October 5, 2018

Via Electronic Mail

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

Re: Single-Counterparty Credit Limits (SCCL) (FR 2590; OMB No. 7100-NEW)

Ladies and Gentlemen:

The Bank Policy Institute[1] appreciates the opportunity to comment on the Federal Reserve's proposal[2] to implement a new information collection, FR 2590, and associated notice requirements in connection with the final SCCL rule. The proposed reporting instructions state that the form is designed to provide the Federal Reserve with information to monitor a covered company's or covered foreign entity's compliance with the final SCCL rule. As proposed, however, the information collection would go beyond this purpose to require covered firms to provide information that exceeds what should be reported by covered firms to allow the Federal Reserve reasonably to monitor compliance with the final SCCL rule. Furthermore, because of the scope of information to be collected and the level of granularity at which it must be reported, the information collection risks diverting resources to ensuring the accuracy of information that is not needed to monitor compliance, without any articulated prudential or supervisory benefit. This additional information is not required by the statutory provision in the Dodd-Frank Act directing the Federal Reserve to establish a SCCL rule and is not consistent with the stated purpose of the proposed form.

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1 The Bank Policy Institute (BPI) 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.

2 83 Fed. Reg. 38303 (Aug. 6, 2018). The proposed reporting form and corresponding instructions are available on the Federal Reserve's website at www.federalreserve.gov/apps/reportforms/default.aspx.

I. Executive Summary.

Our recommendations are designed to align the information required by the form more closely to its stated purpose and respond to the areas on which the Federal Reserve has specifically invited comment.

- Form 2590 should require reporting for only the top 20 counterparties and counterparties to which the covered firm has an exposure of 10 percent or more of its eligible capital base rather than the top 50 counterparties.

- Form 2590 should not require reporting with respect to excluded or exempt counterparties.

- Form 2590 should permit the executive officer responsible for oversight of compliance with the final SCCL rule or for preparation of the reporting form to sign the form rather than limit it to the Chief Financial Officer.

- Covered firms should be permitted to maintain an electronic rather than a hard copy of Form 2590.

- Foreign banking organizations should not be required to provide reports on Form 2590 with respect to combined U.S. operations if the home country supervisor is working toward implementation of a large exposure standard comparable to the Basel Large Exposure Framework.

In addition, there are a number of items in the proposed Form 2590 and accompanying instructions that we believe should be clarified to enhance the accuracy, consistency and utility of the information reported, which are described in detail in Appendix A.

II. The scope of information, and level of granularity at which it is collected, should be reduced to track more closely the requirements of the final SCCL rule.

The proposed reporting form requires information beyond what should be reported to allow the Federal Reserve to monitor compliance with the SCCL rule. Specifically, proposed FR 2590 would require reporting of a covered firm's top 50 counterparties, including exposures to counterparties that are not subject to an applicable SCCL, even though exposures to counterparties outside of the top 20 are highly unlikely even to approach the applicable SCCL, all with a level of detail with respect to credit exposures that is unrelated to the requirements in the SCCL rule.

It appears that, in addition to collecting information to report compliance with the SCCL rule, proposed FR 2590 may be intended to collect more general information with respect to counterparty exposures across the financial system. The final SCCL rule states only that a covered firm is required to "report its compliance to the Federal Reserve as of the end of the quarter." Information that is unrelated to reporting "compliance" exceeds what is required by the SCCL rule. Similarly, section 165(e) of the Dodd-Frank Act instructs the Federal Reserve to "limit the risks that failure of any individual company could pose to a [SIFI] by setting counterparty limits." It does not instruct the Federal Reserve to limit risks by obtaining and studying macroeconomic counterparty data. If the Federal Reserve proposes to use FR 2590 to require information for such purposes, it should do so in the least intrusive manner possible, and

with a view towards reducing the burden on covered firms that is created by requiring the reporting of non-critical information. In addition, the Federal Reserve is able to gather information with respect to counterparty exposures without imposing additional, and burdensome, reporting requirements on covered firms. There are multiple reports that collect information about a covered firm's top counterparties, including the Financial Stability Board's data collection of Institution-to-Institution Credit Exposure Data (*e.g.*, the "Top 50 Counterparty Report") and FFIEC 031. A number of other reporting requirements include information related to counterparty credit exposures and counterparty credit risk, including FFIEC 101, FR Y-9C, FR Y-15 and FR 2052a.

