Morgan Stanley

September 30, 2019

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

Re: CCAR Reporting (Non-CECL) Proposal (OMB control number 7100-0341)

Ladies and Gentlemen:

Morgan Stanley appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's (the "**Board**") proposed changes to its FR Y-14 series reporting forms.[1] We support comments on this topic submitted by the Bank Policy Institute but are submitting our own comment letter to highlight issues of particular concern.

FR Y-14A / Schedule A.1.d

We support the Board's proposed change to the FR Y-14A, Schedule A.1.d (Capital) to require firms to report both (i) the initial starting value of assets subject to deduction and (ii) the adjusted value of such assets after application of the Global Market Shock ("**GMS**"). In current practice, it is unclear how the Board calculates deduction values in firms' projected stress period capital ratios. The proposed clarification in FR Y-14A reporting forms would permit the Board to calculate post-stress loss capital ratios using post-stress loss deduction values. Calculating post-stress loss capital ratios with pre-stress loss deduction values, by contrast, results in a double-count, since the same deduction-eligible assets are potentially subject to two unreconciled stress loss assumptions: initially in the GMS, and a second time when deducted from post-stress loss capital, which has lower deduction thresholds reflecting the effect of stress losses on a firm's capital base.

While we welcome the Board's proposed change in FR Y-14A reporting forms, we believe that the treatment of GMS-covered, deduction-eligible assets in post-stress loss projected capital ratios is a significant policy question that should be separately clarified publicly by the Board. In addition to adopting this reporting form change, we encourage the Board to clarify, potentially through a policy statement amendment or public FAQ response, how it incorporates post-stress loss deduction values when calculating post-stress loss regulatory capital ratios in the projection period of the Board scenario.

FR Y-14A / Schedule A.7.b

We recommend that the Board postpone its proposed elimination of the 25 percent deposit funding threshold for Net Interest Income ("**NII**") reporting in the FR Y-14A, Schedule A.7.b until December 31, 2020 and to consider whether elimination of the current reporting threshold is necessary at all. While the Board recently revised the FR Y-14Q to require all firms to report actual NII data,

[1] 84 Fed. Reg. 37,292 (Jul. 31, 2019).

irrespective of any deposit liability threshold, including NII estimates in FR Y-14A projections requires a different set of internal controls and model validations that would be difficult to achieve by the proposed December 31, 2019 reporting date. We believe that a one-year delay in the elimination of the deposit liability cap would facilitate an orderly transition for newly covered firms and permit internal governance processes, including incremental model development, review and validation, consistent with the Board's expectations.

We also believe that there are valid policy considerations that would support maintaining the current NII threshold permanently in FR Y-14A reporting. The Board already receives NII projection data from firms above the threshold, which covers the vast bulk of deposit liabilities across FR Y-14A-reporting firms, and it is unclear whether expansion of NII projection period reporting to the remaining firms will meaningfully improve the Board's data analytics or modeling.

FR Y-14Q / Schedule L

The Board has also proposed to expand the scope of counterparties covered by Credit Valuation Adjustment ("**CVA**") reporting in the FR Y-14Q to include all counterparties. Currently, the Board only requires firms to report CVA data with respect to the top 95 percent of counterparties. Our estimates indicate that expansion of CVA reporting to cover all counterparties would involve an approximately 30-fold increase in CVA field data reporting in the FR Y-14Q, subject to assumptions on required counterparty-level granularity. This reporting burden is driven by the fact that firms have voluminous *de minimis* counterparty relationships that result in calculable CVA, even if such CVA is immaterial to firms' overall risk management. While we believe that the operational burden of reporting all CVA counterparty data outweighs the supervisory and modelling benefits, particularly since aggregate CVA data is included in firms' regulatory capital calculations, if the Board ultimately elects to require all CVA counterparty data, we respectfully request that this reporting change not take effect without granting firms appropriate time to build the necessary systems to support expanded FR Y-14Q reporting.

We believe that there are two other relevant considerations that impact a potential expansion in FR Y-14Q CVA reporting. First, firms generally rely on third-party vendors to submit FR Y-14Q data to the Board. We encourage the Board to confirm that these vendors have sufficient capacity to process an exponential increase in CVA data volumes before finalizing any expanded reporting requirements. Second, to the extent the Board seeks to collect more granular counterparty-specific CVA data, the Board could require firms to report both unstressed and stressed CVA values for the top 95 percent of counterparties. This approach would avoid the substantial reporting burden of an immediate expansion of CVA data to cover all counterparties while enriching the CVA data received by the Board for firms' material counterparty relationships.

For these reasons, we recommend that the Board consider:

- Maintaining the current scope of FR Y-14Q CVA reporting to the top 95 percent of counterparties, while potentially expanding such reporting to include both unstressed and stressed CVA values;

- In the event that the Board requires full CVA counterparty data to be reported in the FR Y-14Q, permitting adequate implementation time, which we believe would be at least

120 calendar days between publication of final FR Y-14Q instructions and the reporting as-of date of the impacted FR Y-14Q report; and

- Clarifying that any expansion of CVA reporting obligations applies at the counterparty legal entity level, rather than the more granular netting set level, as the former would be more efficient and would provide the Board with aggregate CVA data for any specific counterparty relationship.

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Morgan Stanley appreciates the opportunity to provide comments to the Board. Please do not hesitate to contact us if you have any questions.

Sincerely,

Sebastiano Visentini

Sebastiano Visentini
Managing Director