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October 18, 2017

Ann E. Misback
Secretary
Attn: FR Y-15; OMB No. 7100-0352
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Proposed Agency Information Collection Activities: Banking Organization Systemic Risk Report (FR Y-15; OMB No. 7100-0352)

Ladies and Gentlemen,

Wells Fargo & Company (“Wells Fargo” or “we”) is a diversified financial services company with over \$1.9 trillion in assets providing banking, insurance, trust and investments, mortgage banking, investment banking, retail banking, brokerage services and consumer and commercial financial services. We appreciate the opportunity to comment on the Board of Governors of the Federal Reserve System (Board) proposed revisions of the *Banking Organization Systemic Risk Report (FR Y-15)*.

The proposed revisions to the FR Y-15 reporting form would: include Mexican pesos in total payments activity on Schedule C and remove it from the Memorandum items; add securities broker to the definition of “financial institutions” in the instructions of Schedule B; expressly include all cleared derivative transactions in Schedule D, item 1; and, specify how certain cleared derivatives transactions are reported in Schedule B, items 5(a) and 11(a). In addition, the proposal would make minor clarifications to the form and instructions of the FR Y-15.

We support the objective of clarifying and aligning reporting to eliminate inconsistency and associated burden. To that end, we wish to provide our commentary regarding certain aspects of this proposal.

Summary

We have three comments and recommendations listed below, while the remainder of this letter discusses each of these items in more detail.

- 1) Definition of “Financial Institution”: There are numerous definitions of Financial Institution across the various regulatory reports. These definitions overlap but are not identical. In certain instances some definitions specify the inclusion of certain types of firms, while in other instances the definitions are silent with respect to the same types of firms. In many cases, the definitions themselves rely on undefined terms. We recommend reducing the number of different definitions of Financial Institution.



- 2) Treatment of cleared derivatives: We do not believe additional disincentives to clearing member banks are warranted. The FR Y-15 appears to use two different definitions of “OTC derivatives.” If the scope of derivatives included in Schedule D does have to change, we believe the scope should follow the definitions in 12 CFR 217.
- 3) Minor requests for clarification and consistency: We have several additional requests for clarification or consistency where the instructions appear to be subject to potentially differing interpretations. These items relate to securities financing transactions, derivatives exposures, and inconsistencies across the several reports that all calculate the Supplementary Leverage Ratio.

Definition of Financial Institution

The term Financial Institution is used with different definitions in the FFIEC 009/009a, FR Y-15 and FR Y-9C, as well as a definition included within 12 CFR 217.¹ Appendix 1 to this letter includes summarized definitions of the relevant terms in each of these reporting forms.

The burden associated with tracking this many separate definitions of Financial Institution is high. Systems must be able to record a counterparty as a Financial Institution on certain reports but not in other reports. Complications arise when definitions are explicitly different, as well as when certain types of firms that are treated specifically in one definition are not mentioned in another. Finally, some of the firms included in some definitions (e.g. securities dealer and hedge fund) do not necessarily have well-understood, standard meanings.

We respectfully suggest that this is one area where additional burden relief could be attained at low cost, or even potential benefit. Reducing the number of definitions of Financial Institution would greatly ease operational burden. Such a change would arguably confer a benefit to report users as well, as keeping track of so many separate definitions makes reports more opaque. We encourage the Board to unify the definitions of the term across financial reporting.

If a unification of the definition of Financial Institution cannot be achieved, we seek clarity with respect to the treatment of certain types of firms in order to determine if these firms would meet the definition of Financial Institution in the FR Y-15.

We seek to confirm that when a particular entity is specifically included as a Financial Institution on one report, but is not referenced in the definition of Financial Institution in another report, that such an entity should be excluded from Financial Institutions in the latter report. For example, the FR Y-9C instructions include certain types of firms in the definition of Financial Institution which are not mentioned in the definition of Financial Institution in the FR Y-15 (e.g., real estate investment trusts and mortgage companies). We ask for confirmation that these entities should not be treated as Financial Institutions for FR Y-15 purposes, despite their inclusion as Financial Institutions for FR Y-9C purposes.

Finally, certain terms used in the various definitions of Financial Institutions are themselves not defined or used in consistent ways across the industry. Where possible, additional clarity regarding what firms constitute, for example, a hedge fund, would help ensure consistent reporting.

