



April 11, 2024

Via Electronic Mail

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

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

Manuel E. Cabeza, Counsel
Attn: Comments, Room MB-3128
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington D.C. 20429

Re: Requesting revisions to the reporting of SFT claims on the FFIEC 009.

To Whom It May Concern:

The Bank Policy Institute¹ is writing to provide comments to the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency regarding the reporting of securities financing transactions (SFTs) on the Country Exposure Report (FFIEC 009). Currently, there is a divergence in reporting on the FFIEC 009 with respect to the reporting of SFTs compared to the reporting for other collateralized claims. Our comments herein are aimed to align the reporting treatment of SFT claims with that of other collateralized claims in the FFIEC

¹ The Bank Policy Institute is a nonpartisan public policy, research and advocacy group, representing the nation's leading banks and their customers. Our members include universal banks, regional banks and the major foreign banks doing business in the United States. Collectively, they employ almost 2 million Americans, make nearly half of the nation's small business loans, and are an engine for financial innovation and economic growth.

009 by reporting such transactions based on the collateral, rather than counterparty for the purpose of guarantor basis reporting in the Schedule C Part II Column 1 through 11. This reporting treatment would standardize reporting for all collateralized claims within the report, more closely align the reporting of SFTs with their actual risk, reduce the need for dual processes and be consistent with the reporting of SFTs in other regulatory reports, as well as their treatment under the regulatory capital rules.

Recognizing risk-transfer is appropriate for the reporting of SFTs.

Currently, the instructions for required risk transfers in the FFIEC 009 state that for collateralized claims, debt and equity securities are eligible collateral for a risk transfer if “in the form of investment grade debt or marketable equity securities, [and] the sector and country of the ‘guaranteeing’ party is the sector and country of residence of the party issuing the security.”² However, there is an exception that “in the case of resale agreements, securities lending arrangements, and other similar financing agreements, the claims should be allocated based on the counterparty, not the underlying collateral (i.e., no risk-transfer should be made).”³ This deviation in reporting treatment for SFTs creates inconsistent reporting between SFTs and other collateralized claims such as secured loans and margin loans. It also appears inconsistent with the use of FFIEC 009, Schedule C, Part II, which generally requires reporting on a “guarantor basis”. This reporting practice requires immediate-counterparty basis claims to be risk transferred based on credit protection provided by guarantees, insurance policies, head offices, credit derivatives, collateralized claims and risk participations. Given that claims arising from SFTs are collateralized claims, they should follow the same reporting practices and be eligible for risk transfer if their collateral meets the necessary requirements.

The unique reporting treatment for SFTs on the FFIEC 009 was implemented following a 2004 notice⁴ from the Agencies inviting comments on the risk transfer for resale agreements. In the 2004 notice, the agencies proposed to change the instructions for risk redistribution to specify that “resale agreements are [to be] treated as collateralized claims” and that “[if] the collateral is stocks or debt securities, the sector and country of the “guaranteeing” party is the sector and country of residence of the party issuing the security”. Although we understand commenters at the time in 2004 did not advocate to implement this proposal to reduce the burden of the reporting, over time, views have evolved. Reporting based on the underlying collateral and allowing for a risk transfer is preferable to the current reporting as it more accurately reflects the risk presented by an SFT.

In practice, if the counterparty to an SFT claim were to default, the reporting firm would liquidate the collateral held. Thus, the risk associated with these kinds of SFT claims is most accurately reflected through reporting based on the underlying collateral. The Agencies also expressed this view in the 2022 FFIEC 009 revisions, when FFIEC 009 Schedule C, Part II, column 18 was added for SFT claims to be “reported based on the issuing country of the collateral.”⁵ Specifically, the Agencies stated that this information “would help provide a more complete view of the origin of collateral and its value as a risk

² Federal Reserve, *FFIEC 009 Instructions*, available at https://www.ffiec.gov/PDF/FFIEC_forms/FFIEC009_202212_i.pdf, at 13.

³ *Id.*

⁴ 69 Fed. Reg. 51145.

