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THE CLEARING HOUSE
Advancing Payment Solutions Worldwide

April 11, 2005

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

Attention: Jennifer J. Johnson
Secretary

Office of the Comptroller of
the Currency
250 E Street, SW Mail Stop 1-5
Washington, D.C. 20219

Re: SNC Program Modification
Federal Reserve Docket No. OP-1218/OCC Docket No. 04-25

Ladies and Gentlemen:

The Clearing House Association L.L.C.[1] ("The Clearing House"), an association of major commercial banks, appreciates the opportunity to comment on the proposed changes (the "Proposed Changes") to the examination data collected in support of the Shared National Credit Program (the "Program") of The Board of Governors of the Federal Reserve System (the "Board"), the Office of the Comptroller of the Currency, Treasury ("OCC"), the Federal Deposit Insurance Corporation ("FDIC"); and the Office of Thrift Supervision ("OTS", together with the Board, OCC and FDIC, the "Agencies"). The Proposed Changes have been outlined in the Agencies' release (the "Release") of December 20, 2004.[2] In addition to our comments below, which outline areas of common concern, we understand that several of our member banks (or their parent companies) have submitted, or will submit, individual comment letters to the Agencies.

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1 The member banks of The Clearing House are: Bank of America, National Association; The Bank of New York; Citibank, N.A.; Deutsche Bank Trust Company Americas; HSBC Bank USA, National Association; JPMorgan Chase Bank, National Association; LaSalle Bank National Association; U.S. Bank National Association; Wachovia Bank, National Association; and Wells Fargo Bank, National Association.

2 69 Fed. Reg. 76,034 (December 20, 2004).

## I. Introduction

The Clearing House supports the Agencies' objective of improving the administration of the Program and the quality of feedback that they provide to Program banks by creating a single, shared, standardized data base for information reported under the Program. Our members share the Agencies' belief that, with cooperation between reporting banks and the Agencies, it is possible to update the Program in a manner that (i) makes reporting more efficient and accurate, (ii) uses common definitions and data fields, and (iii) collects additional information that will be useful both to the Agencies and reporting banks in assessing credit risk management.

Moreover, The Clearing House member banks believe that it is reasonable to designate banks with (x) at least 100 SNC facilities and (y) that are mandatory or opt-in Basel II banks as mandatory "Expanded Reporters". The criteria specified in the Release appear to be a reasonable proxy for instituting where the benefits of implementing the technology and information collection procedures that will be necessary to comply with Expanded Reporter obligations are likely to justify the expense and personnel commitment associated with implementation.

Although supportive of the Proposed Changes in broad principle, The Clearing House member banks believe the Agencies must allow for more time to (i) develop standards regarding required data elements and technical specifications for collection and transmission of that data, and (ii) permit Expanded Reporter banks to build and implement necessary internal data system changes and upgrades.

The Release seems premised, at least in part, on a belief that many, if not most, organizations that will become Expanded Reporters already collect and report SNC data in a highly automated fashion by electronically retrieving data from a single, bank-wide data system. In fact, members of The Clearing House report that even current, more limited, SNC reports typically require significant manual effort. Data often must be pulled from several separate internal systems or databases and thereafter manually adjusted, combined or collated. Future Expanded Reporters must be allowed sufficient time to modify or build systems needed to significantly reduce the current necessary level of manual intervention.

**II. Significant Burden of Proposal**

The implementation schedule suggested in the Release is unrealistic. Although our member banks have significant IT personnel resources, those resources are now fully committed (if not already overextended) in critical projects necessary to prepare internal systems for enhanced Basel II reporting in 2007, as well as to comply fully and efficiently with enhanced money laundering oversight and reporting standards. The systems development effort to support the Program will be significant, and we respectfully submit that the Proposal should not divert these resources from existing critical tasks to achieve implementation in 2007. There are three aspects of the proposal that will require particular effort to implement.

First, expansion of enhanced reporting to cover guarantors and similar credit parties will significantly increase the administrative burden of implementing the Proposal. The Clearing House member banks today do not necessarily track all credit data relating to different obligors on a single credit in the same way, and in some cases do not even record all relevant data relating to a designated borrower and its related guarantors on a single, integrated internal system. Modifying current systems to provide this functionality will increase the time and work required for banks to prepare for enhanced reporting.

Second, quarterly reporting would also require significant additional manual data collection pending the creation of more automated systems for the collection and reporting process. Moreover, The Clearing House member banks believe that it will not be possible in the foreseeable future for them to fully automate SNC reporting.

