Via Electronic Mail

September 5, 2020

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 Extend for Three Years, With Revision, Capital Assessments and Stress Testing Reports (FR Y-14A/Q/M; OMB No. 7100-0341) – Temporary and Proposed Revisions to FR Y-14A/Q/M

Ladies and Gentlemen:

JPMorgan Chase & Co. (JPMC or the Firm) appreciates the opportunity to comment on the proposal by the Board of Governors of the Federal Reserve Board System (the Board) that would extend for three years, with certain temporary and proposed revisions, the Capital Assessments and Stress Testing Reports FR Y-14A/Q/M[1] (the Notice of Proposed Information Collection or NPIC). In relation to the temporary revisions, JPMC understands the need for timely data from reporting firms pertaining to certain aspects of the Coronavirus Aid, Relief, and Economic Security Act, and appreciates the Board's goal with respect to the many of the proposed revisions to collect data "to better understand the evolving effects of the COVID–19 pandemic on bank positions and the broader economy."[2] JPMC has worked with the industry to provide comments that have been submitted by the Bank Policy Institute (BPI) to the Board on August 17, 2020.

Additionally, the Board invites comment on this NPIC to extend for three years, with revision, the FR Y-14A/Q/M reports in order to address questions relating to the reporting of certain current expected credit losses and capital data. Our recommendations presented herein are intended to help enhance the FR Y-14A/Q/M report instructions and provide more accurate data needed to assess the capital adequacy of the firms while supporting the Board's supervisory stress test models and continuous monitoring efforts. The comments provided in this letter should be viewed in conjunction with and are incremental to the comment letter submitted by the BPI.

FR Y-14Q Schedule F – Trading

I. Non-Fair Value Private Equity

In the Board's Non-Current Expected Credit Loss (Non-CECL) Methodology Revisions in the FR Y-14A/Q/M Final Notice[3] published December 2019, the Board addressed the comments received related to reporting of non-fair value private equity investments in FR Y-14Q Schedule F and agreed to "assess whether the macro scenario is more appropriate than the global market shock for non-fair value [private equity investment] exposures. If the macro scenario is more appropriate, then the Board will propose an alternative treatment in a future notice." The Firm welcomes the Board's acknowledgement and consideration of this issue. Additionally, the Board stated in FAQ # Y140001106 on March 25, 2020 that banks could exclude tax oriented investments (TOIs) held under equity method accounting from the Other Fair Value Assets worksheet of Schedule F. We recommend that this same treatment be applied to non-fair value private equity investments (PEIs). Both investment types experience changes in investment value over a longer horizon which are more appropriately measured under the macro scenario. Due to the generally illiquid nature of PEIs, their unique accounting methodologies and expected multi-year holding period, the timing and amount of actual losses will likely not correlate with the assumptions under the global market shock (GMS). For example, GMS assumes that all balances

[1] 85 FR 41040 July 8, 2020
[2] 85 FR 41040 July 8, 2020
[3] 84 FR 37292 July 31, 2019

reported in Schedule F will be instantaneously impacted because of an economic shock. However, the volatility created by such a shock may be delayed or have little impact on non-fair value PEI book values as compared to trading assets. Therefore, treating these investments similar to trading assets subject to the global market shock misrepresents the risk profile of non-fair value PEIs. Given these factors, we strongly recommend the exclusion of non-fair value PEIs from the Private Equity worksheet of Schedule F.

II. Seed Capital

The FR Y-14Q Schedule F general instructions require the Firm to report seed capital invested in mutual funds in the Private Equity sub-schedule. , For mutual fund and Exchange Traded Fund (ETF) seed capital investments to be classified as private equity, this may subject the Firm to unfavorable stress losses as the underlying investments are in liquid marketable securities across multiple asset classes including fixed income as well as equity. Given the liquid nature of these underlying investments, the Firm proposes the instructions should not require the mutual fund and ETF seed capital investments be classified as private equity but instead be de-composed and classified within respective worksheets in Schedule F according to the underlying exposures/sub-schedules.

