INSTITUTE OF INTERNATIONAL BANKERS

299 Park Avenue, 17th Floor
New York, N.Y. 10171
Direct: (646) 213-1147
Facsimile: (212) 421-1119
Main: (212) 421-1611
www.iib.org

Briget Polichene
Chief Executive Officer
E-mail: bpolichene@iib.org

October 5, 2018

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 Reporting Form FR 2590 relating to Single-Counterparty Credit Limits Applicable to Certain Foreign Banking Organizations and their U.S. Intermediate Holding Companies

Ladies and Gentlemen:

The Institute of International Bankers ("IIB") appreciates the opportunity to provide comments on the recent information collection proposal (the "Proposal")[1] by the Board of Governors of the Federal Reserve System (the "Board") to implement a new reporting form, the FR 2590, related to the single-counterparty credit limits ("SCCL") finalized by the Board in June 2018.[2] The SCCL apply to (i) foreign banking organizations ("FBOs") with global consolidated assets of $250 billion or more ("Covered FBOs"); (ii) the U.S. intermediate holding companies ("IHCs") of Covered FBOs ("Covered IHCs"); and (iii) bank holding companies ("BHCs") with total assets of $250 billion or more (collectively, "Covered Firms").

I. Introduction and Summary

The IIB and our members continue to support the ultimate objectives of the SCCL Rule. However, we are (1) concerned about the treatment of IHCs, (2) seeking clarity with respect to the procedure for a Covered FBO to certify that it meets large exposure standards established by its home country supervisor that are consistent with the Basel Committee's large exposures framework[3] (the "Home Country SCCL Certification"), and (3) concerned about the

---

1 83 Fed. Reg. 38303 (Aug. 6, 2018).

2 12 C.F.R. Part 252, Subparts H and Q (the "SCCL Rule"); 83 Fed. Reg. 38460 (Aug. 6, 2018).

3 Basel Committee on Banking Supervision (the "Basel Committee"), Supervisory framework for measuring and controlling large exposures (Apr. 2014) (the "Basel Large Exposures Framework").

burdens that would be placed on Covered FBOs and Covered IHCs by the timetable for, and the information required by, the combination of SCCL implementation and the FR 2590.

Our comments focus on three principal issues. First, any revisions to the U.S. SCCL should not impose on IHCs more burdensome requirements under the U.S. SCCL than would apply to their similarly situated BHC peers. As we discuss in Section II, we understand that the Board is revisiting the application of SCCL to Covered Firms and to IHCs in particular ("[s]taff plans to conduct further analysis regarding the scope of application of the SCCL framework and other enhanced prudential standards to U.S. IHCs"[4]). The Board has broad regulatory discretion under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act")[5] and other statutes[6] to undertake such changes. In our view, IHCs should be the first candidates for tailoring under this review and, in fact, should not be subject to U.S. SCCL. The U.S. SCCL are unnecessarily duplicative for IHCs to the extent that their parent Covered FBOs are or will be subject to large exposures limits on a consolidated basis in their home country jurisdictions. Moreover, application of U.S. SCCL to IHCs is unwarranted since their potential risk to U.S. financial stability is no greater than that of those domestic BHCs that are exempt from the SCCL entirely. At a minimum, we request that the outcome of any review of the SCCL framework be consistent with the principles of national treatment and competitive equality—the mandated standards for regulatory rulewriting established in the Dodd-Frank Act.[7]

Second, as outlined in Sections III and IV, neither the SCCL Rule nor the Proposal provides a clear procedure for the Home Country SCCL Certification and related reports. The IIB applauds the Board's incorporation of the Home Country SCCL Certification in the SCCL Rule, which appropriately recognizes global efforts to limit large exposures in a manner consistent with the internationally agreed Basel Large Exposures Framework. To ensure that Covered FBOs are able to realize the intended efficiencies of the Home Country SCCL Certification, we offer recommendations as to the procedure and content for the Home Country SCCL Certification in Section III. In addition, we believe that the Board knows that the large exposure frameworks of several other jurisdictions are being modified and that there is expected to be an implementation timing gap between the compliance date for the U.S. SCCL and these modifications, which has the potential to undermine the exemption afforded by the certification process. In Section IV, we request that the Board provide relief during any gap period.

