



January 22, 2018

By electronic submission to [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

Ms. Ann E. Misback, Esq.  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551

**Re: Stress Testing Transparency Proposals (Docket Nos. OP-1586 and OP-1588)**

Ladies and Gentlemen:

Credit Suisse Holdings (USA), Inc. ("Credit Suisse") appreciates the opportunity to provide comments on the notification with request for public comment issued by the Board of Governors of the Federal Reserve System ("the Board") regarding Enhanced Disclosure of the Models Used in the Federal Reserve's Supervisory Stress Test and its Policy Statement on the Scenario Design Framework for Stress Testing (referred to here as "the Proposal").<sup>1</sup> We very much welcome the Proposal as an important first step in reform of the stress testing framework.

The Dodd-Frank Act Stress Test ("DFAST") and the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR") regimes and related capital planning expectations have led to a banking system that is today vastly better capitalized than it was prior to the financial crisis. At the same time, we remain concerned about the "one-size-fits-all" design of the stress testing framework. That framework has reduced diversification and competition in the financial system (particularly for foreign banking organizations or FBOs<sup>2</sup>) by incentivizing firms to adopt similar business models. This approach, if continued, could unintentionally exacerbate systemic risk in the banking system – the very opposite of what the stress tests were designed to achieve.

---

<sup>1</sup> 82 Fed. Reg. 59547 and 82 Fed. Reg. 59533 (December 15, 2017).

<sup>2</sup> For example, international bank assets in the United States decreased by \$500 billion in 2015, a trend that continued through 2016 as the new IHC structures were created (see Institute of International Bankers, Submission to U.S. Treasury Department Regarding Executive Order 13772, p. 14. Available at: <http://www.iib.org/news/347089/IIB-submitted-recommendations-to-Treasury-regarding-Executive-Order-13772.htm>). Similarly, the broker-dealer operations of FBOs have declined significantly in size since 2010 even as U.S. bank holding company (BHC) broker-dealer assets have remained steady (see Financial Stability Oversight Council 2016 Annual Report, "Figure 4.12.4: Large Broker-Dealer Assets and Leverage by Affiliation," p. 77. Available at: <https://www.treasury.gov/initiatives/fsoc/studies-reports/Documents/FSOC%202016%20Annual%20Report.pdf>).

In our response below we suggest refinements that can be made to the stress testing framework that would better tailor the tests to the character of specific institutions and reduce the “herd” effect of the current regime.

### **Comments on the Enhanced Disclosure of Models**

In the first section of this letter we provide comments on the proposed enhanced disclosure of the Board’s supervisory models. While we welcome this aspect of the Proposal as an important first step, we also believe the Board can and should go further to enhance the transparency of the stress testing process. This could be achieved in one of two ways:

#### *Balancing Transparency and Supervisory Objectives by Adopting Use of Bank-Developed Models:*

In keeping with existing practice for many risk-weighted asset (RWA) calculations, the Board should consider permitting the use of bank-developed models in the stress testing process, subject to challenge by the Board based on its own models. If the bank’s models diverge significantly (as defined by the Board) from the Board’s models, then the bank would be responsible for justifying the major differences to the Board. In the event that the overall severity of the bank’s model was considered materially insufficient compared to the Board models, additional requirements could be imposed. In our view, use of bank-developed models subject to Board challenge represents a compromise between full disclosure of supervisory models, which could encourage herding behavior and “gaming” of the system, and the opaque, risk insensitive “one-size-fits-all” approach of the current framework. It would moreover improve public and market confidence in the stress testing process and ensure a more efficient allocation of capital to the real economy.

#### *Enhanced Disclosure of More Supervisory Models:*

In recent remarks, Vice Chairman for Supervision Quarles remarked on the Proposal “that the disclosure we have provided does not go far enough to provide visibility into the supervisory models that often deliver a firm’s binding capital constraint.”<sup>3</sup> We agree and believe that the Board should disclose (for notice-and-comment) greater information on almost all supervisory models it intends to employ during a given stress testing cycle, including those it uses to project pre-provision net revenues (PPNR); gains/losses on trading positions, including the models used for the global market shock (GMS) and the counterparty default scenario; as well as changes in the size and composition of a firm’s balance sheet and RWA. Separately, we ask that the Board disclose how it intends to incorporate transfer pricing revenues into its supervisory models going forward, and that it issue guidance on modeling transfer pricing revenues.

