July 2, 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 Report of Selected Money Market Rates (FR 2420; OMB No. 7100-0357)

To Whom It May Concern:

The Bank Policy Institute[1] and the Institute of International Bankers[2] appreciate the opportunity to comment on the proposal by the Board of Governors of the Federal Reserve System to revise the Report of Selected Money Market Rates (FR 2420).[3] The Associations understand the Federal Reserve's desire to "improve monitoring of the transition away from the London Interbank Offered Rate (LIBOR), strengthen the reference rate production process, and ensure the integrity of reported data,"[4] and are generally supportive of the proposed new data item to specify the day-count convention used for all interest rates reported on FR 2420, as well as the addition of reference rate options for floating-rate time deposits and CDs. However, there are significant concerns with respect to the proposed changes to the submission dates of the FR 2420, particularly regarding the proposed submission deadline of Parts A,

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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 The Institute of International Bankers is the only national association devoted exclusively to representing and advancing the interests of the international banking community in the United States. Its membership is comprised of internationally headquartered banking and financial institutions from over 35 countries around the world doing business in the United States. The IIB's mission is to help resolve the many special legislative, regulatory, tax, and compliance issues confronting internationally headquartered institutions that engage in banking, securities and other financial activities in the United States. Through its advocacy efforts the IIB seeks results that are consistent with the U.S. policy of national treatment and appropriately limit the extraterritorial application of U.S. laws to the global operations of its member institutions.

3 86 Fed. Reg. 23971 (May 5, 2021).

4 Id at 23972.

B, and D. In addition, our letter includes a request for clarification with respect to the added reference rate options and the new day-count convention data item, as well as recommends the release of the modified draft reporting instructions for comment, prior to implementation of the clarifying additions to the instructions noted in the proposal.

I. The proposed new submission deadline for Parts A, B, and D of the FR 2420 is not feasible for respondent firms and should not be implemented.

The proposed revisions would shorten the deadline for the submission of data on transactions in selected money market rates for Federal Funds Purchased (Part A), Eurodollars (Part B), and Selected Deposits (Part D) from 7 a.m. ET one business day after the transaction date (T+1) to 7 p.m. ET the same day as the transaction date (T+0). This proposed submission deadline effectively shortens the already brief reporting timeframe by twelve hours, creating several challenges for respondents.

The transactions required to be reported on the FR 2420 can occur throughout the day, between the hours of 8:30 a.m. to 7 p.m. ET, and are processed through FedWire.[5] In some instances, firms may not receive most of the data required for FR 2420 reporting until approximately the last fifteen minutes before this transaction window closes. This proposed submission deadline therefore would leave only minutes for firms to receive and compile the required data from data providers, prepare the FR 2420, and subject it to regulatory reporting controls processes. The limitations created by the timing of receiving data from the FedWire system and the proximity to the proposed reporting deadline would likely drive a need for more re-filings by respondents, as there will be transactions that would not make the 7 p.m. ET submission timing, requiring firms to resubmit their FR 2420 reports the following day to account for such instances.[6] In the event of any systems or processing delays or any other unforeseen issues (many of which would be out of the reporting firms' control), adhering to a T+0 deadline would not be feasible, as there would be no time for firms to react to these idiosyncratic events, including instances when respondents' reporting systems may not batch reportable transactions until after 7 p.m. ET.

The proposed same-day reporting deadline would leave insufficient time for firms to perform their standard due diligence processes for the FR 2420 ahead of submission. As part of their control processes, several respondents have manual review processes built into their reporting controls, whereby they review unusual transactions, variances, or data quality issues prior to filing the FR 2420 to meet the Federal Reserve's, and their own, expectations for data quality, governance, and controls. In some instances, these reviews include posing questions to the relevant line of business responsible for the transaction and awaiting a response, which may be received several hours later. The proposed requirement for same-day submissions would eliminate a key control that would allow firms to execute these important, manual aspects of the due diligence review. Additionally, the T+0 submission timing would not allow firms to perform reconciliations of FR 2420 reporting with their daily general ledger prior to submission, which could further impact the accuracy of the data provided. The reduced turnaround time would remove the ability for respondents to conduct these reviews, which conflicts with the stated desire of the revisions to "allow for more opportunity for data review and validation, reducing operational risk…"[7] While the Federal Reserve would have an additional twelve hours overnight to review the data, the associated costs include twelve fewer hours for each individual

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5 https://www.frbservices.org/resources/financial-services/wires/operating-hours.html.

6 To the extent that the Federal Reserve does not accept our recommendation, filings submitted on a T+0 basis will be on a best-efforts basis and respondents should be afforded an option for no harm re-filings.

7 86 Fed. Reg. 23971 at 23973.

respondent to review the data, increasing their operational risk and the potential for data quality errors in individual submissions. Any resulting drop in the data quality reported by respondents as a result of the shortened timeline would likely also increase the need for re-filings and the associated burden of such re-filings. If there were such an influx in re-filings, it would necessitate further updates and reviews by the Federal Reserve following the re-submission, thus reducing any incremental additional time that could be gained by the proposed adjustment to the submission timing.

We also note that an additional manual aspect of FR 2420 reporting that prevents shortening the production time is that the report is submitted through Reporting Central, which requires respondent firms to use a physical token issued by the Federal Reserve. These physical tokens must be inserted into the computer in order to allow respondents to log in and access the application. One way to avoid some of the many limitations inherent with the proposed expedited timeframe would be for the Federal Reserve to obtain the relevant data and information reported on the FR 2420 by accessing and pulling the raw and unfiltered data that is available to it through the FedWire system. This would provide the Federal Reserve with more timely data, without requiring respondents to make significant changes to their processes. However, if the Federal Reserve's goal is to receive data consistent with the quality of current submissions, and has been reviewed, reconciled (if necessary), and subjected to firms' rigorous control processes, respondents require the preparation time afforded to them by the existing submission deadline in order to meet such expectations.