Finally, with regard to information reported on the FR 2590, in Section V we urge the Board to eliminate certain overly granular requests for information that are not necessary to evaluate compliance with the SCCL. We also request in Section VI that the Board permit Covered IHCs to use internal models in calculating the exposure amounts for derivatives and securities financing transactions ("SFT"), consistent with the calculation approaches for these exposures available to domestic BHCs. In addition, we urge the Board to advocate within the

---

4 Board Staff Memorandum, dated June 7, 2018, accompanying draft SCCL final rule, at p. 10.

5 P.L. 111-203 (2010).

6 Bank Holding Company Act of 1956 (12 U.S.C. § 1841 et seq.) and International Banking Act of 1978 (12 U.S.C. § 3101 et seq.).

7 12 U.S.C. § 5365(b)(2).

Basel Committee for revisions to the Basel Large Exposures Framework to permit the use of internal models to measure SFT and derivative exposure (in addition to a non-models based approach) in order to ensure a level playing field internationally.

II. All Covered Firms Are Expecting Further Guidance from the Board on Tailoring, and SCCL Rule Implementation Should Be Delayed to Reflect Both the Timing and Outcome of the Board's Review

Finalization of the SCCL Rule appears to have been premature. Notwithstanding the release of the SCCL Rule as a final regulation, the Board has signaled that risk-based tailoring and other changes to its enhanced prudential standards ("EPS"), including the SCCL Rule, are forthcoming. First, in its memorandum accompanying the final SCCL Rule, Board staff indicated that even though $250 billion of total global consolidated assets is "the new EGRRCPA asset threshold for enhanced prudential standards[, s]taff plans to conduct further analysis regarding the scope of application of the SCCL framework and other enhanced prudential standards to U.S. IHCs as part of its broader implementation of"[8] the Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCPA").[9]

Second, we understand that the Board is working on comprehensive tailoring and modification of various rules and EPS that will reflect both the EGRRCPA changes and the Board's broad regulatory discretion under the Dodd-Frank Act and other statutes. Board Governors have stated that significant tailoring is expected,[10] including for banking organizations that have greater than $250 billion in total consolidated assets. The EGRRCPA requires the Board to tailor EPS, as applicable to all institutions meeting the thresholds, based on risk and other factors. Section 401(a)(1)(B) of EGRRCPA specifically requires the Board to tailor its EPS for all institutions based on the capital structure, riskiness, complexity, financial activities, size and other characteristics of the institutions it supervises.[11]

---

8 Board Staff Memorandum, dated June 7, 2018, accompanying draft SCCL final rule, at p. 10 (emphasis added).

9 P.L. 115-174 (2018).

10 See, e.g., Jerome H. Powell, Chairman of the Board of Governors of the Federal Reserve System, Testimony before the House Financial Services Committee (July 18, 2018) (noting that tailoring, including for banking organizations above $250 billion in assets, will take into account factors such as size, complexity, interconnectedness and the nature of banking activities); "Getting It Right: Factors for Tailoring Supervision and Regulation of Large Financial Institutions," Speech by Vice Chairman for Supervision Randal K. Quarles at American Bankers Association Summer Leadership Meeting, Salt Lake City, Utah (July 18, 2018) ("Further, consistent with the legislation's tailoring requirements, the Board must proactively consider how firms with more than $250 billion in assets that do not qualify as G-SIBs may be more efficiently regulated by applying more tailored standards."); "Trust Everyone—But Brand Your Cattle: Finding the Right Balance in Cross-Border Resolution," Speech by Vice Chairman for Supervision Randal K. Quarles at Harvard Law School Program on International Financial Systems, Harvard Law School, Cambridge, Massachusetts (May 16, 2018).

