BANK POLICY INSTITUTE

August 17, 2020

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: Capital Assessments and Stress Testing Reports (FR Y-14A/Q/M; OMB No. 7100-0341)

To Whom It May Concern:

The Bank Policy Institute[1] appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's *Temporary approval of information collection; notice, request for comment* related to the Capital Assessments and Stress Testing Reports (FR Y-14 A/Q/M).[2] BPI understands the need for timely data from reporting firms and appreciates the Federal Reserve's goal with respect to 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." However, given the short lead-time for firms to implement revisions, including modifications to a schedule to be reported monthly that has thus far only been provided on a quarterly basis, the condensed timeframe prior to initial reporting creates significant issues for responding firms. Our recommendations presented herein would alleviate some of the burden associated with these temporary revisions, while still providing the Federal Reserve with necessary and useful data. We also request clarification on a number of items that would assist firms in providing the granular data requested in the Proposal.

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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 85 Fed. Reg. 41040 (July 8, 2020).

I. The scope of data requested in the monthly submission of Schedule H (Wholesale) should be modified to alleviate reporting burden while continuing to provide the most useful available data.

As outlined in the revised instructions to the FR Y-14Q and the Proposal, the Federal Reserve is instituting a temporary change in the frequency of Schedule H (Wholesale), changing the reporting from a quarterly basis to a monthly basis for Category I-III firms beginning with the July 31 as-of date, and each monthly reporting would be due 30 days after month-end. As a result of this change in frequency combined with the change in reporting deadline for Schedule H, respondents will have approximately 15 fewer days to provide the data than under the current quarterly reporting cycle. Given the considerable volume of data required to be reported in Schedule H, this truncated reporting timeline does not provide sufficient time for firms to perform the necessary testing and subject the reporting to their existing control and review processes, including with respect to data governance and validation. As a result, replicating the intensive quarterly governance process for Schedule H (in its entirety) on a monthly basis within this short timeline provided is not feasible. This has been acknowledged by the Federal Reserve as the standard attestation process is not required for both the intra-quarter monthly submissions of Schedule H and the temporary revisions.[3]

In order to assist banks' efforts to provide timely data to the Federal Reserve, there are certain modifications that could be made to the scope of the monthly data request that would decrease the burden, while still providing the Federal Reserve with the requested information. Currently, there are many attributes on Schedule H that are either not available or not collected on a monthly basis. For example, the data required for Participation Flag in Schedule H.1, Line Item 34 and Schedule H.2, Line Item 7 is dependent on the Shared National Credit Report, which is not available on a monthly basis. With the limited lead-time available to firms before they are required to increase the frequency of the requested reporting, it is not possible for firms to systemically implement the technological changes necessary to obtain data that is not already collected on monthly basis.

Additionally, as the Proposal states that the requested reporting will be temporary (absent further extension by the Federal Reserve) firms would be required to undergo significant operational burden to prepare new monthly reporting that would only be required through the December 31, 2020 report date,[4] further straining firms' resources that are also in the process of implementing other significant reporting changes in response to regulatory requests and proposals.[5] Further, many firms have already redistributed resources to quickly and efficiently respond to the COVID-19 pandemic and the associated economic crisis in order to meet the financial needs of those most affected. In recent months, firms have also been faced with addressing their own challenges with COVID-19, dealing with a shift to a number of employees now working from home, and disruptions to third-party service providers.

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3 *See* Federal Reserve, *Instructions for the Capital Assessments and Stress Testing information collection (Reporting Form FR Y-14Q)* (Modified June 2020), *available at* https://www.federalreserve.gov/reportforms/formsreview/FR_Y-14Q_Instructions_Update.pdf.

4 *See* 85 Fed. Reg. 41040.

5 Including the ongoing Emerging Risk Data Collection, the Call Report revisions proposed on July 22, 2020, the changes to the FR Y-9 Reports pertaining to the July 7, 2020 Temporary approval of information collection, request for comment, and the outstanding revisions to the FR Y-14 reports proposed in March 2020.

While respondents will endeavor to report the requested data on a monthly basis where possible, certain attributes on Schedule H require information that is not readily available on a monthly basis, including, but not limited to, CECL forecasting data, client financials, and information related to Probability of Default, Loss Given Default and Exposure at Default. For these types of attributes, in an effort to comply with the short implementation timeline for the revised frequency of reporting, firms may rely on their current processes, some of which do not occur on the frequency that the Federal Reserve is requesting the data, in some cases resulting in reporting static balances for months that are not aligned with quarter-end.

