Muneera Carr
Chief Accounting Officer

11625 N Community House Rd
Charlotte, NC 28277
USA

August 20, 2024

Via Electronic Submission

Ann E. Misback
Secretary
Attn: OMB No. 7100-0341
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Proposed Agency Information Collection Activities – Capital Assessments and Stress Testing Reports (FR Y-14A/Q/M; OMB No. 7100-0341)

Ladies and Gentlemen,

Wells Fargo & Company, together with its affiliates and subsidiaries ("Wells Fargo," "we," "our," or "us"),[1] appreciates the opportunity to comment on Proposed Agency Information Collection Activities related to Capital Assessments and Stress Testing Reports (the "Proposal").

We appreciate the efforts of the Board of Governors of the Federal Reserve System ("FRB") to update and improve these reports. Our comments focus on areas where we believe the Proposal could be enhanced to improve reporting consistency across firms, increase the accuracy of stress loss modeling, improve the consistency of non-depository financial institution ("NDFI") reporting across reports, reduce unnecessary complexity and clarify certain proposed report instruction changes. We also have recommendations to improve the FAQ process. We participated in the development of, and support, the joint comment letter from the Bank Policy Institute and Institute of International Bankers.

[1] Wells Fargo & Company (NYSE: WFC) is a leading financial services company that has approximately $1.9 trillion in assets, proudly serves one in three U.S. households and more than 10 percent of small businesses in the U.S., and is a leading middle market banking provider in the U.S. We provide a diversified set of banking, investment and mortgage products and services, as well as consumer and commercial finance, through our four reportable operating segments: Consumer Banking and Lending, Commercial Banking, Corporate and Investment Banking, and Wealth & Investment Management. Wells Fargo ranked No. 41 on Fortune's 2022 rankings of America's largest corporations. In the communities we serve, the company focuses its social impact on building a sustainable, inclusive future for all by supporting housing affordability, small business growth, financial health, and a low-carbon economy.

The Proposal's Effective Dates should be extended to Facilitate Accurate and Consistent Reporting

We believe the FRB should revise the Proposal's implementation date to provide reporting entities with sufficient time to complete required logic changes, perform user acceptance testing, and confirm reporting accuracy under the revised requirements. The proposed timeline raises substantial challenges for validating and reviewing the quality of the new and expanded data elements.

The FAQ Process should be Improved

In addition to the reporting changes, the FRB should improve the FAQ process related to the Y-14 reports. The granular and data-intensive nature of the Y-14 reports, heightened supervisory expectations regarding data quality, lack of a FRB-established framework to assess materiality, and limited latitude provided to reporting institutions to make interpretative judgements has historically required a detailed FAQ process. The complexity of the reports has led to a high volume of questions, which in turn resulted in long response times and a backlog of unanswered questions. The FRB should consider changes to improve responsiveness, or the FRB could provide factors for reporting entities to consider in developing materiality frameworks that are then reviewed and approved by the supervisory teams.

Improve Reporting Consistency for Loan Commitments Across Firms

The Proposal helpfully would conform the FR Y-14Q definition of unused commitments to the FR Y-9C definition. The scope of commitments required to be reported on FR Y-9C, Schedule HC-L (and consequently the FR Y-14) should be clarified with regards to unused commitments associated with uncommitted or discretionary credit facilities (i.e., facilities where the lender is not under any legal obligation to extend credit because the lender has full discretion over whether to provide funding).

Uncommitted or discretionary credit facilities provide the lender with full discretion to refuse funding and as such, these facilities should be excluded from reporting on the FR Y-14. This approach is consistent with the regulatory capital rules, which recognize the non-binding nature of these arrangements and exclude such amounts from risk weighted asset ("RWA") measurement.[2]

Improve Accuracy of Stress Loss Modeling for Hedge Activities

The current FR Y-14Q and FR Y-14M reporting forms may overstate risk and forecasted losses because the schedules do not include information about risk mitigating hedges that reduce the credit risk of loans. Specifically, the schedules do not identify whether loans are part of hedging programs or include any hedging instrument information. The FRB should update reporting forms to capture information that appropriately recognizes risk mitigating hedges.

