Capital Assessments and Stress Testing Information Collection Q&As

November 2017

Board of Governors of the Federal Reserve System www.federalreserve.gov

The Capital Assessments and Stress Testing information collection (FR Y-14) consists of the FR Y-14A, Q, and M reports. The semiannual FR Y-14A collects information on the stress tests conducted by Bank Holding Companies (BHCs) and U.S. Intermediate Holding Companies (IHCs), including quantitative projections across a range of macroeconomic scenarios, and qualitative information on methodologies used to develop internal projections of capital across scenarios. The quarterly FR Y-14Q collects granular data on BHCs' and IHCs' various asset classes, including loans, securities and trading assets, and Pre-Provision Net Revenue (PPNR). The monthly FR Y-14M comprises three retail loan- and portfolio-level collections, and one detailed address matching collection. The FR Y-14 data are used to assess the capital adequacy of large BHCs and U.S. IHCs, to support supervisory stress test models, and in continuous monitoring efforts.

In response to questions regarding the FR Y-14 information collection, Federal Reserve staff provides answers to firms on an ongoing basis to assist with the correct interpretation of reporting requirements and submission of the report data. These questions and answers are released to provide transparency around, and support knowledge of, FR Y-14 reporting requirements.

The questions and answers

- **Include generally applicable questions asked by FR Y-14 filing BHCs and U.S. IHCs.** Not every question is applicable to every BHC or U.S. IHC, and responses do not pertain to other regulatory reports or rules, nor to BHCs and U.S. IHCs that do not file the FR Y-14 reports.
- **Apply to requirements and materials available at that time.** The Federal Reserve's responses are based on information available at the time of the submission of the question. A response date is provided to frame the response in the context of current regulatory requirements and associated forms and instructions. Responses provided may be superseded by subsequent guidance and/or regulatory changes.
- **Cover questions submitted on or after August 1, 2017.** Historical questions will be made available as applicable when referenced by current questions. The report does not include questions for which confidential treatment was granted.

For further information on the FR Y-14 information collection, see the Federal Reserve's report forms page: www.federalreserve.gov/apps/reportforms/default.aspx.

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FR Y-14A

General

No questions for publication.

Schedule A—Summary

Q (Y140000740, Counterparty Credit Risk (CCR)): According to a previous question, it was noted that client-clearing exposure should not be reported in the FR Y-14A/Q. However, there is no explicit mention of their treatment in the instructions for either the Counterparty Default Scenario Component (CDSC) or the exposure-specific portions of FR Y-14Q Schedule L (L.5 and L.6). Can you clarify if client-cleared exposure should be included in determining the largest counterparty for the CDSC or if they should be included in the reporting of exposures on FR Y-14Q Schedules L.5 and L.6?

A: In determining the largest loss counterparty for the Counterparty Default Scenario Component, the firm is not required to include in its FR Y-14Q Schedule L.6 submission its client-cleared exposure arising either from centrally-cleared derivatives or from listed futures and options contracts on futures exchanges.

Further, as in the instructions that were in effect prior to the August 2017 instruction change, it is noted that the firm is not required to include in its FR Y-4Q Schedules L.1-4 submission its client-facing exposures arising either from centrally-cleared derivatives or from listed futures and options contracts on futures exchanges. **(FRB Response: October 25, 2017)**

Q (Y140000702, A.7.C – PPNR Metrics): Do the metrics on Schedule A.7.c (PPNR Metrics) of reporting form FR Y-14A include only metrics related to the projections reported elsewhere on that schedule, or should those metrics also include balances not used in projecting pre-provision net revenue (PPNR) results for purposes of Schedule A.7.a (PPNR Projections Sub-schedule)? For example, for Assets Under Custody and Administration (AUC/A) reported on line item 40 of Schedule A.7.c, is it appropriate for a bank holding company (BHC) to exclude AUC/A amounts that (i) are not used in the BHC's PPNR estimation methodology and (ii) whose exclusion therefore would not impact the PPNR projections on Schedule A.7.c?

