Wells Fargo & Co.
Controllers

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*Via Electronic Submission*

May 2, 2022

Ann E. Misback
Secretary
Attn: OMB No. 7100-0341
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551

**Re: Proposed Agency Information Collection Activities - Capital Assessment and Stress Testing Reports (FR Y-14A/Q/M; OMB No. 7100-0341)**

Ladies and Gentlemen,

Wells Fargo & Company ("Wells Fargo") appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's (the "Board") proposal to revise the Capital Assessment and Stress Testing Reports (FR Y-14A/Q/M) (the "Proposal")[1]. Wells Fargo is a leading financial services company that has approximately $1.9 trillion in assets, proudly serves one in three U.S. households and more than 10% of small businesses in the U.S. and is a leading middle market banking provider in the U.S. We provide a diversified set of banking, investment and mortgage products and services, as well as consumer and commercial finance.

The FR Y-14 reports support the Board's supervision of large bank holding companies and two important macroprudential tools, the Comprehensive Capital Analysis and Review ("CCAR") exercise and the Dodd-Frank Act Stress Tests ("DFAST"). We support the Board's efforts to clarify the requirements of the FR Y-14 reports and address respondents' interpretative issues raised through the frequently asked question ("FAQ") process. We further appreciate efforts to reduce regulatory reporting burden and align reporting requirements across regulatory reports.

We support the comment letter submitted by the Bank Policy Institute ("BPI") on the Proposal. Specifically, we emphasize BPI's detailed list of recommendations regarding the Proposal's draft reporting instructions and areas in need of further clarification.

Consistent with the BPI letter, our feedback on the proposal provides targeted commentary on key issues of importance to Wells Fargo. Specifically, we wish to provide additional details on three key areas: 1) clarifications related to reporting of "advised lines" in Schedule H.1; 2) mapping probability of default ("PD") metrics to internal

[1] 87 Fed. Reg. 11432 (March 1, 2022)

ratings; and 3) clarifications on securities financing transaction ("SFT") reporting for unenforceable netting sets in Schedule L. Furthermore, we would ask the Board to consider the implementation timeline for the changes to the FR Y-14Q/M.

**Advised Lines and Defined Facilities**

The proposal would modify language in Schedule H.1 to define informal advised or guidance lines, which are excluded from the scope of Schedule H.1, as those that are unknown to the customer. Current Schedule H.1 instructions also require the inclusion of "... any unused commitments that are reported on (FR Y-9C) Schedule HC-L that would be reported in the relevant FR Y-9C category if such loans were drawn."

Across regulatory reports, there are numerous, overlapping populations of "commitments" that banks are required to report. Broadly, these populations are defined separately in the FR Y-9C Schedule HC-L, FR Y-14Q Schedule H.1, Capital Rules (and FR Y-9C Schedule HC-R), and Liquidity Rules. Having so many separate populations of "commitments" creates confusion, burden, and a high likelihood of divergence in practice across firms. We respectfully suggest revising the FR Y-14Q Schedule H.1 population to align with the population of that defined in the Capital Rules or FR Y-9C Schedule HC-L as detailed below. Alternatively, if a separate population of "commitments" is required for the FR Y-14Q, we seek clarification of the differences between the populations of commitments across the regulatory reports, to limit operational burden and differences in practices that lead to potential competitive advantages or disadvantages.

I. **FR Y-9C Schedule HC-L Reporting Requirements**

Under the instructions for the FR Y-9C, a bank holding company is required to report the balance of "unused commitments" in Schedule HC-L Line 1, Unused commitments. Instructions for Line 1 include "commitments that are legally binding" as well as certain commitments to issue a commitment at some point in the future whereby both the offer and acceptance are in writing but not legally binding on the holding company or borrower[2]. Instructions also require commitments for revolving asset-based lending to be measured using the lesser of the contractual borrowing base (i.e., eligible collateral times the advance rate) or the note commitment limit[3] (i.e., the overall maximum loan amount).

II. **FR Y-14Q Schedule H.1**

As noted above, the proposed Schedule H.1 instructions require commitments reported on FR Y-9C Schedule HC-L to be reported in Schedule H.1. The population of commitments to be reported in Schedule H.1 instructions go beyond Schedule HC-L requirements in two areas:

- Schedule H.1 requires reporting potential exposures from the syndicated loan pipeline, including exposures where the holding company has signed a commitment letter and extended terms to the borrower, but the borrower has not countersigned the commitment letter ("Single Signed Commitment"). Single Signed Commitments are not in scope for Schedule HC-L, which reports commitments to issue a commitment only when the lender has extended terms and borrower has accepted the offered terms.
- Schedule H.1 Field 24, Committed Exposure Global, requires commitments for revolving asset-based lending to be measured using the note commitment limit rather than the borrowing base constrained amount.

