April 23rd, 2024

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

Manuel E. Cabeza
Counsel,
Attention: Comments, Room MB–3128
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street S.W.
Suite 3E-218
Washington, D.C. 20219

Re: Proposed Agency Information Collection Activities; Comment Request - Addendum

Dear Sir/Madam,

We appreciate the opportunity to provide further clarifications to our letter submitted to the Agencies on March 26th, 2024 (**"March Letter"**)[1] in relation to the above-referenced proposal (the **"Reporting Proposal"**).[2] Specifically, below we provide additional information and clarifications on our comments on the following aspects of the Reporting Proposal:

- Week-end FRTB-SA Average Calculations in the Proposed FFIEC 102 Report
- Reported Market Risk RWA in relation to Subpart D and Subpart E

[1] Letter from ISDA and SIFMA to the Agencies (March 26, 2024), *available at* https://www.isda.org/2024/03/28/isda-sifma-response-to-proposed-ffiec-reporting-revisions/
[2] Proposed Agency Information Collection Activities; Comment Request, 89 Fed. Reg. 5297 (Jan. 26, 2024)

Week-end FRTB-SA Average Calculations in the Proposed FFIEC 102 Report

Issue

The Associations are concerned that the following instructions to the FFIEC 102 report in Part 1 (Standardized capital requirements for Market Risk) would require a capital calculation that is inconsistent with the actual rule text in the Basel III Endgame proposal[3] (the "**B3E Proposal**"):

*A market risk institution should calculate the standardized capital requirement for market risk based on the quarterly **average of week-end measures** and report such quarterly average values in Columns A through H.*

The B3E Proposal explicitly specifies where average calculations are required, such as under § __.204(c) with respect to the internally modelled capital calculation ($IMCC$) but not for the standardized default risk charge that is part of $IMA_{G,A}$. The Associations believe that the reporting requirements must be consistent with the capital requirements as stipulated in the B3E Proposal. Therefore, any capitalization based on averages would need to be specified in the B3E Proposal consistent with all other instances where averages are required (e.g., see § __.204(c)(1)(i)(A) with respect to $IMCC$). Consequently, the instruction cited above should be changed to ensure consistency with the B3E Proposal.

It should be noted that calculating an average for FRTB-SA would be inconsistent with other aspects of the standardized framework that make use of quarter-end spot calculations (e.g., the credit risk framework). Moreover, reconciliation with the balance sheet as a core control would happen only at quarter-end. The Associations acknowledge that the B3E Proposal requires a daily average calculation with respect to $IMCC$ as mentioned above. However, such a modelled calculation is much more aligned with daily risk management processes than a standardized calculation. As such, a calculation based on averages of FRTB-SA would be operationally burdensome while the Associations did not find any evidence that the spot number would yield different capitalization results over time compared to a quarterly average number[4]. Any averaging needs to be carefully considered within the rule text of the B3E Proposal. In particular, in the comment letter we submitted to the Agencies on January 16th, 2024 (the "January Letter")[5], the Associations pointed out that the required frequency of the standardized measure should be modified to monthly.

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[3] 88 Fed. Reg. at 64,028 (Sept. 18, 2023).

[4] The Associations analyzed the difference in reported spot versus quarterly averages for VaR and stressed VaR in the FFIEC 102 report in aggregate for 8 U.S. GSIBs between Q1 2019 and Q4 2019 and found that the difference in aggregate mean between spot and quarterly averages was not statistically significant.

[5] Letter from ISDA and SIFMA to the Agencies (January 16th, 2024), *available at* https://www.isda.org/a/wElgE/ISDA-Submits-Responses-to-US-Basel-III-and-G-SIB-Surcharge-Consultations.pdf

Recommendation

The Associations request that the line in the Reporting Proposal ("*A market risk institution should calculate the standardized capital requirement for market risk based on the quarterly* ***average of week-end measures*** *and report such quarterly average values in Columns A through H.")* should be removed or amended to "*A market risk institution should calculate the standardized capital requirement for market risk based on the quarter-end spot measures and report such values in Columns A through H*" to ensure consistency with the rule text in the B3E Proposal.

Reported Market Risk RWA in relation to Subpart and Subpart E

Issue

The current FFIEC 102 report allows banks to report different market risk RWAs under the standardized approach (subpart D) and the advanced approaches (subpart E). In particular, line item 55 allows a bank to report standardized market risk-weighted assets, while line item 56 allows a bank to report advanced market risk-weighted assets. Under the current market risk rule, the only difference relates to securitization exposures. Under the B3E Proposal, the risk weight for securitizations would also be different for Expanded Total Risk-Weighted Assets and Standardized Total Risk-Weighted Assets according to § __.210(c)(3)(iii)(C). Another example of a difference is where a bank would have to calculate a different capital add-on for redesignation in the calculation of Expanded Total Risk-Weighted Assets and the calculation of Standardized Total Risk-Weighted Assets as per § __.204(e)(2). However, the Reporting Proposal intentionally or unintentionally does not provide a way for banking organizations to report different RWAs for the Expanded Total Risk-Weighted Assets and the Standardized Total Risk-Weighted Assets.

Recommendation

The Reporting Proposal appears to require a single RWA number for market risk, which the Associations assume corresponds to the Expanded Total Risk-Weighted Assets. If that was the intent, it should be clarified in the instructions. Alternatively, if the Agencies intended for banks to report a different market risk RWA for the Expanded Total Risk-Weighted Assets and the Standardized Total Risk-Weighted Assets, the Associations request that the appropriate clarifications be added to the cells and instructions of the Reporting Proposal.

Conclusion

The Associations appreciate the opportunity to submit additional comments on the March Letter. If you have any questions, please contact, please contact Lisa Galletta at lgalletta@isda.org or (917) 624-3411 and Guowei Zhang at gzhang@sifma.org or (202) 962-7340.

Very truly yours,

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