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September 4, 2012

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

Re: Notice of Proposed Rulemaking on
Capital Assessment and Stress Testing Information Collection
OMB Control Number: 7100-0341

Dear Ms. Johnson:

BB&T Corporation ("BB&T") appreciates the opportunity to comment on the proposed rule regarding capital assessment and stress testing information collection ("Proposal") published by the Federal Reserve Board ("FRB") on July 6, 2012. The Proposal would require large banking organizations with total consolidated assets of more than $50 billion to submit additional information on FR Y-14A/Q/M forms.

BB&T Corporation (NYSE: BBT) is one of the largest financial services holding companies in the U.S. with $178.5 billion in assets and market capitalization of $21.6 billion, as of June 30, 2012. Based in Winston-Salem, N.C., the company operates approximately 1,800 financial centers in 12 states and Washington, D.C., and offers a full range of consumer and commercial banking, securities brokerage, asset management, mortgage and insurance products and services. A Fortune 500 company, BB&T is consistently recognized for outstanding client satisfaction by J.D. Power and Associates, the U.S. Small Business Administration, Greenwich Associates and others.

BB&T believes large banking organizations should have a robust, forward-looking capital planning process that accounts for their unique risks, including regular, meaningful stress testing. The rules developed to achieve this important policy objective should be efficient and practical. While BB&T supports the Proposal's overall objective, we have concerns regarding the following:

- The continual changes in reporting requirements over the past year and lack of comprehensive and detailed instructions
- The granularity of data collection appears to have advanced beyond material risks and their linkage to capital and viability
- The timeframe for implementing the new FR Y-14Q MSR Valuation schedule
- The removal of the primary and supplementation designation for reporting net interest income on the FR Y-14A/Q Pre-Provision Net Revenue (PPNR) worksheets
- The materiality of new reporting items and timeframe for implementing disaggregated ALLL forecasting on the FR Y-14A Summary schedule
- Reporting data on acquisition targets and executing CCAR stress tests given the scope of changes and granularity of data collection
- The timing of receiving supervisory scenarios and number of scenarios required for FR Y-14A reporting.

I. Concerns Regarding Continuous Change and CFO Attestation

A. Reporting Requirements are Continuously Changing

The FRB formalized the FR Y-14A/Q templates for CCAR (Comprehensive Capital Analysis and Review) 2012. The FR Y-14A templates replaced the CCAR 2011 templates and increased the granularity of reporting stress test results. The FR Y-14Q templates were a new regulatory reporting requirement implemented in 2011. The FRB has since revised the FR Y-14Q/M reporting twice, implementing new FR Y-14Q/M templates on June 30, 2012 and making additional revisions in this Proposal. This constant state of change does not permit respondents sufficient time to develop well-controlled reporting environments for the FR Y-14A/Q/M processes.

Constant changes to reporting requirements are distracting banking organizations from responsibly improving the capital assessment models and reporting process. Stable reporting requirements will permit banking organization to achieve greater progress towards robust capital assessment processes.

B. The Proposed Schedules Lack Comprehensive and Detailed Instructions

Detailed and inclusive instructions for completing FR Y-14A/Q/M schedules are necessary for accurate, complete, and timely responses, as well as consistency of responses among reporting institutions. The FRB provides relatively brief instructions for the FR Y-14A/Q/M schedules. The FR Y-14A schedules have just 51 pages of instruction, largely focused on documentation requirements. By comparison, the well established FR Y-9C reporting has 511 pages of instructions. The FR Y-14A/Q introduced several new fields without detailed instructions. This yielded significant industry confusion which prompted the FRB to issue lengthy frequently asked questions ("FAQs") to clarify the requirements. The current Proposal again introduces more new fields without detailed instructions or definitions. Clear and complete instructions for completing the data collection schedules would benefit both the FRB and the industry by reducing inefficiencies, minimizing resubmissions of reports, and increasing accuracy of the information submitted.

We recommend the FRB provide more comprehensive instructions for the FR Y-14A/Q/M schedules. However, if new or revised instructions are released shortly before the submission date, the FRB should extend the deadline for submitting the report to allow banking organizations sufficient time to comply with the new requirements.

C. The FAQ Process is Inadequate

The lack of comprehensive and detailed instructions necessitates a strong FAQ process. The current process occurs only through limited electronic means, precluding the opportunity to have detailed discussions around complex questions that would result in consistent, complete, and accurate responses. This leaves most questions incompletely addressed.