¹ The FR 2436 defines “financial firms” by reference to the North American Industry Classification System.

In addition, 12 CFR 249.3 defines “Financial Sector Entity” as an investment adviser, investment company, pension fund, non-regulated fund, regulated financial company, or identified company.

Cleared Transactions

The “notional amount of OTC derivatives” is one of the systemic indicators included in 12 CFR 217.401(y) used to calculate the GSIB score. This indicator is included in Schedule D, and has previously not included certain cleared derivative transactions. The proposal would add the notional amount of certain cleared derivatives to the totals of OTC derivatives in Schedule D.

The proposed change to Schedule D could materially impact the calculation of the GSIB score and, as a result, the GSIB surcharge.² We do not believe such a change is warranted, as it will conflict with the G20 mandate to encourage clearing of derivatives transactions. When the GSIB rule was published, it was accompanied by extensive calibration.³ If such a change is to occur, we believe it should be accompanied by similar calibration.

In addition, the FR Y-15 instructions include multiple references to cleared and over-the-counter (OTC) derivatives (see Appendix 2 for references to these terms in the instructions). It appears that inconsistent definitions of cleared and OTC derivatives are used across these references.

For Schedule A purposes, “OTC Derivatives” are defined in accordance with the Supplementary Leverage Ratio in capital rule (12 CFR 217.10(d)(4)(ii)). The capital rule defines “cleared transaction” as a derivative that an institution “has entered into with a central counterparty.” The capital rule then defines “OTC derivative” to mean, “a derivative contract that is not a cleared transaction” (with additional specific treatment for certain agent trades). Thus, for purposes of the capital rule, and Schedule A, a derivative transaction must be either cleared or OTC.

Schedule F defines “OTC derivative contracts” as “contracts not initiated via an exchange.” This definition differs from the one used in Schedule A and potentially differs from the “OTC derivative contracts” included in the specific instructions within Schedules B and D.

We believe there should be a clear and consistent definition of OTC Derivatives and Cleared Derivatives that applies consistently across the schedules of the FR Y-15 and 12 CFR 217. To that end, we ask for clarity on the potential inconsistencies in these definitions noted above. If the definition of “OTC Derivatives” used in 12 CFR 217.401 is expanded to include Cleared Transactions, we seek clarity with how the term OTC Derivatives is used throughout the rest of the FR Y-15 and 12 CFR 217.

Additional Clarifications

The proposal identifies the Board’s intention to make additional clarifying revisions to FR Y-15 form and instructions. In the spirit of enhancing clarity, we provide the following additional commentary on the FR Y-15.

- The FR Y-15 instructions refer to “Securities Financing Transactions” or “SFTs.” This term is not defined within the regulatory capital rules and the only explanatory reference within the instructions reference “repo-style transactions,” which are defined in the capital rules. We seek clarity regarding whether SFTs should follow the regulatory capital rule definition of repo-style transactions, or the relevant U.S. GAAP definitions. Certain transactions are not uniformly classified under the U.S. GAAP and regulatory capital definitions, which creates a lack of clarity within the FR Y-15 instructions. For example, some transactions meet the U.S. GAAP definition of a repurchase transaction, but do not meet the capital rule definition of repo-style transaction.
- The FR Y-15 General Instructions state that values for Schedule A line 1d should be auto-populated based on values for line 2.9 in the FFIEC 101 SLR Table. The instructions for FFIEC 101 SLR Table line 2.9

² For example, *Risk*, estimates that, “The new reporting requirement would result in an estimated \$46 trillion of client-cleared notional being factored into the complexity component of the G-Sib calculation for the first time.” See: <http://www.risk.net/regulation/5333971/fed-g-sib-plan-threatens-50bp-jump-in-fcm-capital>

³ See: <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20150720a.htm>

appear inconsistent with the instructions for FRY-15 Schedule A line 1d, as the FFIEC instructions state that a reduction in fair value of sold credit protection may be used to reduce the value reported, while the FR Y-15 instructions do not. We seek clarification for this instruction reference.