II. The scope of edit checks required for the monthly FR Y-14Q Schedule H (Wholesale) submission should be limited to syntax edit checks.

In the standard reporting cycle of the FR Y-14Q, the edit check process can be time-consuming and lead to increased burden, including for immaterial errors. Therefore, BPI is supportive of the Federal Reserve's recent changes to exclude certain edit checks from the monthly reporting process.[6] However, it is unclear as to whether the quarterly edit checks need to be performed on the monthly submissions of Schedule H, as the instructions related to these temporary revisions do not specify whether these edit checks are applicable. Applying all of the existing quarterly edit checks to the monthly submission would be particularly problematic, as certain edit checks that are completed for Schedules H.1 and H.2 are directly linked to other existing quarterly reports. They would therefore be difficult to replicate for monthly reporting and would result in the burdensome process of providing explanations as to why they may not be an error in the intra-quarter series. This process can take a considerable amount of time and resources, which is particularly challenging on the already truncated 30-day reporting schedule for each monthly report. We therefore recommend that quality inter- and intra-series, and validity edit checks, be scoped out of the monthly reporting of Schedule H and only syntax edit checks should be included for the purposes of these submissions.

III. The reporting requirements for Paycheck Protection Program loan data should be modified to permit firms to report the entire population of such loans in Schedule K (Supplemental) of the FR Y-14Q.

We are supportive of the Federal Reserve's revised instructions that explicitly exclude loans guaranteed by the Small Business Administration (SBA) as part of the Paycheck Protection Program (PPP) from the loan population on Schedule H, as requested in industry feedback. This exclusion is appropriate as PPP loans are not "graded" or "rated" comparable to the existing loan population of Schedule H and has the attendant benefit of reducing reporting burden. However, the revised instructions would require respondents to report PPP loans in Schedule A.9 (Small Business) beginning with the September 30, 2020 report, which would similarly complicate the reporting of PPP data.

Unlike standard SBA loans, PPP loans are fully guaranteed by the SBA[7] and pursuant to the program's requirements, institutions providing PPP loans are not required to undertake a credit underwriting process that is required of most other loans. As a result, these loans are not rated and the credit quality of the business entity receiving the loan are not evaluated. The general instructions for Schedule A.9 state that firms should "include all 'scored' or 'delinquency managed' small business

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[6] *See* Federal Reserve, *FR Y-14Q Technical Submission Instructions* (Modified August 4, 2020).

[7] *See* 85 Fed. Reg. 20811 (April 15, 2020).

domestic loans."[8] Since PPP loans are not scored or delinquency managed, they do not conform to the historical reporting requirements for Schedule A.9 and do not meet the reporting system criteria for many firms' reporting of this schedule. In order to accommodate the revised instructions to report PPP loans in Schedule A.9, firms would be required to make operationally burdensome coding changes to capture data that the Federal Reserve currently anticipates will only be required on a temporary basis. Firms are expected to report the full population of PPP loans in Schedule A.9, the Retail schedule, as the Proposal states that this new temporary collection is in place "[i]n order to identify loans fully guaranteed by the U.S. government, such as loans associated with the PPP," however, PPP loans may have both retail and wholesale counterparties.[9] As a result, this would require firms to commingle wholesale and retail data within the Retail schedule.

Further, for Schedule A.9, firms are instructed to segment the portfolio based on variables such as product type, age, original commercially available credit bureau score or equivalent, delinquency status, and secured or unsecured. As noted above, given that PPP loans are originated outside the typical origination process for small business loans, firms may not have the metrics available for all of the relevant segment variables to assign segments for the full PPP population consistent with the instructions for Schedule A.9. Similarly, as most PPP loans would not be expected to be currently delinquent and will be segmented as "N/A" for the purposes of the original commercially available credit bureau score or equivalent, it is likely that the data for PPP loans from these segment variables will not provide the Federal Reserve with meaningful information as the PPP loan population is relatively homogenous in terms of the requested segmentation.

