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By electronic submission to regs.comments@federalreserve.gov

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

RE: Proposed Agency Information Collection Activities: Amendments to Capital Assessments and Stress Testing Resulting from Revisions to Forms FR Y-14a/Q/M (OMB Control No. 7100–0341)

Ladies and Gentlemen:

Credit Suisse Holdings USA ("Credit Suisse") appreciates the opportunity to provide comments on the recent information collection proposal ("the Proposal") by the Board of Governors of the Federal Reserve System ("the Board") outlining changes to the mandatory capital stress testing information collection obtained through the FR Y-14 Q/A reports.[1] The Proposal would modify the scope of the Global Market Shock ("GMS") component of the Board's stress tests in a manner that would include certain U.S. intermediate holding companies ("Covered IHCs") of foreign banking organizations ("FBOs") and would eliminate the FR Y-14A, Schedule D (Regulatory Capital Transitions) and Schedule G (Retail Repurchase Exposures), in addition to making other changes to the FR Y-14 reports. These changes would have near immediate effect, with covered institutions required to submit trading book stress information as of September 30, 2017 and a requirement that they incorporate the GMS into their capital planning and stress testing for the 2018 cycle.

Credit Suisse is supportive of the concept of stress testing and believes that it has been an important prudential regulatory innovation. We nevertheless believe that it is an appropriate time for a more holistic review of the Comprehensive Capital Analysis and Review ("CCAR") process. In this context, we welcome the commitment of members of the Board to increasing the transparency of the stress testing and CCAR processes[2], which is broadly consistent with the recommendations contained in the U.S. Treasury's recent report on financial regulation[3] and the views of pending nominees for key regulatory positions.[4] Separately, we strongly agree with a number of policymakers that now is also an appropriate time to re-examine the criteria for

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[1] 82 Fed. Reg. 26,793 (June 9, 2017)
[2] See, for example, Governor Jerome H. Powell, Testimony on the Relationship between Regulation and Economic Growth, Senate Committee on Banking, Housing, and Urban Affairs (June 22, 2017)("Powell Testimony"); Chair Janet L. Yellen, Letter to Hon. Blaine Luetkemeyer, Chairman, House Subcommittee on Financial Institutions and Consumer Credit (June 16, 2017).
[3] U.S. Department of the Treasury, "A Financial System that Creates Economic Opportunities: Banks and Credit Unions," Report to President Donald J. Trump (June 2017) ("U.S. Treasury Report").
[4] Randal Quarles, Confirmation Hearing to be a Member of the Board of Governors of the Federal Reserve System; Reappointment as a Member of the Board of Governors of the Federal Reserve System; and Vice Chairman for Supervision of the Board of Governors of the Federal Reserve System, Committee on Banking, Housing, and Urban Affairs (July 27, 2017).

applying Enhanced Prudential Standards that apply to FBOs[5] and more generally examine ways in which requirements could be tailored to appropriately capture the risk posed by FBOs.[6]

Given this broader context, combined with the pending personnel transition on the Board itself, we feel this is an inopportune time to make such a significant change to the stress testing regime. We therefore respectfully request that the Board not adopt the Proposal until it has had an opportunity to conduct a more holistic examination of the current stress testing regime. That assessment, in our view, should include a consideration of the important differences in terms of size, risk profile, and systemic importance between Covered IHCs and BHCs, as well as recognition of the limited ability of IHCs to undertake actions to mitigate capital shortfalls.

However, should the Board decide to move forward with the Proposal, we strongly encourage it to provide for a transition period for IHCs to enable them to properly execute these changes. Specifically, we recommend exempting the reporting of the GMS results from the Covered IHCs' 2018 cycle public disclosures, with Covered IHCs instead required to engage in a non-public "dry-run" exercise. This would provide for a transition period that would permit Covered IHCs to incorporate the impact of the GMS on their capital plans, give them time to build the appropriate infrastructure, and receive feedback from the Board. It is consistent with the treatment afforded to Covered BHCs when the GMS was first introduced into the CCAR process, a point the Institute of International Bankers ("IIB") notes in its submission to the Board.[7]

Beyond the issue of timing, we recommend that the Board consider re-calibrating the GMS as it applies to Covered IHCs. This re-calibration would, as the IIB letter recommends, take into account the very significant differences between Covered IHCs and BHCs which in our opinion are twofold.[8] First, in contrast to Covered BHCs, Covered IHCs are unable to offset capital charges required to meet the GMS requirement against their more diversified global asset base. Since most of the Covered IHCs do not trade on a net risk basis in the United States, this creates an un-level playing field relative to Covered BHCs.