A: The firm's PPNR reporting choices should strive to reflect as accurate a picture of its activity and risks as possible. A BHC has the choice of reporting AUC/A based on its own internal definitions or it can chose to project this metric in a manner that is more consistent with its revenue projections. In either case, a firm should clearly document its choices, strive to make consistent choices over time and between historical actuals and projections, and strive to report metrics consistently with its other regulatory reporting and GAAP (if applicable). **(FRB Response: October 25, 2017)**

Q (Y140000692, Counterparty Credit Risk (CCR)): A previous question regarding the FR Y-14 specifically states that FVA is not required to be reported and only credit valuation adjustment (CVA) is considered under supervisory scenarios. Meanwhile there are other FAQs discussing reporting of FVA on FR Y-14 A/Q schedules. Does the FRB have any objection if FVA (gains & losses) are reported under supervisory scenarios?

A: Firms are asked to report the FVA losses under FR Y-14A.5 (Counterparty Credit Risk), Line item 2b (Offline Reserve CVA Losses), and FVA balances under FR Y-14Q Schedule L.1.e. Additional/Offline CVA Reserves consistently.
(FRB Response: September 27, 2017)

Schedule B—Scenario

No questions for publication.

Schedule C—Regulatory Capital Instruments

No questions for publication.

Schedule D—Regulatory Capital Transitions

No questions for publication.

Schedule E—Operational Risk

No questions for publication.

Schedule F—Business Plan Changes

No questions for publication.

Schedule G—Retail Repurchase Exposures

No questions for publication.

FR Y-14M

General

No questions for publication.

Schedule A—Domestic First Lien Closed-end 1-4 Family Residential Loan Data Dictionary

Q (Y140000669, General) 14M Paid-in-Full Coding (field 64): As per the FR Y-14M Domestic First-lien closed-end 1-4 Family Residential template instructions, BHC must report the liquidation method for any loan that was liquidated during the reported month. For portfolio loans that are sold to a third party, should field 64 “Paid-in-full Coding” be reported as “Service Transfer” (3)?

A: Yes. **(FRB Response: September 13, 2017)**

Q (Y140000670, General) 14M Real Estate Owned assets: As per the FR Y-14M Domestic First-lien Closed-end 1-4 Family Residential template instructions, BHCs are required to continue reporting data on loans which become Real Estate Assets (REOs) until the loan terminates as a REO sale or otherwise. For loans that become REOs (i.e., “Foreclosure Status” = 3 in the reporting instructions), should loan related fields (e.g., “Current Interest Rate,” “Principal and Interest Amount Current”) be reported with the data submitted on the FR Y-14M prior to the loan becoming REO? Alternatively, should these fields be left blank once the asset becomes REO?

A: As noted in a prior Q&A, once a loan enters REO, it is essential to keep reporting key attributes of the loan originated on the property so that a loan can be tracked from a performing or delinquent status up until the time the property collateralizing the loan is disposed. Continue reporting through REO all of the loan's origination attributes (e.g., original LTV, property state, property zip, etc.). Also continue to report the outstanding principal on the loan and the date on which the next payment was due so that time in REO can be tracked. Fields that are no longer relevant to an REO property such as current interest rate, current P&I payment and monthly draw amount should be left NULL. Do not populate a field with a “0” or other value unless explicitly indicated in the instructions for that field. To code the paid-in-full-type and foreclosure-type fields correctly report a loan that is currently in the REO process with a paid-in-full-type of “0” and a foreclosure-type of “3.” Once the REO property has been liquidated, the paid-in-full-type and foreclosure-type should be coded as “2” and “3” respectively. **(FRB Response: September 13, 2017)**