Our recommendations for modifications to the proposed form would reduce the burden on covered firms by requiring them to report on FR 2590 only the information that in practice would be pertinent to monitoring compliance with the SCCL rule and which is not reported elsewhere to the Federal Reserve. To the extent the proposed form seeks additional information to allow the Federal Reserve to monitor economic trends more broadly, we urge the Federal Reserve to obtain such additional information from other forms and reports that it receives or to which it has access or otherwise eliminate overlapping and duplicative reporting requirements.

A. The information collection should require reporting only for the top 20 counterparties and counterparties to which the covered firm has an exposure of 10 percent or more of its eligible capital base rather than the top 50 counterparties.

The proposal would require a covered firm to report its top 50 counterparties. Reporting the top 20 counterparties and any other counterparty to which the covered firm has an exposure of 10 percent or more of its eligible capital base would provide the Federal Reserve with the information that should be reported by covered firms to allow the Federal Reserve to monitor compliance with the final SCCL rule, allow covered firms to focus their attention and resources on those exposures that present the greatest risk of breaching applicable limits, and enhance the quality and utility of information to be collected. This approach also would be consistent with the Basel Large Exposure Framework.[3]

The Federal Reserve has expressed that the proposed information collection is "designed to comprehensively capture the credit exposures of a respondent organization to its counterparties in accordance with the SCCL rule," and to "allow the [Federal Reserve] to monitor compliance with that rule."[4] However, no counterparty outside of the top 20 should come near a firm's applicable SCCL. Indeed, it is highly unlikely there would be a counterparty outside of the top 20 counterparties to which the covered firm would have an exposure that is in excess of 10 percent of its eligible capital base. Any risk that exposures that do not even approach 10 percent of a covered firm's eligible capital base are exposures that would quickly

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[3] Basel Committee on Banking Supervision, Supervisory framework for measuring and controlling large exposures (April 2014) (the "Basel Large Exposure Framework") at ¶ 15.

[4] Federal Reserve, Supporting Statement for the Single-Counterparty Credit Limits (FR 2590; OMB No. 7100-NEW) at 2, *available at* https://www.federalreserve.gov/reportforms/formsreview/FR2590_20180815_omb.pdf.

turn into a breach of applicable limits is at best remote.[5] Nevertheless, we recommend requiring covered firms to report their top 20 counterparties *and* any other counterparty to which a covered firm has an exposure of 10 percent or more of its eligible capital base to help ensure that any exposure that could potentially approach the applicable SCCL is captured no matter how remote the likelihood. This would allow the Federal Reserve to monitor effectively a covered firm's compliance with the SCCL rule by focusing on those counterparty exposures that present any meaningful risk of breaching applicable limits. We also note that this would be consistent with reporting required by other Federal Reserve forms such as Schedule L (Counterparty) to FR Y-14Q, which requires bank holding companies to report information on counterparty credit risk, including gross and net credit exposures, to only the top 20 counterparties.

The approach we have proposed would ease the burden a covered firm would face in providing accurate reports. Although certain components of reporting would be automated, covered firms would nevertheless, at least initially, need to conduct significant manual processes, reviews and quality checks of their reports. Because of the amount of detail that would be required by the form, a significant amount of time and attention would need to be dedicated to this process. A reduction in the number of counterparties that must be reported would enable covered firms to deploy their resources more efficiently to conduct more detailed reviews to ensure the accuracy and quality of the information presented with respect to the most important counterparties.

B. Form 2590 should not require data regarding excluded or exempt counterparties.

As stated by the Federal Reserve, the reporting form is "directly connected to the [SCCL] rule in that it would allow the [Federal Reserve] to monitor firms' compliance with that rule."[6] Nonetheless, proposed FR 2590 would require reporting on exposures to excluded and exempt counterparties.[7] Because exposures to these counterparties are exempt, monitoring exposures to such counterparties is not necessary to validate compliance with the SCCL rule or to identify exposures that could result in a breach. Requiring covered firms to provide information with respect to exempt counterparty exposures, particularly the detailed information required by the proposed form, places a significant burden on covered firms but does not advance the form's purpose of allowing the Federal Reserve to monitor compliance. In addition, the Financial Stability Board's data collection of Institution-to-Institution Credit Exposure Data provides the Federal Reserve with granular information related to a covered firm's largest counterparties as well as top 10 central counterparties and top 20 sovereign exposures regardless of whether they are among the covered firm's largest counterparties.

