



August 8, 2017

*Via Electronic Mail*

Ann E. Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street & Constitution Avenue, N.W.  
Washington, D.C. 20551

Re: Amendments to the Capital Assessments and Stress Testing Information Collection (FR Y-14A/Q/M; OMB Control No. 7100-0341)

Ladies and Gentlemen:

The Clearing House Association L.L.C.<sup>1</sup> appreciates the opportunity to comment on the Federal Reserve's proposed amendments to the FR Y-14A/Q/M reports 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.<sup>2</sup> The proposal would expand the applicability of the global market shock to certain IHCs beginning with the 2018 CCAR/DFAST cycle, as well as make other changes to the schedules and instructions for the FR Y-14A/Q/M reports.

The Clearing House strongly supports the maintenance of robust capital by all banking organizations as an essential tool for promoting safety and soundness and has long been supportive of capital stress testing in general, despite certain misgivings as to its application in practice through CCAR and DFAST. The proposed application of the global market shock to certain IHCs could frustrate the policy goal of encouraging FBOs to participate in U.S. financial markets. Accordingly, we urge the Federal Reserve to reconsider applying the global market

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<sup>1</sup> 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.

<sup>2</sup> 82 Fed. Reg. 26793 (June 9, 2017).

shock to those IHCs. If the Federal Reserve does, however, decide to do so, we recommend that, for the upcoming 2018 CCAR/DFAST cycle, the Federal Reserve apply the global market shock to the covered IHCs through a confidential supervisory process conducted in parallel with CCAR and DFAST. In addition, we recommend that the Federal Reserve implement a transition period for any firm that may in the future become subject to the global market shock.

Except as related to the application of the global market shock to certain IHCs, the absence of a transition period for firms that may in the future become subject to the global market shock, the submission deadline for the third quarter 2017 FR Y-14Q trading and counterparty schedules, and as noted in Annex A (which addresses other comments relating to the proposed changes to the FR Y-14A/Q/M reports), we support the proposed changes to the schedules and instructions of the FR Y-14A/Q/M reports presented in the proposal.

**I. The Federal Reserve should reconsider applying the global market shock to IHCs in order to avoid potentially discouraging FBOs from participating in U.S. financial markets.**

As described in the June 2017 report of the U.S. Department of the Treasury, FBOs play an important role in the U.S. financial system<sup>3</sup> and continual increases in capital requirements can decrease the availability of credit and have other adverse economic effects<sup>4</sup>. CCAR post-stress capital requirements are frequently firms' binding capital constraints.<sup>5</sup> Accordingly, when a firm becomes subject to the global market shock, in practical effect, it experiences an increase in its capital requirements and must pre-capitalize the anticipated stressed losses. The application of the global market shock to certain IHCs would increase those IHCs' capital requirements and may create disincentives for those IHCs and their FBO parents to invest in and grow their U.S. lending and securities businesses, including the provision of primary and secondary market liquidity through underwriting and market-making activities. Subjecting IHCs to the global market shock could thus frustrate the policy goal of encouraging FBOs to continue to participate in U.S. financial markets and to provide credit to the U.S. economy.<sup>6</sup> We therefore urge the Federal Reserve to reconsider applying the global market shock to certain IHCs.

**II. If the Federal Reserve determines to apply the global market shock to certain IHCs, it should do so through a confidential supervisory process conducted in parallel with CCAR and DFAST for the 2018 cycle in light of the significant system and process**

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<sup>3</sup> See U.S. Department of the Treasury, *A Financial System That Creates Economic Opportunities, Banks and Credit Unions*, Report to President Donald J. Trump, Executive Order 13772 on Core Principles for Regulating the United States Financial System (June 2017), (the "Treasury Report") at 17 and 68, available at <https://www.treasury.gov/press-center/press-releases/Documents/A%20Financial%20System.pdf>.

<sup>4</sup> See *id.*, at 37 ("an excess of capital and liquidity in the banking system will detract from the flow of consumer and commercial credit and can inhibit economic growth") and 49 ("the continual ratcheting up of capital requirements is not a costless means of making the banking system safer").

<sup>5</sup> See The Clearing House, *The Capital Allocation Inherent in the Federal Reserve's Capital Stress Tests* (January 2017), available at [https://www.theclearinghouse.org/~media/TCH/Documents/TCH%20WEEKLY/2017/20170130\\_WP\\_ImPLICIT\\_Risk\\_Weights\\_in\\_CCAR.pdf](https://www.theclearinghouse.org/~media/TCH/Documents/TCH%20WEEKLY/2017/20170130_WP_ImPLICIT_Risk_Weights_in_CCAR.pdf).

<sup>6</sup> See Treasury Report, at 70.

