

## **FEDERAL RESERVE SYSTEM**

### **Proposed Agency Information Collection Activities; Comment Request**

**AGENCY:** Board of Governors of the Federal Reserve System

**SUMMARY:** On June 15, 1984, the Office of Management and Budget (OMB) delegated to the Board of Governors of the Federal Reserve System (Board) its approval authority under the Paperwork Reduction Act (PRA), pursuant to 5 CFR 1320.16, to approve of and assign OMB control numbers to collection of information requests and requirements conducted or sponsored by the Board under conditions set forth in 5 CFR 1320 Appendix A.1. Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information. Copies of the Paperwork Reduction Act Submission, supporting statements and approved collection of information instruments are placed into OMB's public docket files. The Federal Reserve may not conduct or sponsor, and the respondent is not required to respond to, an information collection that has been extended, revised, or implemented on or after October 1, 1995, unless it displays a currently valid OMB control number.

**DATES:** Comments must be submitted on or before September 4, 2012.

**ADDRESSES:** You may submit comments, identified by *FR Y-14A/Q/M*,

by any of the following methods:

- Agency Web Site: <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.
- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.
- E-mail: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov). Include OMB number in the subject line of the message.
- FAX: 202/452-3819 or 202/452-3102.
- Mail: Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20<sup>th</sup> Street and Constitution Avenue, N.W., Washington, DC 20551.

All public comments are available from the Board's web site at [www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm](http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm) as submitted, unless modified for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper form in Room

MP-500 of the Board's Martin Building (20th and C Streets, N.W.) between 9:00 a.m. and 5:00 p.m. on weekdays.

Additionally, commenters may send a copy of their comments to the OMB Desk Officer — Shagufta Ahmed — Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 10235 725 17<sup>th</sup> Street, NW., Washington, DC 20503 or by fax to 202-395-6974.

**FOR FURTHER INFORMATION CONTACT:** A copy of the PRA OMB submission, including the proposed reporting form and instructions, supporting statement, and other documentation will be placed into OMB's public docket files, once approved. These documents will also be made available on the Federal Reserve Board's public website at: <http://www.federalreserve.gov/boarddocs/reportforms/review.cfm> or may be requested from the agency clearance officer, whose name appears below.

Federal Reserve Board Clearance Officer — Cynthia Ayouch — Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, DC 20551 (202-452-3829).

Telecommunications Device for the Deaf (TDD) users may contact (202-263-4869), Board of Governors of the Federal Reserve System, Washington, DC 20551.

**SUPPLEMENTARY INFORMATION:****Request for Comment on Information Collection Proposal**

The following information collection, which is being handled under this delegated authority, has received initial Board approval and is hereby published for comment. At the end of the comment period, the proposed information collection, along with an analysis of comments and recommendations received, will be submitted to the Board for final approval under OMB delegated authority. Comments are invited on the following:

- a. Whether the proposed collection of information is necessary for the proper performance of the Federal Reserve's functions; including whether the information has practical utility;
- b. The accuracy of the Federal Reserve's estimate of the burden of the proposed information collection, including the validity of the methodology and assumptions used;
- c. Ways to enhance the quality, utility, and clarity of the information to be collected;
- d. Ways to minimize the burden of information collection on respondents, including through the use of automated collection techniques or other forms of information technology; and

e. Estimates of capital or start up costs and costs of operation, maintenance, and purchase of services to provide information.

**Proposal to approve under OMB delegated authority the extension, with revision of the following report:**

*Report title:* Capital Assessments and Stress Testing information collection

*Agency form number:* FR Y-14A/Q/M

*OMB control number:* 7100-0341

*Frequency:* Annually, Quarterly, and Monthly

*Reporters:* Large banking organizations that meet an annual threshold of \$50 billion or more in total consolidated assets (large Bank Holding Companies or large BHCs), as defined by the Capital Plan rule (12 CFR 225.8).<sup>1</sup>

*Estimated annual reporting hours:* FR Y-14A: Summary, 25,080 hours; Macro scenario, 930 hours; Counterparty credit risk (CCR), 2,292 hours; Basel III/Dodd-Frank, 600 hours; and Regulatory capital, 600 hours.

FR Y-14 Q: Securities risk, 1,200 hours; Retail risk, 1,920 hours;

Pre-provision net revenue (PPNR), 75,000 hours; Wholesale corporate loans, 6,720 hours; Wholesale commercial real estate (CRE) loans, 6,480 hours;

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<sup>1</sup> The Capital Plan rule applies to every top-tier large BHC. This asset threshold is consistent with the threshold established by section 165 of the Dodd-Frank Act relating to enhanced supervision and prudential standards for certain BHCs.

Trading risk, 41,280 hours; Basel III/Dodd-Frank, 1,800 hours; Regulatory capital, 3,600 hours; and Operational risk, 3,360 hours; and Mortgage Servicing Rights (MSR) Valuation, 864 hours; Supplemental, 960 hours; and Retail Fair Value Option/Held for Sale (Retail FVO/HFS), 1,216 hours.

FR Y-14M: Retail 1<sup>st</sup> lien mortgage, 129,000 hours; Retail home equity, 123,840 hours; and Retail credit card, 77,400 hours. FR Y-14

Implementation and On-Going Automation: Start-up for new respondents, 79,200 hours; and On-going revisions for existing respondents, 9,120 hours.