For example, a single name credit default swap ("CDS") hedging a held-for-investment ("HFI") loan is considered an accrual loan hedge and included in the FR Y-14Q trading schedule (Schedule F). Schedule F does not include any specific information on the CDS' underlying referenced entity and only requires firms to report the referenced entity's credit rating band (e.g., AAA, AA). This information does not provide enough detail to capture the credit

2 The FRB's regulatory capital rule defines a "commitment" as, "any legally binding arrangement that obligates a Board-regulated institution to extend credit or to purchase assets." 12 C.F.R. §217.2.

risk mitigating benefits of the CDS position. We recommend adding new fields to H.1 and H.2 loan schedules indicating if a loan is hedged via a CDS derivative and the percentage of the loan that is hedged.

Additionally, the Portfolio Layer Method ("PLM"),[3] allows entities to hedge a larger portfolio of available-for-sale ("AFS") and HFI loan portfolios by expanding the type of derivatives permitted as eligible hedges. Under the PLM guidance, entities can designate multiple hedging derivatives against a single closed portfolio of financial assets unlike prior guidance that permitted only single layer hedges (i.e., "last-of-layer"). The PLM guidance also increased the scope of eligible hedged items to include non-prepayable financial assets in addition to prepayable financial assets that were included under prior guidance. The current FR Y-14Q Schedule B1 and B2 instructions do not allow for a reporting entity to adequately identify and provide information regarding the instruments being hedged or information related to the hedges themselves. The instructions are more aligned to instances where a hedging derivative is aligned to a particular instrument rather than a one-to-many or partial duration hedge. We recommend that the FRB adopt a new PLM-aligned schedule with information that would enable the FRB to accurately model the impact of hedges over the nine-quarter forecast. The suggested fields for a new PLM schedule include the following:

- Identifier – To tie back to the B1 or B2 closed portfolio records for reference;
- Trade date – Date the PLM derivative trade was entered;
- Start date – Effective date of the start of the derivative;
- Maturity – Maturity date of the derivative;
- Notional – Notional amount of the derivative in USD;
- Amortizing notional – identifying if derivative notional is static or if it changes/amortizes over time;
- Fixed/float – Identifying if swapping to fixed to float or float to fixed;
- Floating rate spread – Spread to the benchmark in decimal terms;
- Benchmark Index name – Benchmark index name used in the derivative; and
- Underlying hedged item – Balance sheet classification of the hedged item such as AFS securities, residential mortgage loans, commercial loans, etc.

Improve the Consistency of NDFI Reporting Across Reports

The Proposal would create additional differences in the definitions of NDFI (and related sub-classifications) that exist across regulatory reports. The FRB should harmonize the definitions across regulatory reports as much as possible to improve reporting accuracy and significantly reduce reporting entities' compliance burdens. The Call Report, FR Y-9C and FR Y-14 reports historically have had consistent definitions for NDFI. Recent Call Report revisions, effective December 31, 2024, change the scope and definition of NDFI loans, significantly expand NDFI entity types, and introduce five new NDFI sub-classification categories (loans to mortgage credit intermediaries, business credit intermediaries, consumer credit intermediaries, private equity funds and all other).

The FRB has not provided similar revisions to the FR Y-9C report; thus, firms would potentially have three different definitions for NDFI loans across the respective reports. We recommend the FRB maintain a single, consistent definition for NDFI consistent with the new Call Report requirements across these reports with all reporting changes aligned to a single effective date.

Additionally, NDFI (or related) definitions differ across the revised Call Report, current FR Y-9C, proposed FR Y-14Q, FR Y-15, FFIEC 009 and FR 2510, and the Capital Rules. The overlapping but distinct definitions of these terms is one of the most complicated and burdensome components of regulatory reporting. For example, finance

3 Accounting Standards Update (ASU) No 2022-01, Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method

companies are non-bank financial institutions on the FFIEC 009 and non-depository financial institutions on the FR Y-9C, but are not financial institutions on the FR Y-15 and may be financial institutions under the capital rules, depending on whether the reporting bank owns a certain amount of equity in the company and the percentage of the finance company's assets and revenues that are related to financial activities. The FRB should look for opportunities to simplify counterparty classification requirements across these reports.

Additional Technical Simplifications to Reduce Unnecessary Complexity

The FR Y-14 reports often specify that they want data in a specific format. The reports should be revised to require consistent formatting across schedules. The following are examples of inconsistencies:

- **Loss Given Default ("LGD") numeric formatting**: LGD is reported in various 14Q and 14M schedules. Each schedule includes a different numeric formatting. Schedule H.1 requires reporting to four decimal places, Schedule H.2 requires reporting to two decimal places, and the FR Y-14M instructions provide for reporting up to five decimals. We recommend conforming expected decimal place reporting across all schedules and instructions to reduce operational burden.

