



UBS AG

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August 8, 2017

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
OMB control number: 7100-0341

Re: Proposed Amendments to the Scope of Supervisory Stress Testing for Intermediate Holding Companies of Foreign Banking Organizations Introduced through Revisions to the Forms FR Y-14A/Q/M

Dear Ms. Misback:

UBS appreciates the opportunity to comment on the recent information collection proposal ("Proposal") by the Board of Governors of the Federal Reserve System (the "Board") to revise the mandatory capital assessment and stress testing information collection applicable to bank holding companies ("BHCs") and to intermediate holding companies ("IHCs") with \$50 billion or more in total consolidated assets.¹ The proposed revisions include modifications to the FR Y-14 M/Q/A reports as well as the application of the global market shock ("GMS") component of the Board's supervisory stress tests to certain IHCs that meet the thresholds set forth in the Proposal. Our comments are intended to constructively address the proposed amendments, which would apply to UBS and imply material changes to our existing processes and capital requirements.

In addition to this comment letter, UBS has participated in the preparation of comment letters written by The Clearing House Association and the Institute of International Bankers and strongly supports their comments and recommendations.

Proposed GMS threshold

The GMS currently applies to six of the eight US global systemically important bank holding companies ("G-SIBs"), including Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, and Wells Fargo.² These G-SIBs are subject to the GMS based on a determination that they conduct "significant trading activity" as evidenced by existing thresholds defined as (i) meeting the threshold for the market risk rule and (ii) having total consolidated assets greater than \$500 billion.³ The Proposal would materially amend the existing thresholds to apply the GMS to any BHC or IHC that (i) has aggregate trading assets and liabilities of \$50 billion or more or aggregate trading assets and liabilities equal to 10% or more of total consolidated assets and (ii) is not a "large and noncomplex firm" under the Board's recently amended capital plan rule.⁴ As described in the Proposal, the amendments to the GMS thresholds would continue to subject the six US G-SIBs to the GMS, but would now subject five IHCs to the GMS requirement, including UBS's IHC. No additional US BHCs beyond the six US G-SIBs would be subject to the GMS as a result of the proposed amendments.⁵ Thus, the design of the Proposal's GMS thresholds, and resulting increase in *ex-ante* capital requirements, only affects the IHCs named in the Proposal.

¹ *Proposed Agency Information Collection Activities; Comment Request*, 82 Fed. Reg. 26,793 (June 9, 2017)

² The GMS currently does not apply to two of the eight US G-SIBs: Bank of New York Mellon and State Street.

³ *Policy Statement on the Scenario Design Framework for Stress Testing*, 78 Fed. Reg. 71,435 (November 29, 2013)

⁴ *Capital Plan Final Rule*, 12 CFR 225.8(d)(9)

⁵ The five IHCs that are likely to become subject to the GMS on the basis of the proposed thresholds would be the US IHCs of Barclays, Credit Suisse, Deutsche Bank, HSBC, and UBS

As a result of the proposed changes to the GMS thresholds, UBS would be subject to the GMS despite a materially different risk profile than any of the US G-SIBs currently subject to the GMS. In fact, with \$16 billion in trading assets as of June 30, 2017, UBS's IHC has trading assets that are only **1/16th** of the average trading assets of the G-SIBs that are currently subject to the GMS and significantly lower than the other four IHCs scoped in by the new thresholds. In addition, the majority of our US IHC's trading assets as defined in the Proposal are primarily held as part of the IHC's liquidity buffer. Given that the policy objective of the GMS as defined in supervisory guidance is to capture the risks of "significant trading activity", the Board should consider amending the thresholds as currently proposed to better reflect that objective. As a general matter, certain fundamental flaws exist in applying the "significant trading activities" designation to a notionally-defined pool of exposures without taking into account the risks posed by or the business purpose of those exposures. The definition applied under the Proposal does not sufficiently account for the fact that the threshold captures Level 1 High Quality Liquid Assets (HQLA), which are held as part of the liquidity buffer and are the highest quality and most liquid assets. Further, the designation of a fixed percentage of total consolidated assets without any defined empirical analysis appears to unreasonably consider the exposures' impact on a firm's capital base as significant and thus warrant additional data collection requirements. At a minimum, the Board should consider adjusting the definition of trading assets by removing HQLA.