Institutions' participation in the PPP has significantly increased certain firms' small business loan portfolios, which, combined with the proposed requirement to report PPP loans in Schedule A.9, would result in such firms temporarily breaching the materiality threshold in place for Schedule A.9. As PPP loans are backed by the SBA and many are anticipated to be forgiven in accordance with the PPP, this breach of the materiality threshold for Schedule A.9 is largely expected to be temporary (e.g. for one year or less). Firms that have not previously reported on Schedule A.9 would now be required to do so only as a result of their participation in a Federal program designed to "assist small businesses nationwide adversely impacted by the COVID-19 emergency."[10] Absent reporting relief, firms would be required to develop the necessary systems to complete a brand-new schedule for reporting these short-term fully-guaranteed loans on a temporary basis. Further, in accordance with the instructions, these firms would also be required to produce thirteen years of historical data.[11] Providing this amount of historical data in this context, and particularly on an expedited timeframe, would be exceptionally challenging for firms and would likely provide minimal utility.

For these reasons, we therefore recommend that the full population of PPP loans be reported on Schedule K (Supplemental) and that the Federal Reserve create a new column in Schedule K devoted solely to PPP loans. This approach would permit firms to report PPP loans in future reporting periods

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8 Federal Reserve, *Instructions for the Capital Assessments and Stress Testing information collection (Reporting Form FR Y-14Q)* (Modified June 2020), at Page 48, *available at* https://www.federalreserve.gov/reportforms/formsreview/FR_Y-14Q_Instructions_Update.pdf.

9 85 Fed. Reg. 41040 at 41043.

10 *See* 85 Fed. Reg. 20811 (April 15, 2020).

11 The revised instructions state that "[n]ew reporters must also submit historical data, starting in January 2007, for the FR Y-14Q retail schedules."

consistently with how the Federal Reserve is permitting them to be reported as of June 30, 2020, in line with the recent FAQ Y140001217.[12] Similarly, it would be consistent with Federal Reserve's reporting changes that added new columns to Schedule K in order to temporarily collect data related to the Main Street Lending Program.

In the event that the Federal Reserve does not accept our recommendation to allow firms to report the full population of PPP loans in Schedule K, we recommend that the Federal Reserve provide a waiver for the firms that would only temporarily breach the materiality threshold as a result of their participation in the PPP, allowing such firms to report this data in Schedule K and thus excluding PPP loans from the calculation of the materiality threshold. To date, the agencies have shown flexibility and have made attempts to mitigate the effects of firms' participation in certain facilities intended to support the broader economy.[13] However, if the Federal Reserve does not grant such a waiver, we strongly recommend that the requirement to submit historical data for the schedule for firms that breach the materiality threshold exclusively as a result of their participation in the PPP program should be removed. Alternatively, if the Federal Reserve determines that some historical data is required, we recommend a significantly condensed requirement of data starting in January of 2019, that would provide the Federal Reserve with insight into a firm's historical numbers, while significantly reducing the associated burden.[14]

IV. The instructions for the new line item Schedule M 2.b.(1) (Paycheck Protection Program (PPP) loans) should be revised to clarify the appropriate reporting of PPP loans.

The revised instructions for Schedule M (Balances) require firms to exclude PPP loans from Line Item 2.a (Graded C&I loans) and Line item 2.b (Small Business loans) and instead require firms to report such balances in the newly added reporting Line Item 2.b.(1). However, as this new reporting item is a sub-line item of Line item 2.b (Small Business loans), it is unclear as to how firms should report PPP loans that may be reported in other reporting lines (i.e., Agricultural loans, Loans to Financial Institutions, and other commercial loans). We therefore recommend that the instructions be revised to clarify whether firms should report the total population of PPP loans on Line Item 2.b.(1) or if firms should only include those PPP loans that are considered to be small business loans. Much like in Schedule A.9, as discussed above in Section III, if it is the Federal Reserve's intention that firms report the full population of PPP loans as a sub-line item to Line Item 2.b, firms would be required to commingle PPP loans of varying types within a small business specific line item, which could similarly complicate the reporting of PPP data.

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12 *See* Federal Reserve, *Capital Assessments and Stress Testing Information Collection Q&As*, August 2020, *available at* https://www.federalreserve.gov/publications/files/fr-y-14-qas.pdf.

13 *See* Federal Reserve, OCC, FDIC, *Regulatory Capital Rule: Money Market Mutual Fund Liquidity Facility*, 85 Fed. Reg. 16232 (March 23, 2020); Federal Reserve, OCC, FDIC, *Regulatory Capital Rule: Paycheck Protection Program Lending Facility and Paycheck Protection Program Loans,* 80 FR 20387 (April 13, 2020); and FDIC, *Assessments, Mitigating the Deposit Insurance Assessment Effect of Participation in the Paycheck Protection Program (PPP), the PPP Liquidity Facility, and the Money Market Mutual Fund Liquidity Facility* 85 FR 38282 (June 26, 2020).