FR Y-14Q Schedule H – Wholesale Risk

I. Internal Risk Rating – Probability of Default

As part of the Non-CECL Methodology Revisions in the FR Y-14A/Q/M Final Notice[4], the Board established FR Y-14Q Schedule H.4 – Internal Risk Rating to collect, "the universe of internal risk ratings as reported on schedule H.1 and H.2 along with a free text description". However, the Firm views that two attributes and the proposed free form text field for a description of the internal rating are not sufficient to provide the Board the context that is needed to understand the Firm's internal ratings. The Firm proposes additional attributes to better inform the Board of the banks' internal risk ratings. The Firm believes Schedule H.4 should include internal ratings and corresponding external ratings as mapped via a comparative probability of default (PD) study. Additionally, if the external equivalent rating is not requested to be provided in Schedule H.4, then the Firm would recommend that the Board place in the FR Y-14Q instructions a rating agency equivalent PD or the Board's own standardized PD and rating scale be provided, as the European Banking Authority does, with guidance for it to be standardized across the industry. Finally, Schedule L also reports an internal and external rating equivalent factor. The Firm believes that there should be consistency across the two schedules.

In the event the FRB elects not to enhance Schedule H.4 with external rating equivalent data points, then we would recommend that the data utilized by the FRB for CCAR stress testing models be added to the FR Y-14Q instructions for standardization across the industry. In reference to the March 2020 FRB Supervisory Stress Test Methodology disclosure on page 27, the FRB cites, "the rating category is derived from the firm-reported internal credit rating for the borrower and a firm-reported table that maps the internal rating to a standardized rating scale".[5] The reference to a firm reported mapping table is not required or provided by firms as part of the FR Y-14Q process or instructions, therefore we request that it be added so the Firm can ensure the proper governance, reporting, and usage of this data related to external stress testing needs by the FRB.

II. Collateral Market Value

The instructions for Field 93 "Collateral Market Value" of FR Y-14Q Schedule H.1 state that for facilities which require ongoing or periodic valuation of the collateral, the Firm is required to report, "the market value of the collateral as of the reporting date. If the market value of collateral is not updated in the reporting entity's internal risk management systems as of the reporting date, report 'NA'." In addition, per FAQ WSL0165, Field 93, "Collateral Market Value" is not limited to collateral subject to margining and/or mark-to-market treatment, and the Firm should "report the market

[4] 84 FR 37292 July 31, 2019
[5] https://www.federalreserve.gov/publications/files/2020-march-supervisory-stress-test-methodology.pdf

value for any type of collateral that requires ongoing valuation and is updated in the BHC's internal risk management system as of the reporting date."

These instructions do not address whether collateral values for collateral types typically tracked at book value, which is a proxy for fair value, such as receivables and inventory comprising a borrowing base for asset based lending (ABL) facilities, should be included in the scope of the reporting for Field 93 "Collateral Market Value". The instructions are silent regarding whether the Firm should determine market value separately for collateral typically tracked at book value. For ABL facilities where the client is current and performing and the Firm has a perfected interest in the collateral, the vague instructions do not specifically state the need for the Firm to provide a market value for the collateral. The Firm is concerned that the ambiguous instructions for Field 93 "Collateral Market Value" could cause a divergence in practice across the industry and result in unintended unfavorable stress losses for the Firm. Therefore, the Firm strongly recommends that Field 93 "Collateral Market Value" be updated to "Collateral Value" to allow all types of collateral values, including those typically risk managed at book value.

III. Number of Days Principal or Interest Past Due

Field 32 of Schedule H.1 and Field 37 of Schedule H.2 of FR Y-14Q, "# Days Principal or Interest Past Due", capture the longest number of days that principal and/or interest payments are past due at the facility level. However, in cases where a facility has multiple loans and not all loans under the facility are past due, this reporting approach would not provide accurate information about the past due loan amount under the facility. For example, assume a credit facility that contains a commercial card, which is a revolving credit line, if the counterparty misses one payment on their commercial card the entire facility would be reportable as past due. In addition, it would trigger a failure for the interseries edit checks comparing utilized exposure reported on Schedules H.1 and H.2 to the amounts reported in the corresponding FR Y-9C, Schedule HC-N delinquency bucket. This is because Schedule HC-N reports past due loans at a loan level and not at a facility level. Given these issues, the Firm believes collection of past due loan balances by delinquency buckets rather than longest number of days past due at a facility level is a more appropriate way for reporting. The Firm recommends the addition of either new delinquency buckets or a new data field for total past due loan balance under a facility to complement the longest number of days past due.

IV. Capital Call Subscriptions

The current Schedule H.1 instructions do not require the Firm to report information regarding exposures to capital call subscriptions. In the March 2020 proposal by the Board to revise the FR Y-14A/Q/M[6] reports, the Board proposed to add allowable values to Schedule H.1, Field 20 "Credit Facility" and Field 22 "Credit Facility Purpose" that would require the Firm to indicate which facilities are capital call subscriptions. However, Field 36, "Security Type", did not have a corresponding proposed change to also reflect the underlying type of collateral associated with these facilities. Without an update to "Security Type", the Firm believes that there is no viable method for the Board to properly assess assets typically associated with capital call subscriptions, as there is currently no allowable valuable to capture the Firm's ability to require a fund manager to inject more capital into a fund that is declining in value. The Firm proposes that an allowable value that corresponds with the capital call subscriptions be added in Field 36 "Security Type" to capture the types of collateral that are available on these facilities so that the Firm is not subject to unfavorable stress losses.

