BANK POLICY INSTITUTE, ET. AL., SARAH FLOWERS, ET. AL.

Proposal and Comment Information

Title: Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement, R-1866

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Please see attached comment letter file.

June 23, 2025

Via Electronic Mail

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

Re: Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement (Docket No. R-1866, RIN 7100 AG92)

Ladies and Gentlemen:

The Bank Policy Institute[1] and the U.S. Chamber of Commerce[2] submit this letter in response to the Board of Governors of the Federal Reserve System's notice of proposed rulemaking relating to the Federal Reserve's stress capital buffer requirement.[3]

In light of the current flaws in the stress testing framework, which result in considerable volatility in the SCB and overall capital requirements, we urge the Federal Reserve to expeditiously adopt a final rule on the averaging proposal. As described in Section II.B, given the significant uncertainty introduced by the proposal's comment period ending immediately before firms receive their 2025 stress tests results and—in accordance with well-established market conventions—announce their indicative SCBs and planned capital distributions, we also urge the Federal Reserve to announce (prior to firms receiving their results of the 2025 stress tests) that firms will be permitted to operate under the existing SCB framework through September 30, 2026. Doing so would eliminate considerable uncertainty in firms' capital planning processes and avoid the introduction of additional volatility in SCBs. We also urge the Federal Reserve to

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1 The Bank Policy Institute is a nonpartisan public policy, research and advocacy group that represents universal banks, regional banks, and the major foreign banks doing business in the United States. The Institute produces academic research and analysis on regulatory and monetary policy topics, analyzes and comments on proposed regulations, and represents the financial services industry with respect to cybersecurity, fraud, and other information security issues.

2 The U.S. Chamber of Commerce is the world's largest business federation. It represents approximately 300,000 direct members and indirectly represents the interests of more than three million businesses and professional organizations of every size, in every industry sector, and from every region of the country.

3 *See* Federal Reserve, *Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement*, 90 Fed. Reg. 16,843 (Apr. 22, 2025).

include asymmetric averaging in the final rule and allow, but not require, a firm to opt in to the revised SCB framework prior to October 1, 2026. Because of the existing deficiencies in the stress testing models and scenario development, discussed in Section I below, it is essential that the Federal Reserve implement the averaging proposal with our proposed changes to mitigate the volatility resulting from these deficiencies for the 2025 stress testing cycle.

The proposal represents a constructive first step in the Federal Reserve's efforts to improve its overall stress testing framework and bring the framework into compliance with the law, but there is more work to be done. Accordingly, in response to Question 1 of the proposal and the Federal Reserve's stated intention to engage in additional rulemakings related to the stress testing framework, this letter begins with non-exhaustive general comments on the stress testing framework and then provides comments on the specific revisions to the framework and focused questions in the proposal.

I. Comments Related to the Overall Stress Testing Framework

Although the proposal would reduce some of the volatility in the SCB, it does not resolve significant deficiencies in the current stress testing framework or the legal flaws in the current framework that are the subject of litigation in the Southern District of Ohio.[4] We welcome the Federal Reserve's recent commitment to issue proposed rules by October 2025 that would disclose and seek comment on the stress test models and scenarios to be used in the 2026 stress tests; ensure notice and comment annually on the stress test scenarios and on any material changes to the models; and seek comment on a scenario design framework that includes objective standards for the annual development of the scenarios.[5] Below are some recommendations for improving the overall stress testing framework and addressing the root causes of volatility in the SCB. However, due to the information asymmetry that exists today, we are inherently limited in the feedback we can provide. We therefore look forward to providing additional feedback through future notice-and-comment proceedings.

A. Stress test models, scenarios and results should be fully transparent.

First, stress test models and scenarios should be subject to full notice and comment, as required by the Administrative Procedure Act, including full disclosure of the models. This process will allow the public the opportunity to provide feedback on models and scenarios, enable the Federal Reserve to improve the models and scenarios based on the public's views and practical experience, and provide regulated parties adequate notice as to how their legal obligations will be determined. Below, we make several suggestions for how the stress testing models and scenarios could be improved, but we are inherently limited in our ability to provide helpful feedback by the current lack of transparency concerning the Federal Reserve's models and scenario design processes. Among other problems, this lack of transparency has led to unpredictability and volatility in SCBs from year-to-year, which the Federal Reserve seeks to reduce

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4 Those legal vulnerabilities have been explained at length in the plaintiffs' complaint and brief in *Bank Policy Institute et al.* v. *Board of Governors of the Federal Reserve Systems*, Case No. 2:24-cv-04300, (S.D. Ohio), which has been temporarily stayed in light of the Federal Reserve's commitments to implement reforms to the stress tests in the near term. Plaintiffs' complaint and brief are incorporated by reference in this letter.

5 Joint Motion to Stay Proceedings, *Bank Policy Institute et al.* v. *Board of Governors of the Federal Reserve Systems*, Case No. 2:24-cv-04300, ¶ 3 (S.D. Ohio) (May 23, 2025).

through averaging. The ultimate answer to these deficiencies is a fully transparent model and scenario design process that notifies the public of the standards the Federal Reserve is applying and allows the public to provide input to help refine the stress testing models and scenarios, including the global market shock and largest counterparty default components.

Second, the Federal Reserve has publicly and consistently stated that it does not depart from the results of the stress tests in calculating a firm's SCB.[6] The Federal Reserve's Stress Testing Policy statement provides, unequivocally, that "[t]he Federal Reserve *does not make firm-specific overlays* to model results used in the supervisory stress test. This policy ensures that the supervisory stress test results are determined solely by the industry-level supervisory models and by firm-specific input data."[7] However, the Federal Reserve recently represented in litigation that it does not always base a firm's SCB solely on the models and current-year data.[8] If the Federal Reserve believes that it needs the flexibility to apply either a firm-specific overlay (*i.e.*, when the firm's results would not be based solely on the public models and current-year data) or an industry-wide overlay (*i.e.*, a common adjustment to every firm's results), it must issue for notice and comment and subsequently adopt a rule that (i) establishes the criteria for the application of an overlay, (ii) outlines the process by which the Federal Reserve determines whether to apply an overlay, and (iii) provides affected firms with adequate notice of the application of an overlay and an opportunity to appeal the Federal Reserve's decision.

B. Improvements to the pre-provision net revenue ("PPNR") model components are necessary to correct errors in the models.

As noted above, the Federal Reserve has committed to proposing for public comment the models used in stress testing by October 2025. We expect to provide detailed technical comments on the PPNR models once published and we are able to review the models in full. However, at a minimum, the Federal Reserve should modify its PPNR model components to reduce volatility and improve their accuracy.[9] The Federal Reserve should also revise PPNR modeling to eliminate any losses that are double counted in both PPNR and the GMS component. Further, the risk characteristics of financial products and markets have shifted since the enactment of post-crisis regulatory reforms, most notably the elimination of proprietary trading and subprime securitizations. The Federal Reserve should revise PPNR modeling to ensure it does

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6 *See e.g.*, August 23, 2024 Federal Reserve Letter to the Goldman Sachs Group at 4 n.17 (the Board "does not implement firm-specific overlays in the supervisory stress test" and has a "policy of not using additional input data" absent comparable data from "all firms . . . in a given area").

7 12 C.F.R. Part 252, Appendix B, § 2.8 (emphasis added).

8 *See* Defendant's Cross-Motion for Summary Judgement, *Bank Policy Institute et al.* v. *Board of Governors of the Federal Reserve Systems*, Case No. 2:24-cv-04300 (S.D. Ohio) (Apr. 29, 2025) ("[T]he Board occasionally exercises case-specific discretion in determining whether to apply overlays to firm-specific data prior to application of the stress test models to produce the firms' final results.").

9 In particular, the Federal Reserve should, among other measures: (i) floor PPNR at $0, including through the trough quarter relevant to the SCB; (ii) reflect the benefit of higher client activity in trading revenue during periods of market volatility; (iii) reduce the sensitivity of noninterest expense projections to total assets (to avoid the effect of higher Federal Reserve bank balances and other high-quality assets on expenses); (iv) address any asymmetry in the treatment of structured notes and their hedges; (v) reflect interest rate hedges when projecting PPNR; and (vi) normalize for impact of non-recurring expenses.

not produce inaccurate projections under the erroneous assumption that the risk characteristics of products and markets have remained static since the financial crisis.

C. Credit and loan loss forecasting models and balance sheet assumptions should recognize the value of collateral and other risk mitigants.