In light of the infeasibility of reporting Parts A, B, and D of the FR 2420 on a T+0 basis and the potential for an increase in operational risk and re-filings for respondents, we strongly urge the Federal Reserve not to proceed with this change in submission timing and instead to maintain the current deadline of 7 a.m. ET one business day after the transaction (T+1).

II. Implementation of the proposed change in the submission deadline for Part C of the FR 2420 should be delayed until at least August 1, 2022.

The proposal would also shorten the submission deadline for the reporting of data on time deposits and certificates of deposit issued by domestic offices (Part C) in the FR 2420 from 2 p.m. ET two business days (T+2) after the report date to 2 p.m. ET one business day (T+1) after the report date. As proposed, implementation would be effective beginning with the January 1, 2022, as of date. The proposed submission deadline would require significant systems changes, resulting in a large undertaking for many respondents. To accommodate the proposed changes in the time afforded to firms prior to submission, firms would need to make significant changes to their reporting structures and internal deadlines and in certain instances would need to submit re-filings. For example, currently, some firms only receive data on renewals of existing time deposits in their reporting systems on a T+2 basis, as these renewals are not always recorded in deposit systems on the date of expiration but instead only on a T+1 basis. As a result, to meet the new submission deadline, firms would have to re-file their reports after the T+1 deadline to capture these transactions or make substantial changes in their systems. Additionally, similar to Parts A, B, and D of the FR 2420, firms have existing controls and review processes in place for Part C to maintain data quality. As a specific example, some firms utilize teams located overseas to perform reviews of the relevant FR 2420 data overnight between T+1 and T+2, and in many instances these teams identify items that are then addressed prior to submission. With the proposed submission deadline cutting preparation time in half, firms will have less and, in certain cases, not enough time to receive feedback from data providers, and check and compare the reportable data with reference data and totals prior to submission. Firms anticipate that cutting preparation time for Part C of the FR 2420 so significantly will limit their ability to perform the full extent of their existing review and due diligence procedures, particularly those processes that are currently executed overnight

and overseas, while also putting substantial strains on staffing. In order to allow for even a portion of these reviews to be completed, firms will need to make modifications to their current processes and the proposed implementation would leave less than six months, which is insufficient time for firms to build out their systems and undergo the necessary testing for controls and governance.

We therefore recommend that the Federal Reserve delay implementation of the revised submission date for Part C of the FR 2420 until at least August 1, 2022. Firms will require at least 12 months after the release of final forms and instructions to build reporting systems out to accommodate the change in the submission deadline and the preference for implementation would be outside of year- and quarter-end, so as not to conflict with other competing priorities and end of year code freezes. Even with additional time to implement the proposed submission timeline for Part C of the FR 2420, there is concern that respondent firms will not be able to institute due diligence and review processes that are consistent with their current reporting standards.

III. The proposed "minor" additions to the instructions for Parts C and D of the FR 2420 should be implemented only after draft instructions are released and respondents are provided with the opportunity to comment through a separate notice and comment process.

In addition to the other revisions discussed above, it is noted in the proposal that "[t]he Board proposes other minor additions to the FR 2420 instructions to prevent confusion and errors on the part of reporting institutions"[8] for Parts C and D of the FR 2420; however, corresponding draft reporting instructions explicitly delineating the referenced additions have not been made publicly available. While we generally support changes that would promote clarity, without the draft instructions and details on the proposed changes to the FR 2420 reporting instructions, it is not possible to review and assess the impact of such revisions or to opine and provide comment on such changes until they are released. We therefore recommend that the Federal Reserve release draft instructions outlining these additions in detail for comment through a separate notice and comment process prior to implementation, to allow firms ample opportunity to review, assess, and comment on the proposed changes to the instructions.

IV. Confirmation is needed that reference rate data reporting would go unchanged regardless of the proposed additional reference rate options and that the new data item to specify day-count convention would be reported in a similar manner.

It is noted in the proposal that additions will be made to the FR 2420 to include additional reference rates to which floating-rate time deposits and CDs are tied, however, as noted in Section III above, draft reporting instructions for the FR 2420 related to the proposed revisions were not released. While we are generally supportive of the inclusion of the proposed additional reference rates, in the absence of detailed reporting instructions, confirmation is needed that the data would continue to be submitted in the same way that it is currently, with reference rates corresponding to a number. Additionally, the proposal would also add a new data item to specify the day-count convention used for all interest rates. In the absence of draft reporting instructions, confirmation is needed that the new data item specifying the day count convention would also to correspond to a number.

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[8] Id.

The Associations appreciate the opportunity to comment on the proposal. If you have any questions, please contact the undersigned by email at alix.roberts@bpi.com and swebster@iib.com.

Respectfully submitted,

Alix Roberts
Assistant Vice President, Regulatory Affairs
Bank Policy Institute

Stephanie Webster
General Counsel
Institute of International Bankers

cc: Michael Gibson
Mark Van Der Weide
Board of Governors of the Federal Reserve System

Maryann Kennedy
Benjamin McDonough
Office of the Comptroller of the Currency

Doreen Eberley
Nicholas Podsiadly
Federal Deposit Insurance Corporation