



**FEDERAL RESERVE SYSTEM**

**12 CFR Part 252**

**Regulation YY; Docket No. 1438**

**RIN 7100-AD-86**

**Annual Company-Run Stress Test Requirements for Banking Organizations with Total Consolidated Assets over \$10 Billion Other than Covered Companies**

**AGENCY:** Board of Governors of the Federal Reserve System (Board).

**ACTION:** Final rule.

**SUMMARY:** The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act or Act) requires the Board to issue regulations that require financial companies with total consolidated assets of more than \$10 billion and for which the Board is the primary federal financial regulatory agency to conduct stress tests on an annual basis. The Board is adopting this final rule to implement the company-run stress test requirements in the Dodd-Frank Act regarding company-run stress tests for bank holding companies with total consolidated assets greater than \$10 billion but less than \$50 billion and state member banks and savings and loan holding companies with total consolidated assets greater than \$10 billion. This final rule does not apply to any banking organization with total consolidated assets of less than \$10 billion.

Furthermore, implementation of the stress testing requirements for bank holding companies, savings and loan holding companies, and state member banks with total consolidated assets of greater than \$10 billion but less than \$50 billion is delayed until September 2013.

**DATES:** This rule is effective November 15, 2012.

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## **SUPPLEMENTARY INFORMATION:**

### **Table of Contents**

#### I. Background

#### II. Overview of Comments

#### III. Description of Final Rule

##### A. Scope of Application

##### B. Effective Date

##### C. Annual Stress Test Requirements

#### IV. Administrative Law Matters

##### A. Use of Plain Language

##### B. Riegle Community Development and Regulatory Improvement Act

##### C. Paperwork Reduction Act Analysis

##### D. Regulatory Flexibility Act Analysis

### **I. Background**

The Board has long held the view that a banking organization, such as a bank holding company or insured depository institution, should operate with capital levels well above its minimum regulatory capital ratios and commensurate with its risk profile.<sup>1</sup> A banking

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<sup>1</sup> See 12 CFR part 225, Appendix A; see also Supervision and Regulation Letter SR 99-18, Assessing Capital Adequacy in Relation to Risk at Large Banking Organizations and Others with Complex Risk Profiles (July 1, 1999), available at <http://www.federalreserve.gov/boarddocs/srletters/1999/SR9918.HTM> (hereinafter SR 99-18).

organization should also have internal processes for assessing its capital adequacy that reflect a full understanding of its risks and ensure that it holds capital commensurate with those risks.<sup>2</sup> Moreover, a banking organization that is subject to the Board's advanced approaches risk-based capital requirements must satisfy specific requirements relating to their internal capital adequacy processes in order to use the advanced approaches to calculate its minimum risk-based capital requirements.<sup>3</sup> Stress testing is one tool that helps both bank supervisors and a banking organization measure the sufficiency of capital available to support the banking organization's operations throughout periods of stress.<sup>4</sup> The Board and the other federal banking agencies previously have highlighted the use of stress testing as a means to better understand the range of a banking organization's potential risk exposures.<sup>5</sup>

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<sup>2</sup> See Supervision and Regulation Letter SR 09-4, Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies (Mar. 27, 2009), available at <http://www.federalreserve.gov/boarddocs/srletters/2009/SR0904.htm> (hereinafter SR 09-4).

<sup>3</sup> See 12 CFR part 225, Appendix G, section 22(a); see also, Supervisory Guidance: Supervisory Review Process of Capital Adequacy (Pillar 2) Related to the Implementation of the Basel II Advanced Capital Framework, 73 FR 44620 (July 31, 2008).

<sup>4</sup> A full assessment of a company's capital adequacy must take into account a range of risk factors, including those that are specific to a particular industry or company.

<sup>5</sup> See, e.g., Supervisory Guidance on Stress Testing for Banking Organizations With More Than \$10 Billion in Total Consolidated Assets, 77 FR 29458 (May 17, 2011); Supervision and Regulation Letter SR 10-6, Interagency Policy Statement on Funding and Liquidity Risk Management (Mar. 17, 2010), available at <http://www.federalreserve.gov/boarddocs/srletters/2010/sr1006.htm>; Supervision and Regulation Letter SR 10-1, Interagency Advisory on Interest Rate Risk (Jan. 11, 2010), available at <http://www.federalreserve.gov/boarddocs/srletters/2010/sr1001.htm>; SR 09-4, *supra* note 2; Supervision and Regulation Letter SR 07-1, Interagency Guidance on Concentrations in Commercial Real Estate (Jan. 4, 2007), available at <http://www.federalreserve.gov/boarddocs/srletters/2007/SR0701.htm>; SR 99-18, *supra* note 1; Supervision and Regulation Letter SR 12-7, Supervisory Guidance on Stress Testing for Banking Organizations with More Than \$10 Billion in Total Consolidated Assets, 77 FR 29458 (May 14, 2012), available at <http://www.federalreserve.gov/bankinfo/srletters/sr1207.htm>; SR 99-18, *supra* note 169; Supervisory Guidance: Supervisory Review Process of Capital Adequacy (Pillar 2) Related to

