BANK POLICY INSTITUTE

February 12, 2021

Via Electronic Mail

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

Re: Revisions to the Government Securities Dealers Reports (FR 2004; OMB No. 7100–0003)

To Whom it May Concern:

The Bank Policy Institute[1] appreciates the opportunity to comment on the proposal by the Board of Governors of the Federal Reserve System to revise the Government Securities Dealers Reports (FR 2004; OMB No. 7100–0003).[2] We understand the Federal Reserve's need to monitor and analyze developments in the government securities markets and identify changing market practices through the FR 2004 reports.[3] However, a number of the proposed changes to the FR 2004 reports would afford banks and their third-party vendors insufficient time to complete their initial assessments, make the necessary systems changes, and to perform the necessary testing and subject the reporting to firms' existing control and review processes to meet the proposed implementation timing. Therefore, and as discussed in more detail below, we recommend extending the timeline for these proposed changes such that they are made effective no earlier than the December 29, 2021 report date.

The proposal would add several new line items and columns to the FR 2004A, B, and C, requiring firms to breakdown the requested data on a far more granular level than currently captured or reported, effective for the July 7, 2021 as-of date. Among other revisions, the proposal would add rows

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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.

2 85 Fed. Reg. 80786 (December 14, 2020).

3 *See* Board of Governors of the Federal Reserve System, Supporting Statement for the Government Securities Dealers Reports (FR 2004; OMB No. 7100-0003), *available at* https://www.federalreserve.gov/reportforms/formsreview/FR%202004%20OMB%20SS.pdf.

to both the FR 2004A and FR 2004B to collect Federal Agency and Government-sponsored Enterprise (GSE) Residential Pass-through Mortgage-Backed Securities (MBS) To-Be-Announced (TBA) separately from Specified pools. The proposed FR 2004B would further breakdown MBS TBA transactions from Specified Pool transactions by requiring a split between cash and dollar roll. The proposed revisions to the FR 2004C are the most significant and would include a split by clearing/settlement arrangement, requiring firms to report their general and specific repurchase and reverse repurchase transactions separately, and further breakdown the data based on whether the arrangements are uncleared bilateral, cleared bilateral, centrally cleared using the FICC GCF Repo Service, or transacted and administered through a central triparty agent bank. Additionally, the proposal would add columns to the FR 2004C for current tenor breakdown that would be applied to each column category, as well as an additional five rows to capture securities financing activity for Federal Agency and GSE Residential MBS separately from Federal Agency and GSE Commercial MBS and to separate "Total Repo" from "Total Other Financing Activity." These revisions would thus expand the FR 2004C from its current four columns to 22 columns.

These proposed revisions to the FR 2004 A, B, and C include substantial additional and granular reporting requirements that would present a significant new reporting burden and entail a substantial build-out of reporting for respondent firms that complete the report themselves, as well as for firms that utilize a third-party vendor to assist in the preparation of their FR 2004 reports. The nature of many of these proposed additions would necessitate changes to infrastructure and system flows to capture the requested data at the requested level of granularity, which is not currently required on any reporting processes for SEC disclosures and other regulatory reports and therefore not gathered and tracked by firms. As a result, the reporting teams at respondent firms must first work with the other relevant stakeholders within their organizations (e.g., operations teams, IT, etc.) and external vendors, if applicable, to determine how to obtain and capture the necessary data before beginning to make the necessary system buildouts for the proposed revisions. For example, before firms are able to make the relevant systems changes needed to comply with the proposed new columns in the FR 2004C to report specific and general transactions separately, firms must first determine how to identify and ultimately track these characteristics of the reportable securities transactions. This identification process takes significant time for firms to complete and as the proposed changes include substantial new breakdowns of data, firms must undertake this process for several proposed additions to the FR 2004C. In light of the granularity of the proposed additions and the complexities in determining how to best source the required data, a number of firms are continuing to work through their assessments and due diligence to determine how best to proceed (including discussions with vendors, as applicable), specifically with respect to the proposed FR 2004C. As this process remains ongoing, the proposed July 2021 effective date would not leave sufficient time for firms to first complete their analyses, make the appropriate determinations for sourcing the applicable data and then develop the proper IT solutions and finally subject such to the necessary review and control processes in order to permit accurate reporting.

Further, many of the firms that utilize external vendors for FR 2004 reporting do not currently have the appropriate processes in place to allow them to manually modify the reports and are therefore reliant on the vendor undertake the necessary IT buildout to incorporate these proposed revisions. As an example, one such vendor utilized by several respondent firms for FR 2004 reporting currently estimates that it would need at least until December 2021 to make the necessary systems updates and changes to incorporate the proposed FR 2004A, B, and C revisions. If the proposal were to be finalized with an earlier effective date, some firms would no longer have the support of their external vendors for a period of time, and therefore would be required to establish new processes to enable them to temporarily and manually produce the required data. Any need for the manual production of data on such a large scale would introduce substantial operations risk. Without a delayed effective date, a

number of firms that rely on the third-party vendors would not even have sufficient time to make the necessary systems changes internally, as aspects of FR 2004 reporting require firms to report at the position level and firms report thousands and even tens of thousands of positions each reporting cycle. As a result, without the added time to allow for their vendors' support, it would not be feasible for many firms to make the necessary adjustments and establish the processes to manually reproduce this granular level of information needed for these new reporting requirements and apply it to the vast number of data points reported.

We therefore recommend that the effective date for the proposed revisions to the FR 2004A, B, and C be significantly extended. While many of the firms, particularly those that rely on third-party vendors, anticipate that a delay until at-least the December 29, 2021 as-of date would provide adequate time to make the necessary systems changes to incorporate the proposed revisions, which would allow these firms to complete the testing needed for compliance, this is a preliminary estimate and in practice such revisions could require additional time. As noted above, several firms are still in the process of completing their initial analyses to determine how they will source the data needed for the large number of proposed additions and are not yet able to provide a true estimate of a feasible timeline to implement the revisions.

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The Bank Policy Institute appreciates the opportunity to comment on the proposal and would welcome the opportunity to discuss the proposed revisions and timeline with the Federal Reserve in more detail. If you have any questions, please contact the undersigned by phone at 646-736-3943 or by email at Alix.Roberts@bpi.com.

Respectfully submitted,

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