11 See 12 U.S.C. § 5365(a)(2) (as amended by the EGRRCPA, stating that the "Board . . . shall . . . differentiate among companies . . . taking into consideration their capital structure, riskiness, complexity,

Third, in the preamble to the SCCL Rule, the Board stated that "[i]n connection with this proposal and other tailoring and implementation efforts related to EGRRCPA, the Board may make amendments to the SCCL framework in this final rule."[12] The IIB and our members strongly support the Board's efforts to tailor its EPS, including the SCCL Rule, and we look forward to providing comments on any changes to the scope of the SCCL Rule, which we expect would be submitted for public comment prior to the current SCCL Rule's implementation dates.

In concluding these stated reviews, the Board should further tailor (or eliminate) the SCCL for IHCs. The implementation of large exposures frameworks on a consolidated basis in the home country jurisdictions of IHCs' parent FBOs makes it unnecessary for IHCs to be subject to U.S. SCCL as well.[13] Moreover, a U.S. SCCL places a disproportionate burden on IHCs relative to the potential impact of IHCs on the U.S. economy and their systemic risk in comparison to similarly sized BHCs. As noted above, Board Governors have indicated that the EPS will be tailored for firms with over $250 billion in assets, as well as for firms with assets under $250 billion.[14] All IHCs should receive the benefit of such tailoring.

Elimination of the U.S. SCCL requirement is particularly warranted for IHCs with less than $250 billion in assets, given that domestic BHCs of comparable size are not subject to the U.S. SCCL. Even with the SCCL Rule's modified requirements for such IHCs, an IHC in this asset range would remain subject to compliance requirements that are out of proportion to its potential effect on the U.S. economy in comparison with that of a domestic BHC of the same size, which is not subject to the SCCL. In light of these considerations, in our view, the Board should determine through its tailoring exercise that many, if not all, IHCs should not be subject to the SCCL Rule.[15]

At a minimum, in the IIB's view, the Board should recognize in its review of the EPS that no Covered IHC (or Covered FBO) should be subject to a stricter U.S. SCCL requirement than applies to a U.S. BHC with an equivalent size and risk profile. By contrast, the U.S. SCCL would put most IHCs at a competitive disadvantage to their similarly sized U.S. BHCs peers which are not subject to the U.S. SCCL. Such disparate treatment of IHCs is plainly inconsistent with the Dodd-Frank requirement (preserved by the EGRRCPA) that the Board

---

financial activities (including the financial activities of their subsidiaries), size, and any other risk-related factors that the Board . . . deems appropriate") (emphasis added).

12 83 Fed. Reg. at 38466.

13 See Dodd-Frank Act § 165(b)(2)(B) (when applying enhanced prudential standards, the Board must "take into account the extent to which the foreign financial company is subject on a consolidated basis to home country standards that are comparable to those applied to financial companies in the United States"; this Dodd-Frank provision was designed to result in fewer requirements on the U.S. operations of FBOs than on similarly situated domestic BHCs).

14 See note 10 above.

15 Tailoring should also include tailoring of the FR 2590 filing requirement. In our view, many, if not all, Covered IHCs should not be required to file the FR 2590 even if the Covered IHC is subject to the SCCL Rule. Supervisory examinations can suffice for obtaining information about any Covered IHC's exposures under the SCCL Rule.

"give due regard to the principle of national treatment and equality of competitive opportunity" when formulating EPS for foreign financial companies.[16] If the Board determines, through its tailoring exercise, that BHCs of any size should be subject to less onerous requirements, the Board should make corresponding changes to the SCCL applicable to Covered FBOs and IHCs to ensure competitive equality.