In particular, as part of its effort to stabilize the U.S. financial system during the recent financial crisis, the Board, along with other federal financial regulatory agencies and the Federal Reserve system, conducted stress tests of large, complex bank holding companies through the Supervisory Capital Assessment Program (SCAP). The SCAP was a forward-looking exercise designed to estimate revenue, losses, and capital needs under an adverse economic and financial market scenario. By looking at the broad capital needs of the financial system and the specific needs of individual companies, these stress tests provided valuable information to market participants, reduced uncertainty about the financial condition of the participating bank holding companies under a scenario that was more adverse than that which was anticipated to occur at the time, and had an overall stabilizing effect.

Building on the SCAP and other supervisory work coming out of the crisis, the Board initiated the annual Comprehensive Capital Analysis and Review (CCAR) in late 2010 to assess the capital adequacy and the internal capital planning processes of large, complex bank holding companies and to incorporate stress testing as part of the Board's regular supervisory program for assessing capital adequacy and capital planning practices at large bank holding companies. The CCAR represents a substantial strengthening of previous approaches to assessing capital adequacy and promotes thorough and robust processes at large banking organizations for measuring capital needs and for managing and allocating capital resources. The CCAR focuses on the risk measurement and management practices supporting organizations' capital adequacy

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the Implementation of the Basel II Advanced Capital Framework, 73 FR 44620 (Jul. 31, 2008); The Supervisory Capital Assessment Program: SCAP Overview of Results (May 7, 2009), available at <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20090507a1.pdf>; and Comprehensive Capital Analysis and Review: Objectives and Overview (Mar. 18, 2011), available at <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20110318a1.pdf>.

assessments, including their ability to deliver credible inputs to their loss estimation techniques, as well as the governance processes around capital planning practices.

In the wake of the financial crisis, Congress enacted the Dodd-Frank Act, which requires the Board to issue regulations that require bank holding companies with total consolidated assets of \$50 billion or more (large bank holding companies) and nonbank financial companies that the Financial Stability Oversight Committee has designated to be supervised by the Board (together, covered companies) to conduct stress tests semi-annually, and requires other financial companies with total consolidated assets of more than \$10 billion and for which the Board is the primary federal financial regulatory agency to conduct stress tests on an annual basis (company-run stress tests).<sup>6</sup> The Act requires that the Board issue regulations that: (i) define the term “stress test”; (ii) establish methodologies for the conduct of the company-run stress tests that provide for at least three different sets of conditions, including baseline, adverse, and severely adverse conditions; (iii) establish the form and content of the report that companies subject to the regulation must submit to the Board; and (iv) require companies to publish a summary of the results of the required stress tests.<sup>7</sup>

On January 5, 2012, the Board invited public comment on a notice of proposed rulemaking (proposal or NPR) that would implement the enhanced prudential standards required to be established under section 165 of the Dodd-Frank Act and the early remediation requirements established under Section 166 of the Act, including proposed rules regarding

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<sup>6</sup> In this final rule, the Board is implementing the requirements for bank holding companies with total consolidated assets of greater than \$10 billion but less than \$50 billion and savings and loan holding companies and state member banks with total consolidated assets of greater than \$10 billion. The requirements applicable bank holding companies with \$50 billion or more in total consolidated assets are contained in a concurrently issued final rule being published in today’s issue of the Federal Register.

<sup>7</sup> See 12 U.S.C. 5365(i)(2)(C).

company-run stress tests.<sup>8</sup> The proposed rules would have required each bank holding company, state member bank, and savings and loan holding company with more than \$10 billion in total consolidated assets to conduct an annual company-run stress test using data as of September 30 of each year and the three scenarios provided by the Board. In addition, each state member bank, bank holding company, and savings and loan holding company would be required to disclose a summary of the results of its company-run stress tests within 90 days of submitting the results to the Board.

The Dodd-Frank Act mandates that the OCC and the FDIC adopt rules implementing stress testing requirements for the depository institutions that they supervise, and the OCC and FDIC invited public comment on proposed rules in January of 2012.<sup>9</sup>

The Board is finalizing the stress testing frameworks in two separate rules. First, the Board is issuing this final rule, which implements the company-run stress testing requirements applicable to bank holding companies with total consolidated assets greater than \$10 billion but less than \$50 billion and savings and loan holding companies and state member banks with total consolidated assets greater than \$10 billion. Second, the Board is concurrently issuing a final rule implementing the supervisory and semi-annual company-run stress testing requirements applicable to large bank holding companies and nonbank financial companies supervised by the Board.

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<sup>8</sup> Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies, 77 FR 594 (Jan. 5, 2012).

