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

Re: Notice of Proposed Rulemaking Regarding Amendments to Capital Planning and Stress Testing Requirements for Large Bank Holding Companies, Intermediate Holding Companies and Savings and Loan Holding Companies: Docket Number R-1714 and RIN 7100-AF95

Dear Ms. Misback,

UBS appreciates the opportunity to comment on the notice of proposed rulemaking[1] (the "Proposal") issued by the Board of Governors of the Federal Reserve System (the "Federal Reserve") to tailor the requirements of the Capital Plan Rule. UBS broadly supports the Board's efforts to align its Capital Plan Rule with the revised framework implemented through the Tailoring Rule (12 CFR 252 or Regulation YY).

We are encouraged by the Federal Reserve's efforts to streamline its capital adequacy framework that effectively recognizes the risk profile of large banking organizations in a meaningful manner and reduces undue compliance burdens. Furthermore, we are supportive of the Federal Reserve's initiative to seek comment on all aspects of its capital plan guidance for supervised firms.

In addition to this letter, UBS has participated in the comment letter processes undertaken and supports the issues raised by the Institute of International Bankers, the Bank Policy Institute and the Securities Industry Financial Markets Association. Of particular note, we are supportive of proposals addressing the alignment of capital planning guidance with the finalized Stress Capital Buffer Rule; amendments to the design and methodologies supporting the Global Market Shock (GMS) and Large Counterparty Default (LCD) stress tests; and the need for greater recognition of the unique business models of foreign bank-owned intermediate holding companies operating in the United States.

In this letter, we have focused our comments on responding to the Proposal's Question 15[2] with particular emphasis on the applicability of SR 15-18 (*Federal Reserve Supervisory Assessment of Capital Planning and*

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[1] 85 Federal Register 63222 (October 7, 2020)

[2] 85 Federal Register 63227 – "*What if any changes should the Board consider with respect to the scope of application of its existing capital planning guidance and why? What if any considerations regarding firms' risk profile should be factored into the applicability of capital planning guidance and why? Factoring in the applicability of the Board's regulations, what if any aspects of the Board's capital planning guidance should be changed or tailored differently based on firms' risk profiles and why?*"

Positions for LISCC Firms and Large and Complex Firms) and the applicability criteria of the GMS/LCD stress testing finalized in 2017[3].

Applicability Criteria for SR 15-18

Given that the SR is over five years old and the risk profiles of covered firms at the time of issuance has changed, it is clear that the applicability threshold and terminology employed for SR 15-18 should be revised to a more appropriate level to align supervisory expectations, increased reporting requirements and the focus of supervisory resources with a given firm's risk profile as identified in the 2019 Tailoring Rule. Furthermore, the Federal Reserve should consider re-calibrating the thresholds for "large and complex" defined within the Capital Plan Rule to ensure a consistent approach between regulations and related guidance.

In 2015, this guidance was identified as applicable to firms that were either: (i) subject to the Federal Reserve's Large Institution Supervision Coordinating Committee (LISCC) framework or (ii) have total consolidated assets of $250 billion or more or consolidated total on-balance sheet foreign exposure of $10 billion or more. While the former is currently under a separate consultation issued by the Federal Reserve (e.g., the proposal would identify LISCC firms as those defined as Category I firms under the Tailoring Rule), the latter thresholds were the basis of applying the Advanced Approaches Capital Framework under Basel II to "large, internationally active banking organizations." Under the more recent Tailoring Rule amendments to Regulation Q[4] (Capital Adequacy), the threshold for applicability of the Advanced Approaches was raised to $700 billion in consolidated assets or $75 billion in cross-jurisdictional activity.

In 2016, the Federal Reserve introduced[5] the "large and complex" term within the Capital Plan rule as a firm that has total consolidated assets of $250 billion or more, on-balance sheet foreign exposure of $10 billion or more or nonbank assets of $75 billion or more. While the foreign exposure criterion was removed in the finalization of the Capital Plan Rule[6], the Federal Reserve retained the nonbank asset threshold. In the 2016 proposal, a range of nonbank assets between $50 billion and $125 billion were considered. With respect to the higher end of the range, the Federal Reserve noted,

> "Based on the current population of firms, a nonbank asset threshold of $125 billion would include the most complex U.S. bank holding companies with the largest derivatives trading and capital markets activities, but may exclude some bank holding companies with risk profiles that are significantly concentrated in riskier activities, particularly U.S. intermediate holding companies of foreign banking organizations that engage in significant capital markets activities. In particular, a threshold of $125 billion in nonbank assets would exclude companies that engage in equities trading, prime brokerage, and investment banking activities, and therefore have risk profiles that are more similar to those of the most complex U.S. financial firms than to the risk profiles of the smaller, less complex bank holding companies."

