



November 7, 2019

Via Electronic Mail

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

Re: Proposal to Revise the Banking Organization Systemic Risk Report (FR Y-15; OMB No. 7100-0352)

Ladies and Gentlemen:

The Bank Policy Institute¹ appreciates the opportunity to comment on the proposal by the Board of Governors of the Federal Reserve System to revise the Banking Organization Systemic Risk Report (the "FR Y-15").² Subject to the implementation timing considerations set out below, we are generally supportive of the proposal; however, we respectfully request that the Federal Reserve not incorporate any of the proposed memoranda items into the GSIB systemic indicator score calculation, absent a holistic review and recalibration of the GSIB surcharge through the necessary public notice and comment rulemaking process. Given the successful implementation of multiple regulatory reforms as well as U.S. economic growth since the finalization of the rule without any corresponding increase in systemic risk, recalibration is now necessary to limit unintended consequences and promote continuity in both the financial sector and economy.³

We also expect the new proposed data collections, specifically those in Schedule C, Line Item M5 that would require firms to report twelve months of trading volume, to be a significant new reporting burden. These additions would require numerous changes to infrastructure and system flows, and the proposed effective date of December 31, 2019, would allow very little time for firms to develop proper IT solutions and subject those solutions to necessary review to ensure accurate reporting. Accordingly, and subject to the other necessary clarifications and corrections described in our supplemental comment letter to the final tailoring rules,⁴ we recommend that the proposed changes to the FR Y-15 be made effective as of June 30, 2020. This extension would give firms an

¹ The Bank Policy Institute is a nonpartisan public policy, research and advocacy group, representing the nation's leading banks and their customers. Our members include universal banks, regional banks and the major foreign banks doing business in the United States. Collectively, they employ almost 2 million Americans, make nearly half of the nation's small business loans, and are an engine for financial innovation and economic growth.

² 84 Fed. Reg. 47509 (September 10, 2019).

³ In the 2015 rule implementing the GSIB surcharge in the U.S., the Federal Reserve committed that "[t]he Board will periodically reevaluate the framework to ensure that factors unrelated to systemic risk do not have an unintended effect on a bank holding company's systemic indicator scores" 84 Fed. Reg. 49082 at 49085 (August 14, 2015).

⁴ See Bank Policy Institute et al. Letter, *Supplemental Comments on the Final Tailoring Rules* (November 1, 2019), available at <https://bpi.com/wp-content/uploads/2019/11/Joint-Trade-Comment-Letter-re-Supplemental-Comments-on-the-Final-Tailoring-Rules.pdf> (the "Supplemental Tailoring Comment Letter").

appropriate amount of time to establish and/or modify the necessary processes and infrastructure, and properly test them to ensure that they are operational and fully compliant prior to the effective date. The June 30, 2020 effective date (subject to our other comments in the Supplemental Tailoring Comment Letter) would allow respondents to avoid having to change reporting systems and processes during the CCAR cycle, allow firms to achieve the accuracy and completeness of the additional data required by the proposal on a sustainable basis, and allow firms to meet the high supervisory expectations regarding data integrity set by the Federal Reserve and firms' senior management.

In addition to the foregoing recommendations, we believe that there are a number of technical amendments, improvements and clarifications that the Federal Reserve should make to the proposal. These recommendations are described in Appendix A to this letter.

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BPI appreciates the opportunity to comment on the proposal. If you have any questions, please contact the undersigned by phone at 646.736.3958 or by email at David.Wagner@bpi.com.

Respectfully submitted,



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Appendix A

I. The Federal Reserve should clarify various aspects of the proposed Schedule C, Line Item M5 “Securities traded in the last four quarters.”

- The Federal Reserve should clarify whether securities “traded” include only the trading of securities held in the trading account, as defined for the FR Y-9C.
- The instructions make reference to “contractual” date, but it is not clear if this is intended to be the same as the trade date. If so, in the situation where a trade fails and the full amount of the trade does not settle, how should the transaction be reported?
- Firms will periodically (i.e., monthly) assess whether certain investments qualify the reporting entity to consolidate a vehicle onto the books and records of the reporting entity. While these vehicles may hold and trade in securities, the information regarding the volume of securities purchased or sold by the vehicles is not readily available. Clarity is requested regarding the expectations of how trading volume by consolidated vehicles should be reported.
- Clarity is requested regarding the statement “on behalf of customers involving securities held as assets.”
- Should transactions in which a firm is not the lead underwriter be reported? If so, how are these accounted for (full vs. partial notional)?
- Should firms exclude noncash transactions? For example, firms sometimes obtain securities and warrants as a result of a bankruptcy settlement or reorganization after a loan has defaulted. Firms have been excluding these from QIS submissions as they are noncash transactions and not a true trade (sale or purchase). Some firms also exclude noncash transactions such as when converting a warrant received into stock. These firms would only report the stocks when they are sold. How should firms account for these transactions?
- Should firms include Gross Purchases & Gross Sales in the trading volumes reported?
- What is the definition of “public sector”? Does this include state, provincial and local government entities or just central authorities? Should the definition of “public sector” align with the definition in the FFIEC 009 Report?
- Should the proposed addition of trading volume items anchor back to any other lines on other reports?
- Does the trading volume represent the same population of trading securities reported in Schedule D, Line 4 of the FR Y-15 Report?
- The Federal Reserve should provide further clarification in the Line Item M5 instructions related to what is considered a security issued by a central government or agency. Specifically, does the definition include CMO agency mortgage-backed securities issued by GNMA, but exclude those issued by FNMA and FHLMC? We have seen reports where CMOs are treated differently.
- Syndicated corporate loans, which are currently included as an example, should be excluded from Line Item M5(b), “Other fixed income securities,” as they are not securities.
- It is unclear why transactions where a firm acts as an agent need to be reported as part of the trading volume related memoranda section. Substantial effort is required in capturing and reporting this data formally on an ongoing basis (as opposed to a best effort basis for the QIS). We therefore recommend that these transactions be excluded.
- The Federal Reserve should confirm that the references to “M5” in the instructions for Line Item M5(b) is erroneous and should instead be “M5(a).”