- The FFIEC 101 instructions are inconsistent with instructions for the corresponding line in FR Y-14Q Schedule D5 line 13. The FRY-14Q Schedule D5 instructions do not allow recognition of the reduction in fair value in line 13, as the reduction is recognized in line 14 (which corresponds to FRY-15 Schedule A line 1g). We are seeking clarification of the inconsistency between instructions and report references.
- Schedule B Line 3e Instructions state “Report the total holdings of equity securities, including common and preferred shares, of other financial institutions. Include investments in mutual funds (e.g., equity, bond, hybrid, and money market funds) that are administered outside of the reporting group. Report the entire mutual fund investment (i.e., do not look through into the fund to determine the underlying holdings). Include assets that are held for trading, available for sale, and held to maturity.” The instructions are unclear if equity investments in unconsolidated investment funds sponsored or administered by the subject firm would be included on Line 3e. We ask the Board to clarify the instructions and reporting requirements for this line item.
- Schedule B, Lines 5a and 11a both state to calculate a “net collateral position” and to reduce the underlying obligation “only if it reduces overall exposure.” It seems possible to read these instructions in two different ways. We seek to clarify, in line 5a for example, whether the net collateral position (i.e. aggregate VM/IM received minus aggregate VM/IM posted) should be subtracted from the net positive OTC derivative fair value only if the net collateral position is positive, or if it should be subtracted in all cases and zero should be reported if the overall formula yields a negative value.

We appreciate the opportunity to comment on the proposed changes to the FR Y-15 and are available to provide additional input or clarifications as you proceed with further deliberations on this topic. If you have any questions, please contact me at (980) 260-6434 or Karl Reitz at (612) 667-7768.

Sincerely,

A handwritten signature in dark ink, appearing to read "Richard Long", with a long, sweeping horizontal stroke extending to the right.

Appendix 1 – Definitions of Financial Institution

	Reporting Forms			
	FFIEC 009	FR Y-15	FR Y-9C	Capital Rules
Relevant term	Non-Bank Financial Institution	Financial Institution	Nondepository Financial Institution	Financial Institution
Definition	<p>Non-bank financial institutions are defined as businesses and institutions other than “banks” and “public,” as defined in the FFIEC 009 instructions that are primarily engaged in proprietary investments and/or in the provision of financial services to other organizations and households. These services include, but are not limited to, financial intermediation services whose functions are predominantly: the extension of credit for business purposes, brokerage services (engaged in the brokering of securities, commodities or other financial instruments), underwriting services, financial management services, credit origination services, credit card services, insurance services, and pension services. Types of non-bank financial organizations include, but are not limited to: Securities firms; Bank holding companies (BHCs); Insurance firms; Money market funds; Pension funds; Investment banks; Private equity companies; Credit card issuers; Hedge funds; Trusts; Finance companies; Mortgage companies; Factors and other financial intermediaries who extend short-term business credit to finance inventories or carry accounts receivable. This sector excludes federal, state, and local governments; however, it includes agencies and instrumentalities of governments such as pension funds and insurance companies that provide nonbank financial services that are not directly governmental in nature.