



January 23, 2020

Via Electronic Mail

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

Re: Supplemental Comments to Capital Assessments and Stress Testing Reports (FR Y-14A/Q/M; OMB No. 7100-0341)

Ladies and Gentlemen:

The Bank Policy Institute¹ is writing to provide additional views and requests for clarification with respect to the Board of Governors of the Federal Reserve System's final notice adopting the changes to the Comprehensive Capital Analysis and Review ("CCAR") FR Y-14 reports ("Final Notice").²

BPI appreciates that the Federal Reserve considered many of the comments made in our prior letter.³ In view of the significant number of revisions adopted in the Final Notice and the Federal Reserve's acknowledgement of the need to provide technical instructions "in a timely manner,"⁴ we respectfully request that the Federal Reserve release the CCAR 2020 technical instructions as early as possible. A prompt release would give firms sufficient time to adjust internal systems to accommodate these changes and avoid operational challenges.

We note that the Final Notice provides in relevant part that "[t]he Board proposed to revise the instructions to the FR Y-14A to provide guidance on how firms should reflect the impact of the 'global market shock' on items subject to adjustment or deduction from capital"⁵ and "is now requiring firms to adjust their capital deductions to reflect the impact of the global market shock in order to make their capital calculation further reflect post-stress values."⁶ The Federal Reserve also rescinded FAQ SHK0030 in connection with the Final Notice, which had expressed a contrary view. We believe that rescission of FAQ SHK0030 and the new guidance provided in the Final Notice have two related consequences for firms' FR Y-14A reporting as of December 31, 2019:

¹ The Bank Policy Institute is a nonpartisan public policy, research and advocacy group, representing the nation's leading banks and their customers. Our members include universal banks, regional banks and the major foreign banks doing business in the United States. Collectively, they employ almost 2 million Americans, make nearly half of the nation's small business loans, and are an engine for financial innovation and economic growth.

² 84 Fed. Reg. 70529 (December 23, 2019).

³ See BPI, *Comment letter Re: CCAR Reporting (Non-CECL) Proposal (OMB control number 7100-0341)*, September 23, 2019, available at <https://bpi.com/wp-content/uploads/2019/11/CCAR-Reporting-Non-CECL-Proposal-OMB-control-number-7100-0341.pdf> responding to the July 2019 proposal from the Federal Reserve, 84 Fed. Reg. 37292 (July 31, 2019).

⁴ 84 Fed. Reg. 70529 at 70532.

⁵ Id.

⁶ Id.

- First, capital deductions reported in relevant FR Y-14A Schedule A.1.d. fields should reflect losses in these assets attributable to the global market shock. For example, in Item 34, firms would report capital deduction amounts that reflect reductions in carrying values attributed to the global market shock, and such adjusted amounts would be used to calculate applicable deductions in the nine-quarter projection period.
- Second, for purposes of calculating projected capital, leverage, and risk-weighted asset values in the nine-quarter projection period, firms would similarly adjust deduction-eligible asset values in relevant FR Y-14A Schedule A.1 fields to reflect losses attributable to the global market shock. For example, in Item 67 of Schedule A.1.d., firms would report specified deduction-eligible asset amounts that reflect reductions in carrying values attributed to the global market shock, and these adjusted amounts would be used to calculate both balance sheet and risk-weighted asset values in the nine-quarter projection period.

While the first consequence is explicitly discussed in the Final Notice, the second is a consequence of the Federal Reserve's rescission of FAQ SHK0030, which stated that "firms should not assume a related decline in portfolio positions *or risk-weighted assets* as a result of global market shock losses."⁷ These two consequences are also directly aligned with each other: since capital deductions only apply when deduction-eligible asset values exceed specified thresholds, and asset values below thresholds are subject to risk-weighting, applying global market shock adjustments to capital deduction calculations, balance sheet, leverage and risk-weighted asset calculations for applicable assets is logical to ensure consistent starting values are used for these calculations.

We would be pleased to discuss this interpretation further with Federal Reserve staff if this interpretation of the Final Notice does not comport with the intent of the Federal Reserve in including these changes in the Final Notice.

