the Board establish a 6-month lag for all filers between the time when a final instruction is published in the Federal Register to the compliance deadline.

Acquisition Data – Future

Data from acquired portfolios must be integrated into current systems or pulled separately and consolidated for data submission. This requires a significant amount of resources, often within a short period of time. A sample timeline appears on page 18 of Attachment A. To ensure that the data reported on the FR Y-14 forms is accurate, we recommend that reporting companies have a timeline of one year for submitting data after the close date of an acquisition.

Acquisition Data – Historic

At the time of an acquisition, the specific data available is not often known and communication is limited throughout the acquisition process. While purchase accounting provides a "clean slate" for the acquired business(es) from a U.S. generally accepted accounting principles ("GAAP") perspective, the resulting fair value and ASC 310-30 adjustments provide little information for the acquirer in converting historical data for the acquired business. FR Y-14 reporting teams are left to scavenge old systems and data marts for acquired bank historical data when data of the acquired bank is merged on the acquirer's systems. This can be quite costly and time consuming. Additionally, many acquired institutions are the result of acquisitions they themselves made. This creates a multiplication effect in terms of historical data challenges. Smaller acquired institutions often used service providers for their data needs and the contracts with these providers typically did not require the maintenance of history sufficient to meet FR Y-14 requirements.

We recommend a time limit on the requirement for all filers providing historical data on acquired portfolios to data available in the acquired portfolio (e.g., a maximum of five years prior to the acquisition date). We also recommend that additional time and tolerance should be given to all filers to comply with "origination" field requirements. These items could be potentially explained in supplemental schedules.

<u>Proposed Changes to Wholesale Corporate Loan and Securities Schedules</u>

We have comments on the Wholesale Corporate Loan Schedule and the Securities Schedule.

Wholesale Corporate Loan Schedule

For the Wholesale Corporate Loan Schedule, the Board proposes to "add one item to identify borrowers that are special purpose entities, which would enhance the ability of the Federal Reserve to identify loans with specific characteristics that vary greatly from the aggregate." Heretofore, reporting firms have not had a business need to identify borrowers as special purpose entities on multiple source accounting systems. If this identifier is required as proposed, firms would have to go into the actual (paper or scanned) loan documentation files for thousands of obligations to determine whether the obligor is a special purpose entity. To avoid this burden, we urge the Board to reconsider whether the benefits of identifying such loans outweighs the cost to obtain this information. If this identifier is deemed to be necessary, we request that the Board postpone the effective date for at least six months so that institutions can first obtain the data and then formulate its collection into existing processes.

Securities Schedule

For the Securities Schedule, the Board proposes adding Book Yield and Purchase Date as columns to the Securities 1 worksheet, noting that "The proposed changes would enhance the ability of the Federal Reserve to model the behavior of the proposed security type, which varies greatly from the aggregate and allow the Federal Reserve to more accurately track the changes in the portfolios of respondents." Regarding the Purchase Date, it is unclear as to whether trade or settlement date should be reported. For purposes of determining Book Yield, various methods can be used, each of which has its own advantages and drawbacks. For debt instruments, these methods include, but are not limited to, projecting cash flows and solving for the yield that equates the present value of the projected cash flows to current book value. For equity instruments, the methods include annualizing the current dividend relative to the current book value. Also, since there is no accrued interest for equity securities (i.e., perpetual preferred stock) based upon U.S. GAAP, it is unclear how to complete the field for Book Yield. To eliminate these ambiguities, we recommend that the instructions for the proposed columns on the Securities 1 worksheet should clearly state the required or acceptable approaches to reporting these added elements, and consideration should be given to leaving the Book Yield field blank for equity securities.

Conclusion

In summary, the Associations believe that recommendations contained in this letter would enhance the quality of the data the Board receives through the FR Y-14 reports and reduce the reporting burden for reporting companies and the supervisory burden for the Board and the Federal Reserve Banks. For questions or for further information on the matters addressed in this letter, please contact Richard Foster, Senior Counsel for Regulatory and Legal Affairs, The Financial Services Roundtable (202-589-2424 or richard.foster@fsround.org) or Ryan Pozin, Assistant Vice President, Finance, The Clearing House (212-613-0135 or Ryan.Pozin@theclearinghouse.org).

Sincerely,

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