The Federal Reserve's stress test projections of loan losses have consistently exceeded participating firms' internal loss projections likely attributable to the Federal Reserve's overestimate of loss given default and overly conservative balance sheet assumptions.[10] Further, a 2024 BPI analysis indicated that the Federal Reserve's projected losses for "fair value option" loans substantially exceed firm projections, with the difference due to their accounting classification as FVO rather than "held for investment"—a classification that has nothing to do with the risk or quality of the loans themselves.[11] FVO loans are measured at fair value, with changes in fair value recognized in the income statement, whereas HFI loans are carried at amortized cost, with loan loss provisions based on expected credit losses. If the Federal Reserve were to apply industry average HFI loss rates to these FVO loan portfolios, the resulting projected losses would be reduced considerably. We expect to comment more fully on the credit and loan loss models when released and subjected to public comment, at which point we will be able to fully assess the accuracy of the Federal Reserve's internal estimates. Here, we note that the Federal Reserve should at least (i) adjust the calibration of probability of default and LGD in the stress test to align with historical loss experience, (ii) recognize the value of collateral when modeling losses on secured loans, and (iii) reflect the risk-mitigating benefits of credit protection on HFI loans through synthetic securitization, non-synthetic credit risk transfer transactions and other loss sharing and indemnification arrangements in its loss modeling.

D. The Federal Reserve should establish, by rulemaking, the framework for the design of the stress test scenarios, including defined design parameters of all components of the supervisory stress scenarios and any additional components or scenarios.

When proposing stress testing scenarios for comment, as discussed above, the Federal Reserve also should propose to define scenario design parameters so that all components of the annual scenarios are coherent and plausible. In particular, the macroeconomic variables used in the severely adverse scenario should be subject to quantitative guidelines that define the magnitude of the stress the macroeconomic variables are meant to capture. These guidelines, which must be made public and subjected to notice and comment, should be designed to maintain consistency in the degree of severity while avoiding procyclicality. The Federal Reserve's Policy Statement on the Scenario Design Framework for Stress Testing establishes explicit guidelines for the path of the unemployment rate and house prices throughout the planning horizon, specifying the typical unemployment rate increase and flooring the rate at 10% and specifying the typical house price index decline.[12] Similar guidelines should be established for gross domestic product, commercial real estate prices, BBB-rated corporate bond spreads, equity prices,

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10 *Stress Testing: What's Inside the Black Box?: Hearing Before the Subcomm. On Financial Institutions and Monetary Policy of the H. Comm. On Financial* Services, 118th Cong. 13-14 (2024) (statement of Bank Policy Institute Executive Vice President and Head of Research Francisco Covas).

11 *Id*.

12 *See* 12 C.F.R. Part 252, Appendix A, §§ 4.2.2 and 4.2.3.

the VIX volatility index and interest rates. As noted above, we appreciate that the Federal Reserve has committed to seeking comment on a revised scenario design framework that will include objective standards for the development of the annual stress test scenarios and look forward to providing comments on the framework.[13] In addition, we recommend that the final annual scenarios be released earlier than the current February release date, such as by January 15, so firms have more time to incorporate the final scenarios in their stress testing and capital planning processes prior to the completion and submission of their capital plans.

In addition, the Federal Reserve should modify its stress test models and scenarios to include analogous guidelines for projections of operational losses. A 2020 BPI analysis found that the operational risk losses projected in the 2019 stress tests were approximately ten times higher than the average nine-quarter loss across samples of firms from 2014 to 2018.[14] Relatedly, the Federal Reserve should analyze the extent to which operational risk losses under stress have historically correlated with credit and market risk losses and discount the resulting SCB accordingly.[15]

For its part, the GMS component of the severely adverse scenario should be defined by a clear narrative each year, with coherent market shocks across asset classes consistent with the narrative. Consistent with the recommendation above regarding the macroeconomic variables, there should be quantitative guidelines that define the magnitude of stress the GMS component is designed to represent. Shocks to securitized products should be updated based on current products and market structure. For certain sectors and seniorities, spread-based shocks, rather than market-value-based shocks, should be used to align with market quoting conventions. The Federal Reserve should seek public comment on the scoping criteria of the GMS component, as these thresholds have not been indexed for inflation or economic growth or reassessed in light of developments in the banking sector since adopted in 2017.

Changes to the largest counterparty default ("LCD") component of the severely adverse scenario are also necessary to improve the coherence of the stress test. The LCD component is an ineffective way to measure aggregate risk (and capital requirements) across large, diversified portfolios of credit exposures. The LCD component lacks risk sensitivity, ignoring key risk factors like differences in credit quality, exposure tenor and margin rights among exposures to counterparties. It also ignores changes in risk across the broader portfolio beyond the largest counterparty. Further, it is predicated on several components that are misaligned with risk management practices and diverge from other post-crisis regulatory reforms, leading to excessively calibrated results that are overly focused on a single counterparty. To at least partially address these issues, the Federal Reserve should (i) cease simply selecting the largest counterparty and instead develop a more realistic and less volatile measure of

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[13] *See supra* note 5.

[14] Anna Harrington & Greg Baer, *Operational Risk and the Federal Reserve's Stress Test: Time for a Reality Check?*, Bank Policy Institute (May 27, 2020), *available at* https://bpi.com/operational-risk-and-the-federal-reserves-stress-test-time-for-a-reality-check/.

[15] A prior Bank Policy Institute analysis of FR Y-9C data from 2008 to 2014 demonstrated that operational risk losses are unlikely to coincide with large market, credit and credit valuation adjustment risk losses. *See* Bank Policy Institute & American Bankers Association, *BPI & ABA Comment Letter on Federal Reserve*, *Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity* at 47-48 (Jan. 16, 2024).

counterparty credit risk, which could include averaging the results for top counterparties or other more risk-sensitive methods to measure aggregate risk across large, diversified portfolios of credit exposures; (ii) reduce the shock imposed on margined exposures to recognize the shorter liquidity horizon for these exposures; (iii) use a published matrix of risk weights for different counterparty types to project results in a manner that factors in credit quality; (iv) exclude all counterparties that qualify for a 0% risk weight under the standardized approach for credit risk; and (v) publish recovery assumptions across different types of large counterparties instead of assuming a punitive 10% recovery rate for all counterparties. In addition, the Federal Reserve has historically applied the LCD in its discretion. Although the scoping criteria for the GMS need to be updated, the Federal Reserve should, through notice and comment rulemaking, establish scoping criteria for the LCD.

E. The Federal Reserve must eliminate the overlap between the stress testing framework and the Basel III Endgame proposal to avoid over-calibrated capital requirements.

The Federal Reserve must also consider how the stress testing framework would be integrated with any final Basel III standards. Specifically, the PPNR projections in stress testing capture risks similar to the proposed Basel operational risk standard. Likewise, the GMS component overlaps with the proposed Fundamental Review of the Trading Book with respect to certain market risks and credit valuation adjustment risk.[16]

The Federal Reserve must address these overlaps to provide for an overall coherent capital framework that does not over-capitalize risk. Under the Administrative Procedure Act, agencies are required to consider the collateral consequences of a rulemaking, including the interaction between the proposed rule and the broader regulatory scheme.[17] The Federal Reserve failed to address this overlap in the July 2023 Basel III Endgame proposal's Expanded Risk-Based Approach, when the Federal Reserve sought to address the risk-based capital requirements in complete isolation from the SCB framework. The Federal Reserve should comprehensively analyze the overlaps and the potential over-calibration of risk-based capital requirements, taking into account the aggregate calibration of all capital requirements, in any future proposal to implement the final Basel III standards. For example, the exercise of reconciling the FRTB and GMS could involve adjusting either to reflect the other. We emphasize that the task of reconciling these two approaches is objective science rather than subjective art. As our previous research has demonstrated,[18] it is a complex but achievable task to identify where the two standards are measuring and capitalizing the same risk. Thus, we encourage the federal banking agencies in proposing any version

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[16] *See e.g.*, Greg Hopper, *How Can The Global Market Shock More Effectively Complement The Fundamental Review of the Trading Book?*, Bank Policy Institute (May 30, 2023), *available at* https://bpi.com/how-can-the-global-market-shock-more-effectively-complement-the-fundamental-review-of-the-trading-book/; Greg Hopper, *How Can the New Market Risk Capital Requirements Be Fixed?*, Bank Policy Institute (Sept. 23, 2023), *available at* https://bpi.com/how-can-the-new-market-risk-capital-requirements-be-fixed/; Greg Hopper, *Rationalizing the Global Market Shock*, Bank Policy Institute (Oct. 17, 2023), *available at* https://bpi.com/rationalizing-the-global-market-shock/.