</p>	<p>Depository institutions (as defined in the FR Y-9C, Schedule HC-C, item 2), bank holding companies, securities dealers, insurance companies, mutual funds, hedge funds, pension funds, investment banks, and central counterparties (CCPs) (as defined in Schedule D, item 1). Central banks (e.g., the Federal Reserve) and other public sector bodies (e.g., multilateral development banks and the Federal Home Loan Banks) are excluded, but state-owned commercial banks are included. Stock exchanges are not included, though most stock exchanges have subsidiaries that are considered financial institutions (e.g., securities dealers and CCPs). Entities that are both securities brokers and dealers, but exclude entities that are strictly securities brokers. Exclude finance companies. Do not adopt a look-through approach. Instead, report figures based on the immediate counterparty.</p>	<p>Real estate investment trusts, mortgage companies that specialize in mortgage loan originations and warehousing or in mortgage loan, other unrelated holding companies, insurance companies, finance companies, mortgage finance companies, factors and other financial intermediaries, short-term business credit institutions that extend credit to finance inventories or carry accounts receivable, institutions whose functions are predominantly to finance personal expenditures (excluding financial corporations whose sole function is to borrow money and relend it to its affiliated companies or a corporate joint venture in which an affiliated company is a joint venturer), federally-sponsored lending agencies (which include Banks for Cooperatives, Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal Intermediate Credit Banks, Federal Land Banks, the Federal National Mortgage Association, and the Student Loan Marketing Association), investment banks, a bank subsidiary’s own trust department, other domestic and foreign financial intermediaries whose functions are predominantly the extending of credit for business purposes, such as investment companies that hold stock of operating companies for management or development purposes, and Small Business Investment Companies.</p>	<p>A bank holding company; savings and loan holding company; nonbank financial institution supervised by the Board under Title I of the Dodd-Frank Act; depository institution; foreign bank; credit union; industrial loan company, industrial bank, or other similar institution described in section 2 of the Bank Holding Company Act; national association, state member bank, or state non-member bank that is not a depository institution; insurance company; securities holding company as defined in section 618 of the Dodd-Frank Act; broker or dealer registered with the SEC under section 15 of the Securities Exchange Act; futures commission merchant as defined in section 1a of the Commodity Exchange Act; swap dealer as defined in section 1a of the Commodity Exchange Act; or security-based swap dealer as defined in section 3 of the Securities Exchange Act; any designated financial market utility, as defined in section 803 of the Dodd-Frank Act; any entity not domiciled in the United States (or a political subdivision thereof) that is supervised and regulated in a manner similar to entities described in paragraphs (1) or (2) of this definition; any other company of which the banking organization owns a certain amount of equity instruments and which is predominantly engaged (85 percent test on assets and revenue) in various financial activities; Any other company that the agencies may determine is a financial institution. “Financial institution” does not include GSEs; (ii) Small business investment companies; Entities designated as Community Development Financial Institutions; Entities registered with the SEC under the Investment Company Act of 1940 (15 U.S.C. 80a-1) or foreign equivalents thereof; Entities to the extent that the institution's investment in such entities would qualify as a community development investment under section 24 (Eleventh) of the National Bank Act; and An employee benefit plan as defined in paragraphs (3) and (32) of section 3 of ERISA, a “governmental plan” (as defined in 29 U.S.C. 1002(32)) that complies with the tax deferral qualification requirements provided in the Internal Revenue Code, or any similar employee benefit plan established under the laws of a foreign jurisdiction.</p>