**modifications that would be required for covered IHCs to implement effectively the global market shock into their capital planning and stress testing processes.**

Our recommended confidential supervisory process only for the upcoming 2018 CCAR/DFAST cycle would consist of the following elements:<sup>7</sup>

- The IHCs that become subject to the global market shock would submit data regarding trading and counterparty exposures on the relevant FR Y-14A/Q schedules beginning with the reports as of September 30, 2017, with the extended submission deadline for the third quarter of 2017 and the pre-set submission deadline for the fourth quarter of 2017 recommended in Section I of Annex A.
- For those IHCs, the effects of the global market shock on post-stress capital levels would not be factored into (i) supervisory or company-run stress tests for the 2018 CCAR/DFAST cycle (including supervisory publication or company disclosure of DFAST results) or (ii) the quantitative assessment of their ability to maintain capital ratios above the applicable minimum regulatory capital ratios in CCAR 2018.
- For those IHCs, matters relating to the global market shock (including data creation and collection, reporting, governance and other practices) would not factor into the qualitative assessment of their capital planning processes during CCAR 2018, and feedback would be provided through normal supervisory and examination processes.
- For those IHCs, the confidential supervisory process would be limited to the upcoming 2018 CCAR/DFAST cycle, and, in subsequent CCAR/DFAST cycles, the global market shock would apply to them in the same manner as to U.S. G-SIBs currently subject to the global market shock.

Applying the global market shock to the newly subject IHCs through the confidential supervisory process described above would allow the Federal Reserve to achieve the supervisory objectives underlying the proposal. In particular, since those IHCs would submit data relating to the global market shock beginning with the reports as of September 30, 2017, the confidential supervisory process would facilitate the Federal Reserve's ability to "more accurately identify the firms' risks and capital needs"<sup>8</sup> to the same extent as the proposal. The confidential supervisory process would also provide an appropriate transition period for the covered IHCs, which we urge the Federal Reserve to implement for the following reasons:

First, the 2018 CCAR/DFAST cycle will soon commence—indeed, as a result of recent amendments to the Federal Reserve's capital plan and stress test rules, the as-of date for the

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<sup>7</sup> Although the proposal did not address the applicability of the counterparty default scenario component, that component should be treated in the same manner as the global market shock if the Federal Reserve determines to apply it to certain IHCs. As noted in Section II of Annex A, we request that the Federal Reserve clarify the application of the counterparty default scenario component to firms that become subject to the global market shock.

<sup>8</sup> 82 Fed. Reg. at 26796.

global market shock could be as early as October 1, 2017.<sup>9</sup> There is not sufficient time for IHCs to properly plan and implement the necessary data creation and collection, reporting, governance and other process changes, as well as for IHCs and their FBO parents to determine and effectuate the appropriate pre-capitalization of stressed losses, related to the global market shock for the 2018 CCAR/DFAST cycle. As a matter of prudent business management and resource allocation, IHCs would not begin to implement the data creation and collection, reporting, governance and other processes and procedures related to the global market shock in order to be in a position to pre-capitalize anticipated stressed losses related to the global market shock until final amendments to the FR Y-14A/Q reports are issued and the IHCs have certainty regarding whether they will become subject to the global market shock. Given that the comment period for the proposal ends in August 2017, it is possible—if not likely—that the final amendments would not be announced until September 2017 at the earliest.<sup>10</sup>

Second, the DFAST results published by supervisors or disclosed by companies, as well as the outcomes of the CCAR quantitative and qualitative assessments, receive substantial scrutiny from market participants. IHCs that become subject to the global market shock will experience a significant increase in supervisory and market expectations regarding capital planning systems and processes, as well as a significant increase in effective capital requirements. In light of the short timeframe for the finalization of changes to the FR Y-14A/Q reports and the commencement of the 2018 CCAR/DFAST cycle, it is not appropriate to subject IHCs to such substantial new requirements and incorporate them into public CCAR determinations or DFAST results for the upcoming capital planning and stress testing cycle.

Third, the Federal Reserve has previously provided similar transition periods for BHCs entering CCAR through the 2012 Capital Plan Review<sup>11</sup> as well as for IHCs newly participating in CCAR in 2017.<sup>12</sup> The same policy reason for those transition periods—providing firms with additional time to adjust to new requirements prior to the incorporation of those requirements into public supervisory outcomes—applies with equal force to the new application of the global market shock to certain IHCs. Moreover, in the proposal, the Federal Reserve recognized the need for a transition period relating to the application of the global market shock to those IHCs.<sup>13</sup>

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<sup>9</sup> See Federal Reserve, *Amendments to the Capital Plan and Stress Test Rules; Regulations Y and YY*, 82 Fed. Reg. 9308 (Feb. 3, 2017); see also 12 C.F.R. §252.54(b)(2)(i)(B).