Second and more important, Covered IHCs are unable to undertake the capital actions and mitigations that Covered BHCs can take to correct capital shortfalls. As we note, IHCs in general are left with only two options to remediate any shortfall: request that their parent downstream capital or reduce their U.S. asset base, neither option is ideal and both are further elaborated on in Section II.

I: The Board Should Exempt Covered IHCs from the GMS 2018 Public Disclosure

The Proposal does not provide sufficient time for compliance

Covered IHCs have not been provided with sufficient time to properly plan for execution and submission of the FRY-14 A/Q Trading and Counterparty Schedules ahead of the 2018 CCAR cycle. With the comment period for the recent proposal ending at the end of August 2017, it is foreseeable that final amendments would not be announced until September 2017, leaving IHCs with less than a month to effectively implement and execute the necessary data

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[5] Powell Testimony, in response to questions from Senator Christopher Van Hollen regarding foreign bank regulation.
[6] U.S. Treasury Report, pp. 70-71.
[7] Institute of International Bankers, Letter to the Board of Governors of the Federal Reserve System regarding this Proposal (August 8, 2017) ("IIB Letter").
[8] Id.

collection and reporting capabilities. At best, a tactical solution would need to be utilized to populate the FR Y-14A/Q Trading and Counterparty schedules, which, given the magnitude and complexity, is not the desired approach. Further, reducing the planning horizon is the extension of the as-of date window for the GMS, which could be as early as October 1 2017.

Given this short notice, a transition or phase in period should be provided to Covered IHCs which would be consistent with other major capital regulations passed by the Board in recent history:

- U.S Basel III rules provided a five year phase-in period for capital deductions from 2014-2018 and a four year phase-in period for the capital conservation buffer from 2016-2019.[9]
- The enhanced Prudential Standards rule published February 2014 provided more than two years before IHCs were subject to the risk-based capital minimum requirements and provided almost four years before leverage minimum capital requirements became effective.[10]
- Additionally, the Board did not require public disclosure of the GMS stress test results until the 2012 CCAR cycle, having incorporated the GMS in the 2011 cycle. Since that time, the GMS has increased in complexity, which only increases the challenges associated with incorporating the change into the capital planning process.

By providing Covered IHCs a similar transition period, the appropriate capabilities can be implemented and necessary infrastructure built out to support incremental reporting requirements. Without such a phase in period, we feel the Covered IHCs would be unduly penalized and will struggle to meet the necessary reporting and capital requirements for the public CCAR in 2018.

Covered IHCs cannot benchmark against past results

As the 2017 non-public CCAR submission did not include a quantitative assessment, IHCs lack insight into the result of the Board's calculated results. Historically, there have been significant deltas between the results of the Board's calculations under the supervisory severely adverse scenario and the banks' own calculations under the severely adverse scenario. Analysis of prior years' CCAR results provide little to no insight into Board calculation variances for peer institutions. Unlike Covered BHCs, Covered IHCs are in a unique position as they are afforded fewer capital actions should capital levels fall below triggers, and a limited number of actions are available for remediation. Understanding the results of the Board's calculations before GMS becomes effective would be analogous to the experience afforded to large and complex U.S. banks throughout the evolution of CCAR.

Recommendation

Given the uncertainty of the Board calculations and required capital, we recommend that the Board apply the GMS through a confidential (non-public) supervisory process for 2018 CCAR to allow IHCs to better understand the total capital need and recalibrate scenario severity as needed. Under this proposal, our recommended process for the upcoming 2018 CCAR cycle would consist of the following elements:

[9] 79 FR, Reg. 62018 (October 11, 2013)
[10] 79 FR, Reg. 17240 (March 27, 2014)

- Covered IHCs will submit the entirety of the capital plan submission including trading and counterparty exposures on relevant FR Y-14A/Q schedules as proposed.
- For Covered IHCs, the effects of the GMS on post-stress capital levels would not be factored into supervisory or company-run stress tests for the 2018 CCAR cycle or the quantitative assessment of their ability to maintain capital ratios above the minimum regulatory capital ratios in CCAR 2018.
- For Covered IHCs, the GMS would not factor into the qualitative assessment of their capital planning processes during CCAR 2018.
- For Covered IHCs, the confidential (non-public) supervisory process would be limited to the upcoming 2018 CCAR cycle.