We also observe that the FR Y-14A, Q, and M reports currently do not clearly provide a securitization category in the Profit/Loss and Balance Sheet schedules for held-for-investment ("HFI") loans. This means that reported loans that qualify as securitization exposures, are categorized within Commercial and Industrial ("C&I") loans or Other Loans (FR Y-14A Summary Schedule, Income Statement - A.1.a - line item 35), which suggests that they are treated like C&I loans or Other Loans when the Federal Reserve calculates stressed losses under CCAR. Given the typical senior, high-quality nature of these exposures, stressed losses should be small relative to C&I loans. There are additional reporting fields that allow for these facilities to be flagged as "Asset Securitizations," but there is currently no ability for filers that prefer to provide additional information that could be used by the Federal Reserve to calculate stressed losses more accurately. We therefore request that the Federal Reserve provide firms with the option to complete additional data fields that would allow the Federal Reserve to more appropriately calculate stressed losses on these exposures for such firms. The Federal Reserve should add optional categories in the HFI loan schedules that allow for these exposures to be reported as securitizations with categories that separately identify asset class, whether senior or non-senior, and attachment and detachment points (credit enhancement); we respectfully suggest that such additional fields for electing firms would allow the Federal Reserve to improve the accuracy of its modeling for these exposures for those firms for which these exposures are a meaningful component of their business model, thus justifying the additional reporting burden.

Similarly, banks can and do purchase first-loss or other subordinated credit protection from third parties referencing an on-balance sheet portfolio of loans (e.g., residential mortgage loans or C&I loans) via credit default swap, an issued credit linked note, or a consolidated securitization transaction. This purchased protection is specifically structured to limit losses on any senior tranches retained by the bank purchasing the protection. We respectfully submit that currently the FR Y-14Q and M reports do not provide filers with the ability to present data that would allow the supervisory models to capture the benefit of this tranching purchased credit protection on modeled losses for the underlying loan portfolio. Therefore, we further request that the Federal Reserve provide firms with the option to complete additional data fields in the relevant loan schedules (FR Y-14M A.1 and FR Y-14Q H.1) that would allow the Federal Reserve to more appropriately calculate stressed losses on these loan portfolios. To improve the accuracy of its modelling for these exposures, the Federal Reserve should add optional categories that would capture data on (a) loan portfolios with tranching credit protection; (b) the amount and nature of non-pro rata

⁷ Id (emphasis added).

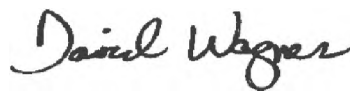
protection purchased; (c) whether securitization capital treatment has been applied; and (d) the amount of subordination (i.e., attachment and detachment point). As with the request above, our request for the Federal Reserve to allow reporting for these additional data fields is on an elective basis because such additional reporting would create additional burden not justified by any offsetting benefit for those firms for which such exposures are not a meaningful component of their business models.

Our technical recommendations and requests for clarification are contained in the attached Appendix A.

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BPI appreciates the opportunity to provide supplemental comments on the Final Notice. If you have any questions, please contact the undersigned by phone at 646.736.3958 or by email at David.Wagner@bpi.com.

Respectfully submitted,



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Appendix A

❖ FR Y-14Q, Schedule F

- In the FR Y-14Q Schedule F Template effective as of December 2018, non-tax credit exposures related to Community Reinvestment Act (“CRA”) investment activity are included in the real estate category. With the Final Notice adopting the form change updating the Global Industry Classification Standard (“GICS”) structure, we suggest that CRA investments be reported in a new line at the bottom of Schedule F.25 (Other FV Assets) below the GICS section. We respectfully submit that combining CRA investment exposures with other types of real estate activity is not optimal, as it may cause divergence in treatment between Board and BHC scenarios, where different shocks may be applied to components of real estate portfolios. These public welfare investments have demonstrated significantly different behavior in stress scenarios than other types of real estate investments.
- The instructions for the FR Y-14Q state that Schedule F is designed to capture “Trading Book assets ... which are reported as trading securities on the FR Y-9C report” and reference the instructions provided in Schedule HC-D of the FR Y-9C. Although the instructions refer to only “assets which are reported as trading securities,” the Federal Reserve should confirm that Schedule F includes both assets and liabilities reported on FR Y-9C Schedule HC-D, as well as the following products which are not reported on Schedule HC-D:
 - exchange-traded Futures (receivables and payables are reported in the FR Y-9C Schedule HC-F and Schedule HC-G respectively);
 - Fair value option elected hybrid liabilities (reported in FR Y-9C Schedule HC on Line item 13, Deposits, Line item 16, Other borrowed money and Line item 19, Subordinated notes and debentures); and
 - other FVO elected assets and liabilities e.g., Repurchase agreements, etc.

❖ FR Y-14M, Schedule B.1

- The Federal Reserve should clarify whether “Charge-Off” in the new fields for “Charge-Off Amount” and “Charge-Off Date” means financial charge-offs (where the principal amount is charged off) or the operational charge-offs which have partial charge-off amounts as well, or both. Also, the Federal Reserve should confirm the MDRMs for the two new line items (#118 and #119).