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5 Not only is a 10 percent threshold significantly below the 15 and 25 percent thresholds applicable to covered firms, covered firms will necessarily maintain an internal buffer below the applicable threshold to ensure that exposures to a counterparty do not inadvertently exceed the limits.

6 Federal Reserve, Supporting Statement for the Single-Counterparty Credit Limits (FR 2590; OMB No. 7100-NEW) at 2.

7 *See* §§ 252.71(q) and 252.171(r) of the SCCL rule.

At a minimum, consistent with the Basel Large Exposure Framework, the form should at most require covered firms to provide information only on exempted exposures that are at least 10 percent of the covered firm's eligible capital base, and reporting on such exposures should be limited to aggregate gross and net exposures as opposed to granular reporting on exposure types.[8]

III. Other changes to the proposed information collection would significantly ease burden for covered firms without undermining the integrity of the information reported or the purpose for which the information is collected.

A. Form 2590 should permit the executive officer responsible for oversight of compliance with the final SCCL rule or for preparation of the reporting form to sign the form rather than limit it to the Chief Financial Officer.

The proposal would require the Chief Financial Officer of the covered firm (or the individual performing the equivalent function of the Chief Financial Officer) to sign Form 2590. By signing the Form, the officer would be acknowledging that knowing and willful misrepresentations or omissions of a material fact are fraud in the inducement and may subject the officer to legal sanctions under 18 USC 1001 and 1007. Because the senior executive officer that oversees compliance with the final SCCL rule may vary from covered firm to covered firm, Form 2590 should instead require the signature of the senior executive officer with such oversight responsibility. For some firms, the responsible officer would indeed be the Chief Financial Officer, whereas at other firms the Chief Risk Officer or other senior executive may oversee compliance. The senior executive officer with the responsibility for oversight and the requisite knowledge of compliance is best situated to ensure the accuracy of the information a covered firm provides in the Form. Another senior executive officer should still provide sufficient comfort to the Federal Reserve that the accuracy of the information provided in the Form has been vetted at an appropriate level of seniority. This would not be a novel practice. For example, prudential regulators allow the Chief Financial Officer or an equivalent senior officer to sign other required reports, such as the Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework on form FFIEC 101 and the Market Risk Regulatory Report for Institutions Subject to the Market Risk Capital Rule on form FFIEC 102. Although we recognize that there are forms that require Chief Financial Officer attestation (*e.g.*, FR Y-14 submissions for certain firms), we do not believe that every new form should require the Chief Financial Officer's signature, particularly with respect to credit-risk related forms. Consistent with practice with respect to FFIEC forms 101 and 102, and because Form 2590 is a credit-risk related report, we believe the Federal Reserve should permit another senior officer with delegated authority to sign the report.

[8] Basel Large Exposure Framework at ¶ 15.

B. Covered firms should be permitted to maintain an electronic rather than a hard copy of Form 2590.

The draft Form 2590 states that "[c]overed companies and covered foreign entities must maintain in their files a manually signed and attested printout of the data submitted."[9] Given the anticipated volume of information required by Form 2590, the Federal Reserve should permit electronic storage of these records. Requiring covered firms to store hard copies of Form 2590 introduces another element to the reporting process that will need to be monitored, and introduces additional storage costs, thereby diverting important resources to a process that can be greatly simplified through storage of electronic records. Covered firms routinely store important information electronically. Moreover, they already have systems in place to ensure the security and redundancy of any data that is maintained electronically. Therefore, permitting electronic record retention should not introduce any additional risk to this process, and would save substantial resources. Accordingly, we propose that the Federal Reserve revise the instructions to Form 2590 to require that covered firms maintain a copy of each submitted form either electronically or in hard copy.