- **Zip Code (Property and Mailing) numeric formatting**: Loan-level reporting schedules (i.e., 14Q Schedules H.1 and H.2; 14M Schedules A.1 and B.1) require firms to report the five-digit zip code, but other schedules (14M Schedules C.1 and D.1) require firms to report the nine-digit zip code unless the nine-digit zip code is unavailable. We recommend the FRB consistently allow reporting of the five-digit across all reports to reduce burden, particularly because the last four digits can change based on remapping of postal routes.

Additional Clarity Needed for Select Report Instruction Changes

FR Y-14Q items

- The Proposal would add fields to Schedule H.1 and H.2 for reporting closing fees. Proposed instructions for these fields define such a fee as a: "Fee charged at the closing of the facility (may be known as origination fee or underwriting fee), reported as a percentage of the committed balance." However, the Proposal does not address whether amendment and renewal fees should be reported in this field and whether that determination should depend on concepts such as whether the fees relate to a "major modification." Schedule H.1 and H.2 Origination Date fields define a "major modification" as execution of a new or amended and restated credit agreement that does not relate to certain excluded examples. We recommend that the FRB clarify whether amendment and renewal fees are intended to be reported as closing fees and whether the scope of such fees should be limited to those that relate to a "major modification" as defined in the Schedule H.1 and H.2 Origination Date field instructions.

- The Proposal would add a field to Schedule H.1 for reporting loan covenant violations. The allowable values for the field have separate values for "financial" and "non-financial" covenant violations and whether the credit agreement has been amended or not. These instructions do not clearly define which covenants should be considered financial and non-financial. For example, it is unclear how to classify covenants related to restricted dividend payments and financial statement reporting. Additionally, the Proposal is unclear regarding how banking organizations should report violations that the firm has waived. We recommend that the FRB clarify how covenant violations should be classified by providing detailed instructions and definitions for each allowable value to ensure consistent reporting across banking organizations.

- The Proposal would add fields to Schedule H.1 for reporting details around financial sponsors. Proposed instructions refer to a financial sponsor as any "Person, including any Subsidiary of such Person, whose principal business activity is acquiring, holding, and selling investments (including controlling interests) in otherwise unrelated companies that each are distinct legal entities..." Given that financial sponsors are typically private equity firms, it is unclear whether the reference to a "Person" in this context would refer only to a sponsor that is an individual or include any type of sponsoring entity. Additionally, we note that existing fields require masking details about "individuals" or "natural persons" and it is unclear whether this should apply to financial sponsor fields such as Field 124 Financial Sponsor Name and Field 125 Financial Sponsor LEI. We recommend that the FRB clarify the meaning of "Person" and applicability of masking considerations for individuals as it relates to the proposed financial sponsor fields to ensure consistent reporting across banking organizations.

- The Proposal would eliminate report instruction language that currently excludes financial institution obligors from the requirement to report Obligor Financial Data in fields 52 through 82 of Schedule H.1. This change would require banking organizations to report obligor financial data for fronting credit facilities facing other syndicate lenders that are reported separately from the primary credit facility. Banking organizations do not typically obtain financial statements for other lenders in a syndication as part of credit underwriting and ongoing credit monitoring because fronting exposures are aggregated with other exposures to the primary borrower from a credit perspective. As a result, this proposed instruction change would result in a significant operational burden to obtain participant lenders' financial data. We recommend that the FRB revise the Obligor Financial Data section instructions to require reporting Obligor Financial Data fields for fronting facilities based on the primary credit facility obligor rather than the participant lenders to better align with financial statement data used in the credit underwriting process and drive consistent reporting across banking organizations.

- The Proposal would add a sentence to the FR Y-14Q Retail International Schedules (A.1, A.3, A.4, A.5, A.6, A.8) clarifying that any loans held be a domestic office should not be included in the Retail International submissions. Additionally, the Geography segment variable "01" for each International Schedule has been updated to include the United States as a current place of residency for the borrower. This suggests that only loans held by a domestic office should be included in the Retail Domestic Schedules (A.2, A.7, A.9, A.10). We request that the FRB clarify the instructions for Retail Domestic Schedules to support congruity across schedules. If a loan held by a domestic office has a borrower with a primary residence in an international location, it is unclear which Geography segment variable should be used for Schedule A.2 since there has not been a proposed revision to the Schedule A.2 instructions similar to the proposed revision to the geography segment variable in the International Schedules.