More broadly, until the Board completes the tailoring noted above, no Covered IHC and no Covered FBO should be required to implement the SCCL. We emphasize that Covered FBOs and Covered IHCs (and all Covered Firms) will experience a significant strain on resources if they must begin implementing the U.S. SCCL now, only to receive guidance at a later date that the U.S. SCCL does not apply or does not apply in the same manner as described in the SCCL Rule. In addition, parent FBOs are or soon will be implementing their home country's adoption of the internationally agreed large exposures regime and need certainty regarding the scope and application of the SCCL Rule to ensure they are building appropriate and efficient compliance systems and procedures. The SCCL Rule and its proposed reporting are unique—there are differences among the U.S. SCCL Rule, rules of other jurisdictions and the Basel Large Exposures Framework with respect to reporting, modeling of exposures, and the determination of certain exposures, among other salient features.[17] Reconciling and coordinating systems and reporting across jurisdictions will be difficult and inefficient. Implementing these different, yet combined, systems will be unnecessary, however, if there are changes to the application of the SCCL Rule to Covered FBOs and IHCs.

For these reasons, if the Board's review finds that the SCCL should still apply to Covered FBOs and/or Covered IHCs (or a subset of either), either as currently drafted or in modified form, these Covered Firms at least should be provided sufficient time after the Board's determination to implement the SCCL and the FR 2590. In our view, a delay from the time of the Board's determination—during which the SCCL Rule would not apply to Covered IHCs and during which they would not be required to submit the FR 2590—would be appropriate to allow

---

16 12 U.S.C. § 5365(b)(2).

17 For example, whereas the Basel Large Exposures Framework provides for banking organizations to report their 20 largest exposures and all exposures equal to or greater than 10% of the banking organization's eligible capital base (see Basel Large Exposures Framework, para. 15), the FR 2590 would require covered entities to report their 50 largest exposures, without regard to the relationship between any exposure and the Covered Firm's eligible capital base. In addition, as discussed further below, a parent FBO is likely to be using a models-based approach to determine certain exposures, whereas Covered IHCs that are using the U.S. standardized approach for capital purposes may not be using the same systems or calculations for their determinations. Other differences between the U.S. SCCL Rule and the Basel Large Exposures Framework that may also appear in a home country's adoption of the Framework include (i) application to the "regulatory consolidation" group in contrast to the accounting consolidation group, (ii) exemption of all sovereigns in contrast to only 0% risk-weighted sovereigns, (iii) use of the standardized approach to counterparty credit risk instead of the current exposure method or the internal models method, (iv) use of credit conversion factors for off-balance sheet exposures, (v) use of market value for options, (vi) differing treatment for covered bonds, (vii) generally different treatment between banking book exposures and trading book exposures, etc. See Basel Large Exposures Framework.

such firms to implement systems and reporting in relation to large exposures, and to coordinate such systems and reporting.[18]

III. The Large Exposures Compliance Certification Procedures for Covered FBOs Should Be Clarified

We strongly support the Board's determination in the SCCL Rule to permit a Covered FBO to comply with the SCCL through a Home Country SCCL Certification, and we appreciate the Board's consideration of our June 3, 2016 comment letter regarding the revised notice of proposed rulemaking that preceded the SCCL Rule, in which we recommended this approach.[19]

Under the SCCL Rule, a Covered FBO is not required to comply with the SCCL Rule with respect to its combined U.S. operations if it "certifies to the Board that it meets large exposure standards on a consolidated basis established by its home-country supervisor that are consistent with the [Basel Large Exposures Framework], unless the Board determines in writing, after notice to the [Covered FBO], that compliance . . . is required."[20] In relation to this Home Country SCCL Certification, the SCCL Rule requires that a Covered FBO "provide to the Board reports relating to its compliance with the large exposures standards [of its home country regulator] concurrently with filing the FR Y-7Q or any successor report" (the "Home Country SCCL Reports").[21]

Neither the proposed FR 2590 nor the SCCL Rule text, however, sets out the form and procedure for the Home Country SCCL Certification or clarifies the form of the Home Country SCCL Reports. We outline our recommendations below.