C. Foreign banking organizations (FBOs) should not be required to provide reports on Form 2590 with respect to combined U.S. operations if the home country supervisor is working toward implementation of a large exposure standard comparable to the Basel Large Exposure Framework.

We continue to express support for the treatment of FBOs in the SCCL rule, which does not require compliance with SCCL exposure limits with respect to combined U.S. operations (CUSO) of a FBO, if the FBO certifies to the Federal Reserve that it meets large exposure standards on a consolidated basis that are established by its home-country supervisor and that are consistent with the Basel Large Exposure Framework. Consistent with the SCCL rule, the draft instructions to Line Item 2 of Form 2590 allow FBOs to acknowledge if they have made such certification to the Federal Reserve, and, if such certification has been made, to leave the rest of Form 2590 incomplete.

While we support these measures, we note that there is an important gap with respect to those countries that are in the process of implementing large exposure standards. The SCCL rule and related reporting requirements become effective in 2020. However, certain jurisdictions may not have completed implementation of exposure standards that are comparable to the Basel Large Exposure Framework prior to the effective date of the SCCL rule, and certain FBOs would therefore not be able to certify to the Federal Reserve that they meet such standards. For example, the European standard is expected to become effective in 2021. It would create a substantial burden on FBOs to require that they build systems for reporting and that they submit complete FR 2590 reports at the CUSO level during what will likely be a relatively short interim period.

We propose that the final reporting form include an option for an FBO to certify that its home country is "working toward" the implementation of large exposure standards that will be comparable to the Basel Large Exposure Framework. Where an FBO is able to "check the box"

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[9] Federal Reserve, Draft Instructions for Preparation of Single-Counterparty Credit Limits Reporting Form at 6, *available at* https://www.federalreserve.gov/reportforms/formsreview/FR2590_20180620_i_draft.pdf.

on the proposed certification, such FBO should not be required to complete the remainder of the FR 2590 at the CUSO level (reporting requirements would continue to apply to intermediate holding companies). This approach would be consistent with the intent of the final rule, which was meant to reduce the burden on FBOs that are subject to consolidated home country supervision.[10]

IV. Technical Issues and Clarifications.

There are a number of items in the draft Form 2590 and accompanying instructions that we believe should be clarified to enhance the accuracy, consistency and utility of the information reported. These items are described in detail in Appendix A.[11]

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The Bank Policy Institute appreciates the opportunity to comment on the proposal. If you have any questions, please contact the undersigned by phone at (212) 612-9220 or by email at *Gregg.Rozansky@bpi.com*.

Respectfully submitted,

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10 See, e.g., 83 Fed. Reg. at 38487 (Aug. 6, 2018).

11 We also note that any changes to the final SCCL rule that may result from the Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCPA") could necessitate corresponding changes to the Form 2590 reporting template. *See* section 401(a) of the EGRRCPA (requiring the Federal Reserve to "differentiate among companies on an individual basis or by category, taking into consideration their capital structure, riskiness, complexity, financial activities (including the financial activities of their subsidiaries), size, and any other risk-related factors that the Board of Governors deems appropriate").

APPENDIX A

Technical Issues and Clarifications

To improve the accuracy and utility of the information provided, we propose that the final Form 2590 and instructions clarify the following items:

A. Classification of counterparties

The draft instructions on reporting "General Information on Counterparties" require a covered firm to list its top 50 counterparties and to provide other information including the counterparty type in Column B. The counterparty type for the following counterparties should be clarified:

- The International Monetary Fund, the European Central Bank, and the European Commission do not clearly fit within any of the counterparty types permitted in Table 2, Column B. As discussed in section II(B), reporting on these exempt counterparties should not be required.[1] To the extent reporting information with respect to these parties is retained, the "multi-lateral development bank" counterparty type should be expanded or a separate counterparty type created to capture these entities.

- The "natural person" counterparty type should clarify in the instructions that it includes both the natural person and, if the credit exposure to such person exceeds five percent of the covered firm's tier 1 capital, the person's immediate family.

More broadly, the instructions do not provide a rationale for the various counterparty types, which could lead to inconsistent reporting in Table 2, Column B. For example, it is not clear what should be included under the "securitization" counterparty type. We believe it is meant to capture all SPVs to which the look-through approach is not applied. This should be clarified, however, because SPVs could also be "companies."[2] The final instructions should contain an explanation and rationale for each counterparty type so that covered firms are able to report accurately and consistently the general information on their counterparties.