Q (Y140000671, General) 14M Origination Credit Score (field 13) and Current Credit Score (field 48): As per the FR Y-14M Domestic First Lien Closed-end 1-4 Family Residential template instructions, BHC must report the credit score of the borrower using a commercially available credit bureau score. For loans where the legal borrower is in the form of an Entity (e.g., LLC), and where the Entity is the sole borrower/obligor, a commercially available credit bureau score is not available. In certain cases, an individual may be present in the initial lending decision—where this individual is added as a co-borrower alongside the Entity, the credit score of the individual is available and will be reported. However, in cases where the individual is not required to join the loan from a credit risk perspective, and the Entity is the only legal borrower/obligor on the transaction, a representative credit score of the Entity legal borrower would not be available. Where the Entity is the sole borrower/obligor, is it expected that fields "Origination Current Credit Score" (field 13) and "Current Credit Bureau Score" (field 48) are reported as blank?

A: In such cases where the credit bureau score is not available or was not used for the underwriting decision, report these fields as NULL. Loans marked as commercial loans (i.e., Field #124 "Commercial Loan Flag"=1) where the legal borrower is an Entity such as an LLC is one such case. **(FRB Response: September 13, 2017)**

Q (Y140000672, General) 14M ARM Periodic Rate Floor (field 36): As per the FR Y-14M Domestic First Lien closed 1-4 Family Residential template instructions, BHC must report the periodic interest rate floor for adjustable rate loans. For loans that do not have a periodic rate floor, how should the field 36 "ARM Periodic Rate Floor" be reported? Should it be populated with the same response as required under the field 38 "ARM Lifetime Rate Floor" since the lifetime rate floor would apply on a periodic basis or should field be reported as "blank"?

A: For loans that do not have a periodic rate floor, report the field as NULL. Work with the data aggregator to document the reasons for any edit checks fails that result from such missing data. **(FRB Response: September 13, 2017)**

Q (Y140000674, General) 14M Foreclosure Status (field 65): As per the FR Y-14M Domestic First Lien Closed-end 1-4 Family Residential template instructions, BHCs are required to continue reporting data on loans which become Real Estate Assets (REOs) until the time the loan terminates as a REO sale or otherwise. BHCs must report the current foreclosure status as of the end of the reporting month. Where the REO has been liquidated as of the end of the reporting month (i.e., where "Paid in Full Coding (field 64)" is now other than "0") should the response for field 65 "Foreclosure Status" continue to remain as "3" (REO) as it was reported in the previous month? Alternatively, for the month in which the REO asset has sold should the Foreclosure Status field 65 now revert to "0" (Not in foreclosure) given the asset has been liquidated as of the end of the reporting month?

A: Report Paid in Full Coding (first lien, field #64) as "0" while the loan is in active REO. Report Paid in Full Coding as "2" in the month the loan liquidates, and then the loan will be removed from the file in the following month. The Foreclosure Status (first lien, field #65) will be coded as "3" (REO) in the month the loan liquidates. **(FRB Response: September 13, 2017)**

Schedule B— Domestic Home Equity Loan and Home Equity Line Data Dictionary

Q (Y140000673, General) 14M HELOCs: As per the FR Y-14M Domestic Home Equity Loan and Home Equity Line template instructions, BHCs should continue reporting the HELOCs in the FR Y-14M Home Equity schedule even after they have entered into a pay down status and are no longer revolving credits, and that the loan type at origination determines where the exposure should be reported. This explicit guidance is absent in the FR Y-9C instructions, and may yield a reporting difference amongst regulatory filings. Is this reporting difference expected and if not, which reporting should be adjusted?

A: For the Y-14M reporting, continue reporting the loans as per the specifications outlined in the Y-14M instructions. Reporting differences of this type are expected between reporting schedules. **(FRB Response: September 13, 2017)**

Schedule C—Address Matching Loan Level Data Collection

No questions for publication.

Schedule D—Domestic Credit Card Data Collection Data Dictionary

No questions for publication.

FR Y-14Q

General

No questions for publication.