⁵ *Supra* note 2, at 19.

mitigant” and “improve information on the origin of the underlying securities acting as collateral for claims with no risk transfer.”⁶ If SFT claims were aligned with other collateralized claims and reported by underlying collateral, the Agencies would have the benefit of a more holistic view of a claim’s collateral as a risk mitigate, without the need for the recently added FFIEC 009 Schedule C, Part II columns 17 and 18. This approach to the reporting of SFT claims would also be consistent with the comparative treatment of SFTs under the Agencies’ capital rules which calculate exposure by using the collateral haircut method, offsetting the collateral against the exposure to the counterparty. The Agencies note that this approach “recognize[s] the credit risk mitigation benefits of financial collateral that secures an eligible” transaction.⁷

Recognizing risk-transfer for SFT reporting in the FFIEC 009 would be consistent with other reporting forms.

The current reporting requirements for SFT claims on the FFIEC 009 are not aligned to their reporting on other regulatory reports. As detailed above, the FFIEC 009 requires that SFT claims should be reported by country of the counterparty for the guarantor basis reporting in Schedule C, Part II. Furthermore, additional disclosures are required for the SFT claims in the memorandum section of Schedule C, Part II. Firms are required to disclose SFT claims by country of the counterparty for purposes of Column 17; however, these same claims are allocated based on the underlying collateral in Column 18, which we believe is the correct reporting for the reasons stated above.⁸

In addition to the FFIEC 009, firms are required to report claims based on collateral in Schedule G-5 of FR 2590, in line with the risk shifting requirements of the SCCL rule.⁹ Specifically, sections 252.74 and 252.174 of the SCCL rule require risk shifting when a respondent organization employs credit risk mitigants such as eligible collateral, eligible guarantees, eligible credit derivatives, and unused portion of certain extensions of credit, which allows for uniform reporting recognition of the risk transfer across collateralized claims.¹⁰ In contrast, the need to report the same SFT claims in multiple ways within the FFIEC 009 creates unnecessary burden as it requires firms to have multiple processes and systems in place. These additional processes further necessitate supplemental controls, testing and operational overhead that contribute to the burden on reporters. If the Agencies were to streamline the reporting standards by aligning all reporting on the approach to report based on the underlying collateral, they could both reduce burden on firms by eliminating the need for these dual processes, and also eliminate items from the FFIEC, further reducing overall burden. BPI has previously noted the need for this change in reporting in our response¹¹ to the “Regulatory Capital Rule: Risk-Based Capital Surcharges for Global

⁶ 87 Fed. Reg. 3170.

⁷ 78 Fed. Reg. 62018.

⁸ *Supra* note 2, at 13.

⁹ Federal Reserve, *FR 2590 Instructions*, available at https://www.federalreserve.gov/apps/reportingforms/Report/Index/FR_2590, at 27.

¹⁰ Federal Reserve, *Supporting Statement for the Single-Counterparty Credit Limits*, available at https://www.federalreserve.gov/reportforms/formsreview/FR2590_20180815_omb.pdf.

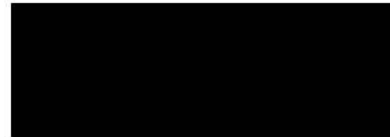
¹¹ IIB/BPI, *Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies, Systemic Risk Report (FR Y-15)*, available at

Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15)" proposal¹² and recommended that the agencies align the reporting of all collateralized claims in the FFIEC 009.

In light of the foregoing reasons, we urge the Agencies to return to the original treatment of SFT claims on the FFIEC 009 Schedule C, Part II and enable risk-transfer to the holder of cash collateral or security issuers as appropriate, by permitting the reporting of these claims by collateral. Removing the current exception on the FFIEC 009, specifically for SFT claims, would streamline reporting and create consistency with all other claims for which collateral (cash and/or securities) is provided. Further, reporting these items based on the underlying collateral, as opposed to the counterparty, more closely aligns with the risk profiles of SFTs as acknowledged in other reporting forms as well as the agencies capital rules, as firms are able to liquidate the collateral in the event of a counterparty default. This change would also reduce overall respondent burden by eliminating the need for dual reporting processes and systems for the FFIEC 009 and other reporting forms.

BPI appreciates the opportunity to comment on the proposal. If you have any questions, please contact the undersigned by phone at 202.589.1932 or by email at jack.stump@bpi.com.

Respectfully submitted,



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www.iib.org/resource/resmgr/2024_comms/FINAL_GSIB_Surcharge_Proposa.pdf?bcs-agent-scanner=589a19e0-5916-9545-86e5-7a7249904d25.

¹² 88 Fed. Reg. 60385.