We recognize that publication of *all* information relating to these models may have negative effects, and so recommend that the Board publish sample inputs (but not outputs), as well as detailed descriptions of modeling assumptions and equations. This enhanced disclosure would be a logical extension of the approach adopted by the Board in the Proposal. It would ensure that the benefits of enhanced transparency are available to all firms and reduce the needless opacity surrounding the current capital planning process.

---

<sup>3</sup> Vice Chairman for Supervision Randal K. Quarles, “Early Observations on Improving the Effectiveness of Post-Crisis Regulation,” Remarks at the American Bar Association Banking Law Committee Annual Meeting, Washington, D.C., January 19, 2018.

## **Comments on the Scenario Design Framework**

In the second section of our response we make a series of suggestions on ways in which the Board could enhance its Scenario Design Framework. We are concerned that the scenarios are based in some instances on implausible assumptions and require firms to maintain capital against losses that would be highly unlikely to ever be realized. We are also concerned that *some* of the core input variables the Board employs in defining its economic scenarios are insufficiently transparent to the public (i.e. are not published routinely or are observable only with a long lag). We suggest the latest values of such variables be made publicly available by the Board throughout the year so that firms can better incorporate the stress testing framework into their business-as-usual operations.

## **Tailoring to Account for Parental Support of Subsidiaries**

In the rest of our submission, we provide comments on other aspects of the stress testing process not addressed by the Proposal. Our recommendations principally focus on ways in which the stress testing framework can be better tailored to reflect the character of specific institutions. Such tailoring would reduce the negative herding effect of the current set of tests – which as noted above creates incentives for portfolios to look more alike and thus reduces diversification – while in no way diminishing the stringency of the tests themselves.

In section III, we ask the Board to reconsider how the framework applies to subsidiary firms, which essentially consist of the intermediate holding companies (IHCs) of FBOs. The framework should be revised to better account for parental support of the subsidiary, specifically through an expansion of permissible capital remediation actions, the issuance of tailored capital planning guidance to IHCs, and incorporation of internal eligible subordinated long-term debt into post-stress capital calculations.

## **Tailoring for Non-Bank Institutions**

In Section IV we ask the Board to reconsider how the stress testing framework applies to institutions that are essentially “non-banks.” The assumptions built into the stress testing process, which make sense for an institution engaged in deposit-taking and lending, do not make sense when extended to institutions that are largely or exclusively engaged in capital markets activity. We specifically suggest that the Board amend the current modeling of PPNR and balance sheet for non-banks, as well as clarify the treatment of double counting losses.

## **Other Changes**

Finally in Section V we recommend that the Board consider a handful of measured refinements to the stress testing framework more generally, including moving to a streamlined CCAR submission in alternate years, a dropping of the mid-year DFAST submission, and a return of the qualitative assessment to the normal supervisory process.

## I. Comments on the Enhanced Disclosure Proposal

### *Incorporate Use of Bank Developed Models or Enhance Disclosures of Supervisory Models*

Although the Board has taken steps to improve the transparency of its supervisory models over the past number of years, including in the Proposal, they nonetheless remain opaque. This opacity has impeded the capital planning process at firms subject to CCAR, leading to unreasonably high levels of managerial uncertainty. This in turn has required firms to maintain excessive capital levels over-and-above those required for safety and soundness under even the most severely adverse scenarios. Such excessive capital levels have an impact on the real economy and financial markets - CCAR is, after all, the *de-facto* binding capital constraint for most large banking organizations (as opposed to formal regulatory capital requirements).

Perhaps more importantly, the existing framework has created “herding” incentives by imposing a “one-size-fits-all” model on all firms regardless of their pre-existing business model. This approach has created incentives for the internal risk management protocols and procedures to gravitate to those same models. That herding behavior reduces diversity and innovation in the financial system, while also potentially leaving it more vulnerable to systemic shocks.

