PRIMATICS FINANCIAL
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August 31, 2012

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

Re: FR Y-14A/Q/M OMB Control Number: 7100-0341. (Capital Plans; Proposed Agency Information Collection Activities)

Dear Ms. Johnson:

Primatics Financial[1] welcomes the opportunity to provide comments on the proposal, OMB Control Number 7100-0341, "Capital Assessments and Stress Testing information collection". We firmly believe that the stress test embedded in CCAR is a valuable exercise both in support of a capital adequacy review and as a sound risk management tool. Primatics Financial actively supports multiple customers in the execution of their CCAR stress tests, both operationally and in a consultative role, and believe that we have a deep understanding of the conceptual framework around which the stress test was designed. In reviewing the proposed updates to the FR Y-14A template, we believe there are opportunities to amend some of the proposed requirements to enable greater insight into the underlying risk while minimizing the operational impact on BHCs to complete.

Primatics Financial is in a unique position to enable efficient implementation of the final ruling once promulgated. We continue to invest significant resources to enhance our scenario analysis and stress testing solution that complies with accounting guidelines and regulatory guidance. We are committed to keeping our system in compliance with the latest regulations in order to add the most value to our customers. From a system development perspective, the window of time between the closing of the comment period and the start of the stress testing exercise is quite short and expeditious promulgation of the final rule will allow market participants time to complete the necessary systems changes.

1. ASC 310-30 Worksheet – General Comments

[1] Primatics Financial, LLC is a market-leading enterprise software company with proven domain expertise in originated and acquired loan accounting and stress testing. Our system is used by financial institutions to generate economic and accounting results for more than $150 Billion of loans each quarter.

In the current paradigm where expected cash flows are evaluated once per stressed scenario - rather than in successive stages across the CCAR time horizon - actual loan activity during the forecast period will equal the expected cash flow activity. A byproduct of this approach is that, when combined with the accounting rules, there is zero volatility in many of the newly requested fields. In particular, under this scenario there would be no re-classes between Accretable Yield and Non-Accretable Difference. We believe that given the lack of volatility in these items across the time horizon, the value of adding these fields to the revised worksheet is marginal.

A theme that runs throughout the ASC 310-30 worksheet revisions is the bifurcation of PCI accounting results between principal and interest. Given the combined view of expected principal and interest cash flows applied to loans that fall under ASC 310-30, we believe that this will prove operationally complex for BHCs that do not have stress testing systems that perform the calculations at a loan/period level and that the results will provide minimal additional value in understanding the risk associated with the stressed PCI portfolio. Furthermore, under the newly requested bifurcated view, more clarity will be required around whether the expected cash flow streams for principal and interest should be evaluated separately to generate the accounting results or if the accounting results should be determined under a combined cash flow view and then bifurcated based on an allocation factor.

Similar to the bifurcation process referenced above, the "Provision to Allowance/(Reclassification to Accretable Yield)" line item is requested for every period throughout the planning horizon. We find this to be inconsistent with PCI impairment process as the entire discounted shortfall below the unit of account's recorded investment is taken into income in the current period. With one set of stressed cash flow expectations per scenario, the entire provision would show in the first forecast quarter assuming the BHC strictly follows ASC 310-30's prescribed accounting rules. We would request that the Federal Reserve clarify whether it is expected that the entire provision amount will be taken in the first quarter of the forecast period or if it should be spread over the entire forecast horizon based on an allocation factor.

2. ASC 310-30 Worksheet – Planned Acquisitions

Conceptually, stress testing a planned acquisition is a sound risk management practice, and generates vital information for a regulator to assess a capital plan or for a Board of Directors to assess the prudence of an acquisition. However, as prescribed in the context of CCAR, we believe the information added is not consistent with the additional operational effort required.

The benefit of stress testing an acquisition is derived from assessing the impact of adverse conditions that occur post-acquisition. In the CCAR stress test, the impact of the stress scenario would be felt prior to the acquisition closing and the ASC 310-30 impact would not be the primary driver of additional capital demand. As a result of the adverse macroeconomic conditions, the fair value of the acquired assets would be reduced. In the stress testing exercise, one assumes that the purchase price remains constant even as the assets lose value AND that the regulator approves the potentially over-priced acquisition[2]. Given these assumptions, the likely impact of the stress

[2] Violation of the first assumption would not change the overall point of this comment. If the purchase price were adjusted to reflect the decreased fair value of the loans, the construct of the exercise means there would still be little ASC 310-30 difference between the results of the base scenario and the stress scenario.

scenario would be an increase in goodwill[3] related to the acquisition, not impairment of assets post acquisition. Once the acquisition occurs inside the forecast, the construction of the CCAR stress test exercise (i.e., the one set of cash flows used as forecast and actual for all periods) means there will not be further impairment, only accretion of the Day 1 accretable yield. The change in income from the base scenario to the adverse scenario would not be substantial for many retail exposures – especially assets such as mortgages with long contractual lives – as it would only be a few quarters of accretion.

On behalf of the employees of Primatics Financial, I want to thank you for the opportunity to comment on the Proposal and for your consideration of our views. Should you have any questions regarding our comments, please contact John Lankenau, Director of Valuation Modeling at (703) 942-8309.

Regards,

Peter J. Fitzsimmons
Chairman & Chief Executive Officer
Primatics Financial

[3] For a planned acquisition where the fair value of the assets acquired is expected to be greater than the purchase price, the stress scenario would lead to a decrease in the gain on bargain purchase relative to the base case. If the stress scenario is severe enough, the bargain purchase gain could regress to the recognition of goodwill.