

Discussion of Federal Reserve's Responses to FR Y-14 A/Q/M Public Comment Letters

Overview

The FR Y-14A annually collects large BHCs' quantitative projections of balance sheet, income, losses, and capital across a range of macroeconomic scenarios and qualitative information on methodologies used to develop internal projections of capital across scenarios. The FR Y-14Q collects granular data on BHCs' various asset classes and PPNR for the reporting period, which are used to support supervisory stress test models and for continuous monitoring efforts, on a quarterly basis. The new FR Y-14M will collect one loan-level collection for *Domestic First Lien Closed-End 1-4 Family Residential Mortgage* data, one loan-level collection for *Domestic Home Equity Residential Mortgage* data, one account- and portfolio-level collection for *Domestic Credit Card* data, and one collection for *Address Matching* data to supplement the two mortgage collections.

On February 22, 2012, the Federal Reserve published a notice in the *Federal Register* (77 FR 10525) requesting public comment for 60 days to revise, without extension, the FR Y-14 information collection. The comment period expired on April 23, 2012. The Board received six comment letters from four BHCs and four trade associations.¹ All substantive comments are summarized and addressed below.

The FR Y-14A/Q/M revisions proposed in the Federal Reserve's February 2012 *Federal Register* notice, effective June 30, 2012, included (1) implementing a new monthly schedule, the FR Y-14M, which would collect data previously collected on several quarterly Retail Risk portfolio-level worksheets (two new loan-level collections and one new loan- and portfolio-level collection), and collecting detailed address matching data for the two loan-level collections; (2) revising the quarterly Wholesale Risk schedule (corporate loan data collection) by adding data items that would allow the Federal Reserve to derive an independent probability of default, expanding the scope of loans included in the collection by moving loans from the CRE data collection to the corporate loan data collection, clarifying definitions of existing data items, and requesting additional detail about collateral securing a facility; (3) revising the quarterly Wholesale Risk schedule (CRE collection) by moving loans to the corporate loan data collection, adding a non-accrual data item, and modifying the loan status data item to include the number of days past due; (4) implementing a new quarterly Operational Risk schedule to gather data that would support supervisory stress test models to forecast the BHCs' operational loss levels under various macroeconomic conditions; and (5) expanding the respondent panel (for the FR Y-14 A/Q/M) to include large banking organizations that meet an asset threshold of \$50 billion or more in total consolidated assets (large BHCs), as defined by the Capital Plan Rule (12 CFR 225.8).

Summary of Comments

The Federal Reserve received comments from the industry by letter, email, and orally through industry outreach calls. Most of the comments received requested clarification of the

¹ Three trade associations submitted a joint comment letter.

instructions for the information to be reported, or were technical in nature. Response to these comments will be addressed in the final FR Y-14 reporting instructions. The following is a detailed discussion of aspects of the proposed FR Y-14 collection for which the Federal Reserve received one or more substantive comments and an evaluation of, and response to, the comments received.

A. General

In general, three trade associations expressed support for the capital adequacy and risk review process proposed by the Federal Reserve and appreciated the opportunity for public comment on the proposed schedules. However, the commenters noted their concerns about the scope of the information collection increasing since the release of the Federal Reserve's 2012 CCAR.

The trade associations commented that the time schedule proposed for submitting the data imposes burden on the BHCs' resources that are already fully dedicated to submitting other regulatory reports during the same time period. The commenters requested that the FR Y-14Q be submitted 60 days after quarter end, as opposed to 40 days (for the first, second, and third quarters) and 45 days (for the fourth quarter) after the quarter end. The Federal Reserve is cognizant of the extra resources BHCs must devote to prepare data submissions for the first quarter data are being implemented. However, the Federal Reserve expects that subsequent submissions would require fewer resources given that BHCs would likely automate much of the process. Further, BHCs already aggregate the more granular data reported in the FR Y-14Q and the FR Y-14M schedules for their Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128) reporting. Therefore, the Federal Reserve will allow BHCs to request approval to file a late submission following major revisions to data schedules.

One commenter suggested that the Federal Reserve provide an acquiring bank with one year to incorporate the assets into its systems before requiring data to be submitted for the FR Y-14. The Federal Reserve has reached out to several BHCs to inquire about the challenges associated with providing data on merged portfolios. Through those inquiries, the Federal Reserve has learned that the amount of time required to integrate the risk information from a new portfolio with the risk information from an existing portfolio varies greatly depending on the similarities of the risk information in the two portfolios. The Federal Reserve will consider on a case-by-case basis requests from BHCs to file a delayed submission for newly acquired data (integrated with the legacy portfolio) following an acquisition.

