JPMorgan Chase & Co.

Via Electronic Mail

August 21, 2019

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

Re: Proposal to Extend for Three Years, With Revision, the Capital Assessments and Stress Testing Reports (FR Y-14A/Q/M; OMB No. 7100-0341) - Non-Current Expected Credit Loss (CECL) Methodology Revisions

Ladies and Gentlemen:

JPMorgan Chase & Co. (JPMC or the Firm) appreciates the opportunity to comment on the proposal by the Board of Governors of the Federal Reserve Board System (the Board) that would extend for three years, with revision, the Capital Assessments and Stress Testing Reports FR Y-14A/Q/M.

JPMC commends the Board's recognition of the reporting burdens currently imposed by the FR Y-14A/Q/M reports and effort to continually improve and streamline the reports. This notice of proposed information collection (NPIC) contains multiple changes to the instructions that address questions raised by JPMC through the frequently asked questions process. We strongly support the Board's continuous work to improve the report instructions.

The Board has requested comments by September 30, 2019 while also proposing to implement these revisions as of September 30, 2019. Under the Paperwork Reduction Act (PRA), the Board is required to "consult with members of the public . . . concerning each proposed collection of information."[1] The purpose of such required consultation is, in part, to "solicit comment to . . . evaluate the accuracy of the [Board's] estimate of the burden of the proposed collection of information."[2] The PRA further requires that the Board "evaluate[] the public comments received" regarding an information collection "in advance of the adoption or revision of [a] collection of information."[3] Because the Board proposes to adopt the changes contemplated in the NPIC on the very same date by which it has solicited comments, it is not clear how the Board intends to fulfil its obligation to evaluate these comments in advance of adopting changes to the FR Y-14 reporting instructions as required by the PRA. The changes contemplated in this NPIC will have significant business implications, and JPMC believes that the Board has not properly estimated the burden that will result from these changes. Specifically:

[1] *44 U.S.C. § 3506(c)(2)(A).*
[2] *Id.*
[3] *Id. at § 3507(a).*

- The NPIC proposed a number of deletions, additions of new items, and expansion of schedules and sub-schedules. Such changes require business evaluation, system logic design and changes including proper user acceptance testing (UAT). UAT is a critical component of change management control to reduce operational risk around reporting to an acceptable level. If UAT is not done appropriately, it can significantly increase the firm's operational risk and potentially compromise data quality. Since FR Y-14Q and FR Y-14M are used as inputs to the Board's Comprehensive Capital Analysis and Review (CCAR) exercise, the potential compromised data can pose risk to the Board's CCAR stress testing results.
- As this NPIC is still in proposed form pending feedback from the industry, it's difficult for JPMC to commence the change process until the instructions are finalized and technical instructions are received. The NPIC process typically offers banks 60 days to provide comments and additional time for implementation after the Board finalizes the information collection. The current proposed timeline of September 30, 2019 does not allow for this complete cycle for assessment and implementation including UAT.
- The NPIC contains language that is ambiguous and that can impact the scope of the reporting. Implementation of these requirements is not feasible without additional clarification.
- Certain proposed new items are related to implementation of the CECL methodology, which has effective date of January 1, 2020. The information will not be fully available as of September 30, 2019 since the CECL implementation is still in progress.
- Technical instructions are generally distributed well in advance of reporting date to enable the technology teams to update the data submission systems and XML templates in order to submit accurate data to the Board. JPMC will not have adequate lead time to code our systems and run tests to ensure the accuracy of new data elements proposed in this NPIC.
- There is significant vendor risk with both our regulatory reporting software vendor and our data aggregators who require necessary lead time as part of their change management processes. Vendors require final rules and instructions (including technical instructions). Necessary lead time is especially important for changes that are significant increase to original scope and volume (i.e., FR Y-14Q Schedule L).

FR Y-14A/Q Reports

We propose that the earliest implementation of the proposed changes for the FR Y-14A and FR Y-14Q should be as of December 31, 2019, with the exception of FR Y-14Q Schedule L, which we propose should be an implementation date of June 30, 2020 subject to receiving final instructions. This will allow JPMC to identify appropriate solutions for sourcing data, as well as updating, testing, and validating systems in a controlled fashion prior to going live. It is our experience that a minimum of three months is required after rules or instructions are final to update manual templates and automated processes and develop or enhance controls to ensure accurate reporting.