<sup>10</sup> If the final amendments are released after September 2017, the initial submissions for the relevant schedules of the FR Y-14A/Q relating to the global market shock should likewise be postponed and not be required with a September 30, 2017 as-of date.

<sup>11</sup> See Federal Reserve, *Comprehensive Capital Analysis and Review 2012: Methodology and Results for Stress Scenario Projections* (Mar. 13, 2012) (the “2012 CCAR Results”), at 7 (noting that less extensive data submission from CapPR BHCs “reflected a recognition that the firms had not been through such a coordinated exercise before and that time might be needed to build and implement the internal systems necessary to satisfy the rigorous data collection requirements needed for a separate supervisory stress test”), available at <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20120313a1.pdf>.

<sup>12</sup> See 82 Fed. Reg. at 9318 (explaining the phased-in application of capital planning and stress test requirements to newly formed IHCs and noting that the Federal Reserve “recognizes the challenges that a company new to the CCAR process will face”).

<sup>13</sup> See 82 Fed. Reg. at 26796 (“Collecting the FR Y-14 data beginning with the reports as of September 30, 2017, would provide the firms with one quarter before the 2018 CCAR/DFAST exercise to identify any questions regarding intended reporting or submission requirements and receive clarifying responses, and

A single FR Y-14Q submission is, however, insufficient to achieve the objectives cited by the Federal Reserve, in particular in light of the likely timeline for the finalization of the changes to the FR Y-14A/Q reports, the new as-of date and deadline for the initial submission and the commencement of the 2018 CCAR/DFAST cycle.

Fourth, for U.S. G-SIBs subject to the global market shock, there was an analogous transition period over the course of the initial two CCAR cycles. The first CCAR exercise, CCAR 2011, included a global market shock for certain U.S. G-SIBs without disclosure of firm-specific results;<sup>14</sup> the Federal Reserve commenced disclosing firm-specific results for the next exercise, CCAR 2012.<sup>15</sup> Although the global market shock factored into assessments of post-stress capital adequacy in CCAR 2011, the U.S. G-SIBs subject to the global market shock in CCAR 2011 had prior experience with that stress test component through the Federal Reserve's 2009 Supervisory Capital Assessment Program, which included the same market shock applied to the same U.S. G-SIBs.<sup>16</sup> In addition, CCAR 2011 centered on company-run stress tests that were evaluated by the Federal Reserve; supervisory stress tests were incorporated into CCAR beginning with CCAR 2012.<sup>17</sup>

Fifth, the full and immediate application of the global market shock to certain IHCs in the 2018 CCAR/DFAST cycle (including the incorporation of the global market shock into public DFAST results and CCAR determinations) would, like the application of the global market shock more generally, create disincentives for FBOs and their IHCs to invest in and grow their U.S. businesses. Accordingly, our recommended transition period would promote the policy goal of encouraging FBOs to continue to participate in U.S. financial markets and to provide credit to the U.S. economy.

In addition, IHCs that become subject to the global market shock are and will be differently situated with regard to the nature and extent of data creation and collection, governance and other process changes that will be necessary in order to be able to comply with the additional FR Y-14 reporting requirements. In light of the short timeframe for implementing those changes prior to the due dates for the third and fourth quarter 2017 submissions, we urge the Federal Reserve to acknowledge the varying degrees of preparatory work required of IHCs and to confirm that, in providing supervisory feedback on reporting matters relating to the global market shock, the Federal Reserve will take into account the IHC's current capabilities

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would also give the Board an initial view of data quality and the opportunity to request remediation of issues in advance of the use of these data as part of the global market shock.”).

<sup>14</sup> See Federal Reserve, *Comprehensive Capital Analysis and Review: Objectives and Overview* (Mar. 18, 2011) (the “2011 CCAR Results”), at 13, 18-19, available at <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20110318a1.pdf>; 2012 CCAR Results.

<sup>15</sup> See 2012 CCAR Results, at Appendix C (BHC-Specific Results).

<sup>16</sup> See 2011 CCAR Results, at 13 (“the six largest firms were required to estimate potential losses stemming from trading activities and private equity investments using the same severe global market shock scenario that was applied in the SCAP”).

<sup>17</sup> See *id.*, at 18 (“The stress scenario analyses in the CCAR were performed by the firms . . .”); 2012 CCAR Results, at 1 (“The stress scenario projections were calculated by Federal Reserve analysts using input data provided by the 19 BHCs and a set of models developed or selected by the Federal Reserve.”).

(including those relating to data creation and collection) and be cognizant of the unique circumstances for each IHC.