Some FAQ answers result in new instructions being issued shortly before reporting deadlines, significantly impacting the reporting requirements and the respondents' supporting processes. For example, a July 26^{th} answer changed the FR Y-14Q/M template for reporting several business and corporate card products from the Credit Card schedule to the Corporate Loan schedule only four days before the reporting deadline. The receipt of FAQ responses near deadlines does not permit sufficient time to adjust reporting processes to new instructions and perform a thorough vetting process for submissions.

We encourage the FRB to consider making the following enhancements to the FAQ process:

- Decrease the turnaround time for answers. One day improvements in the turnaround time can make a significant difference given the tight timeframe for executing stress testing and reporting processes.
- Freeze the FAQ process at least ten days before FR Y-14Q/M submission deadlines and at least a few weeks before FR Y-14A submission deadlines. If FAQs are released shortly before the submission date, the FRB should make the guidance effective for the next reporting deadline to allow banking organizations sufficient time to comply with the new requirements.
- Offer regular teleconference meetings between banks and the Federal Reserve during reporting timeframes. These calls will help address complex questions in a more complete and detailed manner. This enhancement could reduce the number of questions and reduce confusion regarding answers. The responses could be emailed to all banks after the conference call.

D. CFO Attestation

The Proposal would require the CFO to attest to FR Y-14A/Q/M submissions. Given the continued changes in the FR Y-14A/Q/M reporting requirements, lack of clarity in the instructions, and the lack of the stability in the reporting process, we urge the FRB to postpone the implementation of the CFO attestation. Specifically, the CFO should not be required to attest to these schedules until the regulatory reporting process is more stable and supported by clear and comprehensive instructions. Until the process stabilizes, the Board of Directors' review and approval of stress test results and capital plans provides sufficient governance of key data (e.g., capital ratios, total loan losses, etc.) reported in the FR Y-14A schedules.

The Proposal requires the CFO to attest to FR Y-14A forms, which report scenario-based forecasts representing a forward looking view of financial performance. The attestation for FR Y-14A forms should include a safe harbor statement to protect management from providing forward looking data in the FR Y-14A forms and making forward looking statements in the documentation and other materials accompanying the FR Y-14A forms. The Securities and Exchange Commission provides a safe harbor for making forward looking statements in financial reporting in Section 27A of the Securities Act of 1933. After the process stabilizes and should the FRB require attestation, the FRB should consider including a safe harbor statement in the FR Y-14A attestation form removing the CFO from liability regarding baseline and stress forecasts provided the submitted FR Y-14A forms conform to the available instructions.

II. <u>Reporting Should Be Focused on Linking Risk to Capital and Institution Viability</u>

The Proposal increases the granularity of data reported on FR Y-14A/Q/M forms and is intended to facilitate regulatory assessments of capital adequacy. Some of the enhanced requirements add reporting for items which have nominal risk sensitivities. For example, the noninterest income and expense detail on the *PPNR Projections* worksheet includes items which are likely to represent an immaterial portion of total revenues. The reporting requirements appear to have advanced beyond the linkage of risk to capital and an organization's viability. Once beyond the linkage of risk to capital and viability, the increased reporting does not add value. The Proposal is likely to result in an extensive and unnecessarily burdensome regulatory reporting exercise, providing ineffectual data for the use of bank management and distracting banking organizations from proactive risk management activities and enhancement of stress testing models and processes.

III. <u>New FR Y-14Q MSR Valuation Schedule</u>

The Proposal would implement a new FR Y-14Q Mortgage Servicing Rights (MSR) Valuation schedule, requesting data on MSR valuation methodologies and sensitivities. The proposed sensitivity data requires banking organizations to perform extensive sensitivity analysis exceeding existing reporting or regulatory requirements. The proposed MSR schedule is unique because it is the first quarterly report requiring sensitivity metrics which do not normally appear on a reporting institution's general ledger or loan system. The Proposal may require banking organizations to modify existing MSR models because existing valuation models may not factor in all sensitivity metrics or have an established process for reporting all proposed metrics as a model output. Additional time is required for banking organizations to responsibly develop and validate modified models in compliance with SR 11-7 (Guidance for Model Risk Management), as well as implement a new reporting process.