- As required by US GAAP, there are holdings of certain securities that are required to be accounted for as trading assets by bank holding companies. Municipal securities underwritten by the bank and temporarily held on balance sheet until they are remarketed to customers are one example. Another example is securities purchased with funds from deferred compensation plans for employees of the bank or for supplemental executive retirement plans. These securities holdings are typically not material and do not pose a systematic risk to the banking system. Gathering trading activity information for these securities for banks that do not engage in proprietary trading and without a trading desk is a reporting burden. We would respectfully request that these trading securities be added to the list of excluded transactions for Line Item M5. Additionally, we would similarly recommend that these securities be excluded from Schedule D, Line Item 4, Trading Securities.
- The draft instructions for Line Item M5 state: “Do not apply CUSIP or counterparty netting across legal entities when reporting external transactions or when excluding intra-group or intra-entity transactions.” Is CUSIP and/or counterparty netting permissible within the same legal entity? For example, for purposes of reporting trading volume, if a reporting firm buys and sells the same CUSIP security, with the same counterparty, out of the same legal entity and on the same day, does this net to zero?

II. The Federal Reserve should reinstate references to the FR Y-9C in Schedule D – Complexity Indicators.

- We recommend that the Federal Reserve confirm that the omission of the references to the FR Y-9C, Schedule HC, item 2(b) from Line Item 5 and FR Y-9C, Schedule HC, item 2(c) from Line Item 6 were not intended and those references will be reinstated.

III. The Federal Reserve should clarify the term *other foreign liabilities* in Schedule E – Cross Jurisdictional Activity Indicators.

- One of the proposals for Schedule E is to add a new memoranda item *to capture foreign derivative liabilities and other foreign liabilities on an immediate risk basis*. It is not clear which “other foreign liabilities” are being described here, as most foreign liabilities are already being reported on Schedule E. The Federal Reserve should list the “other foreign liabilities” to be reported here and how they will be factored into the cross-jurisdictional activity indicator.
- The Federal Reserve should clarify the general reference to FFIEC 009 and confirm which schedule (s) and column (s) in the FFIEC 009 firms should reference to identify the foreign derivative liability balances, if any, to be reported in this line item, since only net positive fair values for in-scope derivatives are reported on the FFIEC 009 and not derivative liabilities.
- Consistent with current FFIEC 009 reporting, should all variation/initial margin liabilities on derivative transactions be reported on a gross basis (i.e., before Fin 39 netting)?
- The proposal provides in relevant part

Include the derivatives liabilities of U.S office to foreign counterparties regardless of whether the foreign counterparty is located inside or outside the United States.

The Federal Reserve should confirm that, consistent with current FFIEC 009 reporting, this language is intended to capture solely the exposures to US branches of counterparties with non-US countries of incorporation.

IV. The Federal Reserve should clarify that firms are permitted to report SFTs on a net basis within the cross-jurisdictional activity indicator.

- The Bank Policy Institute reiterates its prior request⁵ that a new line be added to Schedule E to allow banks to report Foreign Liabilities (excluding local liabilities in local currency) on a net basis while continuing to allow banks to leverage existing reporting processes. This new line would be used to reflect netting effects related to balances sourced from TIC B reports that would be allowed if reported under a FFIEC 009 approach and also would be a reduction in the Line Item 4 calculation.

V. Clarification is needed as to whether the Federal Reserve is proposing to expand all data elements (other than risk-weighted assets) on the FR Y-15 form to also include CUSO reporting, regardless of whether each element is an input into the risk-based indicators.

- The draft instructions under the proposed changes to the FR Y-15 reporting form indicate that “From December 31, 2019, to September 30, 2020, a pro-rata approach may be used to calculate the reported volumes for each quarter. The pro-rata annualized factor may be applied until December 31, 2020, at which time four full quarters of information will be available to report.”
 - If the Federal Reserve finalizes the proposed additions for the fourth quarter of 2019 (or some future reporting period), the new reporting lines would be collected for both the U.S. IHC and the CUSO of the FBO, even though these new data reporting items are not inputs into the risk-based indicators under the final rules. We respectfully request clarification as to whether the Federal Reserve is proposing to expand all data elements (other than risk-weighted assets) on the FR Y-15 form to also include CUSO reporting, regardless of whether each element is an input into the risk-based indicators.
 - If so, the revised form would collect four rolling quarters of Trading Volume data, but the Federal Reserve would allow firms to follow a pro-rata approach for the first three quarters, as noted above. Therefore, for the fourth quarter of 2019, firms would submit one quarter of information and annualize, for the first quarter of 2020, firms would submit two quarters and annualize, etc., such that by the third quarter of 2020, firms would have accumulated four quarters of data and would then provide a rolling total.
 - Under the final rules, firms are required to begin submitting CUSO data as-of June 30, 2020. We respectfully request that the Federal Reserve clarify whether firms are expected to have three quarters of Trading Volume data for CUSO (dating back to October 1, 2019) when the first CUSO report is filed as of that date.

⁵ See Bank Policy Institute Letter *Reporting of Securities Financing Transactions (“SFTs”) on FR Y-15 Schedule E – Cross-Jurisdictional Activity Indicators* (August 17, 2018), available at <https://bpi.com/wp-content/uploads/2019/10/Reporting-of-Securities-Financing-Transactions-on-FR-Y-15-Schedule-E-Cross-Jurisdictional-Activity-Indicators.pdf>.