*Estimated average hours per response:* FR Y-14A: Summary, 836 hours;

Macro scenario, 31 hours; CCR, 382 hours; Basel III/Dodd-Frank, 20 hours; and Regulatory capital, 20 hours. FR Y-14Q: Securities risk, 10 hours;

Retail risk, 16 hours; PPNR, 625 hours; Wholesale corporate loans,

60 hours; Wholesale CRE loans, 60 hours; Trading risk, 1,720 hours;

Basel III/Dodd-Frank, 20 hours; Regulatory capital, 40 hours; Operational

risk, 28 hours, MSR Valuation, 24 hours; Supplemental, 8 hours; and Retail

FVO/HFS, 16 hours. FR Y-14M: Retail 1<sup>st</sup> lien mortgage, 430 hours; Retail

home equity, 430 hours; and Retail credit card, 430 hours. FR Y-14

Implementation and On-Going Automation: Start-up for new respondents,

7,200 hours; and On-going revisions for existing respondents, 480 hours.

*Number of respondents: 30*

*General description of report:* The FR Y-14 series of reports are authorized by section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), which requires the Federal Reserve to ensure that certain BHCs and nonbank financial companies supervised by the Federal Reserve are subject to enhanced risk-based and leverage standards in order to mitigate risks to the financial stability of the United States (12 U.S.C. 5365). Additionally, section 5 of the BHC Act authorizes the Board to issue regulations and conduct information collections with regard to the supervision of BHCs (12 U.S.C. 1844).

As these data are collected as part of the supervisory process, they are subject to confidential treatment under exemption 8 of the Freedom of Information Act (FOIA) (5 U.S.C. 552(b)(8)). In addition, commercial and financial information contained in these information collections may be exempt from disclosure under FOIA exemption 4 (5 U.S.C. 552(b)(4)). Such exemptions would be made on a case-by-case basis.

*Abstract:* The data collected through the FR Y-14A/Q/M provides the Federal Reserve with the additional information and perspective needed to help ensure that large BHCs have strong, firm-wide risk measurement and management processes supporting their internal assessments of capital adequacy and that their capital resources are sufficient given their business

focus, activities, and resulting risk exposures. The annual Comprehensive Capital Analysis and Review (CCAR) is also complemented by other Federal Reserve supervisory efforts aimed at enhancing the continued viability of large BHCs, including (1) continuous monitoring of BHCs' planning and management of liquidity and funding resources, and (2) regular assessments of credit, market and operational risks, and associated risk management practices. Information gathered in this data collection is also used in the supervision and regulation of these financial institutions. In order to fully evaluate the data submissions, the Federal Reserve may conduct follow up discussions with or request responses to follow up questions from respondents, as needed. Respondent BHCs are required to complete and submit up to 17 filings each year: one annual FR Y-14A filing, four quarterly FR Y-14Q filings, and 12 monthly FR Y-14M filings. Compliance with these information collections is mandatory.

The annual FR Y-14A 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.<sup>2</sup> The quarterly FR Y-14Q collects granular data on BHCs' various asset classes

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<sup>2</sup> BHCs that must re-submit their capital plan generally also must provide a revised FR Y-14A in connection with their resubmission.



and PPNR for the reporting period, which are used to support supervisory stress test models and for continuous monitoring efforts.<sup>3</sup> The monthly FR Y-14M comprises three loan- and portfolio-level collections, and one detailed address matching collection to supplement the two loan-level collections.

Under section 165 of the Dodd-Frank Act, the Federal Reserve is required to issue regulations relating to stress testing (DFAST) for certain BHCs and nonbank financial companies supervised by the Board. On January 5, 2012, the Board published rulemakings (77 FR 594) which would include new reporting requirements found in 12 CFR 252.134(a), 252.146(a), and 252.146(b) related to stress testing. The Federal Reserve anticipates that these new reporting requirements and the PRA burden associated with these requirements would be addressed in detail in a future FR Y-14 proposal.<sup>4</sup>

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<sup>3</sup> BHCs are required to submit both quarterly and annual schedules for third quarter data, with the exception of the Basel III/Dodd-Frank and Regulatory Capital Instruments schedules. For these schedules, only data for the annual schedules are submitted for third quarter data.

<sup>4</sup> The proposed rules would implement the enhanced prudential standards required to be established under section 165 of the Dodd-Frank Act and the early remediation framework established under section 166 of the Act. The enhanced standards include risk-based capital and leverage requirements, liquidity standards, requirements for overall risk management, single-counterparty credit limits, DFAST requirements, and debt-to-equity limits for companies that the Financial Stability Oversight Council has determined

*Current Actions:* The Federal Reserve proposes revising various annual and quarterly FR Y-14 schedules and several general revisions to the entire collection, effective September 30, 2012. The revisions would include: (1) implementing three new quarterly reporting schedules, (2) revising the respondent panel, (3) enhancing data items previously collected, (4) deleting data items that are no longer needed, (5) adding attestation requirements, and (6) collecting contact information. The Federal Reserve proposes the revisions based on experience gained from previous capital review and stress testing efforts. The revisions would provide the Federal Reserve with new information to refine its analysis, while removing data items that are no longer deemed necessary for such analysis. A summary of the proposed revisions is provided below.