Finally, credit participants generally lack direct relationships with borrowers or other credit parties that would give them current information of the sort routinely provided to the administrative agent (often by electronic means). The Proposal does not adequately account for this lack of current data at the participant level. It is thus unclear how individual participants are expected to know whether information about the credit remains correct, particularly as of a specific quarterly reporting date.

### III. Confidentiality, Competition and Possible Market Impact

The Clearing House member banks also believe that the Release does not adequately consider or address difficulties the Agencies will encounter when trying to share benchmark data on a basis that will (i) preserve in confidence the identity of a relatively small number of individual Expanded Reporters in each credit (and their proprietary credit management analyses), and (ii) prevent use of data on loan trading desks at times or in a manner that could inappropriately impact prices in the institutional secondary market for loans (with a likely narrowing of spreads). In particular, institution specific assessments of Borrower PD and Facility EAD, LGD and EL involve proprietary estimates which could directly and immediately impact loan market pricing. Special care must be exercised in implementing the Proposed Changes to mitigate these risks, to the extent that they may otherwise unfairly disadvantage some market participants, or inappropriately cause the process of regulatory oversight and benchmark sharing to set secondary market prices.

The Clearing House member banks are particularly concerned about the possibility that they may be required to share confidential data regarding use of credit derivatives. The volatility of these positions, as well as the highly proprietary and competitive nature of each institution’s approach to using derivatives for risk management, make them inappropriate for examination or reporting on other than a strictly confidential basis.

### IV. Additional Questions

In reviewing the Release, several of The Clearing House member banks identified questions for consideration by the Agencies as they prepare a revised and more detailed description of the Proposal:

- Will the Agencies expect to disseminate their Regulatory ID feedback via XML or XBRL?

- Is it appropriate to continue to require facilities agented by non-regulated institutions to be handled in the same way (i.e., by the largest regulated institution)? Is it appropriate for the administrative and cost burden to be allocated in this manner, particularly when the regulated institution is not being compensated and has lost the agency role through aggressive market competition?

- How should regulated institutions learn if a facility is a SNC credit when it is agented by a non-regulated institution?

- Will the Agencies or the agent bank be responsible for informing participants when a facility is no longer SNC reportable?

## V. Recommendations

Based on our concerns discussed above, The Clearing House member banks believe that several specific modifications or enhancements to the Proposed Changes are necessary to reduce the financial, administrative and competitive problems they have identified in the Release. They recommend that the Agencies:

- Delay implementation of enhanced reporting of any type by one year, until 2008. This should permit organizations that will become Expanded Reporters to complete their implementation of Basel II mandated systems, and thereafter to efficiently use those systems to support, or serve as platforms for, their enhanced SNC reporting.

- Consider a gradual phase-in of quarterly reporting. For example, for the first year following implementation of enhanced reporting, consider requiring only annual reports (perhaps together with the ability on an 'as available basis' for reporters to submit interim data on a test basis). Thereafter, allow for one or two years of only semi-annual reporting, with quarterly reports becoming mandatory thereafter.

- Assure competitive neutrality by sharing information only with other reporters that have provided identical amounts and quality of information.

- Accommodate the difficulty in masking the identity of specific Enhanced Reporters by limiting the sharing of benchmark data only to those credits for which at least six or more Expanded Reporters have submitted data.

- Credit quality composite data should be used initially only as an Agency examination resource, and the Agencies should move slowly and with careful consultation with loan market participants before making benchmark data available (even to Expanded Reporters) so that its impact on market pricing and participant behavior can be carefully assessed.

- Provide a single, nationwide electronic resource that will permit organizations to determine credit identification data, as well as the continued SNC status of individual credits.

- The Program should not require banks, particularly participating banks, to investigate which credits meet reporting standards as of any specific report date, but instead allow for submission of data without investigation, leaving the Agencies or their vendor to determine whether a specific report is still mandated.

- Phase-in participant reporting (perhaps initially on a 'best efforts' basis for the first 12 or 24 months) to allow sufficient time for system automation and reliability testing.

- Exempt "assets held in a trading book" from reporting, as they are transitory holdings that don't carry risk weightings.

- Employ existing industry standard (e.g., CUSIP or LPC numbers) or other unique credit designations and provide a web-based interface for obtaining such identifiers before enhanced reporting requirements become effective.

- Remove or revise data fields requiring designation of "extension" or "renewal" dates, as these concepts are not necessarily recorded in a consistent manner across all reporting institutions.

The Clearing House also requests that you refer to our member banks' individual comment letters for other specific suggested modifications or enhancements of the Proposed Changes.

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The Clearing House would be pleased to discuss any of the concerns, questions or recommendations made herein in more detail. If you have any questions, please contact Norman R. Nelson, General Counsel, at (212) 612-9205.

Sincerely yours,