Appendix 2 - Instruction References to OTC derivative and Cleared Transaction

<p>Schedule A Line Item 1 Derivative exposures: Line Item 1(a) Current exposure of derivative contracts. Report the current exposure (i.e., replacement cost) of all derivative contracts, cleared and non-cleared, net of qualifying cash variation margin. For advanced approaches banking organizations, report the average current exposure of all derivative contracts, cleared and non-cleared, net of qualifying cash variation margin, using daily data. When acting as a financial intermediary in clearing client derivative contracts (i.e., the principal model, where the banking organization facilitates the clearing of derivatives by becoming a direct counterparty to both the client and the central counterparty (CCP)), include exposures to the CCP and the clearing member client. Where a clearing member banking organization guarantees the performance of a client to a CCP (and would thus have a payment obligation to the CCP in the event of a client default) (i.e., the agency model), the clearing member banking organization must treat the exposure associated with the guarantee as a derivative contract and report the associated current exposure. However, do not include the exposure if the client and the clearing member are affiliates and consolidated on the banking organization’s balance sheet. For more information, see the Glossary entry for “qualifying cash variation margin.” For a definition of derivative contract, see 12 CFR 217.2. This item is equivalent to Part 2, line 4 of the supplemental leverage ratio disclosure table (see 12 CFR 217.173, Table 13).</p>	<p>Schedule B Line Item 5 Over-the-counter (OTC) derivative contracts with other financial institutions that have a net positive fair value: Line Item 5(a) Net positive fair value. Report the sum of net positive fair value OTC derivative exposures netted in accordance with GAAP netting rules (i.e., designated, legally enforceable, netting sets or groups). Only netting sets with a positive value may be included here. Netting sets where the net result is negative must be captured in item 9(a). Include collateral held only if it is within the master netting agreement (i.e., pursuant to legally enforceable credit support annexes). If applicable, net opposing collateral positions (e.g., initial margin posted with variation margin held). Deduct the net collateral position from the underlying obligation only if it reduces the overall exposure. If the net collateral exceeds the payment obligation, record a fair value of zero for the netting set. If a derivative contract with a positive fair value is not covered under a qualifying master netting agreement, the derivative exposure amount should be included on a gross basis (see the definition of “qualifying master netting agreement” in 12 CFR 217.2). For more information on netting, refer to ASC Subtopic 210-20, Balance Sheet – Offsetting, and the FR Y-9C Glossary entry for “offsetting.” Do not include derivative contracts initiated via an exchange such as ICE, CME, or Eurex (e.g., futures contracts would not be included). When acting as a financial intermediary (i.e., where the banking organization is a counterparty to both the client and the CCP), report exposures to the CCP. Report exposures to clients if they fit the definition of financial institution. In cases where a clearing member bank, acting as an agent, guarantees the performance of a CCP to a client, the associated exposure to the client must be reported.</p>	<p>Schedule B Line Item 11 OTC derivative contracts with other financial institutions that have a net negative fair value: Line Item 11(a) Net negative fair value. Report the sum of net fair value OTC derivative liabilities netted in accordance with GAAP netting rules (i.e., designated, legally enforceable, netting sets or groups). Include only netting sets with a negative value. Report netting sets where the net result is positive in item 5(a). Include collateral provided only if it is within the master netting agreement (i.e., pursuant to legally enforceable credit support annexes). If applicable, net opposing collateral positions (e.g., initial margin held with variation margin posted). Deduct the net collateral position from the underlying obligation only if it reduces the overall exposure. If the net collateral exceeds the payment obligation, record a fair value of zero for the netting set. If a derivative contract with a positive fair value is not covered under a qualifying master netting agreement, the derivative exposure amount should be included on a gross basis (see the definition of “qualifying master netting agreement” in 12 CFR 217.2). For more information on netting, refer to ASC Subtopic 210-20, Balance Sheet – Offsetting, and the FR Y-9C Glossary entry for “offsetting.” Do not include derivative contracts initiated via an exchange such as ICE, CME, or Eurex (e.g., futures contracts would not be included). When acting as a financial intermediary (i.e., where the banking organization is a counterparty to both the client and the CCP), report exposures to the CCP. Report exposures to clients if they fit the definition of financial institution. In cases where a clearing member bank, acting as an agent, guarantees the performance of a CCP to a client, the associated exposure to the client must be reported. Report the final net negative fair value as a positive number. For example, a master netting agreement with a net fair value of -\$10 would be reported as +\$10.</p>	<p>Schedule D Line Item 1 OTC derivative contracts cleared through a central counterparty. Report the notional amount outstanding of OTC derivative positions which will be settled through a central counterparty (CCP). Include all types of risk categories and instruments (e.g., foreign exchange, interest rate, equity, commodities, and credit default swaps (CDS)). Report transactions regardless of whether they are part of a master netting agreement. For more information, see the Glossary entry for “central counterparty.” For more information on derivatives, refer to ASC Topic 815, Derivatives and Hedging, and the FR Y-9C Glossary entry for “derivative contracts.” Do not include cleared derivative transactions (i.e., trans actions where the bank provides clearing services for clients executing trades via an exchange or with a CCP) where the bank is not a direct counterparty in the contract. When acting as a financial intermediary (i.e., where the banking organization is a counterparty to both the client and the CCP), report the notional amounts associated with each contract (i.e., the contract with the CCP and the contract with the client). In cases where a clearing member banking organization, acting as an agent, guarantees the performance of a CCP to a client, the associated notional amounts must be reported.</p>	<p>Schedule D Line Item 2 OTC derivative contracts settled bilaterally. Report the notional amount outstanding of OTC derivative positions which will be settled bilaterally (i.e., without the use of a central counterparty). Include all types of risk categories and instruments (e.g., foreign exchange, interest rate, equity, commodities, and CDS). Report transactions regardless of whether they are part of a master netting agreement. For more information on derivatives, refer to ASC Topic 815, Derivatives and Hedging, and the FR Y-9C Glossary entry for “derivative contracts.”</p>	<p>Schedule F Line Item 8 Gross positive fair value of over-the-counter (OTC) derivative contracts. Report the gross positive fair value of all OTC derivative contracts (i.e., contracts not initiated via an exchange). Do not include any counterparty netting.</p>	<p>Schedule F Line Item 9 Gross negative fair value of OTC derivative contracts. Report the gross negative fair value of all OTC derivative contracts not initiated via an exchange. Do not include any counterparty netting.</p>
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