**III. The Federal Reserve should provide a transition period for any firm that may in the future become subject to the global market shock.**

The Federal Reserve has frequently recognized that firms must make significant investments to comply with capital planning and stress testing requirements when they commence participating in CCAR and DFAST and has, accordingly, provided a phased application of CCAR and DFAST.<sup>18</sup> Indeed, the Federal Reserve's most recent amendments to its capital plan and stress test rules extended the transition period.<sup>19</sup> The proposal does not, however, include a transition period for firms that cross the threshold to become subject to the global market shock; rather, a firm that crosses the threshold would immediately become subject to the global market shock. The rationales for transition periods in other areas of the Federal Reserve's capital planning and stress testing frameworks also apply to the application of the global market shock. We therefore recommend that the Federal Reserve revise the proposal to provide a transition period for any firm that in the future cross the threshold to become subject to the global market shock. A transition period would provide newly subject firms with appropriate time to plan and implement the necessary data creation and collection, reporting, governance and other process changes.

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The Clearing House appreciates the opportunity to comment on the proposal. If you have any questions, please contact me by phone at (212) 613-9883 or by email at [David.Wagner@theclearinghouse.org](mailto:David.Wagner@theclearinghouse.org).

Respectfully submitted,



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<sup>18</sup> See, e.g., 82 Fed. Reg. at 9317-18.

<sup>19</sup> See *id.* at 9318 fn 50.

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## Annex A

### I. Submission Deadlines for the FR Y-14Q Trading and Counterparty Schedules.

#### A. The Federal Reserve should permit IHCs that become subject to the global market shock to submit the third quarter 2017 FR Y-14Q trading and counterparty schedules by December 29, 2017.

Permitting IHCs that become subject to the global market shock to submit the third quarter 2017 FR Y-14Q trading and counterparty schedules by December 29, 2017 would provide significant benefits for those IHCs without impairing supervisory processes. Specifically, a December 29, 2017 submission deadline would:

- facilitate the ability of those IHCs to develop systems and processes to timely and accurately file the schedules; an extended submission deadline would meaningfully mitigate the operational and other challenges presented by the likely timeframe for the release of final amendments to the FR Y-14Q and the September 30, 2017 as-of date for the initial submission;
- be consistent with the extended submission deadlines for new FR Y-14Q reporters;<sup>1</sup> those IHCs would be “new reporters” with regard to the trading and counterparty schedules, and the same policy rationales for the extended submission deadlines for new reporters—providing a transition period for compliance with new requirements—likewise should apply to the IHCs’ initial submissions of the trading and counterparty schedules; and
- provide the Federal Reserve with the opportunity to review the submissions and give feedback prior to the fourth quarter 2017 submissions.

#### B. For the fourth quarter 2017 FR Y-14Q regular/unstressed trading and counterparty schedules, the Federal Reserve should establish a pre-set submission deadline of March 15, 2018 for IHCs that become subject to the global market shock.

In the FR Y-14Q report, notification of the as-of date for the global market shock determines the submission deadline for certain schedules. When the Federal Reserve extended the window for the as-of date of the global market shock, it noted that firms subject to the global market shock “would be notified within two weeks of the selected as-of date” but that the extension of the window for the as-of date would “not change the reporting deadlines for the reporting schedules related to the market shock.”<sup>2</sup> Per the current instructions for the FR Y-14Q, the fourth quarter FR Y-14Q regular/unstressed trading and counterparty schedules must be

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<sup>1</sup> Instructions, Form FR Y-14Q (May 23, 2017), at 7 (extending the submission deadlines for new reporters to 90 days after quarter-end for the initial two submissions and 65 days after quarter-end for the third and fourth quarterly submissions). December 29, 2017 is 90 days after the end of the third quarter of 2017.

<sup>2</sup> 82 Fed. Reg. at 9318-19.



submitted within 52 calendar days after notification of the as-of date or March 15, whichever comes earlier.<sup>3</sup>

We recommend that the Federal Reserve permit IHCs that become subject to the global market shock to submit the fourth quarter 2017 FR Y-14Q regular/unstressed trading and counterparty schedules by March 15, 2018, irrespective of the notification of the as-of date for the global market shock.<sup>4</sup> Like our recommendation for an extended deadline for the third quarter 2017 submission, we believe such a pre-set deadline would provide significant benefits for those IHCs without impairing supervisory processes. Specifically, a pre-set March 15, 2018 submission deadline would:

- facilitate the ability of IHCs to develop systems and processes to timely and accurately file the schedules, in particular if the notification of the as-of date occurs well in advance of January 22, 2018 (*i.e.*, more than 52 calendar days before March 15, 2018);
- be consistent with the principles underlying the extended submission deadlines for new FR Y-14Q reporters;<sup>5</sup>
- mitigate operational challenges that IHCs may encounter due to the need to prepare multiple FR Y-14Q submissions for the fourth quarter of 2017; and
- eliminate any ambiguity relating to the definition of the “notification date” of the as-of date for the global market shock and the determination of the related submission deadline.

