

GUSTAVO H.R. PESSOA

Proposal and Comment Information

Title: Request for Comment on Model Changes for the Board's 2027 Supervisory Stress Test, OP-1882

Comment ID: FR-2026-0037-01-C06

Subject

Docket No. OP-1882 — Comments on wholesale ratings and guarantee reporting — Gustavo H. R. Pessoa

Submitter Information

Name: Gustavo H.R. Pessoa

Submitted Date: 10/23/2026

Dear Secretary McDonough,

Please find attached my individual comments on the proposed reporting changes in Docket No. OP-1882.

The response addresses Questions 2 and 3 in the Federal Register notice and the related information-collection invitation. I discuss how facility grades, guarantee amounts and recourse amounts can be made comparable without treating contractual coverage as an estimate of recovery or requiring unsupported external rating conversions. The contribution concerns reporting clarity and proportionate implementation, rather than model recalibration.

I am an economist and professor at Fundação Getulio Vargas in São Paulo, Brazil, writing in an individual academic capacity. My affiliation is provided for identification only.

Thank you for considering these comments.

Respectfully,
Gustavo H. R. Pessoa
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Comparable credit protection data for stress tests

Comments on proposed wholesale reporting changes

Docket No. OP-1882 | 23 October 2026

Dear Secretary McDonough,

I submit these comments in an individual academic capacity as an economist and professor at Fundação Getulio Vargas in São Paulo. My affiliation is provided for identification only. I address Questions 2 and 3 in the Federal Register notice and the invitation to improve the utility, clarity and efficiency of the proposed information collection. My recommendation is to make facility ratings and guarantee coverage interpretable before using them to assess possible future model changes. I do not propose a recalibration of the supervisory stress test.

Keep default risk and loss severity distinguishable

For Question 2, I favor a loss-severity concept for the proposed Facility Internal Risk Rating field, with the rating basis clearly identified. The proposal would add this field as Schedule H.1, item 126, while leaving item 10, Obligor Internal Risk Rating, unchanged. Separate reporting is more useful when the additional field explains something distinguishable about the facility. [1]

A blended grade can summarize an overall credit assessment, but it can conceal why two exposures receive similar grades. In a hypothetical comparison, one borrower might be less likely to default but offer weaker recovery prospects, while another might present greater default risk with stronger protection after default. Similar overall grades would not make the underlying risks interchangeable. An analyst combining an unidentified blended grade with a separate borrower-risk measure could also count some of the same information twice.

A loss-severity orientation would make the distinction clearer, but it has a cost if a firm's ordinary rating system does not produce that assessment separately. I would not require a firm to manufacture a new rating solely to populate the field. The instructions could identify loss severity as the preferred concept while permitting a firm to report its existing facility grade, with a concise description of whether it represents severity or blended expected loss. The two should remain distinguishable in subsequent analysis.

The description should explain the grade's horizon and whether it reflects current conditions, a longer-run assessment or an assumed stress environment. These distinctions could be supplied through a description of the rating scale rather than repeated for each loan. A familiar grade label should not be treated as a quantified loss estimate unless the information supplied supports that interpretation. This would preserve useful existing data without pretending that all firms organize their assessments identically.

Report coverage without implying a recovery

The notice proposes Schedule H.1, item 124, Guarantee Amount, and Schedule H.2, item 77, Recourse Amount, together with revisions to H.2 item 21, Recourse. These additions concern coverage and definitions; collecting them does not itself introduce a guarantee adjustment into

the stress test. The accompanying review of comments identifies missing and inconsistent guarantor information as an obstacle to evaluating possible model changes. [1][2]

The amount fields should describe coverage under the final reporting instructions, rather than be interpreted as forecasts of cash received. The proposed alignment of guarantor eligibility with 12 CFR 217.2 should remain explicit in those instructions. [1] A contractual claim, its applicability in a particular default and the proceeds eventually collected are different objects. Collection can depend on the guarantor's capacity to pay, the obligations actually covered and the process needed to enforce the claim. Those considerations explain why a reported amount can be informative without establishing an equivalent reduction in stressed losses.

An illustrative reporting example could clarify the treatment of a partial guarantee on a syndicated facility. It should show whether the amount refers to the reporting firm's exposure, the full facility or a contractual ceiling, and how overlapping coverage is treated. Allocation should follow the rights established by the agreement and the final instructions, rather than assume that every guarantee can be divided mechanically among lenders. A clear reporting basis would be preferable to collecting additional amounts whose relationship to one another is uncertain.

Collateral and a guarantee can also protect the same unpaid obligation. In a hypothetical case, a guarantee applies only to the balance remaining after specified collateral proceeds. It would be inappropriate to interpret its ceiling as an additional payment on top of every possible collateral recovery. The relevant contract and the sequence of claims would matter. This example recommends clarity about overlap, not a universal recovery formula or an assumption that collateral and guarantee proceeds must always offset one another.

A facility grade may already reflect those protections. Its scale description could therefore explain which protections enter the assessment and how they are considered, using existing methodology documentation where possible. Later analysis could then examine whether the coverage fields add information beyond the grade, rather than assume an independent benefit. This explanation could be supplied at the methodology level without requiring a new legal narrative for each loan.

Compare rating systems before changing models

For Question 3, I prefer collecting each firm's universe of facility grades and their definitions, along the lines of the alternative described in the notice, before requiring a universal external equivalent. An external mapping could offer convenient common labels. Its weakness is that comparable labels do not establish comparable concepts: an external default-risk grade cannot automatically serve as an equivalent for an internal severity grade. [1]

A compact scale description could identify the ordering of grades, the concept assessed, the applicable horizon and the version in use. Where a firm already maintains a defensible external mapping, that mapping could be provided with its basis and limitations. Where it does not, the instructions should allow that fact to remain visible. Requiring an apparently precise equivalent despite a substantive mismatch would replace a known information gap with an uncertain transformation.

This approach entails maintaining scale descriptions, but it can avoid duplicating explanations across individual exposures. Stable scale identifiers and dated changes would help distinguish a revised methodology from a deterioration in borrowers or facilities. Clear examples and consistent instructions could support automated checks for missing grades and inconsistent identifiers without treating a missing value as the worst grade or as evidence that no protection exists. I cannot validate the Board's burden estimates from institution-level cost data and offer no numerical alternative.

The notice proposes the reporting revisions for the December 31, 2027, report date and expressly separates data collection from any decision on future model changes. That distinction should remain prominent. [1] The initial objective is a dataset whose meanings and limitations can be understood. Whether a particular guarantee or rating treatment improves stress-test performance would remain a separate question for evidence, validation and the applicable public-input process.

Respectfully,
Gustavo H. R. Pessoa
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Sources

[1] Federal Reserve Board, Request for Comment on Model Changes for the Board's 2027 Supervisory Stress Test, Docket No. OP-1882, 91 FR 62729–62733, 2 October 2026

[2] Federal Reserve Board, Review of Stress Test Model Documentation Comments, Fall 2026, relevant Corporate and CRE model sections