For FR Y-14Q Schedule L, the significant increase in both scope and volume will likely require a new system or IT solution, making it difficult to fully implement by March 30, 2020, thus we propose extending the deadline to June 30, 2020. A timeframe of June 30, 2020 will better provide us with the necessary time to implement these new reporting requirements and be able to provide the Board with the information in compliance with JPMC's External Reporting Control Framework. Meanwhile, we commend the Board on conducting an evaluation of the need for such significant increase in reporting burden.

For FR Y-14Q Schedules H and L, we commend the Board on establishing a formal process to collect internal ratings to improve data quality and consistency of reporting by collecting needed attributes to allow for accurate mappings to benchmarks.

We provide several examples to highlight the complexity and the related challenges to implement the proposed new reporting requirements in the FR Y-14A/Q reports[4] that support JPMC's proposed implementation timeline and approach:

1) FR Y-14Q, Schedule A Retail:
    a. The proposal to add a new category segment to the existing Original Commercially Available Credit Bureau Score or Equivalent field (Segment Variable 4) will require recoding of systems to ensure that we report accurate data for all applicable auto loans.
    b. Draft instructions in the non-CECL NPIC contain changes that are related to CECL, which should be implemented when the firms fully implement CECL in 2020. The Board proposes to add a segment-level summary variable to the A.1 – A.10 (Retail) to collect information on the weighted average life (WAL) of loans. Additional clarification is required on the WAL instruction that "it should reflect the weighted average of time to principal actual repayment (as modeled) for all positions in the segment, rounded to the nearest monthly term." It is not clear how to calculate a WAL at the segment level. Additionally, the life of the loan is necessary for calculating losses under CECL and is still a work-in-progress as part of the CECL implementation.
2) FR Y-14Q, Schedule F:
    a. Clarification is required to define what constitutes a FVO loan hedge. The 4Q18 Special Data Collection instructions provide explicit examples of what is included and excluded, but the draft instructions do not provide such detail.
    b. Clarification is required regarding the breakout of fair value (FV) and non-FV private equity investments. Please confirm that the intended population for the section titled "(A) Investments Reported at FAIR VALUE" consists of 1) investments required to be held at fair value or where fair value option (FVO) has been elected and 2) fund positions measured at NAV regardless of accounting treatment. In addition, the Firm suggests removing non-FV investments (e.g. Private Equity, Tax Equity) from FR Y-14Q schedule F, as the macro scenario is more appropriate for capital planning purposes for these positions.
    c. The changes to MDRM definitions and design of sub-schedule F.24 will require system configuration and updates. While not extensive, these updates will require technical instructions and updated data definitions to be provided well in advance (a minimum of four weeks after the final changes are released) in order for changes to be implemented and tested.
3) FR Y-14Q, Schedule H:
    a. The changes to the MDRM definitions will require system reconfiguration. The addition of the two new sub-schedules including H.3 Line of Business and H.4 Internal Risk Rating Scale and new addition of four new fields will require system development.
    b. We commend the Board on establishing a formal process to collect internal ratings to improve data quality and consistency of reporting. In order to ensure the new process allows for accurate mappings to benchmarks, JPMC strongly recommends additional attributes to better inform the Board of the bank's internal risk ratings. The proposed free form text field for a description of the internal rating will not sufficiently provide the Board the context that is needed to understand

[4] The list above is not intended to be comprehensive but is provided with the intent to illustrate the complexity and challenges.

JPMC's internal ratings. We believe the new schedule should include internal ratings and corresponding PD%, as well as the equivalent external PD% and corresponding rating. Additionally, if the external equivalent rating is not requested to be provided in Schedule H.4, then JPMC would recommend that the Board places in the FR Y-14A or 14Q instructions that a rating agency equivalent PD or the Board's own standardized PD and rating scale be provided, as the European Banking Authority does, with guidance for it to be standardized across the industry. Finally, the request for this table appears to be specific to Schedule H. Schedule L also reports an internal and external rating equivalent factor. Therefore these should be consistent across the two schedules.