Several commenters suggested that BHCs with assets greater than \$50 billion (covered companies) that have not previously participated in CCAR should receive extra time to make their first submissions. While the Federal Reserve believes that the proposed data items reflected important elements of any sound risk management system for large BHCs, the Federal Reserve agrees that BHCs not previously subject to CCAR would benefit from additional time to build their internal reporting systems. As a result, the Federal Reserve finalized the proposed schedules only for the 19 BHCs that have previously participated CCAR at this time. The

Federal Reserve may publish a separate proposal to address data requirements for the remaining covered companies in the future.

B. FR Y-14M: Domestic First Lien Closed-End 1-4 Family Residential Mortgage (first lien), Domestic Home Equity Residential Mortgage (home equity), Domestic Credit Cards, and Address Matching schedules

The Federal Reserve proposed that respondents would submit loan-level monthly data schedules for material first lien, home equity, and credit card portfolios. Several commenters noted that the monthly proposed schedules contain a number of substantive data items that are duplicative of data collected by other agencies, namely the Office of the Comptroller of the Currency (OCC). The Federal Reserve has reviewed the OCC's data collections and determined that the collections differ in scope and substance. For example, the universe of loans proposed to be collected in the FR Y-14M includes all loans owned or serviced by the BHCs, while the OCC collects all loans serviced by national banks. Furthermore, there are definitional differences between the data items collected by the OCC and those proposed by the Federal Reserve.

The agencies' staff worked together to ensure that data items included in the final schedules (or data items specifically suggested by the industry) aligned to the extent possible with the OCC data collections. In response to the comments, the Federal Reserve will broaden the scope of the monthly Domestic Credit Card schedule to include all credit cards, not just those reported on the FR Y-9C in Schedule HC-C, Loans and Lease Financing Receivables, data items 4.a, commercial and industrial loans to U.S. addressees, and 6.a, credit cards, as originally proposed. In particular, this schedule will now include credit card and charge card loans included in data item 6.d, other consumer loans. In addition, the Federal Reserve is continuing to work with the OCC and anticipates engaging other agencies in discussions to determine how best to collect the data so as to satisfy each agency's mandate while imposing minimal burden on the industry. If any future revisions are required based on this more extensive review, the agencies would publish information collection notices in the Federal Register to seek comment on any future revisions to their collections.

One commenter requested clarity on how to report "Income Source at Origination" for purchased loans where this information is not available. The Federal Reserve will revise the four choices of answers to read: Individual, at origination; Household, at origination; Individual, at acquisition; and Household, at acquisition.

Several commenters noted that the proposed first lien and home equity schedules were not clear regarding whether only loans owned by the respondent or loans serviced by the respondent would be reported. The Federal Reserve will collect data on both owned and serviced portfolios. In making this final determination, the Federal Reserve carefully weighed the benefits of capturing servicing data versus the burden imposed on the respondents. During an industry outreach call, one participant indicated that the burden associated with reporting the servicing portfolio loans would be minimal because those data are already aggregated. The collection of the servicing portfolio loans will allow the Federal Reserve to investigate other potential risk factors, such as factors associated from multiple loans being collateralized by the same property.

One commenter suggested that the data for BHC-owned loans serviced by third parties be collected at the portfolio-level with an extended due date. The Federal Reserve will implement the revisions as proposed, as many of the data items in the schedules will be used for ongoing internal risk management. The Federal Reserve expects that most respondents can readily access the information for BHC-owned loans. However, the Federal Reserve recognizes that it may be more difficult for the BHCs to initially submit the data as requested for loans serviced by other entities. Over time the Federal Reserve expects that BHCs will maintain the data as requested by the Federal Reserve in their internal systems. The Federal Reserve will consider on a case-by-case basis request to file a delayed submission for portfolio loans serviced by others.

Two commenters noted that the proposed first lien and home equity schedules were unclear as to whether real estate owned after foreclosure but before the disposition of the property would need to be reported. The commenters suggested that many of the data items in the first lien and home equity schedules are related to loans, and thus would not be available for real estate owned. In light of the comments, the Federal Reserve will require the reporting of loans through the month they were liquidated or transferred to another servicer. The Federal Reserve believes it is important to capture data for the final month in order to understand what happened to loans that cease to be a part of the data collection (to help determine, for example, if the loan dropped out of the data collection due to a prepayment, liquidation, or servicer transfer).