- The current FR Y-14Q Schedule A.9 instructions state that the submission should "include all "scored" or "delinquency managed" domestic small business loans" from certain FR Y-9C line items. The Proposal adds "any delinquency managed loans reported in FR Y-9C Schedule HC-C line item 1.e.(1)" to the A.9 submission. We agree that including this line item in the A.9 submission drives greater consistency with the line items included in the H.1 submission. However, it is unclear why only "delinquency managed loans" are referenced in the proposed updates rather than "<u>scored or</u> delinquency managed loans". We recommend that the FRB clarify within the report instructions that any "scored or delinquency managed" loans reported in Schedule HC-C line 1.e.(1) should be reported on Schedule A.9.

- The Proposal would require credit facilities reported in FR Y-14Q Schedule H.2 with a Healthcare property type to be reported with a Field 39 Property Size in square feet. Industry standard is to use number of beds to measure Healthcare properties, such as senior living facilities and hospitals, rather than square feet because beds are considered the primary revenue driver for the sector. The Proposal would require firms to collect additional data that is not used in underwriting and current data collection processes. We ask the board to provide flexibility for firms to report Field 39 Property Size in “beds” to align with industry convention.

- The Proposal clarifies that firms should use the International Swaps and Derivatives Association, Inc. publication of the 2013 Standard Credit Support Annex to classify derivatives as SCSA and use Old-CSA agreements made prior to this publication when reporting FR Y-14Q Schedule L.5.1. This language is ambiguous and requires further clarification. More specifically, there is ambiguity as to whether the relevant date is the dated-as-of-date of the Credit Support Annex referenced in the agreement or if it is the date of the agreement itself. Additional clarification regarding the FRB's expectations should be provided to reduce the risk of inconsistent reporting across firms.

FR Y-14M items

- The current FR Y-14M Schedule A instructions provide that the loan-level population (Schedule A.1) should include all REO balances and the portfolio-level population (Schedule A.2) should exclude REO balances. The Proposal’s description for Schedule A.2 line item 4, Total Debt from Loans Involuntarily Terminated, provides that REO involuntary terminations should be included in the balance. We recommend the FRB address this inconsistency within Schedule A.2 regarding the handling of REO loans. Individual data field requirements that differ from the overall instructions for the schedule regarding the scope of loans to include creates incremental burden and increases operational risk of reporting errors.

- The Proposal would retire LIBOR-related allowable values within FR Y-14M Schedules A.1, B.1, and D.1. The fields impacted by this change are considered origination fields that are not expected to change. We recommend that the FRB clarify whether this change is prospective only, so that firms can continue to report historical loans that originated with a LIBOR rate using the retired LIBOR-related allowable value. If this Proposal encompasses all loans, it is unclear how historical loans with a LIBOR-related allowable value should be reported.

- Within the Workout Type Started fields in FR Y-14M Schedule A.1 and Schedule B.1, the Proposal adds a sentence indicating that if a loan has never been in loss mitigation, the field should be left blank. This addition provides consistency with the Workout Type Completed fields; however, clarification is needed for loans where a loss mitigation plan has been completed. We recommend that the FRB clarify whether it is appropriate to report a “0 – No Active Workout Plan” only in the month following completion of a workout or to retain this classification if a loss mitigation plan was completed in any historical period but is currently not active in loss mitigation.

- The Proposal noted that the FRB would like to formalize the supplemental data collection by requiring the reporting of all revenue and loss sharing agreements in FR Y-14M Schedule D. However, the instruction changes to Schedule D.1 line item 70, Loss Sharing, and Schedule D.2 line item 48, Other Loss Share

Credits, state that data related to loss sharing agreements should be reported. We recommend that the FRB clarify whether these new fields include revenue sharing agreements.

Conclusion

We respectfully request the FRB revise the Proposal consistent with the suggestions and recommendations in this letter and answer outstanding FAQs included in the joint trades letter. We believe that doing so will improve reporting accuracy and comparability and avoid unnecessary operational burden and complexity.

If you have any questions, please feel free to contact Karl Reitz, Head of Regulatory and Basel Reporting.

Sincerely,