In addition, the proposed schedule requires expanded instructions to ensure accurate data submissions. For example, the instructions do not provide a zero rate assumption for downward interest rate shocks. Similarly, the sensitivity metrics' instructions do not state the manner of performing shocks on CDR, CPR or HPI, detailing whether the respective vectors should shift in parallel by the basis point change or should be shocked in another manner.

We appreciated the FRB providing an opportunity to address the new templates on the August 15, 2012 outreach call and its consideration of the technical questions raised on the call. We look forward to receiving clarification to these questions as the FRB considers questions posed during the comment period. However, providing answers after the comment period necessarily means banking organizations cannot develop and validate a modified model until after the comment period ends in September. If the November 9, 2012 initial submission date is retained, it will provide banking organizations with less than two months to ask questions regarding the final schedule and instructions, develop model changes, validate models, and create and execute a new reporting process. The FRB should consider the model change process and lack of comprehensive instructions and answers when determining the implementation date for this schedule, particularly the sensitivity metrics elements.

The postponement of the FR Y-14Q MSR schedule implementation to a date no earlier than March 31, 2013 is strongly urged and will ensure banking organizations have time to both enhance models and complete CCAR 2013. If the FRB decides to maintain the September 30, 2012 implementation date, BB&T urges the FRB to consider phasing in the reporting requirements for MSR valuation sensitivity metrics and provide additional instructions with the final schedule.

The FR Y-14Q MSR Valuation schedule could also benefit banking organizations if anonymized results were made available to respondents. We encourage the FRB to consider distributing results in this blind manner.

IV. Primary and Supplemental Designation Should Remain for Net Interest Income Reporting on the FR Y-14A/Q Pre-Provision Net Revenue (PPNR) Worksheets

The Proposal removes the designation of primary and supplemental worksheets for reporting net interest income on the FR Y-14A/Q Pre-Provision Net Revenue (PPNR) schedule. The current PPNR worksheets permit banking organizations to select either the

PPNR Projections (Submissions) or *PPNR Net Interest Income* worksheet as the primary schedule for reporting net interest income. The supplemental schedule is currently provided on a "best efforts" basis. The Proposal would require reporting and forecasting of net interest income in multiple formats without permitting banking organizations to clarify the format primarily used in internal forecasting.

The *PPNR Net Interest Income* worksheet requires a net interest income breakdown by asset and liability class and the *PPNR Projections* worksheet requires a breakdown by business segment. A robust forecasting and stress testing framework requires one approach, not two. Banking organizations may primarily manage their margin by asset and liability class and not by business segmentation. Additionally, neither approach is consistent with the FR Y-9C reporting of net interest income. Requiring both reporting approaches creates the burden of a second forecasting and reporting exercise without providing additional insights to management. A single forecasting and reporting approach sufficiently facilitates decision-making by banking management.

We strongly recommend the FRB continue permitting banking organizations to designate either the *PPNR Net Interest Income* or *PPNR Projections* as primary for PPNR reporting.

V. <u>FR Y-14A Summary Schedules</u>

A. Granularity of Reporting Loan Forecasts Exceeds FR Y-9C Reporting

The proposed FR Y-14A Summary schedule has increased the granularity for reporting loan losses and balances. The reporting used to manage banking organizations does not align with the reporting required by regulation. Stress testing leverages forecasting processes, which usually align with internal operational reporting rather than regulatory reporting.

The proposed amplification of detail requires organizations to report stress test results in a manner increasingly inconsistent with operations, forecasting processes, and existing regulatory reporting. This level of granularity is not required for reporting actual results. Certain breakouts (e.g., first lien HELOANs) do not enhance the understanding of stress test results because the loans' risk characteristics are similar to loans reported in the same FR Y-9C category (e.g., first mortgages). Banking organizations will be required to reconstruct reporting processes to adopt their forecast to the proposed reporting format which increasingly diverges from the FR Y-9C reporting. BB&T requests the FRB reconsider the breakouts for loans on the FR Y-14A Summary schedule to minimize the divergence from FR Y-9C reporting.