[17] *See Portland Cement Ass'n* v. *EPA*, 665 F.3d 177, 187 (D.C. Cir. 2011) ("It is not absurd to require that an agency's right hand take account of what its left hand is doing.").

[18] *See supra* note 16.

of the FRTB to undertake such an analysis and publish it for comment.

II. Comments Related to the Specific Revisions and Questions in the Proposal

A. Averaging should be performed asymmetrically such that a decrease in a firm's SCB based on the current year's stress test is fully recognized and is not averaged with prior year results.

The proposal would average the maximum common equity tier 1 capital decline from the current year's and prior year's supervisory stress test results to arrive at the stress capital decline component of the SCB. The averaging would be performed symmetrically—*i.e.*, the same calculation would apply if a firm's SCB increases or decreases based on the current year's results. Averaging should be performed asymmetrically instead so that the averaging approach is applied only when a firm's SCB would increase based on the current year's stress test results.

This alternative would better align with the Federal Reserve's stated goals in the rulemaking. The proposal is designed to mitigate the costs of volatility and abrupt changes in capital requirements.[19] But these costs arise only when firms experience abrupt increases in capital requirements; they are not applicable when firms experience *decreases* in capital requirements. Therefore, averaging when the SCB decreases is not necessary to reduce costs resulting from volatility in the SCB and achieve the objectives of the proposal.

The uncertainty resulting from the current SCB methodology imposes costs only when there is a sudden increase in capital requirements. In those circumstances, a firm must act quickly to meet the new requirements and is limited in the methods by which it may do so. The firm may need to curtail lending or market intermediation activity, conduct a dilutive capital raise or take other action. When there is a decrease in capital requirements, on the other hand, there are no analogous costs to meeting the new requirement—*i.e.*, there is no need for the firm to take any of the actions necessary when faced with a sudden increase in capital requirements. The firm has the flexibility to deploy the extra capital arising from the decrease in capital requirements, such as by expanding lending or market intermediation activity, or to wait to do so.

Firms ordinarily operate with capital ratios in excess of the regulatory requirements, inclusive of their SCBs. This reflects that firms typically maintain a management buffer of capital over and above the applicable capital requirements, including buffer requirements such as the SCB. The management buffer serves various purposes, including to allow a firm to absorb a sudden increase in capital requirements and avoid the costs associated with a sudden increase. Accordingly, SCB volatility and the prospect of suddenly higher capital requirements contribute to the size of firms' management buffers. Volatility therefore ties up capital that could be better deployed by providing credit to borrowers or liquidity to markets. There is, however, no need to size a management buffer for the purpose of absorbing sudden decreases in capital

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[19] *See, e.g.*, Proposal at 16,846 ("[V]olatility in stress capital buffer requirements can potentially impact the provision of banking services. To address this issue, the Board is issuing the proposal . . . . With the proposed revisions, the capital buffer requirements would continue to be forward-looking and risk-sensitive, while reducing the volatility of capital requirements and thereby allowing for improved ability for firms to plan their capital positions and financial intermediation activity.").

requirements. The costs associated with sudden changes in capital requirements are inherently asymmetric—there are costs to sudden increases but none for sudden declines. Firms experiencing or anticipating a decrease in SCB would still maintain a management buffer, but the need to absorb a decrease in their SCB would not contribute to the overall size of the buffer.

Asymmetric averaging would also be conceptually consistent with other aspects of the capital framework that provide a different timeline and methodology for increases in capital requirements and decreases in capital requirements. For example, if a GSIB's score increases such that it becomes subject to a higher surcharge, the higher surcharge does not take effect until the start of the second following calendar year; if, however, its score decreases such that it becomes subject to a lower surcharge, the lower surcharge takes effect at the start of the next calendar year.[20,21] Similarly, an increase in the countercyclical capital buffer would generally be effective 12 months from the date of announcement, but a decrease would generally take effect upon announcement.[22] These longstanding structural features of the capital framework each reflect the asymmetric cost profile of sudden changes in capital requirements—there are costs to sudden increases but none to sudden decreases.

Moreover, the timing provisions for changes in the GSIB surcharge and the countercyclical capital buffer already result in longer data lags for increases in capital requirements than decreases in capital requirements. Asymmetric averaging for SCB calculations would bring the SCB buffer in line with these other capital requirements. Decreases in capital requirements would reflect more current data (*i.e.*, the current year stress test results, based on financial data from the most recent year-end and the most recent stress test scenarios), whereas increases in capital requirements would reflect data with a greater lag (*i.e.*,

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20 *See* 12 C.F.R. § 217.403(d).

21 In 2023, the Federal Reserve sought comment on whether it would be appropriate to revise the timing of the effectiveness of an increase in the GSIB surcharge. Although we continue to believe that the Federal Reserve should not revise the timing of changes to the GSIB surcharge, we note that this suggestion was coupled with other changes to the calculation of the surcharge that the Federal Reserve stated could make GSIB scores more predictable further in advance and could make GSIB surcharges subject to smaller, less abrupt incremental changes, which the Federal Reserve explicitly acknowledged as rationales for the suggested timing change. As discussed in this letter, despite the proposed averaging approach, the SCB is still subject to significant volatility and uncertainty as a result of the lack of transparency and weaknesses in models and scenario design. *See* Federal Reserve, *Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y–15)*, 88 Fed. Reg. 60390 (Sept. 1, 2023) ("The Board is seeking comment on whether it would be appropriate to modify the effective date of changes to a firm's GSIB surcharge requirement following a change in its GSIB score. Under the proposed change to measure certain indicators based on average values over a four-quarter period, rather than year-end point-in-time values, it is possible that a GSIB may have greater ability to predict its applicable GSIB surcharge further in advance than under the current framework. In addition, under the proposed change to a narrower score band structure for determining method 2 surcharges, it is possible that incremental changes in GSIB surcharge requirements may be smaller than under the current approach. Given these dynamics, the Board requests comment regarding possible changes to the timing for an increase in a firm's GSIB surcharge to take effect following the calculation date.").

22 *See* 12 C.F.R. § 217.11(b)(2)(v).

data from both the current year and prior year stress test results).

Asymmetric averaging is even more important in the near-term, to prevent firms from being penalized by the flaws in the current stress testing methodology that the Federal Reserve has committed to improve with rulemakings commencing later this year. For example, current weaknesses in models misrepresent the risk profiles of firms and overstate stressed losses. As these models are improved, in particular through the notice-and-comment process the Federal Reserve has committed to undertake, modeled stress test results will reflect stronger models. To the extent those modeling improvements result in reduced stress loss projections, symmetric averaging will result in the imposition of unduly high SCBs through the averaging of both current-year results (using the improved models) and prior year results (using the legacy, weaker models). Symmetric averaging should not prevent a firm from recognizing the full benefit of a decrease in its SCB under an improved methodology once implemented.

Question 14 of the proposal contemplates a differential weighting approach to averaging where more weight would be assigned to the most recent stress capital decline as compared to the less recent decline. The Federal Reserve should not adopt this approach. The introduction of a weighted approach to averaging would introduce unnecessary complexity into the averaging framework, and the adoption of asymmetric averaging would more simply accomplish the goals of reducing cycle-to-cycle volatility and align with other aspects of the Federal Reserve's capital framework.

B. The Federal Reserve should provide that, for the 2025 stress testing cycle, firms will be permitted to have their SCBs determined under the current rule through September 30, 2026 regardless of whether the proposal is finalized with an effective date on or prior to October 1, 2026.

The timing of the proposal, with the comment period ending just before firms receive the results of the 2025 stress tests, introduces significant uncertainty regarding a firm's prospective capital requirements. Generally, following the Federal Reserve's disclosure of supervisory stress test results, firms make public announcements regarding their indicative SCBs and planned capital distributions. Because of the timing of the proposal, firms will not know if their indicative SCBs announced shortly after the comment period closes, which will presumably be based on the current rule's calculation, will in fact be the SCBs in effect on October 1. To provide certainty as to SCB calculations, and consistent with the objectives of the proposal to avoid unexpected changes in capital requirements, the Federal Reserve should permit each firm to have its SCB calculated under the current rule from October 1, 2025 through September 30, 2026, regardless of when the Federal Reserve adopts a rule finalizing the proposal.[23] When the Federal Reserve does adopt a rule finalizing the proposal, a firm should be permitted—but not required—to opt in to the revised framework and have its SCB calculated under the final rule prior to October 1, 2026.[24] For the reasons discussed in the letter dated May 16, 2025, jointly submitted by the Financial Services Forum, American Bankers Association, Bank Policy Institute, and Securities Industry and Financial Markets Association, we urge the Federal Reserve to implement this approach and provide certainty to firms as soon as possible.