Schedule A—Retail

Q (Y140000700, A.3 – International Credit Card): Please clarify what types of loans should be reported on Schedule A.3 – International Credit Cards. If a BHC does not have any full service international branches; however, offers credit cards to foreign students with non-U.S. addresses. Would these specific credit card loans be reported on Schedule A.3 – International Credit Cards or on the FR Y-14M Schedule D – Domestic Credit Cards?

A: For the purposes of reporting loans on Schedule A.3, follow the FR Y-9C definition for loans domiciled outside the U.S. Specifically, reference “Domicile” in the FR Y-9C Glossary, where it states: “If other addresses are used for correspondence or other purposes, only the principal address, insofar as it is known to the reporting holding company, should be used in determining whether a customer should be regarded as a U.S. or non-U.S. addressee.” **(FRB Response: October 11, 2017)**

Q (Y140000680, A.7 – U.S. Other Consumer): This question is a follow up to a prior Q&A with guidance provided for balances of “partially secured” loans should be split into “secured” and “unsecured” portions and should be reported accordingly. Our firm's follow up question is if the amount of loan secured is unknown systemically, to be conservative, is it acceptable practice to classify these loans as unsecured?

A: The firm should make every effort to report the Y-14Q accurately by breaking down the secured and unsecured portion of the balances. However, if this is impossible, a loan that is partially secured may be reported as unsecured. **(FRB Response: October 11, 2017)**

Schedule B—Securities

No questions for publication.

Schedule C—Regulatory Capital Instruments

No questions for publication.

Schedule D—Regulatory Capital Transitions

No questions for publication.

Schedule E—Operational Risk

No questions for publication.

Schedule F—Trading

Q (Y140000668, General): The current FR Y-14Q schedule instructions indicates the "4th Quarter Trading and Counterparty (regular/unstressed submission) is due 52 calendar days after the notification date (notifying respondents of the as-of date) or March 15, whichever comes earlier." The Enhanced Prudential Standards Section 252.54, which describes requirements for annual stress testing for covered companies, specifies the "as-of date selected by the Board may be between October 1 of the previous calendar year and March 1 of the calendar year in which the stress test is performed." If the Board selects an as-of date in October, the FR Y-14Q Trading and Counterparty submissions will be required to submit before the 4th quarter. Can the FRB confirm that the submitting banks will need to be prepared to submit the 4th quarter Trading and Counterparty 14Q before the 4th quarter is over?

A: As indicated in the FR Y-14Q Instructions, all firms that are required to submit official Trading and Counterparty (regular/unstressed submission) schedules for the 4th quarter must do so 52 calendar days after the date respondents are notified of the 4th quarter as-of-date or March 15, whichever comes earlier. If the notification date precedes the end of the 4th quarter by more than 52 days, then the Trading and Counterparty (regular/unstressed submission) schedules would have to be submitted prior to the end of the 4th quarter.
(FRB Response: October 25, 2017)

Schedule G—PPNR

No questions for publication.

Schedule H—Wholesale Risk

Q (Y140000696, H.1 – Corporate Loan Data): Should Field 35, Lien Position, in FR Y-14Q, Schedule H.1. – Corporate Loan Data, be reported solely based on the legally documented collateral position, or the collateral value based on credit risk perspective? Background: There are instances where, based on legal agreement, a facility may show that it is secured by collateral. However, from a credit risk perspective the facility will be deemed "unsecured" based on judgment of the value of the collateral. Should we be providing the legally documented lien position or the position per our credit risk view, when the credit risk view is more conservative? The firm is currently reporting Field 35, Lien Position field based on a credit risk view of whether we are secured or unsecured. Until the firm receives a response to the above question we will continue to report based on credit risk view.