<sup>9</sup> Annual Stress Test, 77 FR 3408 (Jan. 24, 2012) (OCC); Annual Stress Test, 77 FR 3166 (Jan. 17, 2012) (FDIC).

## II. Overview of Comments

The Board received approximately 100 comments on its NPR on enhanced prudential standards and early remediation requirements. Approximately 40 of these comments pertained to the proposed stress testing requirements. Commenters ranged from individual banking organizations to trade and industry groups and public interest groups. In general, commenters expressed support for stress testing as a valuable tool for identifying and managing both micro- and macro-prudential risk. However, several commenters recommended changes to, or clarification of, certain provisions of the proposed rule, including its timeline for implementation, reporting requirements, and disclosure requirements. Commenters also urged greater interagency coordination regarding stress tests.

### A. Delayed compliance date

Commenters suggested that companies with total consolidated assets less than \$50 billion that have not previously been subject to stress-testing requirements need more time to develop the systems and procedures to be able to conduct company-run stress tests and to collect the information that the Board may require in connection with these tests. In response to these comments and to reduce burden on these institutions, the final rule requires most bank holding companies, savings and loan holding companies, and state member banks to conduct their first stress test in the fall of 2013. In addition, the final rule requires bank holding companies, savings and loan holding companies, and state member banks with less than \$50 billion in total consolidated assets to begin publicly disclosing their stress test results in 2015 with respect to the stress test conducted in the fall of 2014.<sup>10</sup> Banking organizations that become subject to the

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<sup>10</sup> A “stress test cycle” is defined as the period between October 1 of a calendar year and September 30 of the following calendar year.

rule's requirements after November 15, 2012 must comply with the requirements beginning in the fall of the calendar year that follows the year the company meets the asset threshold, unless that time is extended by the Board in writing.<sup>11</sup> For example, a company that becomes subject to the rule on March 31, 2013 must conduct its first stress test in the fall of 2014 and report the results in 2015.

#### B. Tailoring

The proposed rule would have applied consistent annual company-run stress test requirements, including the compliance date and the disclosure requirements, to all banking organizations with total consolidated assets of more than \$10 billion.<sup>12</sup> The Board sought public comment on whether the stress testing requirements should be tailored, particularly for financial companies that are not large bank holding companies.

Several commenters expressed concern that the NPR that would have applied stress testing requirements previously applicable only to large bank holding companies, such as those conducted under the CCAR, to smaller, less complex banking organizations with smaller systemic footprints.

The Board recognizes that bank holding companies, savings and loan holdings companies, and state member banks with total consolidated assets less than \$50 billion are generally less complex and pose more limited risk to U.S. financial stability than larger banking

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<sup>11</sup> In extending a time period under the final rule, the Board will consider the activities, level of complexity, risk profile, scope of operations, and the regulatory capital of the company, and any other relevant factors.

<sup>12</sup> Under the proposal, savings and loan holding companies would not have been subject to the proposed requirements, including timing of required submissions to the Board, until savings and loan holding companies were subject to minimum risk-based capital and leverage requirements.

organizations. As a result, the Board has modified the requirements in the final rule for these institutions, and expects to use a tailored approach in implementation.

The final rule modifies the requirements for smaller banking organizations in a number of ways. First, as noted above, most banking organizations, other than state member bank subsidiaries of the large bank holding companies that participated in the SCAP, are not required to conduct their first stress test until 2013. The final rule also provides a longer period for smaller banking organizations to conduct their stress tests. Under the final rule, smaller banking organizations, other than state member bank subsidiaries of SCAP bank holding companies, are not required to report the results of the stress test until March 31. The final rule also modifies the public disclosure requirements, generally requiring less detailed disclosure for smaller banking organizations than for larger banking organizations. Separately, the Board intends to seek comment on reporting forms that smaller banking organizations would use in reporting the results of their stress tests to the Board, which are expected to be significantly more limited than the reporting forms applicable to large banking organizations.

As described in section III.C.3 of this preamble, banking organizations may be required to include additional components in their adverse and severely adverse scenarios or to use additional scenarios in their stress tests. The Board expects to apply such additional components and additional scenarios to large, complex banking organizations. For example, the Board expects to require large banking organizations with significant trading activities to include global market shock components in their adverse and severely adverse scenarios, and may require large or complex banking organizations to use additional components in the adverse and severely adverse scenarios or to use additional scenarios that are designed to capture salient risks to specific lines of business.

Finally, the Board plans to issue supervisory guidance to provide more detail describing supervisory expectation for company-run stress tests. This guidance will be tailored to banking organizations with total consolidated assets greater than \$10 billion but less than \$50 billion.

### C. Coordination

Many commenters emphasized the need for the federal banking agencies to coordinate stress testing requirements for parent holding companies and depository institution subsidiaries and more generally in regard to stress testing frameworks. Commenters recommended that the Board, the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) coordinate in implementing the Dodd-Frank Act stress testing requirements in order to minimize regulatory burden. Commenters asked that the agencies eliminate duplicative requirements and use an interagency forum, like the Federal Financial Institutions Examination Council, to develop common forms, policies, procedures, assumptions, methodologies, and application of results.

