Collateral Bulletin Update: “In-scope” institutions can now submit their newly formatted Automated Loan Deposit collateral reports to ensure compliance with Federal Reserve System requirements

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The Federal Reserve is announcing that previously identified “in-scope” institutions that are required to submit newly formatted Automated Loan Deposit (ALD) collateral reports can begin submitting them to their local Reserve Bank ahead of the May 2019 deadline. Affected institutions are encouraged to submit the new collateral reports prior to the deadline to ensure their files are compliant with Federal Reserve System requirements as established in previous communications.

What is happening?

The Federal Reserve is now accepting new ALD collateral reports with the additional loan fields that certain “in-scope” institutions must begin submitting in May 2019. As announced on November 28, 2017, the Federal Reserve will begin incorporating additional loan fields in ALD collateral reports submitted by select depository institutions to be used to calculate margins and internal fair market value estimates for loan collateral pledged to the Federal Reserve. To facilitate this effort, certain “in-scope” institutions will be required to provide additional loan fields in a new format in their ALD collateral reports. A detailed list of the additional loan fields, along with definitions, can be found in the ALD Collateral Requirements Definitions. Institutions that have developed the new ALD collateral reports can now submit these files to the Federal Reserve to ensure that they are compliant with Federal Reserve System requirements. The Federal Reserve is making this option available to “in-scope” institutions in order to provide assistance in developing a working collateral report prior to the May 2019 deadline.

Does my institution need to take action?

The following "in-scope" institutions are required to begin submitting the additional loan fields beginning in May 2019 and should be in the process of developing newly formatted ALD collateral reports. These institutions can submit their new collateral reports as soon as they are complete:

- All depository institutions that are underneath a bank holding company (including a financial holding company) or an intermediate holding company with greater than $50 billion in total consolidated assets, which is defined as the average over the last four calendar quarters
- All foreign banking organizations
- All other domestic institutions with greater than $50 billion in total consolidated assets, which is defined as the average over the last four calendar quarters

Institutions that met the "in-scope" definition as of November 28, 2017, have already been contacted to ensure awareness of the new requirements. If your institution becomes "in-scope" the Federal Reserve will contact you at that time to inform you of the need to comply with the new requirements. However, your institution may voluntarily participate in the new ALD collateral reporting requirements at any time. Please contact your local Discount Window collateral staff in order to pursue this option.

Institutions that are not required to submit additional loan fields and do not voluntarily participate do not need to take any action and should continue to submit their ALD collateral reports in the current format.

Questions regarding the new ALD collateral report submission requirements can be sent to SYS.ALD.Info@bos.frb.org. Institutions may also contact their Federal Reserve Banks' Discount Window collateral staff with other inquiries.

When are the new ALD collateral reports required to be submitted?

Beginning in **May 2019**, "in-scope" depository institutions must begin submitting **both** their existing ALD collateral report as well as the new ALD collateral report with the additional loan fields each month. The existing ALD collateral report will be used for valuation and margining purposes, while the new ALD collateral report with the additional loan fields will be used to test and calibrate the new margins and internal fair market value estimates. Once this change is completed, the new ALD collateral reports will then be used to assign collateral values. While this change is targeted for year-end 2020, the exact date it takes effect will be announced in a subsequent communication. The dual loan file submission process is expected to last approximately 18 months, after which only the new ALD collateral report with the additional fields will need to be submitted. The new ALD collateral report submission requirements can be viewed on the New ALD Collateral Requirements page of the Discount Window website.

As was previously communicated, beginning in May 2019, the existing ALD collateral report and the new ALD collateral report must have the same "as-of" date. As such, beginning in May 2019, the existing ALD collateral report and the new ALD collateral report with the additional loan fields should contain the same set of pledged loans.

What can I expect once my institution sends in a new ALD collateral report?

Once your institution submits a new ALD collateral report, your local Reserve Bank will contact you if revisions need to be made (i.e., if formatting errors are present) or if there are questions regarding the loan fields that are provided. Additionally, your local Reserve Bank may also contact you to plan and perform validation work on the data within the new ALD collateral report (i.e., request for certain pledged loan documentation).

What happens if my institution doesn't provide the required loan fields?

During the dual loan file submission period (beginning in May 2019), no collateral value adjustments will be applied for missing loan fields. However, once the newly formatted ALD collateral reports are used to assign collateral values (targeted for year-end 2020), collateral valuation adjustments may be applied to pledged loans that are missing required loan fields. These adjustments may include the following:

- Application of a default value to a missing loan field (default values are designed to be fair, non-penalizing values based upon the data provided by other "in-scope" institutions)
- Assignment of zero collateral value to the impacted loans
- Other collateral value adjustments as deemed warranted

How will collateral values be affected for institutions that are not required to comply with the new ALD collateral reporting requirements?

At this time, collateral values for institutions that are not required to comply with the new ALD reporting requirements will be unaffected. However, upon the implementation of the new internal models at a later date, the Federal Reserve will utilize the same internal model to derive values for all loan collateral pledged by any institution. Institutions that are not required to comply with the new ALD collateral reporting requirements will receive default values for non-required loan fields based on the new data provided by the “in-scope” institutions. These default values are designed to be fair, non-penalizing values and will be used in conjunction with the loan fields that are currently reported to the Federal Reserve in order to assign margins and internal fair market value estimates for pledged loans. This process will take effect once the testing and calibration of margins and internal fair market value estimates are complete.

Where can I get more information?

Please review the related announcement on the Discount Window & Payment System Risk website or contact your Reserve Bank’s Discount Window collateral staff for additional information. Questions regarding the new ALD collateral report requirements can be sent to SYS.ALD.Info@bos.frb.org.