Finally, we note that "intraday exposures" are included as a counterparty exemption status. In excluding intraday exposures from the final rule, the Federal Reserve recognized the

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[1] A covered firm may have both exempt and non-exempt exposures to the same counterparty. For example, a firm may have both exempt "trade exposure" to a qualifying central counterparty and other credit exposures that are not exempt. If the final reporting form excludes exempt counterparties altogether, as we propose, the final instructions should clarify that mixed-exposure qualifying central counterparties should be denoted as "non-exempt" in Column D and that the exempt "trade exposure" to that counterparty should not be considered in any reporting on that counterparty. If the requirement to report exposures to excluded and exempt counterparties is retained, the instructions should address how a mixed-exposure qualifying central counterparty should be classified.

[2] Similarly, we believe it would be helpful to describe what should be reported under "Securitizations Arising from Look-Through" in Column G on Schedule G-1 in more detail. We believe that Column G should include the exposures that arise from application of the look-through approach to any SPV (not just securitizations) even though those exposures might also fall within other categories such as "debt securities" or "equity securities."

"operational and logistical difficulties" in measuring intraday credit extensions and we therefore do not believe it was intended that covered firms track all intraday exposures and report them. "Intraday credit exposure" should be deleted from the instructions to Column D of "General Information on Counterparties."

B. Reporting of "Total Gross Exposure Under Bilateral Netting Agreements" and "Total Gross Exposure" on Schedules G-2 and G-3 and "Total Gross Exposure Under Qualifying Master Netting Agreements" and "Total Gross Exposure" on Schedule G-4

The instructions for Schedules G-2 and G-3 require reporting of "Total Gross Exposure Under Bilateral Netting Agreements" under Columns AY (using IMM) and BA, and "Total Gross Exposure" under Columns AZ (using IMM) and BB. We believe that in Columns AY and BA, a covered firm would report only exposures arising out of trades that are part of netting sets of multiple trades, and that the covered firm would then report in Columns AZ and BB all applicable trades. The final instructions should clarify the differences between the "Total Gross Exposure Under Bilateral Netting Agreements" and "Total Gross Exposure" columns and what trades are required to be reported in each column.

Similarly, the instructions for Schedule G-4 require reporting of "Total Gross Exposure Under Qualifying Master Netting Agreements" under Columns G (using IMM) and I, and "Total Gross Exposure" under Columns H (using IMM) and J. We believe that in Columns G and I, a covered firm would report only exposures arising out of trades that are part of netting sets of multiple trades, and that the covered firm would then report in Columns H and J all applicable trades. The final instructions should clarify the differences between the "Total Gross Exposure Under Qualifying Master Netting Agreements" and "Total Gross Exposure" columns and what trades are required to be reported in each column.

C. Reporting SFT exposures using an internal model method on Schedules G-2 and G-3 and derivatives exposures using an internal model method on Schedule G-4

Schedules G-2 (Repurchase Agreement Exposures), G-3 (Securities Lending Exposures) and G-4 (Derivatives Exposures) permit a covered firm that has been approved to use the internal model method ("IMM") to report its exposures using specific IMM columns. A firm that uses an IMM, however, may have SFT or derivatives exposures that it values outside of its IMM. It is not clear where a covered firm that uses an IMM should report these non-IMM exposures.

Furthermore, the instructions to Schedules G-2 and G-3 also state that covered firms that report IMM exposures "must report the appropriate values in columns BA and BB." Similarly, the instructions to Schedule G-4 state that covered firms that report IMM exposures "must report the appropriate values in columns I and J." It is not clear what is meant by "appropriate values" for covered firms using IMM. We assume that, consistent with sections 252.73 and 252.173 of the SCCL rule, covered firms would report their total gross exposures arising from SFTs under bilateral netting agreements, total gross exposures arising from derivatives transactions under qualified master netting agreements and total gross exposures arising from SFTs or derivatives transactions using any of the methods the covered firm is authorized to use under Regulation Q. For a covered firm that uses only IMM to value its SFT or derivatives exposures to a counterparty, this would mean that the values reported under IMM