4) FR Y-14Q, Schedule L:
    a. The proposed change to the scope and granularity of the firm's reporting of CVA related data fields from the top 95 percent to all counterparties at the legal entity level on the sub-schedules L.1, L.2, and L.3 will add significant burden to the firm's reporting. For example, the total number of counterparties for JPMC can increase 30 times. The total number of the records or data points can increase 20 times. This significant increase in reporting burden should be further evaluated based on the right balance between the Board's need for incremental view in assessment of stressed risks and determination of loss estimates vs. the level of efforts needed from the firms. Due to the significant increase in reporting volume, the current technology solution will need to be assessed for its capacity. If the current tool cannot handle the additional volume, JPMC would need to further implement an enhanced or new system solution. Additionally our vendor's capability to handle the increase in volume at such scale has not been tested.
    b. The proposal requires reporting of derivatives and fair valued securities financing transactions (SFTs) in CVA items in sub-schedules L.1 through L.4. As a result of CECL, the firms have the one-time option to elect FVO for certain financial assets including SFTs, which JPMC is currently reviewing. Therefore, the implementation of this change should be aligned with CECL implementation.
    c. Clarification is needed on additional areas including scope (whether the population is intended for only counterparties with CVA or all counterparties), definitions of "Netting Set ID" (whether it is intended to be the same granularity as L.5) and "Trades Not Captured," and clarity surrounding reporting structure if including derivatives and SFTs in the same data set.

FR Y-14M Report

We propose that the implementation date for the FR Y-14M should be March 31, 2020. The NPIC contains languages that would require additional clarification from the Board, which can impact the scope of reporting. We believe that firms, including JPMC, typically need at least three months after a final notice is published to re-configure their systems and perform necessary testing and validation. Meanwhile, JPMC prudently maintains a practice of materially limiting software updates between December 15 and January 15, which is designed with the intention for year-end reporting to be conducted in a controlled environment. Moreover, finalization of changes near year-end requires firms to make system updates in the midst of major year-end reporting (e.g., Form10-Ks, Call Reports, and FR Y-9s) and year-end software update limitation. These obstacles are relevant for even seemingly simple changes, such as deletions. For JPMC, it is not solely a matter of not reporting a line item, as the data gathering process remains in place and requires a revision to internal reporting templates and processes. Given we have a more automated process, even minor changes to the FR Y14A/Q/M entail completing and documenting maintenance on all templates. The March 31, 2020 timeline would allow JPMC to update, test, and validate systems in time to begin data collection. This is of particular importance for incorporating changes to the transactional data.

We provide a few examples to highlight the complexity and the related challenges to implement the proposed new reporting requirements in the FR Y-14M report[5] that support JPMC's suggested implementation timeline and approach:

a) The Board proposes the elimination of 27 fields, addition of 4 fields, and modification of instructions to another 37 fields. All changes will require significant system reconfiguration. Substantial UAT tests will be required for these voluminous transactional schedules.

b) The Board proposes to update the instructions to schedules A and B to indicate that in the case of involuntary terminations, loans should be reported for up to 24 months following termination until the data in the four loss severity fields are available to report. It is not clear whether this change from 12 months to 24 months should be applied prospectively or retroactively. There are different implications for each possibility, which can have a significant impact to the scope.
   i. Prospective
      1. Should it only be applied to accounts where the event (i.e., charge off and involuntary termination) occurred in the first month after the revisions become effective?
      2. How should we report accounts where the event occurred 12 month prior to the NPIC effective date?
   ii. Retroactive
      1. Should the Firm include accounts where the event occurred 24 months prior to the NPIC effective date?

c) The Board proposes to update the instructions to schedule D lines 17 and 18, which are for Managed and Booked Recoveries. However, the updated instructions include languages about charge-offs, which might be an oversight. The confirmation and revision from the Board is required for the implementation.

JPMC appreciates the opportunity to provide these comments. We would be pleased to provide any further information or respond to any questions.

Respectfully submitted,

Carl McKay
Managing Director
Head of Firmwide Regulatory Reporting & Analysis

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