The Board has coordinated closely with the FDIC and the OCC to help to ensure that the company-run stress testing regulations are consistent and comparable across depository institutions and depository institution holding companies and to address any burden that may be associated with having multiple entities within one organizational structure subject to stress testing requirements. The Board anticipates that it will continue to consult with the FDIC and OCC in the implementation of the final rule, and in particular, in the development of stress scenarios. The Board plans to develop scenarios each year in close consultation with the FDIC and the OCC, so that, to the greatest extent possible, a common set of scenarios can be used for the supervisory stress tests and the annual company-run stress tests across various banking entities within the same organizational structure.

#### D. Consolidated publication and group-wide systems and models

In addition to requesting better coordination, commenters inquired as to whether a company-run stress test conducted by a parent holding company would satisfy the stress testing requirements applicable to that holding company's subsidiary depository institutions.

Commenters recommended that, in order to reduce burden, the Board develop and require the use of a single set of scenarios for a bank holding company and any depository institution subsidiary of the bank holding company, if the Board imposed separate stress testing requirements on both the bank holding company and bank.

In order to reduce burden on banking organizations, the final rule provides that a subsidiary depository institution generally will disclose its stress testing results as part of the results disclosed by its bank holding company parent. Disclosure by the bank holding company of its stress test results and those of any subsidiary state member bank generally will satisfy any disclosure requirements applicable to the state member bank subsidiary.

Moreover, a state member bank that is controlled by a bank holding company may rely on the systems and models of its parent bank holding company if its systems and models fully capture the state member bank's risks. For example, under those circumstances, the bank holding company and state member bank may use the same data collection processes and methods and models for projecting and calculating potential losses, pre-provision net revenues, provision for loan and lease losses, and pro forma capital positions over the stress testing planning horizon.

### **III. Description of the Final Rule**

#### **A. Scope of Application**

The final rule applies to any bank holding company with average total consolidated assets of greater than \$10 billion but less than \$50 billion, and any state member bank and savings and loan holding company that have average total consolidated assets of more than \$10 billion (“asset threshold”). Average total consolidated assets is based on the average of the total consolidated assets as reported on bank holding company’s or savings and loan holding company’s four most recent Consolidated Financial Statement for Bank Holding Companies (FR Y-9C) or a state member bank’s four most recent Consolidated Report of Condition and Income (Call Report). If the bank holding company, savings and loan holding company, or state member bank has not filed the FR Y-9C or Call Report, as applicable, for each of the four most recent quarters, average total consolidated assets will be based on the average of the company’s total consolidated assets, as reported on the company’s FR Y-9C or Call Report, as applicable, for the most recent quarter or consecutive quarters. In either case, average total consolidated assets are measured on the as-of date of the relevant regulatory report.

Once a bank holding company, savings and loan holding company, or state member bank meets the asset threshold, the company will remain subject to the final rule’s requirements unless and until the total consolidated assets of the company are less than \$10 billion, as reported on four consecutively filed FR Y-9C or Call Report, as applicable (measured on the as-of date of the relevant FR Y-9C or Call Report, as applicable). A bank holding company, state member bank, or savings and loan holding company that has reduced its total consolidated assets to below \$10 billion will again become subject to the requirements of this rule if it meets the asset threshold again at a later date.

However, if a bank holding company’s total consolidated assets equal or exceed \$50 billion or a savings and loan holding company becomes designated as a nonbank financial

company supervised by the Board, such companies will be required to conduct stress tests under subpart G of the Board's Regulation YY (12 CFR Part 252 Subpart G). Such a company will be required to comply with this final rule until it is required to conduct stress tests under subpart G.

The final rule does not apply to foreign banking organizations. The Board expects to issue a separate rulemaking on the application of enhanced prudential standards to foreign banking organizations. A U.S.-domiciled bank holding company subsidiary of a foreign banking organization that has total consolidated assets of \$10 billion or more is subject to the requirements of this rule.<sup>13</sup>

## **B. Effective Date**

Under the proposal, the company-run stress testing requirements applicable to bank holding companies and state member banks would have become effective upon adoption of the final rule. A bank holding company, savings and loan holding company, or state member bank that met the rule's asset threshold as of the adoption of the rule would have been required to immediately comply with its requirements. A bank holding company, savings and loan holding company, or state member bank that met the proposal's asset threshold more than 90 days before September 30 of a given year would be subject to stress testing requirements beginning in that calendar year. The Board received comments with regard to the timing of the first stress test for institutions that meet the asset threshold upon the rule's effective date and for institutions that meet the asset threshold at a later date, and has modified both aspects of the final rule.

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<sup>13</sup> A U.S.-domiciled bank holding company subsidiary of a foreign banking organization that is currently relying on Supervision and Regulation Letter SR 01-01 issued by the Board (as in effect on May 19, 2010) is not required to comply with the final rule's requirements until October 1, 2015.