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[2] Schedule HC-L Line 1 instructions (6)(a).

[3] Per Line 1 instructions, this requirement only applies to asset-based lending in which a borrower uses current assets such as accounts receivable and inventory as collateral.

**III. Capital Rules**

The Capital Rules define a commitment as "...any legally binding arrangement that obligates a Board-regulated institution to extend credit or to purchase assets" ("Committed Facilities"). The Capital Rules do not extend this definition to include Defined Facilities under which the lender is not legally obligated to extend credit or purchase assets. The Capital Rules require that risk-weighted assets and leverage exposure amounts be calculated with respect to off-balance sheet exposures, including commitments. Risk-weighted asset calculations for commitments depend on the original maturity of a commitment and whether the commitment is unconditionally cancelable[4].

**IV. Liquidity Rules**

The Liquidity Rules include "committed" facilities as outflows in calculating the liquidity coverage ratio. Per the Liquidity Rules, "committed means, with respect to a credit or liquidity facility, that under the terms of the facility, it is not unconditionally cancelable." This definition is consistent with the definition of "commitment" under the Capital Rules.

To minimize operational burden, we ask that the Federal Reserve align the FR Y-14Q Schedule H.1 population of commitments to that disclosed in the Capital Rules or FR Y-9C Schedule HC-L. If a different population of commitments is required for FR Y-14Q Schedule H.1, we ask the Federal Reserve to confirm that the proposed commitment reporting population in the FR Y-14Q Schedule H.1 requirements align with the population reported on the FR-Y9C Schedule HC-L, in that it includes non-legally binding commitments to commit, which arise from borrower and lender accepting terms even if the lender is not under any legal obligation to extent credit or purchase assets ("Defined Facilities"). Additionally, please confirm that the proposed commitment reporting population in the FR Y-14Q Schedule H.1 goes beyond the population reported on the FR-Y9C in Schedule HC-L by additionally requiring only the reporting of the two items noted above.

**Probability of Default Mapping**

The Proposal would include new reporting fields for FR Y-14Q Schedule H.4 requiring reporting entities to report the Minimum PD and Maximum PD associated with each internal risk rating. This proposed requirement presents multiple possible challenges as firms may approach PD assignment in a variety of ways. Specifically, certain firms may segment their portfolio and assign PDs to internal ratings within each segment. As a result, their Internal Risk Rating system would reflect multiple PDs associated with one rating. This would result in a relatively wide range of PDs for an individual internal risk rating and/or overlapping of minimum and maximum amounts between ratings. This overlap may arise from one segment having a high PD for a given rating, while another segment may have a relatively low PD for the same rating. Other firms may utilize an approach that maps all portfolio segments into a single universal scale with one PD associated with one rating, which results in a single PD for each given rating.

Due to the range of practices in rating methodology, Minimum and Maximum PD data may not be easily comparable between reporting entities. The Proposal noted the Minimum and Maximum PD data "...would allow the Board to assess credit risk more easily across firms by providing benchmark values for internal ratings." Given the notable differences in industry rating methodologies, we do not believe this additional data would be fit for purpose in developing or enhancing supervisory loss modeling efforts used in CCAR. We would ask the Board to acknowledge this data would not be incorporated into CCAR/DFAST loss modeling efforts.

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[4] Per the Capital Rules, "unconditionally cancelable means with respect to a commitment, that a Board-regulated institution may, at any time, with or without cause, refuse to extend credit under the commitment (to the extent permitted under applicable law)." The Liquidity Rules define "unconditionally cancelable" consistent with the Capital Rules.

Various information that is already disclosed should provide the Federal Reserve with sufficient data to obtain insight into the composition of firms' portfolios as well as the distribution of PDs across the industry. Facility level data reported in the FR Y-14Q Schedule H.1 and H.2 provide individual facility level ratings and PD information which the FRB could use to inform their supervisory processes. Utilizing this data, the Federal Reserve would gain insight into the distribution of ratings and PDs at an exposure level rather than seeing only the minimum and maximum of a range. Furthermore, while a firm's risk rating methodology may allow for minimum or maximum values, the proposed information collection would not provide necessary information in which to inform the FRB if any facilities are assigned such values or how much exposure is assigned to specific values within the range. The data in Schedules H.1 and H.2 clearly shows the effect of segmentation on PD assignment for firms using that approach. Given the availability of this data, we do not believe the additional reporting burden associated with the proposal to report Minimum PD and Maximum PD associated with each internal risk rating is justified.