Our Covered FBO members expect to determine whether they may make a Home Country SCCL Certification based on a reasonable self-assessment of the consistency of their home country supervisors' regulations with the Basel Large Exposures Framework, with due allowance for differences that do not affect the core elements of the Basel Committee's standard. We note that the U.S. SCCL itself includes divergences from the Basel Large Exposures Framework that increase flexibility for certain Covered Firms. We would not expect these or similar divergences in other countries' regimes to preclude a covered FBO from reasonably determining consistency with the Basel Large Exposures Framework.[22]

---

18 The IIB and our members welcome the certification procedure for Covered FBOs subject to large exposures frameworks consistent with the Basel Large Exposures Framework in their home countries, and we appreciate the Board's attention to the concerns of FBOs. We note in the following sections, however, that for the certification procedure to provide the intended relief, a different delay in application or other temporary measures will also be necessary with respect to certain FBOs.

19 See IIB, Comment Letter on Single-Counterparty Credit Limits for Large Banking Organizations (June 3, 2016), at 5.

20 12 C.F.R. § 252.172(d)(1).

21 12 C.F.R. § 252.172(d)(2).

22 See note 17 above.

The Home Country SCCL Certification should be provided to the Board by checking a box on the FR 2590.[23] A Covered FBO's Home Country SCCL Certification that it "meets" its home country standards will be made in reliance on reports submitted to its home country regulator indicating that the FBO has not exceeded the limits set forth in the home country standards. Reports submitted to its home country regulator will also be the reports submitted to the Board concurrently with the FR Y-7Q to satisfy the Home Country SCCL Reports requirement.[24] A Covered FBO should not be required to prepare additional and/or different reports specifically for the Board when its home country reports will provide all evidence required of meeting its home country standard.[25] Furthermore, with regard to Covered FBOs in jurisdictions whose large exposures regulations require less than quarterly reporting to home country supervisors, the Board should accept the most recent report given on a less than quarterly basis as a Home Country SCCL Report for any quarter in which reports are not required to be provided to home country supervisors. The EU Capital Requirements Regulation (the "CRR"), for example, provides for at least semi-annual reporting, contemplating less than quarterly reporting.[26]

We respectfully request that the Board amend the form of and instructions to the FR Y-7Q well before the compliance date for the SCCL Rule to indicate that reports provided to home country regulators will be accepted as the Home Country SCCL Reports, and suffice as the basis for a Covered FBO's certification, including where such Home Country SCCL Reports are required less frequently than every quarter. We also request that the Board give due consideration to a Covered FBO's home country bank secrecy and other laws in reviewing a Covered FBO's Home Country SCCL Reports.[27]

IV. Flexibility to Certify During a Home Country Implementation Gap

Our members would like to call the Board's attention to the potential for a gap between the compliance dates of the SCCL Rule and modifications that have been announced by home country supervisors in certain jurisdictions. Although regulations are underway in many

---

23 The proposed instructions to the quarterly FR 2590 ask each Covered FBO respondent to indicate (with a yes or no) if it "has certified" to the Board that it meets large exposure standards on a consolidated basis established by a home country supervisor, which suggests that certification of compliance may be required on a form other than the FR 2590. However, the Proposal also states that "[t]he [FR 2590] reporting form also permits any respondent that is an FBO to certify [. . .]," implying that the quarterly FR 2590 may be the vehicle for certification. We expect the FR 2590 to be the vehicle for the Home Country SCCL Certification and request that the Board clarify the certification, so it does not read "has certified."

24 In some cases, Covered FBOs may need to obtain the consent of their home country supervisors to provide Home Country SCCL Reports to the Board or may need to redact client names and certain other information. The Board should give due consideration to a Covered FBO's home country's confidential supervisory information regulations, bank secrecy and other relevant laws in assessing the appropriateness of the process followed by the Covered FBO or any redactions undertaken.

25 Our members expect that if their home country reports are not in English, they will be permitted to submit an appropriate translation to the Board.