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[23] *See* Question 15 of the Proposal.

[24] *See* Question 16 of the Proposal.

In addition, if the Federal Reserve provides for an opt-in to the revised framework, it should specify how firms would elect to average their 2024 and 2025 stress test results, such as on a periodic reporting FR Y-9C or FR Y-14 form or bi-lateral notice. Following this transition period, we support the proposed one-quarter delay in the effective date of the SCB from October 1 to January 1 as it would allow firms additional time to come into compliance with increased capital requirements, reducing (but not eliminating, or reducing to an acceptable level) the costs associated with abrupt increases in capital requirements.[25]

C. The dividend add-on component of the SCB should be eliminated.

The proposal would continue to include the dividend add-on component in the SCB calculation, and the dividend add-on component would continue to be based on four quarters of planned common stock dividends as a percentage of risk-weighted assets. However, Question 21 of the proposal contemplates the possibility of eliminating the dividend add-on component. We urge the Federal Reserve to eliminate the dividend add-on component from the SCB calculation.

The dividend add-on component is duplicative of other parts of the capital framework and ultimately conceptually flawed and incoherent. It requires firms to pre-capitalize four quarters of dividends. Yet, if a firm experiencing stress decided to maintain its dividend and draw on the capital resources pre-capitalized, the payout ratio and eligible retained income calculations required under 12 C.F.R. § 217.11(c) would likely prevent the firm from doing so. As noted in the proposal that originally introduced the SCB, pre-funding these dividends "reflects the assumption that the firm will strive to maintain its current level of dividends even during times of stress."[26] However, if a firm falls into the buffer zone under 12 C.F.R. § 217.11(c), it is prohibited from paying dividends without prior Federal Reserve approval to the extent eligible retained income restrictions apply. If a firm has negative eligible retained income due to the incurrence of losses (the most likely reason a firm's capital ratios would fall into the buffer zone), the payout ratio restrictions would prevent the firm from paying *any* dividends without Federal Reserve approval, even those pre-funded in the SCB and even if the firm experiences no more than a one basis point buffer shortfall. Thus, the eligible retained income and payout ratio restrictions override the intended purpose of the dividend add-on and render it duplicative and conceptually incoherent.

According to the Federal Reserve, the dividend add-on was intended as "one way of promoting forward-looking dividend planning given historical experience," in particular the experience during the 2008-09 financial crisis that "many firms continued to make significant distributions of capital, including through dividends, without due consideration of the effects that a prolonged economic downturn could have on their capital adequacy."[27] This rationale—based on experience nearly two decades old—does not justify the dividend add-on. Since the historical experience the Federal Reserve cites, the Federal Reserve has provided extensive guidance on capital planning expectations for firms subject to the SCB,[28] and

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25 *See* Question 17 of the Proposal.

26 Federal Reserve, *Amendments to the Regulatory Capital, Capital Plan, and Stress Test Rules*, 83 Fed. Reg. 18,160, 18,166 (Apr. 25, 2018).

27 Federal Reserve, *Regulations Q, Y, and YY: Regulatory Capital, Capital Plan, and Stress Test Rules*, 85 Fed. Reg. 15,576, 15,579 (Mar. 18, 2020).

28 *See* SR Letters 09-4, 15-18 and 15-19.

significantly increased the stringency of capital requirements, including by establishing the buffer framework. Further, the Federal Reserve has implemented a new rating system—the Large Financial Institution ("LFI") rating system—focusing on, among other things, the capital planning capabilities of covered firms.[29] Indeed, the Capital Planning and Positions component of the LFI rating specifically involves an evaluation of "the effectiveness of a firm's governance and planning processes used to determine the amount of capital necessary to cover risks and exposures, and to support activities through a range of conditions and events."[30] Ratings determine whether firms are considered "well managed" in accordance with various statutes and regulations; the focus on capital planning practices and capabilities in the ratings framework is, today, more than sufficient to achieve the supervisory objective of promoting forward-looking dividend planning. Given the supervisory and regulatory framework today, the dividend add-on is unnecessary to achieve its stated purpose.

The dividend add-on is also unnecessary to promote forward-looking dividend planning because, as discussed above, firms already maintain management buffers of capital above capital requirements. These buffers reflect that firms engage in forward-looking dividend planning, as they serve a number of purposes, including to allow firms to maintain capacity to pay dividends under a range of conditions. The dividend add-on merely ties up even more capital that could otherwise be deployed in lending or market intermediation activity. Moreover, if the Federal Reserve believes a firm's capital is at risk, it retains the ability under the banking laws to limit dividend payments that would be unsafe and unsound.

D. The Federal Reserve should revise the resubmission requirements in the merger and acquisition context to provide a quantitative definition for a "material change" that would trigger the resubmission of a firm's capital plan, allow firms up to 90 days for the resubmission, and not require any resubmission for any acquisition subject to an application or notice requiring prior approval under the Bank Holding Company Act.

Questions 7, 8, and 9 of the Proposal solicit feedback on the current rule's requirement that a firm resubmit its capital plan if it experiences a "material change" in risk profile, financial condition, or corporate structure since it last submitted its capital plan.[31] Although the term "material change" is not concretely defined, an acquisition or divestiture of sufficient size may constitute a material change. The lack of an objective definition of materiality in the context of acquisitions and divestitures introduces unnecessary uncertainty for both firms and the Federal Reserve in determining whether a particular transaction triggers a resubmission. The Federal Reserve should introduce a quantitative threshold to determine which acquisitions or divestitures are considered material changes. This will reduce uncertainty as to what constitutes a material change and therefore provide firms with greater clarity on their legal obligations, as well as reduce firms' and the Federal Reserve's time spent on determining whether a given transaction is a material change. In addition, if an acquisition requires an application or notice and the Federal Reserve's approval under Section 3 or 4 of the Bank Holding Company Act, the Federal Reserve should not require resubmission of the firm's capital plan as a result of that acquisition as the Federal Reserve can and will obtain the capital-related information relating to the transaction through the application or notice and approval process. These changes would reduce the number of transactions

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29 *See* SR Letter 19-03.

30 Attachment to SR Letter 19-03, at p. 2.

31 *See* 12 C.F.R. § 225.8(e)(4).

requiring capital plan resubmission, thereby further reducing administrative burden for both firms and the Federal Reserve while preserving the process for transactions that are most likely to have a significant impact on a firm's risk profile and that the Federal Reserve does not otherwise have visibility into.

To further streamline and reduce the burden of the capital plan resubmission process, firms should have up to 90 days to resubmit their capital plans following a material change, instead of the current 30 days. The current rule allows the Federal Reserve to extend the 30-day resubmission deadline by 60 days or such longer period as the Federal Reserve determines appropriate, and the Federal Reserve is generally receptive to requests to extend the default 30-day timeline. Providing for a 90-day deadline in the rule, with the Federal Reserve able to further extend the submission timeline if it determines appropriate, establishes a more realistic timeline for a resubmission. It would also reduce the time and resources firms must spend to make the request and the Federal Reserve expends to consider the request to extend the resubmission timeline from 30 to 90 days.

E. The Federal Reserve should not suspend the averaging approach for determining a firm's SCB following a material change, particularly for the extended period contemplated by the proposal.

The proposal would not apply averaging when determining a firm's SCB following a material change triggering a resubmission because the previous year's results do not take the change into account. However, the proposal indicates that the Federal Reserve "generally would resume results averaging for the subsequent stress capital buffer requirement calculation if the stress capital decline components from that and the previous calculation both contemplate the material change."[32] The Federal Reserve's SCB calculation does not take into account a material change resulting from an acquisition or divestiture until the transaction closes and it is reflected in the firm's balance sheet and risk-weighted assets.[33] The proposal therefore provides that averaging—including averaging in cases in which a given year's stress test results would provide for a higher SCB—would be suspended for an extended period, until the acquisition or divestiture has been completed and the impact of the acquisition or divestiture reflected in two consecutive stress tests.