The proposed revisions to the FR Y-14A (annual collection) include: (1) revising 10 of the worksheets to the Summary schedule and combining the *Retail Balance Projections* and *Retail Loss Projections worksheets*; (2) adding two new worksheets and refining the *Planned Action worksheet* for the Basel III/Dodd-Frank schedule and making definitional and

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pose a grave threat to financial stability. The 2011 proposal implementing the FR Y-14A and Q acknowledged the impending publication of the DFAST reporting requirements under section 165 of the Dodd-Frank Act. That proposal included a statement noting that revisions to the quarterly and annual data collections, based on the enhanced standards rulemaking, would be incorporated into the FR Y-14A and Q information collection.

calculation revisions consistent with the final Market Risk Capital rulemaking;<sup>5</sup> (3) streamlining the Regulatory Capital Instruments schedule and adding CUSIP-level<sup>6</sup> data; and (4) revising the CCR schedule to collect additional data.

The proposed revisions to the FR Y-14Q (quarterly collection) include: (1) implementing a new MSR Valuation schedule; (2) implementing a new Supplemental schedule; (3) implementing a new Retail FVO/HFS schedule; (4) revising the Retail Risk schedule to remove data items no longer needed and add risk characteristics to existing collections; (5) revising various worksheets and adding a new worksheet in the Trading Risk schedule; (6) revising the PPNR schedule; (7) adding new worksheets and data items to the Basel III/Dodd-Frank schedule and making definitional and calculation revisions consistent with the final Market Risk Capital rulemaking; and (8) incorporating minor revisions and other clarifications to Securities and Regulatory Capital Instruments schedules.

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<sup>5</sup> On June 12, 2012, the Federal Reserve Board, Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) published a joint press release announcing the finalization of the Market Risk Capital rulemaking that was proposed in 2011. Attached to the press release is a copy of the signed, pre-published version of this final rulemaking.

<sup>6</sup> CUSIP refers to the Committee on Uniform Security Identification Procedures. This 9-character alphanumeric code identifies any North American security for the purposes of facilitating clearing and settlement of trades.

The proposed revisions to the collection of PPNR data in the FR Y-14A worksheets (contained within the Summary schedule) and FR Y-14Q schedule include: (1) expanding the data collection on non-interest income and expense and (2) collecting on a one-time basis, historical data for proposed data items and inclusion of one-time items in PPNR on the *PPNR Submission worksheet*, the *PPNR Net Interest Income (NII) worksheet*, and the *PPNR Metrics worksheet*.

The proposed revisions to the FR Y-14A, Q, and M include: (1) revising the respondent panel to be more consistent with the scope of application in the notice of proposed rulemaking regarding enhanced prudential standards (77 FR 594); (2) adding an attestation to the FR Y-14 submission that must be signed by the Chief Financial Officer (CFO) of the BHC (or by the individual performing this equivalent function); and (3) collecting contact information for each reported schedule.

Draft files illustrating the proposed new schedules and instructions, and the proposed revisions to the current reporting schedules and instructions are available on the Federal Reserve Board's public Website at: <http://www.federalreserve.gov/boarddocs/reportforms/review.cfm>

## **Proposed Revisions to the FR Y-14A (annual collection)**

### **Summary Schedule**

The Federal Reserve proposes revising several worksheets included in the Summary schedule: *Income Statement, Balance Sheet, ASC 310-30, Retail Balance and Loss Projections, Retail Repurchase, Trading Risk, CCR, and PPNR*<sup>7</sup> worksheets. The proposed revisions to these worksheets are necessary for the Federal Reserve to better understand the characteristics underlying the risks to which BHCs are exposed.

***Income Statement worksheet.*** The Federal Reserve proposes revising this worksheet to expand the definitions of several loan categories (such as, certain domestic and international real estate and CRE loans, international Commercial and Industrial (C&I) loans, credit card and other consumer loans). The Federal Reserve proposes changing the definitions of certain loan categories from their FR Y-9C definitions in order to better align the categories with Federal Reserve stress testing methods (for example, certain types of credit cards may be included in more than one data item on the FR Y-9C but should be consolidated on the FR Y-14A). For three sections of the worksheet (Accrual Loan Losses, Losses Associated with HFS and

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<sup>7</sup> The discussion of the revisions to the annual PPNR worksheets (contained in the Summary schedule) and the quarterly PPNR Schedule is listed below.

Loans Associated for Under the FVO, and ALLL), the Federal Reserve proposes splitting real estate loans by loans originated in domestic and foreign offices. The Federal Reserve also proposes separating accrual loans from HFS loans or held under the FVO to distinguish between the different risk characteristics of the loans booked under these accounting standards.

The Federal Reserve proposes a new data item, Other CCR Losses, under the Trading Account section on the *Income Statement worksheet* to allow BHCs to include losses due to counterparty risk that are not directly included in the other types of loss categories available. A breakout under Other Losses on the *Income Statement worksheet* would include Goodwill Impairment, Valuation Adjustments for the BHCs' own debt under a FVO, and Other Losses. This breakout would give BHCs greater flexibility to distinguish between these types of loss, which have very different implications when assessing the BHCs' underlying risk.

The Federal Reserve also proposes adding to the *Income Statement worksheet* more granular breakouts by loan category of the ALLL and loan-loss provisions. These breakouts would give greater insight into BHCs' reserving policies and provide clarity as to how losses in the banking book move through the income statement to affect capital. The data items requested would closely mirror the loan categories reported on the balance

sheet. However, in an effort to reduce burden, only an aggregate figure would be reported for first lien mortgages; residential mortgages, CRE, and farmland not in domestic offices; credit card; other consumer; and other loans in the ALLL and loan-loss provisions section.