26 See Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on Prudential Requirements for Credit Institutions and Investment Firms and Amending Regulation (EU) No. 648/2012, 2013 O.J. L 176/2, Article 394(3).

27 See notes 24 above.

jurisdictions, many of which are intended to address implementation of the Basel Large Exposures Framework, we do not yet know whether the modifications will be fully implemented by Covered FBOs' home country supervisors in time for these firms to certify in the months following the SCCL Rule's effective dates (January 1, 2020 for Covered FBOs that are global systemically important banks ("G-SIBs") and July 1, 2020 for all other Covered FBOs). We understand that, for purposes of the U.S. SCCL, the first such filing of the Home Country SCCL Certification and the Home Country SCCL Reports would be required at the first quarterly filing of the FR 2590 and FR Y-7Q, respectively, after these effective dates.

As one example, in Japan a proposal to modify the Japanese large exposure regime beyond changes made at the time of the consultative phase of the Basel Large Exposures Framework is expected in early 2019, with finalization of the rule not likely to take place until 2020 or 2021. In Europe, the CRR includes large exposure limits that also generally reflect the Basel Committee's 2013 consultation to implement a large exposures framework. A legislative process is currently underway to bring these requirements in the CRR into closer alignment with the final Basel Large Exposures Framework through the adoption of revisions that have an anticipated effective date of 2021.

It would be needlessly punitive to require a Covered FBO that experiences a brief gap in the timeframes for finalization and implementation of updated large exposure regimes at home, to invest in establishing SCCL reporting systems and processes for its combined U.S. operations solely to cover this gap period. In the period leading up to full implementation of a large exposures framework, the resources of a Covered FBO are constrained, in practical terms, by implementation of compliance infrastructure on a consolidated basis. Requiring Covered FBOs to build up parallel capacity to comply with the U.S. SCCL for a brief period while they are preparing to comply with their home country large exposures frameworks, or updates thereto, as the case may be, would impose duplicative costs that are unnecessary. The affected banking organizations are already making the modifications to their operations necessary to comply with large exposures frameworks consistent with the Basel Large Exposures Framework, even if the date by which compliance and reporting commences differs from that of the U.S. SCCL. Moreover, as the Board is aware, the home country jurisdictions of most, if not all, of the largest Covered FBOs instituted large exposures limits even prior to the adoption of the Basel Large Exposure Framework in its current form.[28] As a result of these existing safeguards, there is little risk of exposures exceeding new internationally agreed thresholds.

---

[28] See, e.g., European Union (see Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, Art. 387-403); United Kingdom (see Prudential Regulation Authority, Prudential Rulebook: Large Exposures (current as of June 29, 2018); Prudential Regulation Authority, Supervisory Statement (SS16/13) Large exposures (Dec. 2013; rev. June 2018); Prudential Regulation Authority, Policy Statement (PS14/18 (June 2018)); Switzerland (see FINMA Circular 2013/7 "Intragroup exposure – banks" and Circular 2019/1 "Risk diversification – banks" (effective as of Jan. 1, 2019)); Canada (see OSFI Guideline B-2, Large Exposure Limits (Dec. 1994)); Australia (see Prudential Standard APS 221 (updated effective January 2019)); China (see IMF, Peoples Republic of China: Detailed Assessment of Observance of Basel Core Principles for Effective Banking Supervision, IMF Country Report No. 17/403 (Dec. 2017)); Japan (see IMF, Japan: Financial Sector Stability Assessment Update IMF Country Report No. 17/244 (July 2017)).