We are also concerned that the absence of input from outside experts and supervised firms has led to supervisory models that are based on assumptions that do not match with historically observed patterns. For example, the supervisory model estimation of a firm’s balance sheet is based upon an assumption of a flat-to-rising balance sheet over nine quarters, which in turn presumes that institutions will not alter their lending under stress and that costs will remain static. Yet the historical evidence strongly suggests that firms lend significantly less under stressed conditions than under “normal” conditions, in part because demand for credit often declines and in part because the pool of credit-worthy borrowers becomes smaller.<sup>4</sup> More practically, evidence suggests that banks under stress will cut costs, shrink or hold balance sheet stable, and reduce internal investment where they can. It also suggests that they will search for operational efficiencies through innovation and other means as a response to economic or financial stress. In short, the models assume behaviors that seem to be disconnected from historical patterns and basic precepts of prudent bank management.

Another example of an issue worth reviewing in the supervisory model where firm models may work better, involves the severity of GMS shocks applied to the Residential Mortgage book which are more excessive than 2008. These shocks, when combined with the VaR, Stress VAR and standard Rules for the same risk, can end up in certain situations more than 100% capitalizing a mortgage related position. This, when further combined with an equity shock of approximately 20%, is again stressing a correlation assumption between these two asset classes far in excess of normal capital stress tests using conservative risk management principles.

The best solution to these problems would be for the Board to permit the use of bank-developed models, subject to challenge by the Board based on its models (and in keeping with existing practice for RWA calculations). In our view, use of bank-developed models subject to

---

<sup>4</sup> Data from the Senior Loan Officer Survey from Q3 2007 illustrates this phenomenon: the net percent of banks reporting stronger loan demand *declined* from the prior quarter across all credit categories. Likewise, the net percent of banks *tightening* standards increased across the majority of credit categories. It is noteworthy that this softening in bank lending intentions happened in the context of U.S. real GDP growth exceeding 3% percent for a second consecutive quarter for the first time in several years. Presumably, the credit outcome reflected prudential judgements on the part of banks and potential borrowers rather the effects of economic distress.

Board challenge represents a compromise between full disclosure of supervisory models, which could encourage herding behavior and “gaming” of the system, and the opaque, risk insensitive “one-size-fits-all” approach of the current framework. Under this approach, individual bank models would become the first line of defense (subject to challenge by the Board), in contrast with both of the alternatives, which involve the substitution of firms’ risk-management assessments with the Federal Reserve’s own judgments on the credit-worthiness of different sectors. Moving to this approach would, in our view, improve public and market confidence in both the stress testing process and the Federal Reserve itself, while at the same time ensuring a more efficient allocation of capital to the real economy.

If the Board were to adopt this approach, we would suggest that it take a number of steps to ensure the accuracy and robustness of bank-developed models. For example, if a bank’s models diverge significantly (as defined by the Board) from the Board’s models, then the bank would be responsible for justifying the differential to the Board and would be subject to the imposition of additional capital requirements if the Board were unsatisfied with those justifications. Moreover, if the Board were to adopt this approach, we would suggest testing the effectiveness of bank-developed models by initially permitting their use in the annual DFAST test (we recommend later that the mid-year DFAST submission should be eliminated), while retaining supervisory models for the CCAR test. The Board could then evaluate whether use of bank-developed models subject to challenge would also be appropriate for the CCAR.

The Board could also publish for comment greater information on most of the supervisory models it intends to employ during a given stress testing cycle, including those it uses to project pre-provision net revenues (PPNR); gains/losses on trading positions, including the models used for the global market shock (GMS) and the counterparty default scenario; as well as changes in the size and composition of a firm’s balance sheet and risk-weighted assets. We recognize that publication of *all* information relating to these models may have negative herding and possible gaming effects, and so recommend that the Board publish sample inputs (but not outputs), as well as detailed descriptions of modeling assumptions and equations. This enhanced disclosure would be a logical extension of the approach adopted by the Board in the Proposal. It would ensure that the benefits of enhanced transparency are available to all firms and reduce the needless opacity surrounding the current capital planning process. It would also have the benefit of informing the larger investment community and assisting their efforts to oversee financial firms thru market mechanisms that supplement the Board’s direct supervision.