1. First Stress Test for Bank Holding Companies and State Member Banks that Meet the Asset Threshold on or before December 31, 2012

Commenters indicated that smaller and mid-sized banking organizations need more time to develop the systems and procedures to conduct company-run stress tests and to collect the information requested by the Board in connection with these tests. In response to these comments, the Board is delaying the date that existing, smaller companies are required to conduct their first stress test, as described below.

**a. Bank Holding Companies**

Under the final rule, a bank holding company that meets the asset threshold on or before December 31, 2012, must conduct its first stress test beginning in the fall of 2013, unless that time is extended by the Board in writing.<sup>14</sup> Such a bank holding company is not required to publicly disclose the results of its stress test until June 2015.

**b. State Member Banks**

Under the final rule, a state member bank that meets the asset threshold on or before November 15, 2012, and is a subsidiary of a bank holding company that participated in the SCAP, or successor to such bank holding company,<sup>15</sup> must comply with the requirements of this subpart beginning in the fall of 2012, unless that time is extended by the Board in writing.

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<sup>14</sup> In exercising its authority to extend a deadline under the final rule, the Board intends to consider the activities, level of complexity, risk profile, scope of operations, and the regulatory capital of the bank holding company or nonbank financial company in addition to any other relevant factors.

<sup>15</sup> The bank holding companies that participated in SCAP were: American Express Company, Bank of America Corporation, BB&T Corporation, Bank of New York Mellon Corporation, Capital One Financial Corp., Citigroup, Inc., Fifth Third Bancorp, GMAC LLC (now Ally Financial Inc.), Goldman Sachs Group Inc., JPMorgan Chase & Co., KeyCorp, MetLife Inc., Morgan Stanley, PNC Financial Services Group, Regions Financial Corporation, State Street Corp., SunTrust Banks, Inc., US Bancorp, and Wells Fargo & Company.

Any other state member bank that meets the asset threshold on or before December 31, 2012, must comply with the requirements of this subpart beginning in the fall of 2013, unless that time is extended by the Board in writing. If such a state member bank has total consolidated assets of less than \$50 billion as of December 31, 2012, it is not required to publicly disclose the results of its stress test until June 2015.

2. First Stress Test for Bank Holding Companies and State Member Banks Subject to Stress Testing Requirements After December 31, 2012

Commenters similarly expressed concern that bank holding companies, state member banks, and savings and loan holding companies met the rule's asset threshold after the effective date of the final rule would not have sufficient time to build the systems, contract with outside vendors, recruit experienced personnel, and develop stress testing models that are unique to their organization under the proposed compliance date. In addition, the Federal Advisory Council recommended that the Board phase in disclosure requirements to minimize risk, build precedent, and allow banks and supervisors to gain experience, expertise, and mutual understanding of stress testing models.

In response to these comments, the Board extended the compliance date applicable to bank holding companies and state member banks that exceed the final rule's asset threshold after December 31, 2012. Under the final rule, these companies will be required to conduct their first stress tests beginning in the fall of the calendar year after they meet the asset threshold, unless that time is extended by the Board in writing.

3. First Stress Test for Savings and Loan Holding Companies

Under the final rule, a savings and loan holding company will not be required to conduct its first stress test until after it is subject to minimum capital requirements. A savings and loan

holding company that meets the asset threshold when it becomes subject to minimum capital requirements will be required to conduct this first stress test in the fall of the calendar year after it first becomes subject to capital requirements, unless the Board accelerates or extends the time in writing.<sup>16</sup>

A savings and loan holding company that meets the asset threshold after it becomes subject to capital requirements will be required to conduct its first stress test beginning in the fall of the calendar year after it meets the asset threshold, unless that time is extended by the Board in writing.

### **C. Annual Stress Tests Requirements**

#### **1. Timing of Stress Testing Requirements**

The Board proposed the following timeline for company-run tests in the NPR. The Board would have required an as-of date of September 30 of information to be submitted to the Board. By no later than mid-November of each calendar year, the Board would provide bank holding companies, state member banks, and savings and loan holding companies with scenarios for annual stress tests. By January 5 of the following calendar year, these companies would be required to submit regulatory reports to the Board on their stress tests. By early April of that calendar year, companies would be required to make public disclosure of results.

Several commenters provided suggestions on the proposed timeline. Those comments focused on the as-of date for data to be submitted by bank holding companies, state member banks, and savings and loan holding companies, the date for submitting results to the Board, and the dates when public disclosures of stress test results are to be made. For instance, some

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<sup>16</sup> In accelerating or extending the time period for savings and loan holding companies, the Board will consider the activities, level of complexity, risk profile, scope of operations, and the regulatory capital of the savings and loan holding company, and any other relevant factors.

commenters suggested that the Board should use data collected at as-of dates other than September 30, such as June 30 or December 31, and make corresponding changes to the timing of public disclosure in order to reduce burden on companies during the year-end period. One commenter suggested having a floating submission date, allowing organizations to submit their results at the point in the year when it is most convenient. Some commenters also requested that the Board release the scenarios earlier to provide banking organizations more time to prepare the required reports for the stress tests.