B. FR Y-14A Loan Forecasts Should Have Materiality Rules

The FR Y-14Q/M loan schedules currently have materiality rules, which only require reporting if a portfolio's outstanding loan balances are at least 5% of Tier 1 Capital or

$5 billion. However, no materiality rules exist for reporting forecasted loan balances and losses on the FR Y-14A Summary worksheets, specifically the *Income Statement*, *Balance Sheet*, and *Retail Balance and Loss Projections*. Consideration should be given to implementing materiality rules, similar to those for FR Y-14Q/M loan schedules, for reporting forecasted loan losses and balances in the FR Y-14A Summary worksheets.

C. Disaggregated Forecast for ALLL and Provision Expense on *Income Statement*

The Proposal adds sections for disaggregated data on allowance for loan and lease losses (ALLL) and provision expense to the FR Y-14A *Income Statement*. The FRB issued a proposed notice of rulemaking for new FR Y-9C schedule HI-C, implementing disaggregated ALLL reporting for actual results on November 21, 2011. On March 16, 2012 the FRB decided the schedule HI-C should remain under review with implementation no earlier than September 30, 2012. A finalized rule implementing disaggregated ALLL for FR Y-9C has not been published. If banking organizations are not required to report disaggregated ALLL for reporting actual results on the FR Y-9C form, banking organizations should not have to report forecasts of disaggregated ALLL on the FR Y-14A form.

Disaggregated data on ALLL is inconsistent with how banks estimate, manage and maintain their ALLL and how banks forecast ALLL for stress testing purposes. Banking organizations may not be able to use existing ALLL models to implement disaggregated forecasting of ALLL in stress testing. Existing ALLL models are used for reporting ALLL in accordance with the generally accepted accounting principles (GAAP). GAAP requires ALLL estimates based on embedded losses from a static pool on the banking organization's current balance sheet. Stress testing estimates expected losses and pro forma ALLL from a dynamic pool over several quarters. GAAP does not permit organizations to incorporate future events in estimating ALLL. Forecasting disaggregated ALLL in stress testing may require the development of new forecasting models. Banking organizations should have more time to responsibly develop, test, and validate new models in compliance with SR 11-7 (Guidance for Model Risk Management).

BB&T recommends the FRB to postpone the implementation of disaggregate forecasts for ALLL and provision expense until the CCAR 2014 exercise with an effective date of September 30, 2013. We further urge the FRB to require a less granular disaggregation of ALLL and provision expense for FR Y-14A reporting.

D. Projecting Vintages on *Retail Balance and Loss Projections Worksheet*

The Proposal adds reporting items for loan balances by forecast vintages for card products, a process not required to determine the projections. Organizations may make general assumptions regarding usage of revolving credit in the future which does not consider different usage rates for different vintages. Usage should be defined by the economic environment without requiring extra assumptions regarding usage by future vintages. Banking organizations are required to explain their forecasting methodology for retail balances in the documentation accompanying FR Y-14A retail schedules. Therefore the FRB should consider removing the requirement of reporting forecast balances by future vintages for card products.

VI. Acquisition Rules

A. Grace Period Should be Granted for FR Y-14Q/M Reporting After Acquisitions

The FR Y-14Q/M loan collection schedules require loan-level and portfolio-level details on the banking organization's loan portfolio, including data from the acquiree's portfolio. The process for populating these schedules uses the most granular information available on loan systems. The Proposal would require the CFO attest to these submissions. However, banking organizations generally do not have acquired institutions' loan data on their loan systems on the date of legal close.

If a banking organization acquires an institution with less than $50 billion in consolidated assets, the acquired institution would not have experience reporting FR Y-14Q/M schedules. The acquiree may not have loan systems capable of this level of reporting. Banking organizations should not have to coordinate reporting FR Y-14Q/M while integrating an acquired organization. The banking organization can accurately complete and attest to the reported schedule only after the loans are converted onto the acquirer's loan systems.

Sarbanes-Oxley provides acquired institutions with a one year exemption from the requirements of Section 404, Management's Opinion of the Effectiveness of Internal Controls. The proposed CFO attestation would be inconsistent with Sarbanes-Oxley if it required reporting and an attestation for loan-level data collection within a year of acquisition. Banking organizations should have time to integrate systems, validate system data, and establish internal controls for compiling and reporting an acquired institution's data.