#### Disclosures Relating to Transfer Pricing

The treatment of transfer pricing revenue is an issue of material importance to the plans of IHCs that are now subject to the CCAR process. As such, we strongly urge the Board to disclose how they intend to incorporate transfer pricing revenues into their supervisory models going forward, as well as issue guidance on modeling to supervised firms.

## **II. Scenario Design Policy Statement**

We welcome the Board’s decision to review and seek comment on the Scenario Design Policy Statement as it relates to the rise in the unemployment rate in the severely adverse scenario and the quantitative guide of the path of house prices in the severely adverse scenario. Nevertheless, we are broadly supportive of the arguments advanced by The Clearing House Association in their comment on the Proposal (i.e. that the scenarios are based in some

instances on implausible assumptions). For example, as mentioned above, the assumption that lending would continue at the same pace under the adverse scenarios does not consider that the demand for credit and the number of credit-worthy borrowers varies with the economic environment. Similarly, macroeconomic conditions and financial stresses do not always occur in sync with one another, but the current scenarios do not account for this. For example, the 1994 “Tequila Crisis” (also known as the “Mexican Peso Crisis”) caused significant market turmoil, but had little lasting impact on the real U.S. economy.

We are also concerned that a few of the core input variables the Board employs in defining its supervisory economic scenarios are insufficiently transparent. This lack of transparency makes it difficult for financial institutions to incorporate the scenarios into their business-as-usual capital planning processes between regulatory test submission cycles. For example, the Board might use the 5- and 10-year constant maturity Treasury note yields reported on its H.15 report rather than the yields constructed by the Federal Reserve staff (especially since the differences in the two sets of data are particularly pronounced in stress periods). It also would be helpful if the Board released historical revisions and the latest actuals for its core variables more frequently.

Specifically, in our view, the Board should make the latest observations for the following core variables readily available throughout the course of the year so that firms can better incorporate them into their business-as-usual planning processes:

- U.S. 5-year Treasury yield (quarterly average);
- U.S. 10-year Treasury yield (quarterly average);
- U.S. BBB corporate yield (quarterly average);
- U.S. mortgage rate (quarterly average);
- U.S. House Price Index (seasonally adjusted);
- Developing Asia real GDP growth (Q/Q annualized percent change); and
- Developing Asia inflation (Q/Q annualized percent change).

### **III. Tailoring to Account for Parental Support of Subsidiaries**

#### *Expanding Permissible Capital Actions and the 72-Hour Remediation Period*

As currently constructed, CCAR simply does not account effectively for the importance of parent support. Parent support has been historically reliable and has provided a robust safety backstop for U.S. subsidiaries. Indeed, we are unable to recall a single example in the recent historical record where a major bank has not supported its U.S. subsidiaries. Parent support by FBO banks has augmented the safety and soundness of the overall U.S. market, and has added diversity and competition to the overall U.S. banking system. However, the current mechanics of the CCAR process effectively ignores this support, and actually *penalizes* FBO structures in several ways.

Since the advent of the IHC structure and its more standalone approach to local capital, FBOs have aggressively cut their U.S. assets in order to meet U.S. capital requirements such as CCAR. This “cut first” approach has led to severe reductions to IHC balance sheets relative to the impacts on BHCs and has undermined the competitive strength of FBOs. While inherently inequitable, we also think this diminished competition from continuously shrinking foreign firms

has broader negative implications, such as a reduction in counter-cyclical benefits that FBOs have traditionally provided to U.S. lending and capital markets.<sup>5</sup>

In order to mitigate these potentially adverse outcomes, we believe that the current CCAR framework should be tailored to reflect the large differences between BHCs and IHCs. For example, augmenting the capital of an independent BHC typically requires a significant capital markets transaction involving third party investors; this can be difficult or impossible in a highly-stressed market. In contrast, the capital of an IHC can be increased far more quickly by parent support, which does not involve the inherent delays often required to educate or convince a skeptical market. A tailored approach should therefore consider the capital strength of the ultimate parent company, its capability to provide support, and potentially its resolution plan as part of this exercise.<sup>6</sup> Specifically, IHCs should be permitted to assume injections from their parent during the stressed planning horizon, something that is not currently permitted. Such an assumption should be accompanied by supporting analysis, transaction support details, and an attestation from the parent firm's board of directors. The Board should, of course, outline its expectations on the rules for incorporating this support during the stressed planning horizon.