A: For Lien Position (H.1 Corporate – Field 35), report the legally documented collateral position. **(FRB Response: October 11, 2017)**

Q (Y140000687, H.1 – Corporate Loan Data): FRB instructions state that delinquency status is based on the longest number of days principal and/or interest payments are past due, if such payments are past due 30 days or more. An FAQ was issued in April 16, 2014, which stated if there are different delinquency statuses of loans under a facility, report the longest number of days principal and/or interest payments are past due. If the credit facility has current loan balances which cause an edit check failure because they are not captured in the HC-N delinquency bucket per the instructions on the FR Y-9C, then provide an explanation of the edit failure in the edit check report.

This approach, as described in a prior FAQ, can distort the delinquency status of a facility when one loan, comprising a small portion of the facility utilized exposure, becomes past due. Assessing the facility delinquency status based on that loan taints the overall facility delinquency status and results in a variance when the FR Y-14Q is compared to the FR Y-9C. In such cases, is it appropriate to assess delinquency status using criteria based on the loan with the largest outstanding balance? Delinquency status based upon utilized exposure, versus longest number of days past due, provides a more accurate assessment for the facility.

A: As noted in the prior Q&A, "If there are different delinquency statuses of loans under a facility, report the longest number of days principal and/or interest payments are past due, if such payments are past due 30 days or more, as indicated in the description of field 32 (# Days Principal or Interest Past Due) of the FR Y-14Q Corporate loan schedule. If the credit facility has current loan balances which cause an edit check failure because they are not captured in the HC-N delinquency bucket per the instructions on the FR Y-9C, then provide an explanation of the edit failure in the edit check report." **(FRB Response: September 20, 2017)**

Q (Y140000685, H.2 – Commercial Real Estate): For Capital Expenditures (Corp Loan Field 82), if a cash flow statement that reflects actual capex is not provided by the borrower, what should be reported for Capex?

A: Per a prior Q&A: "Obligor financial data in Fields 54 through 82 are mandatory fields for obligors which meet the reporting requirements outlined in the instructions to the FR Y-14Q Corporate loan schedule. If data for mandatory fields is not available, note that in the comments of the edit check report and provide a remediation plan for issue resolution to your Reserve Bank Analyst." **(FRB Response: September 13, 2017)**

Schedule I—MSR Valuation Schedule

No questions for publication.

Schedule J—Retail Fair Value Option/Held for Sale (FVO/HFS)

No questions for publication.

Schedule K—Supplemental

No questions for publication.

Schedule L—Counterparty

Q (Y140000739, L.5 – Securities Financing Transactions Profile for the Top 25 Counterparties by Netting Agreement Level, Consolidated Counterparty Level and Aggregate Across All Counterparties): When reporting exchange-traded futures and options on FR Y-14Q Schedule L, should the exposure from the clearing member to the CCP be reported or from the risk-taking entity to the CCP?

A: When reporting cleared OTC derivatives and listed futures and options contracts on futures exchanges, the firm is only required to include house exposures to the CCPs. As in the instructions that were in effect prior to the August 2017 instruction change, the firm's client exposures to the CCP are not required to be reported, nor are the firm's client facing exposures arising from listed derivatives. **(FRB Response: October 25, 2017)**

Schedule M—Balances

Q (Y140000678, General): The FR Y-14Q Schedule M.1 (Loan and Lease Balances) includes a breakout of two sub-products within Residential Real Estate line 1.a.(1): (a) First Mortgages, and (b) First Lien HELOANs, both of which are reported on FR Y9-C, Schedule HC-C line 1.c.(2).(a). To ensure accuracy in our reporting, we would appreciate additional guidance on the definition of "First Lien HELOANs," as we are not aware of an industry standard definition for this product or how this loan population differs from First Mortgages.

A: "First lien" is a concept indicating that the debt holder has first priority to receive recovery proceeds from collateral in the case of borrower default. A HELOAN—a form of second mortgage loan—can become a first lien if the first mortgage is paid off or if the first mortgage is modified and the recording date of the modified loan becomes later than that of the HELOAN. **(FRB Response: September 27, 2017)**