columns (AY and AZ on Schedules G-2 and G-3 and G and H on Schedule G-4) would be the same as those reported under Columns BA and BB on Schedules G-2 and G-3 or under Columns I and J on Schedule G-4. Because the instructions direct an IMM covered firm to include the "appropriate values" in the columns for non-IMM totals rather than the same values as are reported in the IMM columns, it suggests that the values in the columns for non-IMM totals should be different than the values reported in the IMM columns. It may be that for IMM covered firms, Column BB or Column J, as applicable, is meant to include both IMM exposures and non-IMM exposures, but, if so, as noted above, it is not clear where the non-IMM values are reported. We note as well that on the "Summary of Net Credit Exposures" sheet, only the exposures in Column BB from Schedules G-2 and G-3 and Column J from Schedule G-4 are carried through. Therefore, for a covered firm using IMM, the amounts reported in the columns for non-IMM totals would have to include the exposures as measured under IMM in order for the values derived from an IMM to be included in the Summary of Net Credit Exposures.

The final form should clarify for IMM covered firms where the aggregate SFT and derivatives exposures (including both IMM and non-IMM exposures) are reported and how those amounts are carried through to the "Summary of Net Credit Exposures."

D. Reporting "gross notional" on Schedule G-4

Schedule G-4 (Derivatives Exposures) requires covered firms to report the "gross *notional* of its derivatives transactions consistent with sections 252.73 and 252.173 of the SCCL rule." However, SCCL sections 252.73 and 252.173 provide the required methods for calculating gross *credit exposures*, which could differ significantly from the notional amount of derivatives transactions. If a covered firm is meant to report the transactions valued using any method the covered firm is authorized to use under Regulation Q consistent with sections 252.73 and 252.173 of the SCCL rule, the reporting form should use the term gross credit exposure as described in sections 252.73 and 252.173 instead of gross notional. Assuming, however, that the form is requesting notionals, we believe the Federal Reserve should instead rely on other reports, such as Schedule HC-L to the FR Y-9C, to collect such information. If the Federal Reserve does require covered firms to report notional values in the final form, the instructions should ask for gross notional exposures without reference to sections 252.73 and 252.173 of the rule.

E. "Credit Transactions Involving Excluded and Exempt Entities" on Schedule M-2

It is not clear what is meant to be reported in Column E of Schedule M-2. The risk shift to or from an excluded or exempt counterparty should be reported on Schedule G-5. Column E of Schedule M-2 could be meant to include the amount of the gross exposure to excluded and exempt entities so that the gross exposure reported on the G schedules is offset when calculating net exposure in Column J of "Summary of Net Credit Exposures" such that the exposure to the excluded or exempt counterparty is zero. If this is not the case, the final FR

2590 should include a mechanism for ensuring that net exposure to excluded and exempt counterparties is zero.[3]

F. Timing of reporting deadline

Under the final rule, covered firms are required to calculate their compliance with the SCCL rule based on the "most recent FR Y-9C report." Because the deadline for submitting the FR 2590 report is the same as that for the FR Y-9C, we assume that reporting on the FR 2590 form would be done on the same basis, *i.e.*, that counterparty exposures would be calculated and reported on FR 2590 based on the prior quarter's FR Y-9C. However, the draft instructions to the FR 2590 are not clear on this point. Furthermore, if the Federal Reserve intends for covered firms to calculate and report on counterparty exposures using the data from the contemporaneous FR Y-9C filing, then the deadline for submitting the FR 2590 should be extended by [5] days. Otherwise, a covered firm may face a situation where calculations of Tier 1 capital are adjusted prior to the FR Y-9C deadline but without sufficient time for the covered firm to update its FR 2590 report to capture exposures that exceed certain thresholds (*e.g.*, 5% with respect to reporting counterparty groups) as a result of the change. Therefore, the final instructions should clarify that exposures reported on FR 2590 are to be calculated based on the previous quarter's FR Y-9C, or, if the Federal Reserve intended for covered firms to use contemporaneous data, the deadline for submitting the FR 2590 report should be [5] days after the FR Y-9C is submitted.