In addition, it is our current understanding that future capital rulemakings may result in a scenario where the existing internal ratings-based approach ("Advanced Approach") is eliminated. Considering this possibility, we would suggest the Federal Reserve reconsider any possible additional reporting burden that may be premised on a capital approach which may be eliminated in the future.

If the Federal Reserve does seek to continue to solicit this data, we request additional clarification to ensure the scope of the Minimum PD and Maximum PD ranges are consistent with expectations. In particular, it would be very helpful to have additional clarity on the intended use of the information. We also request clarification on cases where a firm segments their portfolio to determine PDs but may have segments in which a PD is assigned to an internal rating and no exposures with that PD are within the reporting scope of H1 or H2. In this case, it would be helpful to understand whether a firm would be expected to include this segment in establishing the range of PDs for a given rating.

**Clarification of Securities Financing Transaction Reporting**

The Proposal seems to preclude reporting firms from netting posted and received amounts on SFTs when determining Net Current Exposure ("Net CE") when a legally enforceable netting opinion is not in place. These instructions may conflict with existing FAQs Y140001386 and Y140001492, which themselves appear to provide contrasting guidance.

Transactions which lack a netting opinion are reported in a manner that allows for the legs of the transaction (posted/received) to offset but precludes trades from offsetting one another consistent with the instructions (without a legal netting opinion in place, each transaction is its own netting set). As drafted, the redline instructions for Mark-to-Market Received ("MTM Received") may be interpreted to further restrict the offsetting of the posted and received legs of an individual transaction as instructions in determining Net CE.

In the case of a trade with an unenforceable netting agreement, each individual SFT transaction becomes its own netting set. Economically, the MTM of the individual transaction is the difference between the posted and the received amounts. The Net CE of the transaction is the MTM of the transaction floored at zero. Across an unenforceable agreement, the total Net CE is the sum of all the trade level Net CEs. Meanwhile, MTM Received represents the aggregate amount received for each transaction that is in the money in order to accurately tie back to Net CE.

The response to FAQ 1492 appears to be consistent with our understanding above, while FAQ 1386 appears to be contradictory. Specifically, FAQ 1386, would appear to require firms to remove any consideration of the "received" leg of the transaction; whereas FAQ 1492 would allow for consideration of the net exposure of an individual SFT but restrict netting across multiple transactions when no master netting agreement is in place. Ignoring the received leg on an individual SFT transaction would result in the MTM only representing the posted amount, causing a significant inflation of transaction MTM and ultimately Net CE. This treatment would be inconsistent with the economics of a transaction.

We ask the FRB to assist in clarifying expectations for the treatment of Net CE and MTM Received with respect to the consideration of posted and received collateral to offset one another on the same transaction in contrast to instructions which would limit allowing different transactions to net with one another when there is an unenforceable netting agreement.

**Timeline of the Proposal**

The Proposal includes an effective date of September 30, 2022, for changes impacting the FR Y-14Q and FR Y-14M reporting. With a comment period ending May 2, 2022, firms will not have sufficient time to implement the required logic changes, perform user acceptance testing, and ensure validity of reporting under the revised requirements with the implementation date as proposed. To implement the new and expanded data elements on this compressed timeline would inherently require us to adopt heavily manual processes in timeframes that are incompatible with typical reporting control frameworks. The proposed timeline raises substantial challenges for validating and reviewing data quality as the timeline would necessitate operation outside of our routine control frameworks. Implementing the Proposal without the full benefit of change management and governance processes risks undermining the control infrastructure that supports our certification and attestation processes and could impact the quality of the data submitted.

Consistent with supervisory expectations and international standards, we rely on data governance and oversight mechanisms to manage our financial reporting process and oversee changes to reporting requirements. Our change management standards are designed to ensure that changes to reporting logic undergo development and, importantly, user acceptance testing prior to implementation in our reporting production environment. In light of these concerns, we ask the Board to consider a delay in effective date of revisions impacting the FR Y-14Q/M to submissions as of September 30, 2023.

We appreciate the opportunity to comment and are available to provide additional input or clarifications as you proceed with further deliberations on this Proposal. If you have any questions, please feel free to contact me directly.

Sincerely,

Karl Reitz
Head of Regulatory Interpretations