## II. Applicability of the Counterparty Default Scenario Component.

Since CCAR 2014, the Federal Reserve has applied the counterparty default scenario component to the six U.S. G-SIBs subject to the global market shock as well as two additional U.S. G-SIBs.<sup>6</sup> In the proposal, the Federal Reserve did not address whether the IHCs that become subject to the global market shock (or any other firms that may in the future become subject to the global market shock) would also become subject to the counterparty default

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<sup>3</sup> Instructions, Form FR Y-14Q, at 6-7.

<sup>4</sup> For the December 31, 2016 FR Y-14 reports, the Federal Reserve permitted the LISCC BHCs to submit their initial attestations for the FR Y-14Q and FR Y-14M at the same time as the initial attestation for the FR Y-14A—that is, in April 2017. We request that the Federal Reserve likewise permit the LISCC IHCs to submit their initial attestations for all December 31, 2017 FR Y-14 reports, including the FR Y-14Q and FR Y-14M, in April 2018 when the attestation for the FR Y-14A must be submitted.

<sup>5</sup> See footnote 1 in Annex A and the accompanying text.

<sup>6</sup> See, *e.g.*, Federal Reserve, *Comprehensive Analysis and Review 2017: Assessment Framework and Results* (June 2017), at 9 fn 17, available at <https://www.federalreserve.gov/publications/files/2017-ccar-assessment-framework-results-20170628.pdf>; Federal Reserve, *Press Release: Federal Reserve Board releases supervisory scenarios and instructions for 2014 capital planning and stress testing* (Nov. 1, 2013) (“In addition, for the first time in 2014, eight bank holding companies with substantial trading or custodial operations will be required to incorporate a counterparty default scenario.”), available at <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20131101a.htm>.

scenario component. We believe it would be beneficial if the Federal Reserve clarified whether it expects to apply the counterparty default scenario component to firms that become subject to the global market shock. Such clarification would facilitate the ability of those firms to develop systems and processes to timely and accurately provide the Federal Reserve with the necessary information.

In addition, as noted in footnote 7 of the body of this letter, if the Federal Reserve determines to apply the counterparty default scenario component to the IHCs that become subject to the global market shock, that component should be subject to the same “transition period” as we have recommended apply to the global market shock. The reasons for phasing in the applicability of the global market shock through the confidential supervisory process described in the body of this letter would apply to the counterparty default scenario component as well.<sup>7</sup>

### **III. Proposed Elimination of Schedule D (Regulatory Capital Transitions) and Schedule G (Retail Repurchase Exposures) of the FR Y-14A.**

We previously recommended that the Federal Reserve no longer require any firm that participates in CCAR to complete Schedule D (Regulatory Capital Transitions) and Schedule G (Retail Repurchase Exposures) of the FR Y-14A.<sup>8</sup> We continue to fully support the elimination of those schedules as appropriate revisions to reporting requirements for the reasons we previously noted as well as those provided in the proposal.

In addition to the proposed elimination of Schedules D and G of the FR Y-14A, we believe it would be beneficial for the Federal Reserve to provide relief with respect to the following related reporting requirements, which were not addressed in the proposal:

- Schedule D (Regulatory Capital Transitions) of the FR Y-14Q collects actual data on a fully phased-in basis and should be eliminated for all firms. Other than the phase out of non-qualifying capital instruments from Tier 2 capital of advanced approaches firms, beginning with the first quarter of 2018, the transitional adjustments to regulatory capital in the Federal Reserve’s capital rules will be fully phased in and firms reporting on FR Y-14Q will provide fully phased-in capital ratios on the FFIEC 101 report and the HC-R Schedule of the FR Y-9C report, which significantly diminishes the value of the information reported on Schedule D of the FR Y-14Q.

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<sup>7</sup> The fourth reason is that the global market shock was phased in over the 2011 and 2012 CCAR cycles for the relevant U.S. G-SIBs. Although the counterparty default scenario component was introduced for the U.S. G-SIBs in CCAR 2014 without a transition period, the circumstances for IHCs that become subject to the global market shock are not analogous to those for the U.S. G-SIBs with regard to CCAR 2014. In particular, for the newly formed IHCs, the 2018 capital planning and stress testing cycle will be their first time participating in the full CCAR process and DFAST. In contrast, by the time of CCAR 2014, the U.S. G-SIBs had already participated in three prior CCAR cycles, as well as in DFAST and SCAP.

<sup>8</sup> See The Clearing House, *Comment Letter re: Amendments to the Capital Plan and Stress Tests Rules* (Docket No. R-1548; RIN 7100 AE-59) (Nov. 23, 2016), at 5, available at [https://www.theclearinghouse.org/-/media/action%20line/documents/volume%20vii/20161123\\_tch\\_comments\\_ccar.pdf](https://www.theclearinghouse.org/-/media/action%20line/documents/volume%20vii/20161123_tch_comments_ccar.pdf).