Under the proposed approach, firms that pursue acquisitions or divestitures would be subjected to increased volatility in their SCB for many years due to the prolonged suspension of averaging. The stress test results for such firms would be affected not only by the impact of the transaction, but also the variability in scenarios and changes in models that create excessive volatility in capital requirements. The prolonged suspension of the averaging approach for certain firms would leave their capital requirements subject to greater variability due to factors unrelated to an acquisition or divestiture. Suspending averaging would therefore penalize firms for conducting acquisitions or divestitures. The Federal Reserve

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32 Proposal at 16,849.

33 *See* 85 Fed. Reg. at 15,580 ("The final rule does not incorporate material business plan changes in a firm's stress capital buffer requirement. . . . Material changes to a firm's business plan resulting from a merger or acquisition are incorporated into a firm's capital and risk-weighted assets upon consummation of the transaction."); *see also* 12 C.F.R. § 252.44(a)(3) ("In conducting the [supervisory stress test], the [Federal Reserve] will not incorporate changes to a firm's business plan that are likely to have a material impact on the covered company's capital adequacy and funding profile in its projections of losses, net income, pro forma capital levels, and capital ratios.").

should not suspend averaging in connection with an acquisition or divestiture, especially for the extended period contemplated by the proposal.

F. Following an event requiring resubmission of a firm's capital plan, prior Federal Reserve approval should not be required for any capital distributions.

Question 9 of the proposal specifically solicits feedback on the automatic consequences after a firm experiences a material change, including prior approval for capital distributions, resubmission of its capital plan, and having the Federal Reserve determine whether to recalculate the firm's SCB. Prior approval should not be required for any capital distributions following a material change, so long as a firm exceeds its regulatory capital requirements, inclusive of its SCB requirement.

Most capital distributions, such as common or preferred stock dividends, share repurchases, and preferred stock or subordinated debt redemptions or repurchases, are ordinary course transactions. In some cases, they are subject to compressed execution timelines, which can occur due to notice windows for redemption or market conditions for share repurchases or preferred stock or subordinated debt refinancings. All capital distributions would remain subject to the limitations that would apply upon a shortfall to the firm's buffer, allowing the Federal Reserve to continue to exercise its supervisory authority over distributions. Requesting prior approval for capital distributions following a material change is administratively burdensome, both for firms and for the Federal Reserve. Elimination of the prior approval requirement would reduce the unnecessary administrative burden of reviewing and approving distributions.

The current prior approval requirement also creates needless risks for firms. The capital plan rule defines "capital distribution" to include, among other things, "a payment of common or preferred stock dividends."[34] As the Federal Reserve has recognized, when a corporation's board of directors declares a dividend, the corporation becomes subject to a legal obligation to its shareholders to pay that dividend.[35] If a firm experiences a material change requiring resubmission between declaration and payment of a dividend, under the current capital plan rule, a firm must obtain prior Federal Reserve approval to pay that dividend on the established payment date, even though the firm is legally obligated to pay that dividend. If a firm experiences a material change shortly before the payment date—which could occur if, for example, a firm enters into a definitive agreement for a material acquisition or disposition in close proximity to the payment date—the firm could have only days to seek Federal Reserve approval to make a payment it is legally obligated to make. In those circumstances, due to the current construction of the capital plan rule, the firm must seek the prompt and in some cases almost immediate approval of a payment it is legally required to make, or be faced with the prospect of making a legally obligated payment in the absence of required regulatory approval. In these circumstances, the prior approval requirement serves no supervisory purpose yet exposes a firm to compliance and legal risks.

The Federal Reserve should also eliminate the requirement that firms provide a notice to the Federal Reserve Board and the appropriate Reserve Bank within 15 days of making a capital distribution that was approved by the Federal Reserve following a capital plan resubmission trigger event, or that

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[34] 12 C.F.R. § 225.8(d)(4).

[35] *See* Frequently Asked Questions re: SR letter 09-4, Question 7.

exceeded the firm's planned capital distributions.[36] This requirement places an unnecessary administrative burden on firms. If the Federal Reserve retains the post-notice requirement, it should: (i) streamline the requirement to reduce the burden imposed on firms by requiring firms to report distributions on periodic FR Y-14 schedules, and (ii) align the notice requirement to the proposed new January 1 effective date of the SCB.

G. The rationale for eliminating the phase in material model changes does not apply to Category IV firms.

The rationale for eliminating the phase-in does not apply to Category IV firms. Under the proposal, Category IV firms generally would not receive SCBs based on results averaging. Accordingly, material model changes should continue to be phased in for Category IV firms to reduce volatility resulting from the model changes. Otherwise, the proposal, which is designed to reduce volatility, would actually result in increased volatility for Category IV firms since they would neither see the benefit of averaging nor continue to have material model changes phased in over time.

H. FR Y-14 reporting should be streamlined and data fields that are not used in stress testing should be eliminated.

The proposal includes various changes to the FR Y-14 reports, which collect data used in the Federal Reserve's stress testing. These changes include no longer requiring four items related to non-interest income from servicing activities because, according to the Federal Reserve, those items are no longer needed to conduct the stress tests. For the same reason, the Federal Reserve should also decommission certain other schedules and items that are unnecessary to conduct the stress tests or are collected in other reports or schedules. Please see Appendix A for the full list of our recommendations relating to FR Y-14 reporting.

FR Y-14 reporting should also be streamlined to minimize data collection costs. First, the Federal Reserve should streamline regulatory reporting requirements and definitions in the FR Y-14 reports to be consistent with FR Y-9C and U.S. generally accepted accounting principles ("GAAP") in order to mitigate operational burdens and reduce the risk of potential errors resulting from inconsistent requirements and definitions. For example, the instructions for FR Y-14Q have different criteria for classifying loans as modified as compared to U.S. GAAP. Maintaining dual processes for reporting according to the FR Y-14 reporting requirements vs. U.S. GAAP imposes a significant burden on firms without any corresponding benefit. Similarly, the Federal Reserve should establish thresholds, based on capital impact and stress testing outcomes, to determine whether errors in FR Y-14 fields are material and reflect in the reporting instructions that immaterial errors will not be viewed as defects in reporting. Second, the Federal Reserve should reduce information currently collected monthly on the FR Y-14M to quarterly. Monthly reporting requires significant resources and coordination across business units and technology support functions.

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[36] 12 C.F.R. § 225.8(k).

The Bank Policy Institute and the U.S. Chamber of Commerce appreciate the opportunity to comment on the proposal. If you have any questions, please contact the undersigned at sarah.flowers@bpi.com and bhulse@USChamber.com, respectively.

Respectfully submitted,

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Appendix A – Technical Comments on FR Y-14 Reporting

Question 24 of the proposal solicits comment on changes to FR Y-14 reporting that would reduce regulatory burden, including suggestions for specific items in the FR Y-14 reports that should be discontinued. This Appendix outlines suggested changes to the FR Y-14 reports to reduce reporting burden, harmonize data definitions and granularity, and eliminate data fields no longer necessary to conduct the supervisory stress test.

I. Comments on Proposed FR Y-14A/Q/M Report Changes

A. Data fields not used for stress test modeling or available through other reports should be decommissioned.

We broadly support the proposed elimination of several reporting fields in the FR Y-14A/Q/M forms that are no longer necessary to conduct the supervisory stress test and urge the Federal Reserve to decommission all reporting fields unnecessary to conduct stress test modeling. For example, several FR Y-14 Report schedules require banks to report information on loans and securities as of their origination date, which is not relevant to assessing a firm's current exposures. These and other reporting fields that do not provide information necessary to conduct the supervisory stress tests should be decommissioned. Similarly, the Federal Reserve should decommission reporting fields on the FR Y-14 reports that can be sourced from other reporting forms or are duplicative of information reported in the FR Y-9C.

B. The Federal Reserve should clarify the meaning of the term "investment entities" in proposed revisions concerning non-recurring expenses in FR Y-14Q, Schedule G.3, item 47.

The proposal would amend the instructions for FR Y-14Q, Schedule G.3 (PPNR Metrics), item 47 (Non-recurring PPNR items) to "better capture" non-recurring expenses. In particular, the proposal would clarify that reportable non-recurring expenses include those "due to divestitures and write downs of consolidated *investment entities*" (emphasis added). The Federal Reserve should clarify the meaning of the term "investment entities" and whether it includes broker-dealers, special purpose vehicles, or other similar entities.