14 The Federal Reserve should further reconsider the requirement for new filers of a schedule to report historical data going back to January 2007 as opposed to a more recent date, more broadly with respect to the retail schedules FR Y-14Q.

V. The requirement in the "Loss Mitigation" variable on Schedule A.7 and Schedule J, Column I of the FR Y-14Q to report balances for loans that completed loss mitigation during the reporting period should be eliminated.

The revised instructions for the "Loss Mitigation" variable in both Schedule A.7 (US Other Consumer) and Schedule J (Retail Fair Value Option/Held for Sale) would require firms to include the total unpaid principal balance for loans that are currently in loss mitigation, as well as those that have completed loss mitigation during the current reporting period. Loans that have completed loss mitigation, or loans for which loss mitigation has expired during the reporting period, are no longer actively in loss mitigation. Including balances for loans that are no longer in loss mitigation as-of the reporting date in this variable would be misleading and would likely provide minimal value, as these balances are not representative of firms' current loss mitigation activities. Further, storing and reporting loans for which loss mitigation has been completed or expired will require a complex system build, which creates further burden for reporting that the Federal Reserves has deemed necessary for less than six months. We therefore recommend the removal of the requirement for firms to report data for loans that were in loss mitigation during the reporting period, if such loss mitigation was completed prior to the end of the reporting period.

VI. The treatment of commitment exposures for Main Street Lending Program loans in Schedule H.1, Field 24 and Schedule H.2 Field 5 of the FR Y-14Q should be aligned with their treatment in the FR Y-9C.

The revised instructions include new commitment language in Schedule H.1, Field 24 and Schedule H.2 Field 5 (Committed Exposure Global) for loans that are a part of the Main Street Lending Program (MSLP). This new language states that for commitment exposures for loans associated with the MSLP, firms are required to include only the reporting entity's exposure, which implies the net amount that does not include other entities' (including the Federal Reserve's) participation in the loan. This treatment of commitment exposures may be inconsistent with the treatment of the remaining population of lending commitments reported in Schedule H. The exposure amounts reported on Schedule H may include the entire unused amount of commitments, including those acquired from and conveyed or participated to other entities, if firms are legally bound to fund the commitments if the party to whom the commitment has been conveyed or participated fails to perform. Further, as the loan population in Schedule H is linked to Schedule HC-L of the FR Y-9C, this potentially creates an inconsistency with the reporting of commitments on the FR Y-9C. This potential disparity may introduce operational complexity in tracking facilities by program. We therefore recommend that the Federal Reserve remove this revised language to ensure consistency not only within the FR Y-14Q but also with the FR Y-9C.

VII. The instructions should be modified to clarify how existing troubled debt restructurings that receive COVID-19 related modifications should be treated for the purposes of the Modifications Flag in Schedule H.1, Line Item 109 and Schedule H.2, Line Item 70 of the FR Y-14Q.

For many firms, there are certain loans that were classified as troubled debt restructurings (TDRs) prior to the onset of COVID-19 that have undergone further deterioration as a result of the pandemic, even if they were previously performing in accordance with the modified terms. As a result, some of these loans have been subsequently modified pursuant to the CARES Act or the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers

Affected by the Coronavirus (Revised). As proposed, the revised instructions for the new Modifications Flag fields in Schedules H.1 and H.2 of the FR Y-14Q do not provide an appropriate option for this population. Options 1-3 appear to exclude these legacy TDRs, therefore leaving no applicable option for such a population of loans. Option '1' is explicitly for facilities that are exempt from the application of TDR accounting as a result of CARES Act Section 4013, Option '2' is for those facilities that have modifications pursuant to the Interagency Statement that are therefore exempt from the application of TDR accounting, and Option '3' is for facilities in other COVID-19 related loss mitigation programs and not otherwise reported as a TDR. We therefore recommend that the Federal Reserve clarify if firms should report this loan population of legacy TDRs using the Option '0 - NA'. Alternatively, if it is the Federal Reserve's intention that these existing TDRs are not coded using Option '0' for the purposes of the Modifications Flag, we recommend that an additional variable be created to aptly capture this particular population of modifications in Schedule H.

VIII. The Federal Reserve should ensure that questions pertaining to the new reporting requirements are answered promptly in light of the short timeframe firms have to implement the requested reporting.