- Large and noncomplex firms are no longer required to complete the Retail Repurchase Sub-schedule of the FR Y-14A (Summary),<sup>9</sup> and the Federal Reserve should eliminate this schedule for all firms required to submit FR Y-14A reports. This schedule collects projected information that is similar to that reported on Schedule G of the FR Y-14A, and the same rationale for eliminating Schedule G—the Federal Reserve’s retirement of its mortgage repurchase model and implementation of an enhanced operational risk loss model<sup>10</sup>—should warrant elimination of the Retail Repurchase Sub-schedule. Moreover, as the Federal Reserve has recognized, mortgage repurchase risk has declined in recent years,<sup>11</sup> which further diminishes the value of the information reported on that sub-schedule.

#### IV. Other

We also believe it would be beneficial for the Federal Reserve to provide relief or clarification with respect to the following reporting requirements:

- FR Y-14Q Sub-Schedule L.5—Reporting for Each Scenario. The draft instructions and draft reporting form for the L.5 sub-schedules do not consistently address requirements for each scenario. For example, the draft instructions for Sub-Schedule L.5.2 provide, “For the CCAR/Stressed submission, separate submissions of this information must be reported for each stress scenario,”<sup>12</sup> but the other L.5 sub-schedules do not include a similar instruction. The draft reporting form does, however, contain an overarching statement providing that information must be reported for each scenario for each L.5 sub-schedule.<sup>13</sup> We recommend that the Federal Reserve clarify in the instructions that information must be reported for each scenario for each L.5 sub-schedule.
- FR Y-14Q Sub-Schedule L.5—Ranking Methodology for Stressed Submissions. The draft instructions do not specify how banks should address rankings for stressed submissions.<sup>14</sup> We believe there should be distinct ranking methodologies for the baseline and stressed scenarios.

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<sup>9</sup> 82 Fed. Reg. at 9321.

<sup>10</sup> See 82 Fed. Reg. at 26797.

<sup>11</sup> See Federal Reserve, *Dodd-Frank Act Stress Test 2017: Supervisory Stress Test Methodology and Results* (June 2017), at 72 (“Mortgage repurchase risk has declined in recent years due to improved underwriting standards and settlements relating to representations and warranties for pre-crisis vintages.”), available at <https://www.federalreserve.gov/publications/files/2017-dfast-methodology-results-20170622.pdf>.

<sup>12</sup> Draft Instructions, FR Y-14Q Schedule L, at 23, available at <https://www.federalreserve.gov/apps/reportforms/review.aspx>.

<sup>13</sup> See Draft Reporting Form, FR Y-14Q Schedule L, at 40 (“All CCPs and G7 sovereigns + Top 25 non-CCP/G7 SFT counterparties ranked by Gross Current Exposure and Net Current Exposure or for as-of-CCAR quarter FR stressed Net Current Exposure for each scenario.”), available at <https://www.federalreserve.gov/apps/reportforms/review.aspx>.

<sup>14</sup> See Draft Instructions, FR Y-14Q Schedule L, at 15.

- For the baseline scenario, the ranking methodologies should be: (1) Top 25 non-sovereign counterparties by SFT amount posted; (2) Top 25 non-sovereign counterparties by SFT Net CE; (3) Top 25 non-sovereign counterparties by derivatives notional; and (4) Top 25 non-sovereign counterparties by derivatives Net CE.
  - For the adverse and severely adverse scenarios, the ranking methodologies should be: (1) Top 25 non-sovereign counterparties by SFT amount posted; (2) Top 25 non-sovereign counterparties by SFT Net Stressed CE; (3) Top 25 non-sovereign counterparties by derivatives notional; and (4) Top 25 non-sovereign counterparties by derivatives Net Stressed CE. The instructions should provide that separate stressed rankings are to be performed for the adverse and severely adverse scenarios.
- FR Y-14Q Sub-Schedule L.5.1—Internal and External Ratings. The draft instructions would require firms to report internal and external ratings of counterparties.<sup>15</sup> The draft reporting form, however, has only a single column for “Rating.”<sup>16</sup> We recommend that the draft reporting form be revised to reflect that the instructions require both internal and external ratings information.
- FR Y-14Q Sub-Schedule L.5.1—Unstressed MTM Cash Collateral (Derivatives) (CACSR569). The draft instructions would require firms to report amounts subdivided by currency, but the draft reporting form has just one column for “Unstressed MTM Cash Collateral (Derivatives).”<sup>17</sup> We recommend that the draft reporting form be revised to include additional columns to report amounts by currency.
- FR Y-14Q Sub-Schedules L.5.1, L.5.2 and L.5.4—Ranking of CCPs and G-7 Sovereigns. We recommend that the Federal Reserve confirm and clarify that CCPs and G-7 sovereigns are to be reported but not ranked in Sub-Schedules L.5.1 and L.5.2. We also request that the Federal Reserve specify which ranking methodology should be used for Sub-Schedule L.5.2.
- Sub-Schedules L.5.1 and L.5.2 would require ranking of all counterparties, including CCPs and G-7 sovereigns, with “CCP” specified as the rank for CCPs and “G7” specified as the rank for G-7 sovereigns.<sup>18</sup> Because the new ranking methodologies for Sub-Schedule L.5 would require ranking of “non-sovereign counterparties,” the instructions for these sub-schedules should clarify that, like G-7 sovereigns and as specified in Sub-Schedule L.5.4<sup>19</sup>, CCPs are reported but not ranked.