II. Overarching Comments on the FR Y-14 Reports

A. The Federal Reserve should align the FR Y-14 reports with each other, U.S. GAAP, and the FR Y-9C.

The Federal Reserve should amend the instructions for the FY Y-14A and FR Y-14Q to align reporting requirements, eliminate duplicative processes, and reduce regulatory burden. For example, firms are required to report the profit-and-loss ("P&L") impact of the Accrual Loan Hedge on Schedule G.1 (PPNR) of the FR Y-14Q. In the FR Y-14A, this item is reported on Line 65 of Schedule A.1.a (Summary)—rather than the FR Y-14A's PPNR schedule. The Federal Reserve should modify the FR Y-14A to require firms to report this data on the form's PPNR schedule and make other conforming edits to align the FR Y-14 reports.

Further, the Federal Reserve should eliminate definitional and reporting differences between the FR Y-14 reports and U.S. GAAP in order to mitigate operational burdens and reduce the risk of potential reporting errors. For example, the FR Y-14Q instructions include different criteria to classify loans as modified, as compared to U.S. GAAP. The Federal Reserve should align these criteria to eliminate the burden on firms to maintain dual reporting processes.

In addition, the Federal Reserve should harmonize the granularity of data reported in the FR Y-14 reports, the FR Y-9C, and the Call Report. For example, last year, the Federal Reserve issued proposals that would require firms to report a large volume of financial information with respect to exposures to nondepository financial institutions ("NDFIs") on the FR Y-14Q,[37] the FR Y-9C, and the Call Report. Consistent with recommendations in our comment letters on those proposals, we urge the Federal Reserve to align the reporting for NDFIs in the FR Y-14 reports with the Call Report and the FR Y-9C.[38] In general, these reports should be aligned as much as possible to reduce the burden resulting from different reporting requirements.

B. The FR Y-14A instructions should be aligned with the Office of the Comptroller of the Currency's recently-adopted changes to DFAST reporting instructions.

Earlier this year, the Office of the Comptroller of the Currency ("OCC") adopted changes to its DFAST reporting forms, creating differences between the OCC's DFAST instructions and the FR Y-14A instructions.[39] For example, the OCC removed Line 56 of Schedule A.1.d from the DFAST instructions but the item remains in the FR Y-14A instructions. The Federal Reserve proposed to retire this line item last year and should eliminate this reporting field.[40] More generally, the FR Y-14 reports and the DFAST reporting should remain consistent to reduce regulatory burden from having to maintain parallel processes.

C. The Federal Reserve should remove edit checks that tend to produce false positives and establish an acceptance threshold on the FR Y-14Q edits checks, similar to FR Y-14M reporting.

Certain edit check items can produce a significant amount of false positive errors, requiring firms to dedicate significant resources to analyze false positives when the data is often correct. For example, firms often have to review thousands of false positive edit checks on Schedule H.1 of the FR Y-14 across client financial attributes for obligors that meet the criteria for exclusion from providing client financial data. To lessen the outsized burden on firms associated with false positives, the Federal Reserve should modify its required edit checks to exclude these obligors. Further, the Federal Reserve should establish

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[37] 89 Fed. Reg. 52,042, 52,046 (June 21, 2024).

[38] Bank Policy Institute, *BPI Comments to Capital Assessments and Stress Testing Reports, FR Y-14 A/Q/M Revisions (OMB Control Number: 7100-0341)* (Aug. 20, 2024), available at https://bpi.com/wp-content/uploads/2024/09/BPI-FR-Y-14-Proposal-Comment-Letter-Final.pdf; Bank Policy Institute, *BPI Comments to Call Report and FFIEC 002 Revisions*, OCC 1557-0081 (June 18, 2024), *available at* https://bpi.com/wp-content/uploads/2024/07/BPI-Responds-to-Banking-Regulators-Call-Report-Revisions.pdf; Bank Policy Institute, *Revisions to the Financial Statements for Holding Companies (FR Y-9; OMB No. 7100-0128) and Capital Assessments and Stress Testing Reports (FR Y-14A/Q/M; OMB No. 7100-0341)* (Nov. 27, 2024), available at https://bpi.com/wp-content/uploads/2024/11/BPI-IIB-FR-Y-9-OMB-No.-7100-0128-Comment-Letter-11.27.24.pdf.

[39] 90 Fed. Reg. 9,055 (Feb. 5, 2025).

[40] 89 Fed. Reg. at 52,049.

an acceptance threshold for FR Y-14Q edit checks. This would reduce the burden of reviewing thousands of records to identify just one or two errors.

D. The FR Y-14A and FR Y-14M PPNR net interest income ("NII") schedules should be updated to streamline or eliminate burdensome reporting fields.

The PPNR NII schedules of the FR Y-14A and FR Y-14Q require firms to calculate interest income using average asset and liability balances and implied average yields. Given the rounding incorporated in the reporting template, it is burdensome for firms to derive interest income using the implied yield. Accordingly, the Federal Reserve should update the FR Y-14A and FR Y-14Q PPNR NII schedules to make the implied yield—rather than interest income—a calculated field, or no longer require firms to derive interest income.

III. FR Y-14Q

A. The Federal Reserve should revise Schedule B to exclude equity securities, decommission certain fields, and have revised instructions.

The Federal Reserve should eliminate the requirement to report equity securities on Schedule B because this data does not flow through Schedule A's other comprehensive income projection and is unnecessary for stress testing modeling. The inclusion of equity securities on this schedule appears to be a holdover from prior to Accounting Standards Update (ASU) 2016-01, which changed the accounting treatment for these securities. Further, equity securities with readily determinable fair values not held for trading are also already reported on the FR Y-9C, Schedule HC, line 2c. The Federal Reserve should also decommission several fields in Schedule B.1 that do not provide meaningful information related to a firm's securities exposure for stress testing purposes, including "Security Description 3," "Original Face Value," and "Purchase Date."

Following the January 1, 2023 effective date of ASU 2022-01 Fair Value Hedging—Portfolio Layer Method (PLM), the Federal Reserve should revise the instructions to Schedule B.2 to incorporate industry usage of PLM hedges. Absent these changes, the instructions to Schedule B.2 will continue to result in the submission of incomplete information about the results of the PLM hedging activity, and provide mismatched details of the gains and losses from hedging instruments vis-a-vis the amortized cost basis of the associated hedged securities.

B. Data collected on regulatory capital in the FR Y-9C and FFIEC 101 should be eliminated from Schedule D.

Schedule D contains line items for data on regulatory capital that are also included in FR Y-9C, Schedule HC-R and FFIEC 101, Schedule A, including the aggregate amount of non-significant investments in the capital of unconsolidated financial institutions. The Federal Reserve should eliminate all reporting fields in Schedule D that are duplicative of those in FR Y-9C, Schedule HC-R and FFIEC 101, Schedule A.

C. Schedule F should be streamlined to eliminate fields that contribute to undue production, aggregation, and reconciliation burden.

Firms generally do not measure trading exposure using a notional amount because this metric is not risk-based. Therefore, firms must engage in additional, burdensome data reconciliation specific to furnish notional data on the FR Y-14Q. Given the labor-intensive nature of these production, aggregation and control efforts, and the lack of relevance of this information for risk-management purposes, the Federal Reserve should remove the requirement to report notional amounts in Schedule F. Elimination of these reporting fields will also eliminate the need for edit checks that require additional explanation. The Federal Reserve should also eliminate tenor-level reporting for market value, notional value, and CS01 across credit-related sub-schedules, including sub-schedules F.16-F.20 because it requires trade-level granularity that is not always readily available and the tenor methodology for CS01 can be inconsistent when aggregating.

In addition, to reduce reconciliation challenges and overall reporting burden, the Federal Reserve should discontinue certain Schedule F sub-schedules and line items detailed below.

- *Discontinue Use of the Post-Shock Delta and Gamma in Sub-Schedule F.2*: The post-shock delta and gamma metrics reported on sub-schedule F.2 (Equity Spot Vol Grid) often exhibit spikes as a result of varied payoff features, adding additional burden to the reconciliation of a firm's overall P&L profile.

- *Decommission Sub-Schedule F.22*: The data required to be reported in sub-schedule F.22 (IDR Corporate Credit) often implicates reporting fields in other sub-schedules, posing reconciliation challenges across the form. Sub-schedule F.22 contains the same information as sub-schedule F.18 (Corporate Credit-Advanced) albeit at a more granular level. This granularity is not needed to conduct the stress tests. Accordingly, sub-schedule F.22 should be eliminated.