***Balance Sheet worksheet.*** The Federal Reserve proposes revising the loan categories in this worksheet to mirror the new categories on the *Income Statement worksheet*. The Premises and Fixed Assets section of the *Balance Sheet worksheet* would be revised to add a new subcomponent, Collateral underlying leases for which the bank is the lessor. Adding this data item would allow the Federal Reserve to track which BHCs have material exposure to operating leases as this asset type is not broken out separately on the FR Y-9C.

***ASC 310-30 worksheet.*** The Federal Reserve proposes significantly revising this worksheet, which collects data on purchased credit impaired loans. The worksheet would collect data separately for three portfolios (first lien mortgages, second lien home equity loans, and home equity lines of credit), as well as any other portfolios subject to ASC 310-30 accounting, whether they are currently on BHCs' portfolios or are expected to be acquired. The current worksheet collects aggregate figures for all ASC 310-30 assets. These data items would be revised in an effort to better

align with accounting definitions for the loans reported in the purchased credit impaired portfolio. The revised worksheet would collect the carrying value, allowance, provisions to and charge-offs from the allowance, estimates of cash flows to be collected over the life of the loan, the nonaccretable difference and its components, changes to the nonaccretable difference, and the accretable yield and its components. Collecting this more detailed information would improve the Federal Reserve's ability to track the effect of the stress scenario on ASC 310-30 portfolios.

***Retail Balance and Loss Projections worksheets.*** In an effort to streamline the schedule, the Federal Reserve proposes combining these two worksheets. The combined worksheets would include a new data item to capture loan losses, which had previously been captured only on the *Income Statement worksheet*. The new data item would be reported only once on either the *Income Statement worksheet* or the newly combined worksheet, and the data would be automatically populated in the second worksheet.

***Retail Repurchase worksheet.*** The Federal Reserve proposes revising this worksheet to collect more granular data on the categories of repurchase exposure. Collecting this level of data would improve the Federal Reserve's ability to more precisely assess repurchase risk exposure. The revisions would separate portfolios sold to Fannie Mae and Freddie Mac, as well as



add a category for loans insured by the US government (e.g. the Federal Housing Administration (FHA)/the U.S. Department of Veterans Administration (VA) loans). The revisions would separate portfolios securitized with and without monoline insurance.<sup>8</sup> For all of the portfolio categories, the worksheet would collect separately information on loans for which a BHC is and is not able to report delinquency information.

***Trading Risk worksheet.*** For each of the eight risk categories for which BHCs report Profit/Loss (P/L) data, the Federal Reserve proposes adding new data items to this worksheet to capture and conduct analysis on the contribution of higher-order risks (inter-asset risks attributable to terms not represented in the FR-Y14Q Trading Risk schedule) and Counterparty Valuation Adjustment (CVA)<sup>9</sup> hedges to the BHCs' exposure to trading risk.

***CCR worksheet.*** The Federal Reserve proposes revising this worksheet to breakout Counterparty Credit mark-to-market Losses (CVA losses) into Counterparty CVA losses and Offline Reserve CVA Losses. This breakout

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<sup>8</sup> Monoline insurance is a type of insurance for loans and bonds to cover the interest and principal when an issuer defaults.

<sup>9</sup> CVA is the difference between the risk-free portfolio value and the true portfolio value that takes into account the possibility of default by a counterparty. In other words, CVA is the market value of counterparty credit risk.

would give the Federal Reserve additional insight into the decomposition of CVA losses, which may vary across institutions.

### **Basel III/Dodd-Frank Schedule**

The Federal Reserve proposes adding a new *Balance Sheet worksheet* to the Basel III/Dodd-Frank schedule to collect supplemental balance sheet data for BHCs' banking and trading books to better assess the impact and trends relative to changes in Risk-Weighted Assets (RWA) and implications resulting from planned actions. For BHCs that are not among the 19 SCAP BHCs<sup>10</sup> and are not mandatory Basel II or opt-in Basel II respondents, the Federal Reserve proposes adding a new simplified *Risk-Weighted Assets (B) worksheet* that the BHCs would be permitted to use at their option. This worksheet would exclude data items that are not relevant to the respondents. On the *Capital Composition worksheet* the Federal Reserve proposes collecting additional earnings data for the entire forecast period (eight years of fourth quarter projections) in order to facilitate future earnings analysis. Under Periodic Changes in Common Stock, Common Stock and Related Surplus (Net of Treasury Stock), the Federal Reserve proposes collecting two new data items (issuance of common stock, including conversion to

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<sup>10</sup> These 19 BHCs participated in both the 2009 Supervisory Capital Assessment Program (SCAP) and the 2011 and 2012 CCAR exercises.

common stock; and repurchases of common stock). Under Periodic Changes in Retained Earnings, the Federal Reserve proposes collecting three new data items (net income/loss attributable to bank holding company, cash dividends declared on preferred stock, and cash dividends declared on common stock). Additionally, the Federal Reserve proposes adding two data items, RWA type and Balance Sheet Impact, to the *Planned Action worksheet* to better capture the type of exposure that the action would have on a BHCs' risk-weighted assets. The Federal Reserve also proposes requiring BHCs to submit additional supporting documentation on the anticipated market size for the capital action, planned unwinds and run-offs of balance sheet positions, hedging strategies, risk-weighted calculation methodologies, and use of clearing houses.