Several commenters noted inconsistencies between the definitions for similar data items in the first lien and home equity schedules. The commenters requested standardized data item definitions across the two collections. The schedules were reviewed and several definitions were identified that could be standardized (for example, Product Type, Income Documentation, Property Type, Refreshed Property Valuation Method, Foreclosure Status, and Occupancy); therefore, the Federal Reserve will implement these standardized definitions.

Several commenters noted that some data items in the first lien and home equity schedules would be difficult to provide. In some cases, the commenters suggested that the data items could be provided at a portfolio-level but not at a loan-level, while in other cases the commenters noted that some data items are not maintained for certain loan types. The Federal Reserve carefully considered these comments, and reviewed the reporting instructions to identify data items that would be difficult to report at the loan-level. Based on the review, the Federal Reserve will (1) modify these loan-level collections to include the reporting of portfolio-level data for certain items such as purchase impairments which typically are unavailable at the loan-level and (2) require that only certain data items be reported for loans serviced for others or loans obtained through mergers or acquisitions.

Several commenters suggested adding a number of data items to the first lien and home equity schedules. The Federal Reserve reviewed the data items proposed by the commenters, and carefully weighed the value of having the items versus the additional burden on respondents. While, in most cases, the Federal Reserve does not have sufficient evidence to justify the inclusion of the data items, there were a few instances in which it was determined that the value of having the data items outweighed the burden imposed on respondents.

One commenter suggested that the address matching schedule be appended to the first lien and home equity schedules to reduce the number of schedules. The Federal Reserve does not believe incorporating this suggestion would reduce the overall burden on respondents and will maintain the structure of schedules as proposed.

C. FR Y-14Q Wholesale Schedule (Corporate Loan and CRE collections):

One commenter suggested that respondents should not be required to provide a guarantor's tax ID number. The commenter noted that it is not relevant for the information collection, and expressed concerns about the sensitivity of the information. The Federal Reserve notes that while all information reported in the FR Y-14 is confidential supervisory information, extra care should be taken to protect the privacy of individuals; therefore the Federal Reserve will implement the instructions as proposed, which indicate that if the guarantor is a natural person, respondents should not report the tax ID number.

One commenter noted that the Federal Reserve should not model probability of default (PD) on corporate loans. Specifically, the commenter stated that internal bank ratings produce a better estimate of PD than would be done based on the reported data. The commenter also noted that the Federal Reserve should use reporter generated PDs when evaluating capital submissions. The Federal Reserve notes that the process of mapping the internal ratings to a common scale introduces a potential for inconsistency due to possible differences in the way BHCs' assign internal ratings. Collecting the data necessary to calculate the PD on corporate loans would enhance the comparability of estimated PDs across BHCs and promote greater consistency in supervisory stress test estimates. Therefore, the Federal Reserve will implement the revision as proposed.

Several commenters suggested that a number of the data items requested in the corporate loan collection may not be readily available, and some of the data items may not be available for certain types of loans. The Federal Reserve spoke with several BHCs to determine whether the proposed data items would be available in the BHCs' credit risk systems. These discussions revealed that all of these BHCs use financial spreading software and while the systems varied, they capture all or most of the proposed data items. Though it is possible that some BHCs may not use financial spreading software, which would result in the increased burden, the Federal Reserve believes the benefit of the data outweighs the increased burden and recommends implementing the revision as proposed. The Federal Reserve also recognizes that for certain categories of borrowers the financial information may not be readily available. Therefore, the Federal Reserve will revise the instructions to exclude certain populations of loans on which the Obligor Financial Information may not be available.

One commenter noted that, in the corporate loan collection, the Federal Reserve should define *obligor* for purposes of the Obligor Financial Information section to be the "risk unit underwritten by the BHC for the purpose of approving the loan." The commenter further noted that, in cases in which there are multiple obligors, it is possible that a different obligor in the credit agreement could drive default risk. The Federal Reserve agrees with the comment. These situations may be rare, but could lead to an overestimation of credit risk. The current structure of the collection is based on the legal borrowing entity. The Federal Reserve believes that, for

consistency, it is important to retain the link between the legal borrowing entity and the other data items. However, the Federal Reserve will allow a respondent to submit the financial information in the Obligor Financial Information section for the entity that represents the primary source of repayment (i.e. not a guarantor). The Federal Reserve will add three identification data items to capture information about the entity underwritten by the respondent in cases in which that entity is different from the obligor.

D. FR Y-14Q Operational Risk schedule

A trade association provided a general comment expressing support for collecting quarterly data on operational risk, but had concerns about implementing the proposed new schedule on operational risk.