The final rule maintains the as-of date for data for the purposes of the annual company-run stress tests so that the same set of scenarios can be used to conduct annual company-run stress tests for large bank holding companies and their subsidiary state-member banks. The Board believes, and several commenters noted, that such alignment is beneficial. Furthermore, using the same scenarios for all firms subject to stress testing requirements will decrease market confusion, minimize burden on institutions, and provide for comparability across institutions. As stated in the concurrent final rule for covered companies, it was necessary to maintain the September 30 as-of date for stress test requirements for large bank holding companies in order to align the stress testing requirements with the capital planning requirements applicable to these institutions under section 225.8 of the Board's Regulation Y.<sup>17</sup>

Commenters requested that the Board release the scenarios earlier in the annual stress test cycle to provide banking organizations more time to prepare the reports for company-run stress tests. Under the final rule, the Board will provide descriptions of the baseline, adverse, and severely adverse scenarios generally applicable to companies no later than November 15 of each year, and provide any additional components or scenarios by December 1. The Board believes

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<sup>17</sup> 12 CFR 225.8.

that providing scenarios earlier than November could result in the scenarios being stale, particularly in a rapidly changing economic environment, and that it is important to incorporate economic or financial market data that are as current as possible while providing sufficient time for companies to incorporate the scenarios in their annual company-run stress tests.

Commenters suggested that smaller banking organizations be allowed additional time to conduct their company-run stress tests in light of resource constraints faced by these institutions. In response to these comments, the Board has delayed the timing of report submission to the Board for most banking organizations.

Consistent with the requirements imposed on large bank holding companies under subpart G, the final rule requires a state member bank that is controlled by a bank holding company that has average total consolidated assets of \$50 billion or more and a savings and loan holding company that has average total consolidated assets of \$50 billion or more to conduct its stress test and submit its results to the Board by January 5, unless that time is extended by the Board in writing. All other bank holding companies, savings and loan holding companies, and state member banks are required to conduct their stress tests and submit the results to the Board by March 31.

Commenters also noted that the proposed public disclosure deadlines would interfere with so-called “quiet periods” that some publicly traded banking organizations enforce in the lead up to earnings announcements. These quiet periods are designed to limit communications that could disseminate proprietary company information prior to earnings announcements.

In light of these comments, the Board adjusted the disclosure date to avoid interfering with firms’ quiet periods. Under the final rule, a savings and loan holding company with total consolidated assets of \$50 billion or more or a state member bank that is a subsidiary of a bank

holding company with total consolidated assets of \$50 billion or more is required to disclose the results of its stress tests between March 15 and March 31 of each year. All other banking organizations will be required to disclose their results between June 15 and June 31.

Table 1 below describes the steps for the company-run stress test cycle for bank holding companies, state member banks, and savings and loan holding companies, including general timeframes for each step.

<b>Table 1 Process Overview of Annual Company-run Stress Test</b>	
<b>Company-run stress test steps</b>	<b>Timeframe</b>
Board publishes scenarios for upcoming annual cycle	No later than November 15
<b>State member banks that are subsidiaries of large bank holding companies and savings and loan holding companies with total consolidated assets of more than \$50 billion</b>	
Companies complete stress test and submit required regulatory report to the Board on their stress tests.	By January 5
Companies disclose summary results of the annual company-run stress test	Between March 15 and March 31
<b>Bank holding companies, savings and loan holding companies with total consolidated assets of less than \$50 billion, and state member banks that are not subsidiaries of large bank holding companies</b>	
Companies complete stress test and submit required regulatory report to the Board on their stress tests.	By March 31
Companies disclose summary results of the annual company-run stress test	Between June 15 and June 30

## 2. Conduct of a Stress Test

Under the final rule, a bank holding company, savings and loan holding company, or state member bank that meets the asset threshold will be required to conduct an annual stress test using scenarios provided by the Board. A stress test is defined as a process to assess the potential impact of the scenarios provided by the Board on the consolidated earnings, losses, and

capital of a company over the planning horizon, taking into account the current condition of the company and the company's risks, exposures, strategies, and activities.<sup>18</sup>

A bank holding company, savings and loan holding company, or state member bank will be required to use the scenarios provided by the Board, which will include, at minimum, baseline, adverse, and severely adverse scenarios. The Board will provide descriptions of the baseline, adverse, and severely adverse scenarios generally applicable to subject companies no later than November 15 of a calendar year.