In making the determination to dispense with the higher threshold, the Federal Reserve's apparent objective was to ensure that the four foreign LISCC firms[7], at the time, would still be considered "large and complex." When the 2016 proposal was issued, these four IHCs had an average nonbank asset level of $172 billion; however, based on third quarter 2020 reporting, that average has declined to $108 billion. On the other hand, the six

[3] Proposal 82 Federal Register 26793 (June 9, 2017) and Final 82 Federal Register 59608 (December 15, 2017)
[4] 84 Federal Register 59230 (November 1, 2019)
[5] 81 Federal Register 67239 (September 30, 2016)
[6] 82 Federal Register 9308 (February 3, 2017)
[7] 82 Federal Register 9308 (February 3, 2017) – Footnote 4 which notes "Based on the current population of bank holding companies, all LISCC firms have total consolidated assets of $250 billion or more, on-balance sheet foreign exposure of $10 billion or more, or nonbank assets of $75 billion or more."

LISCC U.S. bank holding companies that are not defined as custody banks had an average nonbank asset level of $540 billion at the time of the proposal and are now $660 billion based on third quarter 2020 reporting.

Based on the above evidence, the Federal Reserve should, for CCAR 2021, revise the applicability of SR 15-18 to firms that meet the Tailoring Rule's Category I criteria to align with the proposed LISCC criteria and align expectations to firms that are systemically important relative to the U.S. economy and financial markets. Furthermore, given the outstanding GAO findings (dated April 16th 2020), the Federal Reserve should, as a longer term measure, revisit the expectations within its core capital planning guidance (e.g., SR 15-18 and SR 15-19) based on its supervisory experience gathered over the last five years and more effectively align guidance expectations with the categories defined within the Tailoring Rule. Subsequent to these revisions, the framework should be issued for public comment to solicit additional commentary from supervised firms.

Applicability Criteria for GMS/LCD Stress Tests

Through changes to the underlying criteria of its trading and counterparty credit risk reporting requirements in 2017, the Federal Reserve expanded the scope of coverage to include a number IHCs in the GMS/LCD stress tests. The expanded coverage was based on a revised threshold and a percentage of assets test (total trading assets and liabilities to total assets). The Federal Reserve should revisit the calibration of these thresholds to equally recognize the reduced risk profiles and asset sizes of these IHCs and further evaluate the cost/benefit relationship of the increased reporting requirements imposed on non-systemically important firms. Furthermore, the applicability of LCD requirements needs to be clarified to align with the prevailing Transparency of Supervision objectives.

In amending the GMS criteria in 2017[8] and the definition of "significant trading activity," the Federal Reserve extended the applicability of the GMS stress tests and related FR Y-14 to any domestic BHC or U.S. IHC that is subject to supervisory stress tests and that (1) has aggregate trading assets and liabilities of $50 billion or more, or aggregate trading assets and liabilities equal to 10 percent or more of total consolidated assets, and (2) is not a ''large and noncomplex firm'' under the Board's Capital Plan rule. While the new percentage test aligned the new threshold of $50 billion relative to the prior GMS threshold of $500 billion in consolidated assets, it was apparent that the percentage test was also aimed at capturing the four foreign IHCs that were in the LISCC portfolio at the time. Given that the re-definition of LISCC portfolio firms is out for public comment, the Federal Reserve should revisit its percentage-based approach and assess whether the concept of "significant trading activity" remains valid for non-LISCC firms.

In addition to proposing these amendments, the Federal Reserve also provided an estimate of the required resources to complete the necessary filings. In aggregate, the trading and counterparty risk sections of the FR Y-14Q require 2,440 average hours per response out of a total of 3,515 average hours for production of the entire report. As such, the filing of these reports represents an undue burden for firms that have lower trading activities relative to the finalized thresholds.

Based on the above, the Federal Reserve should revise the GMS thresholds to a higher level that would be commensurate with the risk profiles of the target firms. At a minimum, the Federal Reserve should retain a fixed threshold (e.g. $50 billion or higher) and eliminate the percentage test particularly as firms that are reducing their balance sheets may unduly become subject to the GMS (under the percentage test) and the related reporting burdens. It should also revisit the exclusion of trading assets that may be held by firms for liquidity risk management purposes as contemplated in the proprietary trading definition of the Volcker Rule (12 CFR 248.3). Lastly, the Federal Reserve has yet to define criteria for the LCD stress tests and should remedy this omission to ensure the ongoing transparency and efficacy of the capital stress testing programs.

[8] 82 Federal Register 59608 (December 15, 2017)

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We would welcome additional discussions on the topics raised in this letter and stand ready to support the Federal Reserve's objectives of aligning supervisory expectations and the Transparency of Supervision.

Yours sincerely,

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