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<sup>15</sup> See *id.*, at 18.

<sup>16</sup> See Draft Reporting Form, FR Y-14Q Schedule L, at 40.

<sup>17</sup> See Draft Instructions, FR Y-14Q Schedule L, at 21; Draft Reporting Form, FR Y-14Q Schedule L, at 42.

<sup>18</sup> See Draft Instructions, FR Y-14Q Schedule L, at 17 and 23.

<sup>19</sup> See *id.* at 33 (“Report the information required by each column for all CCPs, G-7 sovereign countries, and the top 25 counterparties that are not CCPs or G-7 sovereign countries.”).

- The draft instructions for Sub-Schedule L.5.2 provide that rankings should be “ordered according to the instructions above”<sup>20</sup> and should be revised to specify which of the new ranking methodologies should be used.
- FR Y-14Q Schedule L and FR Y-14A Schedule A.5—Funding Valuation Adjustments. The proposal would require firms to report funding valuation adjustments (or FVA) on the FR Y-14Q Schedule L and FR Y-14Q Schedule A.5.
- We recommend that the Federal Reserve clarify in the FR Y-14A instructions that firms should report FVA gains and losses for all supervisory and BHC scenarios. The clarification would maintain alignment between firms’ projections and their actual reported results, and it would also result in reports presenting the full economic impact of FVA and related activities.
  - We also recommend that the Federal Reserve revise the FR Y-14A instructions to provide that gains and losses on FVA hedges should be reported on Schedule A.4 (Trading) in the FR Y-14A in order to maintain consistency with the reporting of credit valuation adjustment (or CVA) hedging activity.<sup>21</sup> Reporting FVA hedging activity consistent with CVA hedging activity is appropriate because firms manage those activities holistically.
- FR Y-14Q Schedule L—Timing of Proposed Changes. The proposal would make several changes to Schedule FR Y-14Q Schedule L, including, among others, (i) requiring firms to report notional amounts and weighted-average time to maturity for positions included on Sub-Schedules L.1 and L.6 of Form FR Y-14Q and (ii) combining the currently separate collections of counterparties as ranked by securities financing transactions (Sub-Schedule L.5) and derivatives (Sub-Schedule L.6). Except for the proposed changes to the FR Y-14Q Schedule L instructions for the consolidation of counterparties for purposes of reporting exposures to sovereigns and CCPs,<sup>22</sup> we recommend that the Federal Reserve revise the proposal so that all other revisions to Schedule L would be effective beginning with the submissions for the first quarter of 2018. We believe the postponement of those revisions would provide reporting firms with additional time that would facilitate the development and implementation of technology, governance and other system and process changes to comply with the new reporting requirements (in particular those described in (i) and (ii) above) and would also mitigate operational challenges relating to the development and implementation of those changes.
- Definition of CCPs. In the 2017 supervisory scenarios for CCAR/DFAST, the Federal Reserve instructed that “[i]n selecting its largest counterparty, a BHC will not consider certain sovereign entities (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States) or designated central clearing

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<sup>20</sup> See *id.* at 23.

<sup>21</sup> Instructions, Form FR Y-14A (May 23, 2017), at 77 (instructing firms to “[r]eport firm-wide total P/L related to the Credit Valuation Adjustment (CVA) hedges” in column C of Schedule A.4).

<sup>22</sup> See Draft Instructions, FR Y-14Q Schedule L, at 2.

counterparties.”<sup>23</sup> The draft instructions for the FR Y-14Q Schedule L refer to “CCPs” and we request that the Federal Reserve clarify whether reporting firms should interpret “CCPs” to refer to “designated central clearing counterparties.”