Moreover, under the current regime, BHCs that fall short of the stressed requirement under the DFAST calculations are offered a 72-hour window to make changes to their planned capital actions prior to the publication of the public CCAR results. Consistent with the above, IHCs should be permitted to 'remediate' any shortfalls with a 'letter of intent' from the Chairman and CEO stating that an injection of capital by the parent is forthcoming. Such a letter of intent (which, given the need for home country supervisory approval, could take longer than 72 hours to obtain) would be followed by the aforementioned analysis and attestation from the parent board of directors. The Board should require the capital injection to occur within a reasonable timeframe thereafter.

#### Tailor Capital Planning Expectations for IHCs

IHCs that are part of the Large Institution Supervision Coordinating Committee (LISCC) framework are subject to the capital planning expectations set forth in SR letter 15-18 *Federal Reserve Supervisory Assessment of Capital Planning and Positions for LISCC Firms and Large and Complex Firms*. SR 15-18 outlines the Board's expectations for capital risk management at large firms subject to stress testing requirements. Many of these expectations can be appropriately applied to both large BHCs and IHCs, such as those related to risk identification, internal controls, scenario design, and model risk management.

The expectations around capital planning and estimations of impacts on capital positions should be amended to account for the fact that IHCs are smaller, largely internal entities in terms of their capital position (especially for SPOE firms). Such firms are subject to separate capital planning, RWA, and leverage requirements from their home regulator, and such supervision should be recognized as part of the Board's overall consideration. Moreover, IHC entities are

---

<sup>5</sup> These benefits were recognized by former Governor Tarullo when he stated that The presence of foreign banks can bring particular competitive and countercyclical benefits because foreign banks often expand lending in the United States when U.S. banking firms labor under common domestic strains." See Daniel K. Tarullo, "Regulation of Foreign Banking Organizations," Speech at the Yale School of Management Leaders Forum, New Haven, CT, November 28, 2012. Available at: <https://www.federalreserve.gov/newsevents/speech/tarullo20121128a.htm>.

<sup>6</sup> Such tailoring would follow the precedent set by the Board and the FDIC when they issued their *Guidance for 2018 Annual Resolution Plan Submissions by Foreign Based Covered Companies* in March 2017.

materially smaller and more specialized (by definition) than the U.S. BHCs subject to SR 15-18.<sup>7</sup> Given these differences, it would be more appropriate for the Board to issue separate capital planning guidance for IHCs.

#### *Incorporate Qualifying Internal Long-Term Debt into Post-Stress Capital Calculations*

The current “ring-fence” surrounding internal Total Loss Absorbing Capacity (TLAC) should be removed, thereby allowing qualifying internal long-term debt (LTD) to be incorporated into post-stress capital calculations.

Relief in this area should be granted for a number of reasons. First, the Board has the authority under the final TLAC/LTD rule<sup>8</sup> to convert eligible internal LTD to equity *in extremis*, thereby ensuring that there is large resource preplaced in the United States that can be used to absorb losses. Alternatively, the presence of the internal LTD resourcing could be seen as a “down-payment” that ensures the reliability of a future equity injection into the U.S. subsidiary by the parent firm.

Second, as recent work<sup>9</sup> on the subject has highlighted, ring-fencing of capital can reduce the resources available for other jurisdictions and increases the likelihood that other jurisdictions adopt similar capital ring-fencing policies. If ring-fencing becomes pervasive, the result can be a significant increase in risk for the overall institution, as well as the local U.S. entity. Our quantitative analysis of these effects for a simplified model bank found that the scale of the increase could be dramatic (by a multiple of up to 15.1x) for both individual subsidiaries and the group as a whole, owing to capital “misallocation risk.” Even if these results diverge significantly for a specific bank, they still suggest that the issue deserves serious attention and remediation. A continued ring fence around internal eligible LTD contributes to this problem and increases the risk of failure. In contrast, a new approach that includes eligible LTD could help contribute to positive international momentum to alleviate this issue.