To accommodate differences in timing, we request that the Board clarify that a Covered FBO whose home country jurisdiction is in the process of updating a large exposures framework, in part to be consistent with the Basel Large Exposures Framework, may nevertheless check the Home Country SCCL Certification box on the FR 2590 to indicate that its home country is "working towards" such a framework. The Board has recognized the utility of a "working towards" standard in other contexts involving FBOs, and such a standard is equally appropriate here to avoid imposing undue burden on Covered FBOs as a result of a short gap in regulatory alignment that is outside of their control.[29] Moreover, such an approach would be consistent with efforts to "avoid subjecting an FBO to duplicative SCCL standards,"[30] one of the motivations behind permitting Covered FBOs to provide the Home Country SCCL Certification. As noted above, requiring Covered FBOs to build up the capacity to comply with the U.S. SCCL for a brief gap period would impose duplicative costs on affected banking organizations that are greatly disproportionate to any potential interim benefit.

If the Board does not clarify that Covered FBOs may provide their Home Country SCCL Certification on a "working towards" basis, we urge the Board to issue an order granting temporary relief to Covered FBOs affected by any implementation gap. Such an order would allow Covered FBOs to avoid incurring the unnecessary costs of implementing the U.S. SCCL with respect to their combined U.S. operations during the gap period. The order should apply to any Covered FBO whose home country jurisdiction is known to the Board to be working towards a large exposures framework consistent with the Basel Large Exposures Framework.[31]

We urge the Board to provide the IIB and our members with timely notice of its determination regarding our request (or to issue timely an order, FAQ or general interpretation). At the current time, this issue has taken on greater urgency, as institutions prepare their budgets for next year. Therefore, in order to understand SCCL regulatory obligations, we respectfully request that FBOs receive notice in November or December 2018 of the Board's determination. It would be inefficient for our members to initiate extensive implementation projects for their combined U.S. operations that are later made unnecessary by the Board's determination. However, if our members delay implementation of the SCCL Rule's requirements and the Board ultimately declines to grant the requested relief, the effectively shortened implementation period will impose a significant burden on any Covered FBOs that have waited, reasonably, to receive confirmation from the Board regarding their ability to rely on the SCCL Rule's certification procedure. Depending on when the Board provides information regarding its approach to the Home Country SCCL Certification during any implementation gaps, the Board should grant an extension of the SCCL implementation period for any Covered FBO affected by the Board's refusal of a working towards certification or temporary relief.

---

29 See Regulation K, 12 C.F.R. § 211.24(c)(1)(iii)(A)(1).

30 83 Fed. Reg. at 38490.

31 A possible reference point for understanding progress may be the Basel Committee's annual reports regarding implementation of its regulatory framework. See, e.g., Basel Committee, Fourteenth progress report on adoption of the Basel regulatory framework (Apr. 2018).

The Board could make this clarification in the instructions to the FR 2590, in the final preamble for the FR 2590 or in an order, but should do so expeditiously, as requested above.

V. Elements Required on the Proposed FR 2590 Should Be Revised to Eliminate Requests for Unnecessary Information

The proposed FR 2590 requires far more detailed information than is necessary to monitor compliance with the SCCL. We urge the Board to revise the following FR 2590 data collections appropriately:

- The requirement to provide detailed information regarding a Covered Firm's top 50 counterparties is unduly burdensome for respondents. Under the Basel Large Exposures Framework, reporting would be required only for the largest 20 counterparty exposures and for those exposures that exceed 10% of the applicable capital base.[32] Requiring reporting of a Covered Firm's top 50 counterparties is unnecessary for the Board to assess compliance with the SCCL Rule. FBOs will be subject to more "layers" of large exposure limits than their domestic BHC counterparts, and consistency with the expected international implementation of the Basel Large Exposures Framework is both appropriate and sufficient.

- Reporting of exempt counterparties, and listing their status, should not be required when exposures to such counterparties are not subject to the SCCL (General Information on Counterparties, Column D).

- Schedule G-2 (Repurchase Agreement Exposures) requires detailed information on the maturity and risk weights of instruments involved, and Schedule G-3 (Securities Lending Exposures) requires detailed maturity information. While such factors may be relevant to an institution's chosen calculation methodology, the resulting exposure should be the only relevant figure necessary to include in the report.