V. Credit Facility Type and Credit Facility Purpose

The instructions for FR Y-14Q Schedule H.1, Field 20 "Credit Facility Type" state the firms must report the credit facility type among the provided credit facility type descriptions. Similarly, the instructions for FR Y-14Q Schedule H.1, Field 22 "Credit Facility Purpose" state the firms must report the credit facility purpose among the provided credit purpose descriptions. The Firm requests the Board provide definitions for the allowable values in both

[6] 85 Fed. Reg. 15776 (March 19, 2020).

Field 20 and Field 22 in a similar manner as the definitions provided for Schedule H.2 Field 25, "Loan Purpose". These definitions are needed to ensure accurate reporting. For example, for Credit Facility Type, should the Firms use the industry-wide designation of Term Loan B to indicate institutional term loans? Or is there another definition of the various term loan options, such as the number of term loans originated to the same client? For "Credit Facility Purpose", there are several purpose codes that can be used in a range of circumstances, such as "Working Capital", "General Corporate Purposes" and "Project Financing". In addition, the Firm believes that the vague instructions for "Credit Facility Type" and "Credit Facility Purpose" could cause a divergence in practice across the industry with respect to the reporting of these fields in FR Y-14Q Schedule H.1.

VI. Disposed Loans

With respect to disposed loans, all current fields on the FR Y-14Q, Schedule H.1 are required to be reported with data/balances as of the date just prior to disposition. Disposed loans do not represent the exposure/risk of the reporting institution as of the reporting date. The Firm recommends the reporting requirements of disposed loans should collect only certain fields such as disposition type, disposition month, etc. Or, at least the Firm should be permitted to report the values for disposed facilities as they existed in the quarter prior to disposal, not as of date just prior to disposition. This proposal would require the FRB to rescind FAQ Y140000718 which states the instruction for data and balances as of date just prior to disposition. This FAQ imposes a significant burden since it requires a quarterly schedule to source daily data.

VII. Held for Sale / Fair Value Option Reporting

Currently there are 6 different Fields for HFS/FVO reporting within Schedule H, which the Firm believes should be standardized. There are 4 balance Fields associated to Utilized Par/Fair Value and Committed Par/Fair Value, a Lower of Cost or Market (LOCOM) indicator Field, and the Target Hold Field for syndication pipelines. Since the Par/Fair Value Fields were added to both Schedule H1 and H2, effective in Q1 2020, the Firm views that the LOCOM indicator Fields and Target Hold Field are no longer necessary.

FAQ #Y140000135 states to report the LOCOM indicator Field in Schedule H based on the "predominate share committed balance". The predominate share can now be derived by the FRB with the Utilized Par/Fair Value and Committed Par/Fair Value Fields in Schedule H1/H2, if the FRB's intent is for the Firm to report only the portion of the facility in these fields that the Firm intends to sell, rather than the entire facilities commitment, including both HFI and HFS components. Similarly, the Target Hold Field in Schedule H.1, which is only to be populated for syndicated pending commitments, does not appear to serve a viable purpose due the fact that the corresponding commitment amount is now populated within the Committed Exposure Global Par/Fair Value Fields. When the Firm intends to hold a portion of the overall commitment as held for sale and a portion as held for investment, the Firm believes that the reporting provides a way for the FRB to derive the HFI commitment by subtracting the Committed Exposure Par/Fair Value Field from the Committed Exposure Global Field or dividing it respectively. The Firm recommends the Board to remove the LOCOM and Target Hold Fields from Schedules H.1 and H.2.

Finally, the existence of FAQ #Y140000135 mentioned above create instructions that are ambiguous on how to report the Utilized/Committed Par/Fair Value Fields, especially if the LOCOM indicator Field remains. For example of reporting in Schedule H.1, assume that a $100mm facility is fully funded, $30mm of which is HFS with a $5mm LOCOM adjustment. Field 86 "Lower of Cost or Market" will reflect a value of "3 – NA", as the predominant portion of the facility is HFI. Should firm also report 'NA' in Fields 106 "Utilized Exposure Global Par Value" and 107 "Committed Exposure Global Fair Value" to ensure consistency (i.e the predominant portion of the facility is HFI)? The Firm is requesting clarification to ensure accurate reporting.