UBS has materially reduced its global risk profile as a result of strategic initiatives since the financial crisis to reduce the size and complexity of our business model. These changes have resulted in material reductions in the US balance sheet and risk profile. Given recent initiatives intended to direct a policy approach to more directly tailor prudential standards to foreign banking organizations based on their US-based activities, the Board should consider whether the Proposal adequately meets that standard. We note that this need for a tailored approach was acknowledged in the US Treasury Report.⁶

Given these observations, the Board should reconsider the applicability of the Proposal's threshold or, at a minimum, re-evaluate the efficacy and intent of the Proposal's embedded definitions, to ensure that the objectives of the CCAR program are fully realized.

The Board should provide sufficient time for compliance

The Proposal revises the existing CCAR information collection to implement new reporting schedules for the Covered IHCs and add new data items to existing schedules. Given the incremental requirements, respondents will need to develop internal processes and procedures, hire or repurpose staff and expertise, and develop appropriate systems in order to comply with the requirements of the proposed data collection. Assuming that the reporting schedules are finalized within 30 days from the close of the comment period, respondents will only have a limited number of days to develop their processes to capture the September month-end data. The Board should provide respondents sufficient time to develop systems to capture the requested data items.

In the past where the Board has implemented changes similar to those addressed in the Proposal, most respondents have been forced to develop their systems and reporting process changes during the proposal phase in order to comply with the Board's timing. However, in those previous instances, many respondents were challenged to enhance their systems to accurately capture the specific requirements of many of the items within the required templates and schedules.

In fact, while the Board has previously recognized this challenge, the current Proposal does not appear to reflect the considerations noted in prior changes to the FR Y-14 reporting requirements as outlined in the following excerpts from the noted Federal Registers:⁷

In regard to overall timing, several commenters requested that going forward the Federal Reserve either set a mandatory minimum amount of time between the finalization of changes to the FR Y-14 and the implementation date or alter the timeframe by which proposals are issued and finalized. The Federal Reserve

⁶ US Department of the Treasury, *A Financial System that Creates Economic Opportunities: Banks and Credit Unions* (June 2017)

⁷ 78 Fed. Reg. 59,934 (September 30, 2013)

recognizes the challenges associated with implementing changes to FR Y-14 reporting requirements in a timely manner when the changes are finalized close to the reporting deadline. The Federal Reserve is carefully considering various longer-term options to address this comment that would increase the time between the finalization of changes to the FR Y-14 and their implementation date.

More specifically, regarding changes to the FR Y-14 Trading schedules, the Board noted the following; however, in considering the current Proposal, the Board did not conduct any industry calls as it had done in the past:⁸

The proposed changes would (1) provide additional granularity from firms' trading portfolios to capture behavior that greatly varies from the current aggregates, (2) bring asset movement collections in line with the stress scenarios from the CCAR and DFAST of 2013, (3) be responsive to industry feedback, and (4) remove information that is not currently applicable to many respondents. The Federal Reserve has conducted numerous industry calls regarding these proposed changes and has determined them to be low burden to respondents on an aggregate basis.

Lastly, the full implementation of the FR Y-14 Trading schedules and associated expectations for public reporting of GMS and Counterparty Credit risk results for 2018 appears inconsistent with the objectives of the targeted scope applied to certain Covered IHCs during the 2017 CCAR exercise.⁹ As such, Covered IHCs may lack the benefit of a more fulsome review and timely feedback regarding the firm's capital planning processes subject to SR Letter 15-18 and, more importantly, the ability to execute already planned process enhancements, address forthcoming feedback on CCAR 2017, and initiate new regulatory reporting requirements that would be subject to attestation requirements.

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We appreciate the opportunity to provide our views and respectfully request that the Board reconsider the proposed amendments to the GMS threshold to more accurately reflect intended policy objectives or, at a minimum, delay the proposed implementation of requirements to 2019. We look forward to working with you to identify ways in which the existing processes can be improved in a way that meets the supervisory objectives of the CCAR program.

Sincerely,



Tom Naratil
President Americas
President Wealth Management Americas
Chairman of the IHC Board of Directors
Member of the Group Executive Board

Cc: Scott Bowen, US Chief Financial Officer
Michael Crowl, Americas General Counsel
Marcus Komm, Head of CCAR
Bill Glass, US Chief Risk Officer
Kathleen Lynch, Americas Chief Operating Officer
Mike McGovern, Americas Chief Financial Officer
Sam Molinaro, IHC President
Daniel Park, Americas Treasurer
Jeff Samuel, Americas Head of Group Regulatory and Governance

⁸ 78 Fed. Reg. 38,037 (June 25, 2013)

⁹ *Qualitative Assessment of Capital Plans for U.S. Intermediate Holding Companies of Foreign Banking Organizations (IHCs)* issued by the Board of Governors of the Federal Reserve System, February 3, 2017