As described above in section E of this preamble, the Board may require a company with significant trading activity, as determined by the Board as specified in the Capital Assessments and Stress Testing information collection (FR Y-14), to include a global market shock component in the adverse and severely adverse scenarios that measures potential stress losses from trading activities and counterparty exposures in its stress test.<sup>19</sup>

In addition, depending on the systemic footprint and scope of operations and activities of a bank holding company, savings and loan holding company, or state member bank, the Board may require the company to include additional components in its adverse and severely adverse scenarios or to use additional scenarios that are designed to capture salient risks stemming from

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<sup>18</sup> "Planning horizon" is defined as the period of at least nine quarters, beginning on the first day of a stress test cycle (on October 1), over which the relevant projections extend. One commenter requested that the Board shorten the planning horizon. The Board has maintained a nine-quarter planning horizon in the final rule because it believes that a firm should be able to make informed projections of its financial and capital position for a two-year calendar period.

<sup>19</sup> As of September 30, 2012, companies subject to the global market shock scenario included those bank holding companies with total consolidated assets of \$500 billion or more that were subject to the market-risk measure set forth in Appendix E of the Board's Regulation Y (12 CFR Part 225, Appendix E).

specific lines of business.<sup>20</sup> Scenarios may also include stress factors, such as operational risk, that materially affect the financial condition of a company but are not directly correlated to macroeconomic or financial assumptions.

The Board will notify a company in writing no later than September 30 that it will be required to include an additional component in its adverse and severely adverse scenarios or to use an additional scenario in its stress test. The notification will include the basis for requiring the company to include the additional component or additional scenario in its stress test. Within 14 calendar days of receipt of a notification, a company may request in writing that the Board reconsider the requirement that the company include additional components or use additional scenarios, including an explanation as to why the reconsideration should be granted. The Board will respond in writing within 14 calendar days of receipt of the company's request. The Board will provide a company with a description of any additional component or additional scenario by December 1.

### 3. Methodologies and Practices

Consistent with the proposal, in conducting a stress test, a company will be required to calculate for each scenario, over each quarter of the planning horizon, pre-provision net revenue, losses, provision for loan and lease losses, and net income; and the potential impact of the scenarios on pro forma regulatory capital levels and pro forma capital ratios (including regulatory and any other capital ratios specified by the Board). Estimates of pro forma capital levels and capital ratios must incorporate the effects of any capital actions over the planning

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<sup>20</sup> In making this assessment, the Board will consider the financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy of the company.

horizon and maintenance of an allowance for loan losses appropriate for credit exposures throughout the planning horizon.

Several commenters asked that the Board generally adopt the disclosure approach it used in CCAR 2012, which included some common assumptions of capital actions across bank holding companies. In response to these commenters and to enable comparisons across firms and between the company-run and supervisory stress test, the final rule requires a bank holding company or savings and loan holding company to make the following assumptions regarding its capital actions over the planning horizon. For the first quarter of the planning horizon, the company must take into account its actual capital actions as of the end of the calendar quarter. For each of the second through ninth quarters of the planning horizon, the company must include the following items in the projections of capital: (i) common stock dividends equal to the quarterly average dollar amount of common stock dividends that the company paid in the previous year (that is, the first quarter of the planning horizon and the preceding three calendar quarters); (ii) payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest, or principal due on such instrument during the quarter; and (iii) an assumption of no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio. The Board is providing for these assumptions to ensure that the publicly disclosed results of company run stress tests are comparable across institutions and reflect the effect of common macroeconomic scenarios on net income and capital but not company-specific assumptions about capital distributions.

The proposed rule would have required a subject company to establish and maintain a system of controls, oversight, and documentation, including policies and procedures, designed to

ensure that the stress testing processes were effective. It also would have required the board of directors and senior management of the company to annually review the controls, oversight, and documentation established pursuant to the final rule.

Several commenters asked for clarification on the roles of the board of directors and senior management in establishing and reviewing these controls. In response to these commenters, the final rule clarifies that the senior management of a bank holding company, savings and loan holding company, or state member bank is responsible for establishing and maintaining the system of controls, oversight, and documentation, including policies and procedures, designed to ensure that the stress testing processes used by the company are effective in meeting the requirements of the final rule. The board of directors, or an appropriate committee thereof, is responsible for approving and reviewing the policies and procedures governing the stress testing processes as frequently as economic conditions or the condition of the company may warrant, but no less than annually. The board of directors and senior management of the company must receive a summary of the results of the stress test.

The final rule also requires the board of directors and senior management of each bank holding company, savings and loan holding company, or state member bank to consider the results of the stress tests in the normal course of business, including but not limited to, the banking organization's capital planning, assessment of capital adequacy, and risk management practices.<sup>21</sup>

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<sup>21</sup> The capital plan requirements under the Board's 12 CFR 225.8 of the Board's Regulation Y (12 CFR 225.8) apply only to bank holding companies with \$50 billion or more in total consolidated assets.

#### 4. Report to the Board of Stress Test Results and Related Information

As required by the Dodd-Frank Act, the final rule requires each bank holding, state member bank, and savings and loan holding company to report the results of the stress tests conducted by the company in the manner and form prescribed by the Board.