- *Eliminate Sub-Schedule F.23*: In contrast to other FR Y-14Q sub-schedules, sub-schedule F.23 (IDR Jump to Default) requires the disclosure of information for which a jump to default exceeds a specified threshold, which entails significant manual adjustments and review. In addition, it generally includes the same information as sub-schedule F.19 (Corporate Credit EM), just at a more granular level that is not needed for stress testing. Sub-schedule F.23 is operationally burdensome to compile, particularly from an aggregation, validation, and reconciliation perspective, and should be decommissioned.

- *Discontinue Sub-Schedule F.24*: To align with the elimination of private equity shocks from the GMS component of the severely adverse scenario, the Federal Reserve should decommission sub-schedule F.24 (Private Equity). However, if the Federal Reserve retains this sub-schedule, it should separate it from Schedule F and set the submission as-of date to be the last day of the quarter, consistent with other FR Y-14Q schedules, rather than the intra-quarter date used for other sub-schedules in Schedule F. Firms must manually obtain data on intra-quarter exposures, which contributes to production, aggregation, and control reconciliation burdens and an end-of-quarter date would better align with routine business practices.

- *Move CVA hedges from Schedule F to Schedule L*: The Federal Reserve should move CVA hedges from Schedule F to Schedule L to streamline data aggregation, risk review, and the reporting process. Schedule L already includes other CVA data, so including CVA hedges on that schedule would help to reduce burden by streamlining the reporting process.

- *Collapse Rows Relating to Global Industry Classification Standard ("GICS") in Sub-Schedules F.24 and F.25*: Firms often assign clients a North American Industry Classification System ("NAICS") code during onboarding and must spend significant resources to manually map NAICS codes to the GICS taxonomy. This mapping must be regularly reviewed and validated for any GICS or

NAICS updates. To eliminate production and control burden, the Federal Reserve should collapse all rows referring to GICS codes in sub-schedules F. 24 (if retained) and F.25 into a single row (*e.g.*, "all other") while keeping non-industry rows (*e.g.*, tax credits, BOLI/COLI, and stable value wraps) as needed. In the alternative, the Federal Reserve should provide a mapping of NAICS codes to GICS codes to reduce firms' reporting burden.

- *Permit the Submission of Schedule F in Either Excel or XML Format*: Given the complexity of Schedule F's sub-schedules and the large volume of required data, the Federal Reserve should allow the submission of Schedule F in either XML or Excel format using the prescribed forms. This could reduce burden and the risk of reporting errors.

D. The Federal Reserve should eliminate duplicative and cumbersome reporting fields in Schedule G and clarify instructions in Schedule G.2 related to the reporting of AFS and HTM securities.

The granularity of data requested in Schedule G to model PPNR places a significant burden on firms to produce. As detailed below, the Federal Reserve should revise Schedule G to eliminate and streamline unduly burdensome reporting fields, and clarify reporting instructions.

- *Decommission Schedule G.3:* Several of the reporting fields in this sub-schedule require a level of granularity that imposes a significant burden on firms to produce. The Federal Reserve should decommission this schedule to the extent the burden of producing such information outweighs the usefulness of the reported information.

- *Consolidate Reporting Categories in Several Line items in Schedule G.1*: Line items 18A through18M should be collapsed into three line items reporting a firm's revenue from equities, fixed income securities, and prime brokerage activities to simplify the reporting form and eliminate ambiguity in existing data fields. Further, the Federal Reserve should eliminate granular non-interest expense items such as line items 30 (Provisions to Repurchase Reserve/Liability for Residential Mortgage Representations and Warranties) and 34 (Marketing Expense) and require firms to report these expenses on line item 37 (Other Noninterest Expense).

- *Amend Instructions in Schedule G.2 to Align with the FR Y-9C*: Line 34A (Noninterest-bearing Demand) requires firms to report noninterest-bearing demand deposits; Form FR Y-9C, Schedule HC requires firms to report all noninterest-bearing deposits, inclusive of demand, time, and savings deposits. The Federal Reserve should align these reporting fields and require firms to report all noninterest-bearing deposits on Line 34A. Further, firms must report average quarterly data on AFS and HTM investment securities at market value on line items 10-12, whereas firms are required to report these metrics at amortized cost the FR Y-9C, Schedule HC-K. To reduce burden on firms, the Federal Reserve should align these reporting fields and require reporting on line items 10-12 at amortized cost. In addition, the instructions for line item 11 specify that firms should report the "average balance of AFS/HTM balances in Agency RMBS, as defined in the FR Y-9C, Schedule HC-B, items 4.a.(1), 4.a.(2), 4.b.(1) and 4.b.(2), *columns A and D*" (emphasis added). However, line items 10 and 12 do not include a reference to the specific FR Y-9C column. The Federal Reserve should revise the instructions to Schedule G.2 to explicitly provide the columns to reference on the FR Y-9C.

- *Reduce the Memo Lines for Other Interest Bearing Assets and Liabilities on Schedule G.2*: To reduce reporting burden on firms, the Federal Reserve should institute a higher cut-off than 5% for items that do not need to be reported on the memo lines for other interest bearing assets and liabilities.

E. Schedule H should be simplified and streamlined to reduce reporting burden.

To lessen reporting burden on firms, the Federal Reserve should increase the reportability threshold for Schedule H from $1 million to $2 million. In addition, the Federal Reserve should make the following changes to Schedule H.

- *Reduce Schedule H.1 Reporting Fields*: To reduce the burden on firms associated with the reporting of corporate loans, the Federal Reserve should amend Schedule H.1 (Corporate Loan Data Schedule) to: (1) eliminate the requirement to report data on a commitment to commit facility and potential exposures on syndicated pipeline loans given the burden of collecting granular data on loans that are not fully booked or onboarded; (2) decommission or consolidate Obligor Financial Data reporting fields 52-82 because most of the data fields are not indicative of the financial health of an obligor; (3) align the reporting of past due loans on Obligor Financial Data reporting field 33 with FR Y-9C; (4) eliminate reporting field 33 (Non-Accrual Date) for non-accrual loans that are past due for more than 90 days; (5) remove reporting fields 97 (Leveraged Loan Flag), 111 (Obligor LEI), and 112 (Primary Source of Repayment LEI) as they are significantly burdensome; (6) no longer require the reporting of disposed loans since maintaining data as of the disposition date is cumbersome and the usefulness of this data is unclear; and (7) no longer require the reporting of overdrafts on Schedule H.1 because it requires significant resources to collect this granular data, especially since overdrafts are not originated through usual loan protocols.
- *Eliminate Reporting Fields Related to Interest Rate Metrics*: Fields 37-42 in Schedule H.1 and fields 26-32 of Schedule H.2 require firms to report various hypothetical interest rate metrics for undrawn commitments as if they were fully funded. These reporting fields pose a significant burden on firms and should be decommissioned.
- *Reduce the Reporting Frequency on Schedule H.4*: Schedule H.4 collects internal risk ratings as reported for loans on Schedules H.1 and H.2. Because the internal risk rating definitions are largely static, the Federal Reserve should reduce the frequency of required reporting on Schedule H.4 from quarterly to annually, or only require reporting when there is a change to an internal risk rating.

F. The Federal Reserve should eliminate reporting fields in Schedule K captured in other FR Y-14Q schedules.

The Federal Reserve should decommission portions of Schedule K that are captured in other FR Y-14Q schedules (*e.g.*, Columns B, E, and F). These reflect *de minimis* positions and it is not clear how this data is useful in stress testing.

G. Schedule L should be streamlined and simplified to eliminate unnecessary and burdensome reporting fields.

The Federal Reserve should modify the methodology to determine the reportable counterparties for Schedule L and eliminate unnecessary reporting fields to eliminate reporting burden, as detailed below. In addition, given the burden of producing this schedule, Schedule L should be streamlined to only require information used by the FRB in the supervisory stress test, not any exploratory scenarios.

- *Require Firms to Report Data on a Fixed Number of Counterparties*: On Schedules L.1-L.3, a firm must report counterparty-level data for all top consolidated/parent counterparties comprising 95% of the firm's unstressed Credit Valuation Adjustment ("CVA"), ranked by unstressed CVA. Utilizing these criteria, firms could be required to report data for more than one thousand counterparties. Instead, the Federal Reserve should require firms to report data reported on Schedules L.1-L.3 for a fixed number of counterparties, such as the top 100 counterparties by unstressed CVA. This would reduce burden while still providing a view into key counterparty concentrations.