### **Regulatory Capital Instruments Schedule**

The Federal Reserve proposes streamlining the Regulatory Capital schedule to simplify the data collection by replacing five issuances and redemptions worksheets with the new *Projected Actions and Balances worksheet*. For all forecasted periods (reported on the new worksheet), the Federal Reserve proposes collecting only instrument-type data, rather than regulatory capital instrument data at the CUSIP-level. For all current periods (reported on the new worksheet), the Federal Reserve proposes

collecting CUSIP-level data for actual issuances and actual redemptions. This streamlining would reduce burden on BHCs and alleviate some of the difficulties BHCs had in projecting the specific CUSIP-level capital instruments they had planned to redeem. The streamlining would also enhance both the quality and accuracy of the ongoing monitoring and assessments of BHCs' capital structure.

### **CCR Schedule**

The Federal Reserve proposes revising the CCR schedule to improve the ability to monitor counterparty risk and perform stress-testing. The revised schedule would collect more information on single name credit default swaps whose purpose is to hedge the default of the counterparty. This information would enable the Federal Reserve to estimate the effect of specific hedges on CVA losses under a variety of stress scenarios. In addition, the CCR schedule would collect data on the Loss Given Default (LGD) of a counterparty default<sup>11</sup> to allow the Federal Reserve to independently estimate a CVA. An additional column for the sensitivity to a 300 basis point shock to counterparties' credit spreads would be added to improve the ability to analyze counterparty risk under large risk factor shocks. The Federal Reserve proposes collecting country identifiers for the

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<sup>11</sup> This is the LGD of counterparties to the BHCs that are used in the BHCs' CVA calculations.

counterparty and data regarding whether counterparties included downgrade triggers in collateral arrangements. These additional data would provide the Federal Reserve the flexibility needed to develop independent loss estimates. The Federal Reserve also proposes to clarify the instructions related to how BHCs should document their internal data generation and modeling used to complete the CCR schedule.

### **Proposed Revisions to FR Y-14Q (quarterly collection)**

#### **MSR Valuation Schedule**

The Federal Reserve proposes implementing the new quarterly MSR Valuation schedule that would collect information on the data that BHCs use to value their MSRs and the sensitivities of those valuations to changes in economic factors. Data items collected would include the book and market value of MSRs, the number and dollar value of loans serviced, capitalization rates by product type, valuation methodology data (such as the type of valuation models used), valuation sensitivity items (such as the sensitivity of valuations to changes in interest rates and macroeconomic variables), and valuations metrics on servicing portfolios (such as the discount rate used, the option-adjusted spread, prepayment and default rates, and servicing costs). This proposed schedule would enhance the ability to

monitor and stress-test MSR valuations, which tend to be volatile and sensitive to macroeconomic shocks.

To minimize burden on the BHCs, the Federal Reserve proposes implementing a materiality threshold for determining whether a BHC would be required to report. BHCs would be required to complete the MSR Valuation schedule if they meet either of the following materiality thresholds: (1) the average fair market value of MSRs is greater than five percent of the firm's average Tier 1 capital during the last four quarters or (2) the unpaid principal balance of loans under contract for servicing for which an MSR value is calculated greater than \$100 billion. This schedule would have different materiality thresholds than the other schedules subject to a threshold. The first threshold would be similar to the materiality thresholds for other schedules in that BHCs must complete the schedule if the average fair market value of MSRs divided by average Tier 1 capital during the last four quarters is greater than five percent. The second threshold would not be based on the value of the MSR itself; instead it would be based on the unpaid principal balance of the loans serviced under the MSR contract. This approach was taken because MSR valuations tend to be quite volatile and BHCs with high levels of servicing exposure may report low levels of MSR valuation for several quarters. The balance of the

serviced loans better captures the BHCs' exposure to and dependence on mortgage servicing income.

### **Supplemental Schedule**

Currently, the Federal Reserve collects data on BHCs' exposures at different levels of granularity on different reporting forms. For example, the FR Y-9C collects aggregate exposure information, while the FR Y-14 collects more granular data on the risk dimensions to which BHCs are exposed. The Federal Reserve proposes implementing the quarterly Supplemental schedule to ensure that the Federal Reserve has a consistent view of BHCs' exposures that are collected at different levels of granularity. The proposed schedule would collect information or breakouts of data omitted from the more granular FR Y-14Q/M schedules, such as balances of non-purpose securities-based loans, or balances of loans in immaterial portfolios to allow the Federal Reserve to identify factors contributing to the gaps between the FR Y-9C aggregate data and the data collected in the FR Y-14. The Federal Reserve proposes this aggregate-level schedule because the burden on the institutions for reporting the data at the granular segment- and loan-level outweighs the value of the data to the Federal Reserve. The proposed schedule would allow the Federal Reserve to understand the variation of such factors across institutions and over time,

and also enable the Federal Reserve to remain abreast of BHCs' changing exposures to portfolios not currently captured in the FR Y-14. Lastly, collecting this supplemental data would provide more precise stress test measures.

### **Retail FVO/HFS Schedule**

The Federal Reserve proposes implementing the quarterly Retail FVO/HFS Schedule that would collect specific information on loans that are accounted for under the FVO or HFS. The schedule would collect the value of loans segmented by various criteria, including the type of loan (residential loans in forward contract, residential loans repurchased with FHA/VA insurance,<sup>12</sup> other residential loans, non-residential loans in forward contract, student loans not in forward contract, credit card loans not in forward contract, and auto loans not in forward contract), and the origination vintage. These data are necessary for the Federal Reserve to model losses on the FVO/HFS loans. Loans that are under a forward contract for sale have much lower price volatility than those loans that are not under a forward contract. Vintage data are important because the age of the loan and the conditions under which the loan was originated affect its vulnerability to

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<sup>12</sup> Mortgage insurance is a policy that protects lenders against losses that result from default on a home mortgage. The FHA and the VA loan programs are the equivalent of private mortgage insurance required for certain conventional home loans.



macroeconomic shocks. The carrying values of the FVO/HFS loans are not available elsewhere because BHCs typically calculate the carrying value on pools of loans and not at the loan-level.