The FRB previously responded to this concern on May 29, 2012 stating it would consider on a case-by-case basis requests to file a delayed submission for newly acquired data following an acquisition. BB&T appreciates the FRB making this statement though BB&T believes the FRB should more clearly establish the process and criteria for requesting and granting delays for FR Y-14Q/M reporting after an acquisition. The FRB should institute a one year grace period for reporting acquired institutions' loans on FR Y-14Q/M schedules to permit time for systems conversion after the acquisition. The FRB should establish a formal process and criteria for requesting and determining a grace period for acquisitions.

B. Increased Granularity Increases Difficulty During Acquisitions

If a banking organization proposes an acquisition in its capital plan, it must incorporate the acquiree's data into its FR Y-14A reports. However, the acquiring organization does not have this data on its general ledger or loan systems. A banking organization has sufficient information to evaluate the acquisition and perform stress testing at a high level. However, a banking organization cannot meaningfully forecast loan losses in the granular FR Y-14A reporting format until the acquiree's loans appear on its loan systems. The FR Y-14A Summary templates should provide flexibility for reporting acquisitions at a less granular level than its existing operations. The acquiree's loan balances, losses, and asset yields should be reported in a less granular manner, possibly four to six categories, on the FR Y-14A schedules prior to systems conversion. Similarly, an acquiree's liabilities, cost of funding, and noninterest income and expenses should be reported at a less granular level on the FR Y-14A schedules prior to systems conversion.

BB&T recommends the FRB create reporting flexibility for planned acquisitions in the FR Y-14A templates. This flexibility would result in a forecast reflective of the information available prior to legal close and systems conversion.

VII. Timing and Number of Scenarios

A. Timing of Scenarios

The Proposal requires the CFO to attest to FR Y-14A submissions, which report forecasts in multiple scenarios in a very detailed manner. However, the Proposal does not define the timeframe for providing supervisory scenarios to banking organizations. Banking organizations received the supervisory scenarios the week of Thanksgiving in CCAR 2011 and 2012. This timeframe provided six weeks for asking questions about the scenarios, performing stress testing, completing regulatory templates, executing internal controls, receiving Board of Directors approval, and submitting capital plans. This period coincides with annual budgeting and planning and year-end closing activities. The Proposal necessarily adds time to a process already operating under a very restrictive timeframe. Banking organizations can best provide and attest to quality submissions if the FRB provides banks with sufficient time to perform stress testing and complete FR Y-14A templates. However, the Proposal would result in less time due to the increased granularity of the FR Y-14A templates and the need for the CFO to thoroughly review the templates while providing attestation. Furthermore, the FDIC is proposing annual stress testing for depository institutions (FDIC RIN 3064-AD91), which implies additional time requirements for performing enterprise-wide and depository institution stress testing.

The FRB should consider releasing stress test scenarios no later than October 15th each year. This timeframe provides banking organizations with appropriate time to perform and report stress testing results and methodologies in an orderly and controlled manner.

B. Number and Coordination of Scenarios

The Proposal increases the granularity for reporting stress test results in FR Y-14A schedules; it does not specify the number of scenarios included in the CCAR stress test. In the Enhanced Prudential Standards (RIN 7100-AD86) notice of proposed rulemaking, the FRB is currently proposing covered companies perform stress testing under three sets of conditions: baseline, adverse and severely adverse. In its notice of proposed rulemaking regarding annual bank stress testing (FDIC RIN 3064-AD91), the FDIC is also proposing the requirement of performing stress testing under three sets of conditions. If the regulatory agencies do not coordinate on the creation of the baseline and stress scenarios, covered banks may be required to perform at least six different stress tests in a single quarter. The agencies should coordinate on both the scenario's severity and the macroeconomic variables distributed. A lack of coordination across agencies creates the burden of performing twice the number of scenarios without providing additional value. This impact is amplified under the Proposal by the increased requirements for FR Y-14A reporting.

The FRB should coordinate with other regulatory agencies on the number of baseline and stress scenarios performed during CCAR so banking organizations only have to perform stress testing under three different sets of conditions. The three sets of conditions should be the same for enterprise-wide and depository institution stress tests.

VIII. <u>Conclusion</u>

In closing, while BB&T supports the overall objectives of this Proposal, we request the FRB consider the suggestions and alternatives presented herein, which we believe will help ensure these objectives are achieved. Thank you for the opportunity to comment on this important Proposal and for your consideration of BB&T's comments.

Sincerely,

Daryl Bible

Daryl Bible
BB&T
Chief Financial Officer