Third, IHCs differ from BHCs because they are smaller, regional subsidiaries versus top-tier BHC entities with a much wider, international book of business. Given the U.S.-specific nature of the stress testing regime, the global diversity of the IHC’s consolidated parent group is simply ignored. This is a major and unfair flaw in the current regime, and one that we believe ought to be remediated by targeted mitigation, such as the ability to incorporate qualifying internal LTD into post-stress capital calculations.

## **IV. Tailoring for Non-Bank Institutions**

The CCAR framework was constructed with institutions that engage in the traditional “business of banking” in mind – that is, institutions whose business model is, to some large degree, based on taking deposits and making loans, either to commercial clients or retail customers. However, several of the firms subject to CCAR have business models that diverge

---

<sup>7</sup> A recent submission by the IIB illustrated this point: the major U.S BHCs (excluding the custody banks) averaged \$1,640 billion in consolidated assets, roughly 7x the asset footprint of the largest covered IHCs which averaged only about \$230 billion in footings.

<sup>8</sup> 12 CFR § 252, Subpart P (2017).

<sup>9</sup> D. Wilson Ervin, “The Risky Business of Ring-Fencing,” Working Paper, December 12, 2017. Available at: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3085649](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3085649).



significantly from a traditional banking model, with a handful essentially operating solely as broker-dealers within the United States. The assumptions built into the CCAR process, which make sense for an institution engaged in deposit taking and lending, do not make sense when extended to what are essentially non-bank institutions. In turn, those assumptions heavily penalize institutions engaged primarily in capital markets activity. Requiring such institutions to maintain excessive stressed capital levels undermines their ability to support the U.S. capital markets.

Indeed, it is for this reason that some U.S. BHCs that previously operated solely or largely as investment banks have more recently sought to build a significant domestic deposit and lending base. We do not believe that the Board wants or intends for other broker-dealer firms to similarly expand their deposit or lending base within the United States. However, the current CCAR framework provides incentives for firms with significant capital markets operations to either scale back their U.S. presence, as discussed above, or expand their deposit and lending base in the United States to counterbalance the negative impact of CCAR and other capital requirements on their businesses. We suggest that a more suitable approach would be to tailor the CCAR framework for institutions engaged largely or solely in non-banking activities.

#### Amend the Current Modeling of PPNR and Balance Sheet

The Board balance sheet models assume that institutions will continue to lend to the economy, even during stressed time periods. This assumption is not appropriate for non-bank institutions that do not take deposits or lend. Institutions with large broker-dealer operations function as market liquidity providers; their balance sheets will expand and contract depending on market demand. It is simply not reasonable to assume that these institutions' balance sheets will always increase, agnostic to the economy.

Due to this, we recommend that the Board amend its balance sheet models to account for the fact that the assumptions underlying an increasing balance sheet during stress periods are not appropriate for non-bank institutions, whose balance sheets are dominated by trading assets and repos. In recalibrating its models, the Board should be able to rely on the Volcker Rule metrics that it collects. The Board could determine the scope of institutions that may require adjusted models using the criteria for GMS banks set forth in the June 9<sup>th</sup> 2017 *Proposed Agency Information Collection Activity on Amendments to Capital Assessments and Stress Testing Resulting from revisions to Forms FR Y-14A/Q/M (proposed Global Market Shock modifications)*.

#### Clarify Treatment of Double Counting Losses

The certainty of double counting losses on the same trading positions between the instantaneous shock and the 9Q PPNR projections is a significant concern. The Federal Reserve, in its CCAR 2017 Instructions, stated that "If a BHC subject to the global market shock can demonstrate that its loss-estimation methodology stresses identical positions under both the global market shock and the supervisory macroeconomic scenario (including the severely stressed scenario), that firm may assume that the combined losses from such positions do not exceed losses resulting from the higher of either the losses stemming from the global market shock or those estimated under the macroeconomic scenario."<sup>12</sup>

---

<sup>12</sup> Board of Governors of the Federal Reserve System, "Comprehensive Capital Analysis and Review: 2017 Summary Instructions for LISC and Large and Complex Firms," February 2017.

The problem is that the Board has not provided sufficient clarity on how it identifies identical positions. This has led to disparities in the calculation approaches of the Board and institutions. For example, it would be useful for the Board to clarify how it calculates equity positions: those positions may be reported in delta and vega sensitivities on the Trading 14Q and P&L calculated using full revaluation on the Trading 14A, while the revenue projections for those same positions in PPNR may be calculated based on regressions driven by estimations of street volumes, index and volatility levels, and commissions.