In an effort to reduce burden on respondents, the Federal Reserve also proposes making this schedule subject to the following materiality threshold: material portfolios are defined as those with asset balances greater than \$5 billion or asset balances relative to Tier 1 capital greater than 5 percent on average for the four quarters that precede the reporting quarter.

### **Retail Risk Schedule**

The Federal Reserve proposes incorporating three types of revisions to the quarterly Retail Risk schedule. First, the Federal Reserve proposes adding a number of additional risk characteristics to the existing collections. These revisions would give more direct insight into some potential emerging risk dimensions that were previously captured latently through other variables. Second, the Federal Reserve proposes making enhancements to the schedules to improve the consistency across the retail schedules. These enhancements would allow the Federal Reserve to have a more consistent view of BHCs' risk profiles across portfolios, such as adding a gross charge-off summary variable to the *Domestic Other Consumer* collection. Third,

the Federal Reserve proposes incorporating editorial changes across the portfolio descriptions.

The Federal Reserve proposes making specific revisions to the following portfolio collections in the Retail Risk schedule:

- to the *Domestic Student Loan* portfolio, adding a segment variable to capture the level of education being pursued by the borrower;
- to the *Domestic Other Consumer* and *International Other Consumer* portfolio, deleting the line of credit and loan size segment variables as similar information can be derived from a combination of data items reported elsewhere on the schedule, and adding data items to capture gross charge-offs, bankruptcy charge-offs, and recoveries on loans and making this collection consistent with the other collections within the Retail Risk schedule, thereby enhancing the Federal Reserves' ability to do cross-portfolio analysis;
- to the *Domestic and International Small Business* portfolio, expanding the Product Type segment to separate lines of credit from term loans (these product types exhibit different risk characteristics which may not be completely captured by the existing set of segment and summary variables) and adding a segment variable to capture whether the loans are collateralized;

- to the *International Credit Card* portfolio, expanding the Product Type segment to separate bank cards from charge cards (these product types exhibit different risk characteristics which may not be completely captured by the existing set of segment and summary variables);
- to the *International Auto* portfolio, adding a geography segment to make the collection consistent with the geography information collected in the other international collections in the Retail Risk schedule, and requesting the one-time collection of the *International Auto* historical data (January 2007 to present) in order to better capture how the geographic dimension of the risk distribution contributed to portfolio risk during that period; and
- to all portfolios that collect the Vintage segment variable, converting the Vintage segment variable to an Age segment variable in order to remove specific date dependencies from the reporting requirements, which would make the ongoing maintenance of the reporting documents and the reporting of the data less burdensome.

### **Trading Risk Schedule**

The Federal Reserve proposes deleting the *Top-Ten Equity List worksheet*, *Top-Ten Sovereign Credit worksheet*, and *Alternative Equity by*

*Geography Input worksheet* from the schedule because they are no longer necessary for the calculation of the trading loss estimate.

The Federal Reserve proposes adding data items to capture long versus short market value/notional exposures, missing product types, and more granular credit rating information to allow the Federal Reserve to better differentiate across different products. In addition, the Federal Reserve proposes adding term structure (floating) flexibility in the *Commodities worksheet* and revising the *Spot/Volatility Grid worksheet* to increase coverage of products including emissions and diversified commodity indices.

In order to improve the effectiveness of the P/L grids,<sup>13</sup> the Federal Reserve proposes clarifying current guidance to request wider and denser P/L grids as well as expanding the rates worksheets to include P/L grids by product level. The proposed revisions would take into account historical price movements observed under adverse market conditions and are meant to increase the effectiveness of interpolation from the P/L grids.

The Federal Reserve proposes clarifying the instructions to address: implementing the P/L calculations to generate P/L sensitivity data in the

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<sup>13</sup> P/L grids express the amount that firms gain or lose based on the movements of a predefined set of fundamental risk factors such as interest rates or credit spreads. They are used to model the expected P/L firms will experience under a prescribed market scenario.

*Equity worksheet* and *FX worksheet*, clarifying ambiguities related to decomposition and placement of various trading assets within the *Securitized Products worksheet* and *Commodities worksheet* of the Trading Risk schedule, and missing items such as countries and update geographic groupings.

### **Basel III/Dodd-Frank Schedule**

The Federal Reserve proposes adding a new worksheet, *MonitoringInstr*, to collect more detailed data on a quarterly basis for ongoing monitoring and analysis to avoid unnecessary ad-hoc, follow-up requests with the BHCs during the regular quarterly monitoring process. The Federal Reserve also proposes adding a new *Balance Sheet worksheet* to collect projections of 14 balance sheet items (held to maturity (HTM) securities; available for sale (AFS) securities; loans and leases (held for investment and HFS) net of unearned income and ALLL; trading assets; total intangible assets; other assets; total assets; total RWA; deposits; trading liabilities; subordinated notes payable to unconsolidated trusts issuing trust preferred securities (TruPS) and TruPS issued by consolidated special purpose entities; other liabilities; total liabilities; and total equity capital) through 2019. Insight into the BHCs' projected path for these categories of asset balances would enable the Federal Reserve to better assess the

feasibility of plans for adhering to Basel III requirements. For BHCs that are not among the 19 SCAP BHCs and are not mandatory Basel II or opt-in Basel II respondents, the Federal Reserve proposes adding a new simplified *Risk-Weighted Assets (B) worksheet* that the BHCs would be permitted to use at their option. This worksheet would exclude data items that are not relevant to the respondents.