There are a number of questions and requests for clarification pertaining to the revised instructions related to these temporary revisions as there is ambiguity around certain aspects of the reporting. It is our understanding that a number of questions on the revised instructions have been, and will continue to be, submitted by individual respondents in an effort to receive clarifications as soon as possible and to enable institutions to implement the necessary reporting changes. In order to assist firms to accurately report the requested items, we recommend that the Federal Reserve establish a dedicated Frequently Asked Questions (FAQ) process with an expedited turnaround time to address any requests for clarification related to these temporary revisions. The current FAQ process in place for FR Y-14 reporting can at times result in a lengthy delay between a question being asked and receiving an answer, making it difficult for firms to implement necessary changes in a timely manner. We are aware and appreciative of the Federal Reserve's efforts on timely FAQs with respect to the emergency facilities that have been implemented by to date,[15] as well as the Emerging Risk Data Collection, in which the Federal Reserve has recognized the need to provide participants with clarity and consistency on issues related to their implementation and as a result have provided responses to FAQs on an expedited basis. In light of the short implementation timing for the current revisions, we recommend a similar approach for these temporary revisions to the FR Y-14 reports.

IX. In the event that the Federal Reserve elects to extend the temporary revisions to the FR Y-14 series beyond the December 31, 2020 reports, the Federal Reserve should notify respondent firms as early as possible.

The Federal Reserve has stated clearly that it does not intend to require firms to continue with the temporary revisions to the FR Y-14 reports, including the temporarily revised submission frequency of FR Y-14Q, Schedule H, beyond the December 31, 2020 report date. We are supportive of the temporary nature of these reporting items and encourage the Federal Reserve to maintain the sunset period provided in the Proposal. While the Proposal states that the Federal Reserve may determine that an extension of these revisions is necessary, we strongly recommend that the Federal Reserve only undertake an extension with respect to reporting items that are the most critical, and that in the event of such a determination, we respectfully request that the Federal Reserve inform firms as early as

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15 https://www.federalreserve.gov/funding-credit-liquidity-and-loan-facilities.htm.

possible. Providing additional clarity with respect to the end-date for the extensive temporary revisions will assist respondents in appropriately planning for required resources, as putting together a reporting system that is only intended to operate for several months may require a different level of resources than would be required for a reporting system that is intended to remain operable for a longer period of time.

Similarly, while we acknowledge that significant advanced notice of new reporting may not always be feasible, it would be particularly helpful in the current environment where firms are already reallocating resources in a variety of ways to meet the evolving needs of customers and requests from their regulators. Understanding that the economic climate is uncertain in light of the current COVID-19 pandemic and therefore the Federal Reserve's needs for more granular and varied data may continue to evolve, we respectfully request that the Federal Reserve provide as much lead-time as practicable with regard to any additional reporting requested. Under normal conditions, it would take several months for firms to implement a new reporting requirement due to the required systems build and control processes and, in many cases, firms have some form of advanced notice of proposed changes. While those timeframes may not be possible given current supervisory needs, providing as much advanced notice as possible will help ease the burdens on reporting firms and allow them to better plan for resource needs.[16]

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[16] We also note that the Federal Reserve has not yet finalized revisions to the FR Y-14 reports proposed on March 19, 2020, including the removal of the PPNR Metrics worksheets from the FR Y-14A. We strongly recommend that specifically for the capital plan resubmission with a June 30, 2020 as-of date, firms should be given the option to include or remove this data. As the Federal Reserve acknowledged in the initial proposal, elimination of the PPNR Metrics worksheets from the FR Y-14A would significantly reduce burden and duplicative reporting for respondents, as PPNR results are already available on the PPNR Projections and Net Interest Income worksheets of the FR Y-14Q, and therefore "all information necessary to conduct supervisory stress testing and qualitative reviews of firms' capital plans" is readily available.

The Bank Policy Institute appreciates the opportunity to comment on the Proposal. If you have any questions, please contact the undersigned by phone at 646-736-3961 or by email at Brett.Waxman@bpi.com.

Respectfully submitted,

Brett Waxman
Senior Vice President & Senior Associate General Counsel
Bank Policy Institute

cc: Michael Gibson
Mark Van Der Weide
Lisa Ryu
Board of Governors of the Federal Reserve System

Maryann Kennedy
Jonathan Gould
Office of the Comptroller of the Currency

Doreen Eberley
Nicholas Podsiadly
Federal Deposit Insurance Corporation