## V. Other Reforms

While our principal concern remains tailoring of the stress-testing process to reflect the character of the institutions (either as subsidiaries or as non-banks), we also believe that the Board should consider more general changes to the current framework that would improve the transparency and efficiency of the process.

### Quantitative-Only Test

Earlier this year, Governor Powell indicated that if progress toward meeting supervisory expectations for capital planning continued, “it will be appropriate to consider removing the qualitative objection from CCAR for those firms that achieve and sustain high-quality capital planning capabilities” and incorporating such assessments “as part of our ongoing supervisory processes.”<sup>10</sup> We believe that returning the qualitative requirements around capital planning to the normal, ongoing supervisory process would reduce a large amount of the uncertainty associated with CCAR determinations<sup>11</sup>, while in no way attenuating those requirements. We fully support this change for firms that demonstrate strong capital planning capabilities.

### Amend the Stress Testing Cycle

In its recent report on banking regulation, the U.S. Treasury Department stated that “the CCAR process should be adjusted to a two-year cycle.” The report stated that this change would “not compromise quality” and that “provision could be made for off-cycle submission if a revised capital plan is required due to extraordinary events or in the case of financial distress.”<sup>12</sup>

While we support the thrust of the U.S. Treasury’s recommendation, we recognize that it may be difficult for the Board to approve annual capital plans if CCAR submissions were to occur every two years. At the same time, we believe that submission of a full CCAR plan on an annual basis is unnecessary to achieving the Board’s policy objectives and leads to an inefficient allocation of resources at both the Federal Reserve and among supervised institutions. Similarly, we believe that the mid-year DFAST submission is superfluous and of little additive value.

---

<sup>10</sup> Statement of Governor Jerome H. Powell on the “Relationship Between Regulation and Economic Growth” Before the Committee on Banking, Housing, and Urban Affairs, United States Senate, June 22, 2017.

<sup>11</sup> See U.S. Government Accountability Office, “Federal Reserve: Additional Actions Could Help Ensure the Achievement of Stress Test Goals,” Report to the Chairman, Committee on Financial Services, U.S. House of Representatives, November 2016. Available at: <https://www.gao.gov/assets/690/681020.pdf>. The report noted that the Board had “not disclosed information needed to fully understand its assessment approach or the reasons for decisions to object to a company’s capital plan” this limited disclosure may hinder... understanding of the CCAR program and limit public and market confidence in the program.”

<sup>12</sup> U.S. Treasury Department, “A Financial System That Creates Economic Opportunities: Banks and Credit Unions,” June 2017, p. 12.

We therefore recommend that the Board eliminate the mid-year DFAST submission and institute a streamlined CCAR submission for supervised firms in alternate years. Such a streamlined CCAR would involve submission of a capital plan but not all of the documentation that currently accompanies it (documentation that often numbers thousands of pages). We believe that this would result in a more efficient and effective allocation of resources by both supervised institutions and the Federal Reserve, while in no way diminishing the stringency of the tests.

In light of the recent announcement that the Board and Federal Deposit Insurance Corporation (FDIC) are considering moving the Recovery and Resolution (RRP) submission cycle to every two years<sup>13</sup>, we recommend that the Board consider applying the streamlined CCAR in alternate years to the supervised firm's RRP submission.

\*\*\*

We thank the Board of Governors of the Federal Reserve System for its consideration of our comments. If you have any questions, please do not hesitate to contact the undersigned, Joseph Seidel (202-626-3302; [joseph.seidel@credit-suisse.com](mailto:joseph.seidel@credit-suisse.com)), or Peter J. Ryan (202-626-3306; [peter.ryan.3@credit-suisse.com](mailto:peter.ryan.3@credit-suisse.com)).



---

Eric M. Varvel  
CEO, Credit Suisse Holdings USA, Inc.

---

<sup>13</sup> Board of Governors of the Federal Reserve System and Federal Deposit Insurance Corporation, "Agencies Extend Next Resolution Plan Filing Deadline for Certain Domestic and Foreign Banks," Joint Press Release, September 28, 2017.