The Federal Reserve proposes adding data items to the quarterly Basel III/Dodd-Frank schedule in order to make the schedule consistent with the annual Basel III/Dodd-Frank schedule. The new data items would include: adding periodic charges in common stock and retained earnings under the *Capital Composition worksheet*; changing the list of action types, exposure types, and RWA types under *Planned Action worksheet*; and adding more data items to verify the consistency of data within the Basel III/Dodd-Frank schedule and in comparison to the FR Y-14A Summary schedule. The latter would also provide additional clarification to Basel III-related data collected on the annual and quarterly schedules.

### **Securities Risk Schedule**

The Federal Reserve proposes revising the Securities schedule to allow BHCs to report an international securities identification number

(ISIN)<sup>14</sup> and identify it as such, when a security does not have a CUSIP number. Also, the Federal Reserve proposes combining the domestic and foreign corporate bond categories. In an effort to reduce burden, the reporting of previously optional fields (purchase date, purchase price, and purchase yield) have been eliminated.

### **Proposed Revisions to the FR Y-14A/Q**

#### **PPNR Worksheets (annual collection) and PPNR Schedule (quarterly collection)**

The FR Y-14 collects PPNR data on an annual and quarterly basis. The annual worksheets (contained in the Summary schedule) collect projection information and the quarterly schedule monitors actual PPNR data. The Federal Reserve proposes revising the three *PPNR worksheets* (*PPNR Projections*, *PPNR NII*, and *PPNR Metrics*) and the quarterly PPNR schedule based on industry feedback and the Federal Reserve's experience analyzing these data thus far.

Currently, only BHCs with deposits comprising at least one-third of total liabilities for any reported period are required to report data on the *PPNR NII worksheet*. The Federal Reserve proposes reducing the threshold

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<sup>14</sup> An ISIN is a number that is assigned to almost every stock and registered bond that trades throughout the world. It facilitates trade and settlement by making each security unique to every other security of the same class.

for reporting to one-quarter of total liabilities because the Federal Reserve believes that the current threshold does not capture all the BHCs for which it needs to conduct an in-depth net interest income assessment. Furthermore, while the Federal Reserve originally sought to reduce burden on the industry, the agency proposes making all data items on the *PPNR Projections worksheet* and the *PPNR NII worksheet* required (removing the optional reporting status for certain data items). As with the revision to the reporting threshold, these data are needed to better analyze net interest income. Currently, BHCs can choose “Primary” and “Supplementary” worksheets with reduced reporting requirements on the “Supplementary” worksheet.

In an effort to better understand the core drivers of BHCs revenues and expenses, the Federal Reserve proposes revising certain PPNR data items, including: (1) the exclusion of one-time income and expense items would be eliminated, in order to ensure a more consistent definition of PPNR among BHCs and (2) the breakout of optional immaterial revenues into net interest income and non-interest income, in order to ensure consistency with other PPNR schedule instructions that require reconciliation to the FRY-9C for each component of PPNR (net interest income, non-interest income, and non-interest expense).



The Federal Reserve proposes adding several new breakouts and data items as well as a new business line into the components revenues (on the annual *PPNR Projections worksheet* and the quarterly *PPNR Submission worksheet*), including:

- a new breakout for credit card revenues would split out interchange revenues from reward activity and partner-sharing contra-revenue;
- revenue from the mortgage and home equity business line would be split into production and servicing income; provisions to reserves for representations and warranties and repurchase obligations and other liabilities related to sold mortgages also would be split out;
- revenue related to retail and small business deposits would separate overdraft fees; and
- a new business line for Merchant Banking/Private Equity would be added; previously this business line had been included among the other business lines, typically Investment Banking.

On the annual *PPNR Projections worksheet* and the quarterly *PPNR Submission worksheet*, the Federal Reserve proposes substantively expanding the data collected on non-interest expense. The new data items would include Legal Expenses, Litigation Settlements and Penalties, and Reserves for Repurchases and Litigation related to sold and securitized

mortgages. Other new data items would include marketing expenses, credit card reward expenses, expenses related to premises, fixed assets, and other real estate owned.

The Federal Reserve proposes adding several data items to the *PPNR Metrics worksheet*:

- to the Retail and Small Business section, data items related to mortgage servicing would be expanded and would include information on residential loans sold and servicing expenses; also the number of credit card accounts and deposit accounts would be added;
- to the Investment Banking section, the estimate of market share would be replaced with measures of market size, and the number of employees would be added;
- to Investment Management section, Assets Under Management would include a breakout of fixed income; and
- to the Firm-Wide Metrics section, severance costs would be added, and certain data items that correspond to FR Y-9C would be added to the annual worksheet to collect projection data in order to compare the business line perspective of the FR Y-14 to the FR Y-9C items.