Several commenters requested that the Federal Reserve not collect data on legal reserves for pending and probable litigation claims on the proposed Operational Risk schedule. The commenters had concerns that the Federal Reserve may not be able to guarantee the confidentiality of the information in all cases; the data could become discoverable in third-party litigation; and should the information make its way into the public domain, it could significantly jeopardize the BHC's position in litigation. Based on the comments received and subsequent discussions with commenters, the Federal Reserve's preliminary view is that these concerns are justified. Accordingly, the Federal Reserve will not require BHCs to submit these data as part of the June collection. However, the Federal Reserve will implement the remainder of Operational Risk schedule as proposed.

Furthermore, Federal Reserve will re-open the comment period on legal reserves to facilitate feedback on methods that would enable the Federal Reserve to collect legal reserves data in a fashion that would protect the confidentiality of the information.

One commenter suggested requiring the submission of data on loss events of \$20,000 or more. Supervisory stress testing of operational risk is focused on estimating expected loss under certain macroeconomic scenarios. As such, the reporting of operational losses at and above the BHC-established collection threshold, versus a fixed threshold, is necessary as the full distribution of captured losses is important to expected loss estimation. The Federal Reserve will implement the revision as proposed.

One commenter suggested providing flexibility with how each loss event is assigned to a business line(s), event type(s), or accounting date(s). The Federal Reserve agrees with this comment and will revise the reporting instructions. The instructions will no longer require single loss events that affect multiple business lines to be "aggregated" into one business line (the business line which incurred the largest loss amount). Instead, the revised instructions will enable institutions to report multiple records or transactions for the same loss event and to respectively assign those records or transactions to the appropriate business line.

One commenter also noted that providing a single "Accounting Date" per loss event would be confusing, because BHCs do not typically have a single accounting date for every loss event. As described above, the reporting instructions have been revised to require the quarterly

submission of the BHCs' complete history of operational losses. This will enable BHCs to submit multiple transactions or records for the same loss event, as long as multiple transactions or records contain the same reference number for the respective event.

Several commenters requested that the data collection be revised to allow BHCs' to submit their entire operational loss databases, rather than only submitting new and amended events every quarter. The commenters stated that separating the new and amended loss events would be burdensome. The original proposal was written in the spirit of reducing burden on the respondents and therefore, based on the comments, the Federal Reserve will revise the instructions to require submission of the entire database every quarter.

One commenter suggested allowing BHCs additional time to submit their data after the quarter end. In order to facilitate timely risk monitoring and entry to supervisory models, operational loss data must be submitted within time schedule prescribed; therefore, the Federal Reserve will implement the time schedule requirements as proposed.

One commenter suggested that certain BHCs be exempt from using the definitions of Level 1 and Level 2 Business Lines as described in the instructions. The Federal Reserve believes that having consistent definitions of business lines is critical for the comparability of data across BHCs. BHCs should map their internal business lines as defined in the instructions. The Federal Reserve will implement the requirements as proposed.

As mentioned above, the Federal Reserve will not require BHCs to submit legal reserves data as part of the June collection. Instead, the Federal Reserve re-opened the public comment period for 60 days² and is requesting comments on collecting these data in one or more of the following ways:

1. Collect the data on an aggregate level rather than on a granular loss event-level (for example, the number of loss events and the average estimated reserve amount for these events);
2. Collect data on legal reserves in an anonymous fashion such that neither the identity of the BHC or the loss event would be known; and
3. Collect the data in a way such that BHCs would submit a combination of actual and randomized data³, so as not to reveal how any particular data item would or could tie back to an actual loss event for a particular BHC.

In addition, the Federal Reserve also is requesting comment on other methods that would allow the Federal Reserve to measure, understand, and analyze these types of legal risk without requiring a BHC to submit data on specific legal reserves.

² On June 4, 2012, the Federal Reserve published a final Federal Register notice (77 FR 32970) announcing the revisions to the FR Y-14A/Q/M and re-opening the public comment period for 30 days seeking additional comments on the legal reserves data items. This comment period was scheduled to end on July 5, 2012. In response to industry feedback, a *Federal Register* notice was published on June 27, 2012 (77 FR 38289) extending the public comment period for an additional 30 days. The comment period now expires on August 6, 2012.

³ Randomizing survey responses have been a common technique when asking sensitive questions since the mid-1960's. The Federal Reserve will provide more detail on such techniques upon request and anticipates that industry outreach calls would be conducted if this reporting option is selected.

The collection of these data or any new reporting requirements related to these data would take effect no sooner than the September 30, 2012, report date.