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October 14, 2014

Via E-Mail: Comments@FDIC.gov

Gary A. Kuiper, Counsel
Executive Secretary Section, NYA-5046
Attention: Comments
FDIC
550 17th Street NW.
Washington, DC 20429

RE: *Annual Stress Test Reporting Template and Documentation for Covered Banks with Total Consolidated Assets of \$10 Billion to \$50 Billion under Dodd-Frank*
OMB control number: 3064-0189.
Effective for: 2015 stress test cycle (with reporting in March 2015)

To Whom It May Concern:

Trepp welcomes the opportunity to comment on the proposed information collection. Trepp is a data and analytics provider, serving the banking, CMBS and commercial real estate markets. Our Trepp Capital Adequacy Stress Test (T-CAST) module enables banks to forecast their income statements, balance sheets and capital under multiple scenarios, including Severely Adverse, Adverse and Baseline, as well as custom-defined scenarios.

We believe that stress testing is a valuable tool for modeling capital adequacy and ensuring the health of both individual institutions and the banking system overall. We are pleased to see that the proposed changes to the DFA Stress Test Reporting Forms for banks with \$10 to \$50 billion in assets include clarifications of the instructions for additional scenario submissions as well as for banks' qualitative supporting information.

We are concerned however about several items related to the proposed changes to the projections and reporting of regulatory capital, risk-weighted assets and regulatory capital ratios. We believe that covered banks that submit stress testing results on the DFAST 10-50 reporting form will lack the relevant data for the proposed DFAST reporting changes ahead of their Call Report reporting requirements, and that will in turn undermine the value of the DFA Stress Test itself.

We respectfully submit the following comments.

General comments on the requirements for reporting Basel III / Standardized Approach projections of capital, risk-weighted assets and capital ratios.

- 1) The inclusion of Common Equity Tier 1 (CET1) and shift to Basel III calculations for regulatory capital in Q1 2015 and beyond.

Our main concern is that banks will lack the relevant data to produce these results. For the DFAST 10-50 banks, the first Call Reports containing these fields and calculations will be for first quarter of 2015 (the period ending March 31, 2015), which will be submitted after March 31, 2015. However, the DFAST results must be submitted to regulators no later than March 31, 2015. Thus, there will be a

timing mismatch: the banks will be submitting stress testing projections for items they have not yet submitted on a Call Report. This will mean that, at best, banks will be relying on “pro forma” estimates of CET1 and Basel III regulatory capital as the starting point for their DFAST submissions.

Further, the CET1 and Basel III regulatory capital calculations for Q1 2015 will need to relate to actual (Q3 2014) data, but the instructions do not address how banks should make the transition to the new calculations between Q4 2014 and Q1 2015. Unless banks are able to start their Basel III regulatory capital calculations in Q3 2014 (in advance of the requirement to shift to Basel III on January 1, 2015), there will be missing pieces of data. Banks will need clear guidance about how to handle anticipated data gaps.

- 2) The shift to Standardized Approach for risk-weighted asset (RWA) calculations in Q1 2015 and beyond.

Like the Basel III regulatory capital in item 1 above, the Call Report figures for RWA per the Standardized Approach will not be available until after the March 31, 2015 DFAST submission deadline. Furthermore, the Call Report schedules and instructions for the new RWA are still only in proposed status. The new forms have not been finalized, so MDRM codes for the components of the Standardized Approach RWA do not yet exist. This poses a basic data collection challenge to banks that will need to collect and reorganize data in order to calculate RWA per the Standardized Approach, but lack the proper framework for doing so.

Projections of Q1 2015 RWA will need to relate to Q3 2014 (reported) and Q4 2014 (projected) data. The hurdles to producing accurate estimates of Standardized Approach RWA for Q3 2014 are substantial, especially since the Call Report forms have not yet been finalized. As with Basel III regulatory capital, banks will need more explicit guidance about the transition of RWA from Q4 2014 to Q1 2015.

- 3) Reporting Regulatory Capital Ratios for Q1 2015 and beyond using Basel III Capital and Standardized Approach RWA.

We are concerned that banks' projections of regulatory capital ratios for Q1 2015 and beyond will be based on numerators and denominators that will both be unreliable. As outlined above, banks lack the data to produce accurate figures for both capital and risk-weighted assets. If either the capital or RWA measures are inaccurate, the capital ratios will lack validity, but with anticipated problems in both capital and RWA, the projected regulatory capital ratios will be that much more so.

Also, with the discontinuity between the definitions for both capital and RWA in Q4 2014 and Q1 2015, it will be difficult if not impossible to draw reasonable interpretations of the forecasted capital ratios. For example, a large difference between a bank's reported capital ratios (for Q3 2014) and forecasted capital ratios (for Q1 2015 and beyond) will very likely be due to differences in both the capital and RWA components themselves rather than a projected change in the bank's actual condition. If it is difficult to interpret the results, we believe the value of the DFAST process itself could be undermined.

- 4) Publication of Summary Results, June 2015

While this is not specifically discussed in the new reporting templates and instructions, it should be considered. Starting in June 2015, DFAST 10-50 banks will be required to publish summaries of their stress testing results. While there are not specific standards for the publication of results, regulatory capital ratios would be expected to be part of these published results.

As this will be the first time the DFAST 10-50 banks publish summary results, it is important that these results be as clear as possible and not be subject to interpretation. The potential for capital ratio volatility that is due to the implementation of Basel III/Standardized Approach calculations rather than

bank performance is substantial, and this could lead to confusion among bank shareholders and the general public.

Specific comments on the Reporting Form and Instructions.

- 5) Page 5, item J of the Instructions includes a reference to the "DFAST 1-50" form, which should read "DFAST 10-50."
- 6) Unrealized gains (losses) on AFS securities – please clarify how to compare the existing item (RCON/RCFD8434) with the new measure. The new measure refers to Part I.B, item 9.a, but item 9.a has no MDRM reference on the Call Report so how can this number be reported?
- 7) "Total Capital" and "Total Risk-Based Capital" – there is potential confusion between these items in the DFAST 10-50 reporting template and the Call Reports. Perhaps a label change would be advisable or more discussion in the template instructions.
 - a. Line item 47 in the reporting template is labeled "Total Risk-Based Capital," which the instructions link to either "Total Risk-Based Capital" (RC-R Part I.A, line 21) or "Total Capital" (RC-R Part I.B, line 35.a) from the Call Report.
 - b. Line item 48 in the template is labeled "Total Capital," which the instructions link to the Call Report item "Total Bank Equity Capital" (RC, line 27.a).
- 8) The summary page in the sample template appears to have the new CET1 blanked out in Q1 2015, although the instructions indicate that it should be reported starting in Q1 2015.

Closing Comments

We believe that the introduction of new regulatory capital, risk-weighted asset and regulatory capital ratio calculations using Basel III / Standardized Approach definitions with the March 31, 2015 reporting cycle will introduce volatility and ambiguity into the DFA Stress Test process and results. By introducing the new definitions for stress testing before the first Call Reports with relevant data are produced, the projections for Q1 2015 and beyond will be inaccurate or misleading.

Thank you for the opportunity to comment on the DFAST 10-50 Stress Test Reporting Template. Should there be any questions concerning the comments above, please contact Matthew Anderson, Managing Director at +1 212 329 6188 or via email at matthew_anderson@trepp.com .

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