II: The GMS Should be Tailored to Recognize Differences Between Covered IHCs and Covered BHCs

We wish to associate ourselves with the comments made by the IIB in their submission regarding the Proposal. In particular, we feel that the GMS, and the capital assessment and stress testing regime more generally, ought to be tailored to reflect differences in the size, risk profile, and systemic importance to the U.S. financial system between the Covered IHCs and the Covered BHCs.[11] Here, we wish to discuss two additional distinctions between IHCs and BHCs that ought to be considered by the Board.

Inability to offset GMS-related capital charges

First, in contrast to Covered BHCs, Covered IHCs are unable to offset capital charges required to meet the GMS requirement against their more diversified global asset base. Since most of the Covered IHCs have risk exposures in the United States that are offset to varying degrees, often times significantly, by positions booked outside the U.S. This creates an un-level playing field relative to Covered BHCs since IHCs are inevitably stress testing gross risk, and not net risk.

Limitations on capital actions

Second, in contrast to BHCs, IHCs have inherent limitations on the capital actions that they can undertake to mitigate capital shortfalls, limitations that would make it both difficult to implement the proposed changes in the envisioned timeframe and have more generally contributed to the phenomenon of FBOs reducing their U.S. asset base to comply with enhanced capital assessments. Unlike U.S. firms who since the crisis have used a variety of tools to build higher capital organically - including using retained global earnings and cutting dividends - FBOs really only have two options.

The first option involves down streaming of additional capital from the parent in to the ring-fenced U.S. legal entity. This may be inhibited by the incremental approvals required by home country regulators. Understandably, the parent firm and a parent's home country regulator may be concerned with whether it is prudent to trap excessive capital in any foreign regulated subsidiary; indeed, this is consistent with the Board's approach to U.S. BHC operations abroad. The second option to remediate a capital shortfall involves shrinking the IHCs U.S. asset base. While FBOs theoretically could undertake either option, market evidence suggests that

[11] IIB Letter, pp. 5-7.

FBOs have overwhelming chosen to aggressively cut their U.S. assets in order to meet U.S. capital requirements such as CCAR.

The GMS and CCAR more generally magnify this problem. The easiest and quickest way for an IHC to improve its CCAR projections in reaction to the annual volatility of the Board's CCAR models will always be to further cut IHC assets - in contrast to the U.S. firm's broader toolbox of less draconian short term options (e.g., such firms have the discretion to modify their plans, including a reduction in dividend and stock repurchases). This "cut first" approach leads to much more severe impacts on IHC balance sheets and has undermined their ability to compete in many areas of the capital markets. While inherently inequitable, we also think this diminished competition from continuously shrinking foreign firms has broader negative implications for many key areas of the U.S. markets.

Recommendation

We recommend the Board consider tailoring the GMS - and CCAR more generally - to account for these important differences between IHCs and BHCs. This should occur as part of a holistic review of the stress testing and capital assessment regime.

III: The Board Should Clarify Treatment of Double Counting Losses

In the context of becoming a GMS bank, the certainty of double counting losses on the same trading positions between the instantaneous shock and the 9Q Pre-Position Net Revenue ("PPNR") projections is a significant concern, especially for a first time submission of a joint GMS/PPNR submission. 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."[12]

However, the Board has not provided sufficient guidance for institutions in their ability to identify *identical positions*, given the predominantly sensitivity and P&L-based reporting on the Trading 14Q, as compared with the metrics utilized to project PPNR. For example, where equity positions may be reported in delta and vega sensitivities on the Trading 14Q and P&L calculated using full revaluation on the Trading 14A, 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.

The potential disparity in calculation approach, coupled with mismatches in timing between the GMS randomly selected as-of date and December 31 as a jump-off for the 9Q projections, present challenges for institutions to identify identical positions as per the Board's expectations. The timing mismatch is further complicated by the fact that broker dealers, as market makers, strive to maintain trading liquidity in the market, often buying and selling

[12] Board of Governors of the Federal Reserve System, "Comprehensive Capital Analysis and Review: 2017 Summary Instructions for LISCC and Large and Complex Firms," February 2017.

hundreds and thousands of positions daily. The flow nature of these desks makes it nearly impossible to identify identical positions, on a unique identifier level, when the dates do not align.

Recommendation

The Board should loosen the strict expectation of identifying identical positions and allow institutions the opportunity to credibly justify assumptions made about the same portfolios or portions there of that are stressed in both GMS and 9Q.

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We thank the Federal Reserve Board for its considerations of our comments. If you have any questions, please do not hesitate to contact the undersigned or Peter J. Ryan (202-626-3306; peter.ryan.3@credit-suisse.com).

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