- *Establish a Materiality Threshold for Intra-Quarter Supervision and Modeling Team Questions and Incorporate Certain Questions into Reporting Templates and Instructions*: The Federal Reserve should adopt a materiality threshold for intra-quarter questions from its Supervision and Modeling team to reduce the number of questions on immaterial exposure variances. In addition, for Supervision and Modeling team questions that require additional computations or calculations that are not are typically calculated on a business-as-usual basis, the Federal Reserve should include the requested information in reporting instructions and templates, developed through notice and comment under the Paperwork Reduction Act, to allow firms to respond to the requests for information and to have enough time to create the underlying infrastructure and processes to provide the information.

- *Eliminate Select Reporting Fields*: To streamline firm reporting, the Federal Reserve should amend Schedule L to remove: (1) from sub-schedule L.5 the requirement that firms rank counterparties by exposures to client-cleared derivatives because client-cleared derivatives often involve the collection of initial margin and subject banks to minimal exposure; (2) sub-schedule L.1.f, which requires firms to summarize the bottom 5% of CVA, because the information it provides is immaterial and burdensome to provide as it requires a lot of reference data to report in the required format; (3) sub-schedules L.5.2, L.5.3, and L.5.4 because the required data is not useful in stress testing; (4) the "Total Notional," "New Notional During Quarter," "Weighted Average Maturity," "% Gross Current Exposure with CSAs," and "Downgrade trigger modeled?" reporting items on sub-schedules L.1.a and L.1.b; (5) the "Mapping Approach," "Proxy Mapping Approach," "Proxy Name," "Market Input Type," "Ticker/Identifier" and "Source" columns of sub-schedules L.3.a and L.3.b; (6) the "Counterparty Legal Entity Industry Code," "Counterparty Legal Entity Country," "Counterparty Legal Entity Internal Rating," and "Counterparty Legal Entity External Rating" columns of sub-schedules L.2.a, L.2.b, L.3.a, and L.3.b as they are repeated in sub-schedules L.1.a and L.1.b; and (7) "Threshold CP," "Threshold BHC or IHC or SLHC," "CDS Reference Entity Type," and "5Y CDS Spread (bp)" in sub-schedule L.5.1, which the Federal Reserve acknowledged have provided "minimal value in . . . supervisory activities."[41] In addition,

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[41] 89 Fed. Reg. at 52045.

the Federal Reserve should rename "Gross Current Exposure (Gross CE)" in sub-schedule L.1.a because the reporting item requires the exposure after bilateral counterparty netting (but prior to application of collateral).

H. The Federal Reserve should limit the collection of historical FR Y-14Q data for banks newly reporting on the form.

New FR Y-14 reporters are currently required to furnish historical reports of the FR Y-14Q PPNR and Retail schedules for all periods from when it first submits the FR Y-14 back to March 2009 and January 2007, respectively. In its June 2024 proposal to amend the FR Y-14A, FR Y-14Q and FR Y-14M reports, the Federal Reserve proposed to amend the FR Y-14Q instructions to require new reporters (or existing reporters that must begin filing a Retail schedule) to provide historical reports only for the five years preceding the first quarter that the firm is subject to reporting.[42] The Federal Reserve should adopt these amendments as part of any future changes to the FR Y-14 reporting instructions.

IV. FR Y-14M

To reduce burden, the FR Y-14M reporting should be required on a quarterly basis, rather than monthly. In addition, the Federal Reserve should make several changes to the form detailed below.

A. The Federal Reserve should reduce the reporting period for involuntary terminations of residential mortgage loans and home equity loans and lines of credit reported on Schedules A and B.

In the case of involuntary terminations, firms must report on Schedule A domestic first lien closed-end 1-4 family residential mortgage loans for up to 24 months following termination, or until line items 93, 94, 95, and 121 are available report. Similarly, for involuntary terminations of any first liens of home equity loans and home equity lines of credit reported on Schedule B, firms must report loans for up to 24 months following termination, or until the data in line items 99, 100, and 101 are available to report. In both schedules, if such data are available sooner, firms are not required to continue reporting these loans in the following months. To reduce the burden of maintaining non-active records in bank submissions, the Federal Reserve should reduce the reporting period in both Schedules A and B from 24 months to six months.

B. The Federal Reserve should decommission Schedule C and collect relevant census tract and ZIP code data on Schedules A and B.

Schedule C requires firms to report certain customer address information on all mortgage and home equity loans and lines of credit reported in Schedules A and B, including the customer's Mailing Street Address, Mailing City, Mailing State and Mailing Zip Code. The collection of this granular data does not serve a clear purpose and raises consumer privacy concerns. The Federal Reserve should decommission Schedule C and collect loan-level census tract and ZIP code information on Schedules A and B.

C. There should be a simplified mechanism for reporting duplicative data on Schedule D.2.

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[42] 89 Fed. Reg. at 52043.

Line items 17 (Managed Recoveries), 18 (Booked Recoveries), 19 (Managed Principal Recovery Amount), 20 (Managed Interest and Fees Recovery Amount), 21 (Booked Principal Recovery Amount), and 22 (Booked Interest and Fees Recovery Amount) of Schedule D.2 require firms to report certain information related to managed and booked receivables. In circumstances when securitized receivables are brought back onto a firm's balance sheet, line items 17 and 18, 19 and 21, and 20 and 22 are duplicative of each other. To reduce reporting burden, the Federal Reserve should implement a simplification mechanism to avoid unnecessary duplication.

D. The Federal Reserve should shorten, from 24 to 12 months, the reporting period for closed or charged off credit card accounts reported on Schedule D.

Firms are required to report information on closed or charged-off credit card accounts for 24 months after closure or charge-off. The Federal Reserve should reduce the reporting period from 24 months to 12 months after closure or charge off as banks typically do not expect to obtain significant recoveries from these accounts beyond 12 months following closure or charge-off.

V. FR Y-14A

A. Projected capital conservation buffer reporting fields should be decommissioned.

When a firm's capital conservation buffer falls below its applicable requirement, it may only make capital distributions and discretionary bonus payments equal to a Maximum Payout Amount—equal to the firm's current eligible retained income multiplied by a Maximum Payout Ratio, which declines proportionally with a firm's capital conservation buffer.[43] The Maximum Payout Amount and Maximum Payout Ratio are calculated based on a firm's *actual* capital conservation buffer, as of the last day of the previous calendar quarter. Line items 133, 134, and 135 of Schedule A.1.d require a firm to report its eligible retained income, maximum payout ratio, and maximum payout amount, respectively, with projected values for the last two items. Given that the Maximum Payout Amount and Maximum Payout Ratios are based on *actual* rather than projected data, it is unnecessary for firms to report data for line items 133, 134, and 135.

Further, prior to making distribution and discretionary bonus payment decisions, firms must know their SCBs, which could vary year-to-year. Accordingly, requiring a firm to report its *projected* distributions and discretionary bonus payments on line item 136 would not provide the Federal Reserve with relevant information given that these amounts could change depending on changes in a firm's SCB. Accordingly, the Federal Reserve should also decommission line item 136.

B. The Federal Reserve should consolidate reporting schedules on held-to-maturity and available-for-sale securities.

Schedules A.3.f and A.3.g require firms to furnish information on projected amortized costs and provisions for credit loss for held-to-maturity and available-for-sale securities across the nine-quarter planning horizon—broken down into 17 classes of securities. Requiring firms to populate data across multiple schedules and perform cross-schedule reconciliations for the same class of security is

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[43] 12 C.F.R. § 217.11(a)(iv).

cumbersome and imposes a significant burden on firms. The Federal Reserve should decommission these schedules and instead collect certain of this data on Schedule A.1.b by class of security.

C. Schedule A.2.a should be decommissioned because it is duplicative of other information collections.

Schedule A.2.a requires firms to provide projections of business-line level balances and losses on held-for-investment loans accounted for at amortized cost. Because much of the information collected on this schedule is also collected on other reporting forms, including the FR Y-9C, the Federal Reserve should decommission it.

D. The Federal Reserve should clarify the treatment of funds transfer pricing in Schedule A.7.a.

Schedule A.7.a requires firms to report revenue items either in the segments that generated them and/or segments that they were allocated to through funds transfer pricing. The Federal Reserve should clarify how firms should account for funds transfer pricing when reporting revenue items on this schedule.