G. Reporting of counterparty groups on Schedules A-1 and A-2

Under sections 252.76 and 252.176 of the SCCL rule, a covered firm is required to analyze any counterparty to which the covered firm has an aggregate net credit exposure in excess of five percent of tier 1 capital for economic and/or control relationships with other counterparties and to aggregate the covered firm's exposure to the resulting counterparty group. The draft FR 2590 requires covered firms to report counterparty groups arising from the economic interdependence analysis on Schedule A-1 and those arising from the control analysis on Schedule A-2. There are likely many cases, however, where similar groups would be reported on Schedules A-1 and A-2, and we anticipate that it may be difficult to develop a system that would identify a group for purposes of Schedule A-1 and also for purposes of Schedule A-2 (or vice versa). As long as all economic interdependent and control relationships are captured, there does not appear to be any added benefit from identifying the type of relationship that requires aggregation. Therefore, we recommend combining Schedules A-1 and A-2 such that reporting of all counterparty groups is on a single, consolidated schedule.

In addition, we recommend that the final FR 2590 instructions clarify that a covered firm need only report economic and/or control relationships that meet the threshold for the reporting firm. That is, within the top 20 counterparties or a counterparty to which the covered firm has an exposure of 10 percent or more of its eligible capital base (if our recommendation is reflected in the final FR 2590) or when the aggregate group exposure is within the top 50 counterparties (as proposed). Although we expect that an exposure of 5 percent or more of a covered firm's eligible capital base would meet the threshold for reporting (under our recommendation or as

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[3] This would also make clear that excluded and exempt counterparties should not be included in Schedules A-1 and A-2 because a covered firm's aggregate net exposure to such counterparties would necessarily be less than 5 percent of tier 1 capital because net exposure should always be zero (with the exception of qualifying central counterparties).

proposed), having this certainty would simplify the system a covered firm would need to develop for SCCL reporting purposes.

H. Corrections

- Reporting of credit exposures arising from credit derivatives as protection provider. Under sections 252.73(a)(8) and 252.173(a)(8) of the SCCL rule, covered firms are required to calculate their gross credit exposures with respect to credit derivatives between the covered firm and a third party where the covered firm is the protection provider and the reference asset is an obligation or debt security of the counterparty. Schedule G-1, however, does not include a column to report gross credit exposure arising from credit derivatives where the covered firm is the protection provider. The final form should include an additional column on Schedule G-1 for such exposures. Alternatively, if the Federal Reserve intended for such exposures to be reported in one of the existing columns, *e.g.*, by classifying the exposure based on the reference asset, then the final instructions should clarify where and how gross credit exposures calculated in accordance with sections 252.73(a)(8) and 252.173(a)(8) are to be reported.

- Definition of "bilateral netting agreements" on Schedules G-2 and G-3. The draft instructions for Schedules G-2 and G-3, Columns AY and BA, reference "bilateral netting agreements" and state that the definition for this term is in sections 252.71(ee) and 252.171(ee) of the final rule. However, section 252.71(ee) provides the definition for "short sale." The instructions should instead reference sections 252.71(cc) and 252.171(ee) of the final rule, both of which provide the definition of "qualifying master netting agreement." In addition, the final rule does not include a definition for "bilateral netting agreement." As a result, the instructions use and reference a term that is not defined in the final rule, which could potentially create confusion for respondents. Therefore, we recommend that the references in the instructions to "bilateral netting agreements" should be replaced with references to "qualifying master netting agreements."

- Schedules G-5 and M-2. Under sections 252.74(d) and 252.174(d), an eligible equity derivative is treated as credit risk mitigant, and a covered firm must reduce its exposure to a counterparty and shift that exposure to the eligible guarantor counterparty to the equity derivative. Schedule G-5 (Risk Shifting Exposures) and M-2 (General Risk Mitigants), however, do not include a column to report eligible equity derivatives. Similarly, the instructions to Schedules G-5 and M-2 do not reference eligible equity derivatives even though they discuss all other types of credit risk mitigants. We recommend that the final form should include an additional column in Schedules G-5 and M-2 for eligible equity derivatives.

- Schedule M-2. The instruction for Column F of Schedule M-2 (General Risk Mitigants) indicates that the total credit risk mitigation is the "sum of columns B through F." We recommend that it should read "the sum of columns A through E."