VIII. Obligor Financial Data

With respect to the FR Y-14Q Schedule H.1 general instructions, Section C – Obligor Financial Data, the Firm views certain statements as contradictory which may lead to a diversity in practice. The instructions state that "The Obligor Financial Data Section relates to the legal entity that provides the primary source of repayment for the credit facility identified in Field 15. If the legal entity used by underwriting as the primary source of repayment is different from the legal entity actually making the payment, report the Obligor Financial Data Section for the entity used by underwriting." However, the instructions continue, "Note, the legal entity that provides the primary source of repayment will generally be different from the guarantor, which provides secondary support for repayment. Information related to the guarantor should be reported in Fields 44 through 48 of the Loan and Obligor Description section." The ambiguity of the instructions can be interpreted as even if the guarantor entity is used in underwriting as a primary source of repayment, where the result is an improvement in the grade of the facility because the guarantor has a better rating than the obligor, the Firm should not report the Obligor Financial Data Section for the guarantor. The Firm is requesting clarification as to whether guarantor can be viewed as a primary source of repayment such that the guarantor's data should be reported in the Obligor Financial Data Section in those instances where the guarantor entity is indeed used in underwriting to positively impact the facility grade. If the answer is "yes' to the above, the Firm suggests to strike out following sentence from the instructions to eliminate uncertainty: "Note, the legal entity that provides the primary source of repayment will generally be different from the guarantor, which provides secondary support for repayment. Information related to the guarantor should be reported in Fields 44 through 48 of the Loan and Obligor Description section."

In addition, with respect to the FR Y-14Q Schedule H.1 general instructions, Section C – Obligor Financial Data, the Firm is looking for instructional changes regarding reporting requirements for this section. There may be instances where obligor financial data is irrelevant for underwriting and subsequent credit risk monitoring for the certain borrowers (i.e. startup companies with limited or no financials, professional sport leagues that would be more qualitatively underwritten, loans fully secured by marketable securities or letters of credit, or investments that are classified as loans under GAAP but the credit risk is not based on obligor repayment). The financial data are not always considered in the underwriting decision and the obligor is not required to provide financials on an ongoing basis, as the credit risk can be mitigated by substantial collateral pledged and other factors.

The Firm notes that reporting or not reporting obligor's financial data in Section C may not be meaningful in these instances. Therefore. the Firm is respectfully requesting to add the following reporting language to the Fields 52 through 82 "If obligor financial data is not relevant for underwriting and is not required for ongoing credit risk management, *report* NA" to avoid operational burden driven by reporting these fields or edit checks, if left blank. This modification would allow the Board to better understand which clients have grading criteria materially not utilizing client financials and would also avoid the operational burden for false positive edit checks being explained each quarter.

FR Y-14Q Schedule H Wholesale Risk/FR Y-14M Schedule A Domestic First Lien Closed-end 1-4 Family Residential Loans

I. Risk Transfer – Credit Protection for On-Balance Sheet Loans

As part of its risk management activities, the Firm purchases first-loss or other subordinated credit protection from third parties referencing an on-balance sheet portfolio of loans (e.g., commercial and industrial loans or domestic first lien closed-end 1-4 family residential loans) via a credit default swap, an issued credit linked note, or a consolidated securitization transaction. This purchased protection can result in reduced losses on the senior risk retained in the underlying loans. The FR Y-14Q and the FR Y-14M reports do not collect all data necessary to allow the supervisory models to capture the benefit of first-loss or other subordinated credit protection for an on-balance sheet portfolio of loans.

The FR Y-14Q and FR Y-14M collect granular credit facility level detail in sub-schedule H.1 and sub-schedule A.1, respectively, but do not collect data to allow the FRB to identify loan portfolios with tranched credit protection, the amount and nature of non-prorata protection purchased, whether securitization capital treatment has been applied, or the amount of subordination (i.e., attachment & detachment point). The Firm proposes the Board update the FR Y-14Q Schedule H and FR Y-14M Schedule A instructions to allow the Firm to properly reflect the risk associated with on balance sheet loans for which tranched credit protection has been purchased. The Firm wants to ensure these loans, which are reportable in the FR Y-14Q Schedule H and FR Y-14M Schedule A, are accurately stressed to reflect the Firm's risk.

JPMC appreciates the opportunity to provide these comments. We would be pleased to provide any further information or respond to any questions.

Respectfully submitted,

Carl McKay
Managing Director