The Federal Reserve also proposes a one-time collection of the historical data only for these new data items on the *PPNR Submission*

*Worksheet*, the *PPNR NII worksheet*, and the *PPNR Metrics worksheet* (from first quarter 2009 through second quarter 2012) including elimination of the one-time data items exclusions. BHCs should have the historical data for the new data items available or would be able to calculate them. In third quarter 2011, the Federal Reserve collected data dating back to 2009 when PPNR data was collected for the first time under the FR Y-14. The historical data previously collected is used to assess trends in PPNR results among the BHCs and to assess whether the projections presented in the FR Y-14A are consistent with past performance. Based on the reasons stated above the Federal Reserve also proposes requiring BHCs that are newly subject to the FR Y-14 reporting requirements to submit historical data (back to first quarter 2009) with their first quarter data submission.

### **General Revisions to the FR Y-14A/Q/M**

#### **Respondent Panel**

The Federal Reserve proposes revising the respondent panel to be consistent with the scope of application in the notice of proposed rulemaking regarding enhanced prudential standards. As revised, the respondent panel would be defined as: “any top-tier bank holding company (other than a foreign banking organization), that has \$50 billion or more in total consolidated assets, as determined based on: (i) the average of the bank

holding company's total consolidated assets in the four most recent quarters as reported quarterly on the bank holding company's Consolidated Financial Statements for Bank Holding Companies (FR Y-9C); or (ii) the average of the bank holding company's total consolidated assets in the most recent consecutive quarters as reported quarterly on the bank holding company's FR Y-9Cs, if the bank holding company has not filed an FR Y-9C for each of the most recent four quarters.” The Federal Reserve also proposes expanding the respondent panel to include the 11 large BHCs that meet the asset threshold for reporting but that did not participate in the previous 2009 SCAP or CCAR 2011 exercises, except for SR 01-01 firms. As of September 30, 2011, there were approximately 33 large BHCs.<sup>15</sup> The asset threshold of \$50 billion is consistent with the threshold established by section 165 of the Dodd-Frank Act relating to enhanced supervision and prudential standards for certain BHCs.

### **Attestation**

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<sup>15</sup> Although 33 BHCs currently meet the reporting asset threshold, three are SR 01-01 BHCs and are therefore exempt from reporting. SR 01-01 (Application of the Board’s Capital Adequacy Guidelines to BHCs owned by Foreign Banking Organizations) states, “as a general matter, a U.S. BHC that is owned and controlled by a foreign bank that is an FHC that the Board has determined to be well-capitalized and well-managed will not be required to comply with the Board's capital adequacy guidelines.”

The Federal Reserve proposes requiring the signature of the BHCs' CFO (or the individual performing this equivalent function) on the FR Y-14 submission. The Federal Reserve proposes adding a new cover page to provide the appropriate attestation language (consistent, as appropriate, with the FR Y-9C) and stating in the general reporting instructions for the FR Y-14A, Q, and M the following:

*The Capital Assessments and Stress Testing (FR Y-14A/Q/M) data submission must be signed by the Chief Financial Officer of the BHC (or by the individual performing this equivalent function). By signing the cover page of this report, the authorized officer acknowledges that any knowing and willful misrepresentation or omission of a material fact on this report constitutes fraud in the inducement and may subject the officer to legal sanctions provided by 18 USC 1001 and 1007.*

*Bank holding companies must maintain in their files a manually signed and attested printout of the data submitted. The cover page from the Federal Reserve's website reporting form should be used to fulfill the signature and attestation requirement and this page should be attached to the printout placed in the bank holding company's files.*

## **Contact Information**

The Federal Reserve proposes collecting contact information for each of the reported schedules to facilitate and expedite responses to follow up questions. Consistent with the cover page of the FR Y-9C, each schedule would include the statement, “Person to whom questions about this schedule should be directed,” and would collect name/title, phone number, fax number, and e-mail address.

### **Request for Additional Feedback**

The Federal Reserve is seeking additional feedback on the following questions from first-time respondents of the FR Y-14Q/M on ways to reduce reporting burden:

1. Should the Federal Reserve allow a transition period during which first-time respondents of the FR Y-14Q/M may (1) use a tailored materiality threshold, (2) submit the schedules under an extended filing deadline, or (3) both?
2. If a transition period is allowed, how long should it be? Would a tailored materiality threshold of 25% of tier 1 capital or a threshold of 100% of tier 1 capital be more appropriate? For the quarterly and monthly filings, how much additional time should the Federal Reserve allow for filing the schedules?

The Federal Reserve is seeking feedback on the following question from all respondents on the Basel III/Dodd-Frank schedule.

3. On June 12, 2012, the Federal Reserve Board, the OCC, and the FDIC published a joint press release seeking comment on three proposed rulemakings that would revise and replace the agencies' current capital rules (the Basel III proposed rulemakings) and announcing the finalization of the Market Risk Capital rulemaking. The Board's press release with the pre-published rulemakings is available on the Board's public website at:

[www.federalreserve.gov/newsevents/press/bcreg/20120612a.htm](http://www.federalreserve.gov/newsevents/press/bcreg/20120612a.htm)

With respect to the annual and quarterly Basel III/Dodd-Frank schedules (except for that portion which relates to market RWAs), what are the costs and benefits associated with allowing BHCs to continue to follow existing BCBS guidance on Basel III, given that some aspects of any final rule implementing Basel III in the United States, may differ significantly from the BCBS guidance, and in particular those aspects of the guidance involving securitization exposures and credit ratings? On what basis (BCBS guidance, the

proposed rulemakings, or some combination thereof) should the

Basel III/Dodd-Frank schedules be based and why?

Board of Governors of the Federal Reserve System, June 29, 2012.

**(signed)**

**Jennifer J. Johnson,**  
Secretary of the Board.