February 24, 2020

Via Electronic Mail

Chief Counsel's Office
Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Washington, D.C. 20219

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

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington D.C. 20429

Re: Call Report and FFIEC 101 Reporting Revisions

Ladies and Gentlemen:

The Bank Policy Institute[1] appreciates the opportunity to comment on the joint notice and request for comment by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency to revise the Consolidated Reports of Condition and Income (FFIEC 031, FFIEC 041, FFIEC 051) ("Call Reports") and the Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework ("FFIEC 101") (the "Notice").[2]

While we appreciate the agencies considering and accepting a number of BPI's recommendations and requests for clarification detailed in our December 3, 2019 comment letter,[3] we believe there are items in the Notice related to the standardized approach for counterparty credit risk ("SA-CCR") that the agencies should address.

The Notice states that the FDIC was unable to incorporate SA-CCR into its FDIC fee assessment methodology prior to the publication of the Notice and therefore would like Category I and II banks to continue to use the current exposure methodology ("CEM") to calculate derivative exposures.[4] This is a significant burden for these

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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. 4780 (January 27, 2020).

3 *See* Bank Policy Institute Letter. *Call Report and FFIEC 101 Reporting Revisions* (December 3, 2019), *available at* https://bpi.com/wp-content/uploads/2019/12/Call-Report-and-FFIEC-101-Reporting-Revisions.pdf.

4 85 Fed. Reg. 4780 at 4792.

banks as it would require them to maintain two different, large-scale processes once they adopt SA-CCR. Additionally, for banks that are currently assessed the maximum amount on their FDIC fee assessment, requiring them to calculate and include CEM over SA-CCR in Schedule RC-O Memorandum items 14 and 15 will have no impact on such fees. As such, we recommend that the agencies allow Category I and II banks to follow SA-CCR methodology for Schedule RC-O Memorandum items 14 and 15 once they have adopted SA-CCR for the calculation of risk-weighted assets and total leverage exposure. We also recommend that any future clarification to the instructions related to the reporting and calculation of counterparty exposures in Schedule RC-O for these two memorandum items, and all changes to the FDIC assessment methodology, go through the public notice and comment process.

Further, the Notice provides in relevant part that banks that use SA-CCR should report the "SA-CCR notional" in Schedule RC-R.[5] We note that "SA-CCR notional" is not a defined term under the U.S. SA-CCR Final Rule.[6] The closest term in the SA-CCR Final Rule may be "adjusted notional," which is one of the several metrics used in the interlocking intermediate steps of the calculation of the potential future exposure of a netting set.[7]

We have several concerns with the term "SA-CCR notional" for notional reporting in Schedule RC-R if the term "SA-CCR notional" is to be interpreted as the adjusted notional metric in the SA-CCR Final Rule. For interest rate and credit derivatives, the adjusted notional incorporates the supervisory duration, which is fundamentally a risk metric and should not be part of notional reporting. In addition, the durations for long-dated interest rate swaps can be very long (for example, up to 20 or 25 years), which will make the reported notional in Schedule RC-R many times larger than the notional reported in the current Schedule RC-L, making a meaningful comparison difficult. For equity and commodity derivatives, the adjusted notional is correlated to the performance of the markets and accordingly will make the notional metrics in Schedule RC-R volatile and pro-cyclical.

Therefore, we do not believe that "adjusted notional" is the correct metric to be used for notional reporting in Schedule RC-R. We recommend that notional reporting in Schedule RC-R continue to be based on the contractual notional as is the current practice, consistent with the Notice's clarification and proposed revisions to the instructions for notional reporting in Schedule RC-L. We also recommend that the Federal Reserve make a conforming change to the FR Y-9C, so that notional reporting in Schedule HC-R of the FR Y-9C is also based on the contractual notional.

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5 85 Fed. Reg. 4780 at 4793.

6 85 Fed. Reg. at 4362 (January 24, 2020).

7 At a high level, the "adjusted notional" is calculated as follows:

- For interest rate and credit derivatives, the adjusted notional is the contractual notional multiplied by the supervisory duration of the transaction or the underlying instruments;
- For foreign exchange derivatives, the adjusted notional is based on the contractual notional amounts of the non-USD legs; and
- For equity and commodity derivatives, the adjusted notional is the fair value of the underlying asset multiplied by the number of contracts.

BPI appreciates the opportunity to comment on the Notice. If you have any questions, please contact the undersigned by phone at 646.736.3943 or by email at Alix.Roberts@bpi.com.

Respectfully submitted,

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Bank Policy Institute

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

Morris Morgan
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Office of the Comptroller of the Currency

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Nicholas Podsiadly
Federal Deposit Insurance Corporation