- Schedule G-4 (Derivatives Exposures) requires a product type break-out that is not relevant for SCCL purposes, other than with respect to credit and equity derivatives.

- Schedule M-1 (Eligible Collateral) requires granular information about the risk weight of the collateral, which is not relevant to the SCCL beyond the distinction between 0% risk-weighted sovereign exposures and non-0% sovereign risk-weighted exposures.

VI. Covered IHCs Should Be Permitted to Use Internal Models to Measure SFT and Derivative Exposures

As the FR 2590 raises the issue of calculation methodology and reporting, we request that the Board permit Covered IHCs (if any IHCs are determined to be covered pursuant

---

[32] See Basel Large Exposures Framework at para. 15.

to the review described in Section II above) to use internal models for calculating SFT and derivative exposure.

Internal models are available only under the advanced approaches in the Board's capital rules. Most IHCs are not subject to, or have opted out of, the advanced approaches due to the additional compliance burden.[33] Therefore, there is no provision in the SCCL Rule that permits Covered IHCs to calculate SFT or derivatives exposure using internal models, such as models approved by their FBO parent's home country supervisor. However, requiring Covered IHCs to adopt the U.S. advanced approaches in order to use internal models for calculating SFT and derivatives exposure would impose an undue compliance burden disproportionate to the benefit from using models solely for SCCL purposes.

The Board should permit Covered IHCs to use models approved by the home country regulators of their parent FBOs or, alternatively, to provide for such models to be vetted by the Board for use in Covered IHCs' compliance with the SCCL in the United States. In the absence of a procedure for obtaining approval to use models, a Covered IHC would be required to use the current exposure methodology ("CEM"), which international regulators have acknowledged is not sufficiently risk-sensitive and overstates exposure.

Adoption by the Board of the Basel Committee's Standardized Approach to Counterparty Credit Risk ("SA-CCR"), prior to the implementation dates of the SCCL, could help soften the disparate treatment of BHCs and Covered IHCs. Most IHCs now use CEM to measure derivatives exposure (required for IHCs that do not use advanced approaches), whereas all BHCs subject to the SCCL would use the advanced approaches and may measure exposure using internal models. We urge the Board to correct this disparate treatment prior to the implementation and compliance dates for the SCCL.

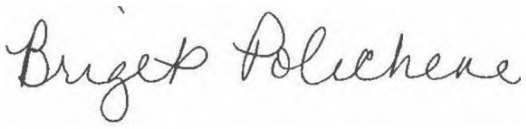
Moreover, we note that the SCCL Rule's permitted use of internal models to measure SFT and derivative exposure represents a divergence from the Basel Large Exposures Framework, which currently requires SFT and derivative exposure to be calculated using non-model methods such as the SA-CCR. Regulatory requirements agreed upon by the Basel Committee should be implemented in such a way as to entail consistent outcomes across various jurisdictions and in a manner not disadvantageous to banks operating in host countries. In order to ensure that the SCCL Rule does not undermine the Basel capital framework's objective of establishing a global level-playing field, we urge the Board and the other federal banking agencies to advocate within the Basel Committee for revisions to the Basel Large Exposures Framework to permit the use of internal models to measure SFT and derivative exposure (in addition to the SA-CCR) when determining compliance with large exposures limits.

* * *

[33] In contrast, by definition, domestic BHCs with greater than $250 billion of total consolidated assets should be using advanced approaches or at least be operating under parallel run of advanced approaches. Therefore, the effect of the final SCCL Rule is almost exclusively disadvantageous to Covered IHCs.

We appreciate your consideration of our comments. Please contact the undersigned (646-213-1147; bpolichene@iib.org), if we can provide any additional information.

Sincerely,



Briget Polichene
Chief Executive Officer

cc: Chairman Jerome H. Powell
Vice Chairman Richard H. Clarida
Vice Chairman Randal K. Quarles
Governor Lael Brainard
Michael S. Gibson
Mary L. Aiken
Kwayne Jennings
Mark E. Van Der Weide