- FR Y-14Q Schedule H.2—CRE Participation Flag field (Item 7) and Participation Interest field (Item 59). The draft instructions would modify the Participation Flag field to make it mandatory rather than optional.<sup>24</sup> The Participation Flag indicates if a CRE loan is participated or syndicated among other financial institutions and if it is part of the Shared National Credit (SNC) Program. The proposal notes that, at present, there is an inconsistency between this item and FR Y-14Q Schedule H.2—Participation Interest (Item 59), where the participation field is mandatory. The proposal also states that since almost all reporting firms already choose to report the participation flag field, the Federal Reserve expects the impact of this change to be minimal.<sup>25</sup>

We believe that Item 7 and Item 59 should each be made optional rather than mandatory. The SNC Program status of syndicated or participated loans is monitored by agent banks, which are not required to notify syndicate or participant banks of this status, and in practice non-agent syndicate or participant banks do not have complete information on loans in the SNC Program. Non-agent syndicate or participant banks may have SNC Program status information if the Federal Reserve or another federal banking agency included the specific loan in a SNC Program sample review and later notified all syndicate or participant banks, but since such regulator reviews of the SNC Program are conducted only on a sample basis, non-agent syndicate or participant banks do not have complete information on SNC Program status, which we believe is the reason that completion of Item 7 is not universal in current practice. In fact, in some cases, firms indicate that they have SNC Program status information for less than half of syndication or participation loans for which they are not the agent bank. Accordingly, we recommend that the Board align Item 7 and Item 59 to make both reporting forms optional.

Alternatively, if Items 7 and 59 are made mandatory, they should only be mandatory for agent banks, which will necessarily have the underlying information to determine SNC Program eligibility. Even when non-agent syndicate or participant banks have received SNC Program status information through sampling by a federal banking agency, such status information may become stale or inaccurate without the bank’s knowledge as a result of dispositions by other syndicate or participant banks. Only

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<sup>23</sup> Federal Reserve, *2017 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule* (Feb. 10, 2017), at 7 fn 11, available at <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20170203a5.pdf>.

<sup>24</sup> See Draft Instructions, FR Y-14Q Schedule H, at 10.

<sup>25</sup> See 82 Fed. Reg. at 26798.

the agent bank will have complete, reliable and timely information for completing Items 7 and 59 accurately in all cases.<sup>26</sup>

- FR Y-14Q Schedules H.1 (Corporate – Items 59 and 60) - Replace extraordinary items with discontinued operations. The proposal proposes to replace the extraordinary items with discontinued operations on fields 59 and 60 of Schedule H.1. Since firms currently obtain discontinued operations data from a third party data provider, this change will require adequate lead time in order to source and validate the data. In order to allow for sufficient time to modify the upstream data feeds and to systemically isolate and remove extraordinary items from the net income amounts, we urge the Federal Reserve to delay the effective date of the implementation of the proposal from September 30 to, at minimum, no earlier than the end of the first quarter of 2018. We respectfully submit that doing so will allow sufficient time for necessary changes to banks' information technology infrastructure, policies and procedures and related systems to comply with the proposal, especially in light of the requisite internal control and governance processes that are essential elements of CCAR and the Federal Reserve's qualitative expectations in relation thereto.
- FR Y-14Q Schedules H.1 (Corporate – Items 20 and 98) and FR Y-14Q Schedules H.2 (CRE – Item 61) - Disposition Flag and Credit Facility Type. The proposal introduces a new Credit Facility Type "Commitments to commit," for which additional clarification should be provided to ensure accurate reporting by banks. The Federal Reserve should clarify that a facility should be classified as commitment to commit when it has a forward start, i.e., when a commitment is slated to begin on a future date as compared to its origination date.
- FR Y-14Q Schedules H.1 (Corporate – Items 25 and 24) and FR Y-14Q Schedules H.2 (CRE – Item 3 and Item 5) – Change for net of deferred fees. The proposal introduces the inclusion of Deferred Fees and Costs within the above line items of Schedules H.1 and H.2. While firms already report net of deferred fees and costs on the FR Y-9C, some firms may find it challenging to update their loan data management systems to report loans net of deferred fees and costs on an individual facility basis in the FR Y-14Q by the proposed September 30 implementation date. To ensure that firms are able to follow appropriate data management change protocols, we recommend that the Federal Reserve delay the effective date of the implementation from September 30 to, at a minimum, no earlier than the first quarter of 2018. In addition, if the Board decides to move forward with this new reporting requirement, the Board should clarify how reporting companies should distinguish between deferred fees and costs on the drawn portion of a commitment and the total amount of the commitment.

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Although not presented for comment by the Federal Reserve in the proposal, the same concerns relating to the reporting of SNC Program status apply to corporate loans reported in FR Y-14Q Schedule H.1, Item 34. As with CRE loans, non-agent syndicate or participant banks will generally not have reliable SNC Program status information to report for corporate loans. Accordingly, we request that the Federal Reserve reflect our comments with respect to all SNC Program status fields in the FR Y-14 series of reports, including FR Y-14Q Schedule H.1, Item 34.