Savings and loan holding companies with average total consolidated assets of \$50 billion or more and state member bank subsidiaries of large bank holding companies are required to submit reports to the Board by January 5. All other bank holding companies, savings and loan holding companies, and state member banks are required to submit reports to the Board by March 31.

The report of the results of the stress test must include, under the baseline, adverse, and severely adverse scenarios, a description of the types of risks included in the stress test, a summary description of the methodologies used in the stress test, for each quarter of the planning horizon, aggregate losses, pre-provision net revenue, provision for loan and lease losses, net income, and pro forma capital ratios (including regulatory and any other capital ratios specified by the Board), an explanation of the most significant causes for the changes in regulatory capital ratios; and any other information required by the Board. This reporting requirement will remain applicable until such time as the Board issues a reporting form to collect the results of the company-run stress test.

In the future, the Board plans to publish, for notice and comment, any new data schedules that would be used to report the results of stress tests conducted under the rule. The Board expects that it would tailor the data schedules for bank holding companies, state member banks,

and saving and loan holding companies with total consolidated assets greater than \$10 billion but less than \$50 billion to reduce reporting burden on those companies.

The Board may also request supplemental information, as needed.

#### 5. Supervisory Review of Companies' Stress Test Processes and Results

Based on information submitted by a bank holding company, state member bank, or savings and loan holding company, as well as other relevant information, the Board will conduct an analysis of the quality of the company's stress tests processes and related results. The Board expects to provide feedback about such analysis to a company through the supervisory process. The Board may also require other actions consistent with safety and soundness of the company.

#### 6. Publication of Results by the Company

Under the proposal, each bank holding company, state member bank, and savings and loan holding company would be required to disclose a summary of the results of its company-run stress tests within 90 days of submitting its required report to the Board. The Board asked commenters to provide information on the benefits and drawbacks associated with company-specific disclosures, specific concerns about the possible release of a company's proprietary information, and alternatives to the company-specific disclosures being proposed.

In response, nearly all commenters advocated that the Board curtail disclosure requirements for the company-run stress tests, in particular, strongly recommending against the disclosure of the results under the baseline scenario. Commenters indicated the baseline scenario results would be perceived as earnings guidance, which may compel a banking organization to prioritize short-term results over more appropriate longer-term risk management and sustained long term results. Commenters also indicated that baseline results may force the premature

disclosure of future plans by the institution, create confusion among investors and the public, and give rise to liability under securities laws.

Several commenters suggested that the Board adopt the template used in reporting the CCAR results, which they likened to publication of only the severely adverse results. Commenters expressed the view that the CCAR disclosure regime was appropriately balanced by providing useful information to market participants while simultaneously ensuring that disclosure of stress test results does not result in providing earnings guidance.

As noted above, the Board believes that public disclosure is a key component of stress test requirements mandated by the Act, and helps to provide valuable information to market participants, enhance transparency, and facilitate market discipline. However, the Board also understands the concern that the disclosure of results (particularly baseline results) could be viewed as earnings guidance to the market. Thus, the final rule requires banking organizations to disclose only the severely adverse results. As companies begin conducting company-run stress tests, submitting the results of all scenarios to the Board, and disclosing a summary of their results under the severely adverse scenario, the Board expects to evaluate whether public disclosure of the results of the adverse and potentially baseline scenarios would assist in informing the company and its investors about the condition of the banking organization. Thus, the Board expects to revisit the scope of required public disclosure from time to time, and may determine to require disclosure of the results under the adverse and baseline scenario in the future.

Additionally, commenters recommended simpler and more limited disclosure requirements, particularly for smaller companies, so that these companies would not need to rely on vendors or third-party professionals to produce the summary of results. In response to

commenters, the Board modified the disclosure requirements to include a more limited set of information. Under the final rule, a bank holding company, savings and loan holding company, or a state member bank not controlled by a bank holding company is required to disclose a summary of results under the severely adverse scenario, which must include, at a minimum: (i) a description of the types of risks being included in the stress test; (ii) a summary description of the methodologies used in the stress test; (iii) estimates of aggregate losses, pre-provision net revenue, provision for loan and lease losses, net income, and pro forma capital ratios (including regulatory and any other capital ratios specified by the Board); and, (iv) an explanation of the most significant causes for the changes in regulatory capital ratios. The Board expects the summary description under (ii) above to include a general description of methodologies used to estimate losses, pre-provision net revenue, net income, and changes in capital positions over the planning horizon.

Several commenters suggested that regulatory agencies coordinate disclosure requirements for multiple banking organizations within a single parent company as the release of conflicting test results could confuse market participants. In the final rule, bank holding companies and savings and loan holding companies must disclose a summary of results of the stress test conducted by any insured depository institution subsidiary that meets the asset threshold.<sup>22</sup> The summary must include, with respect to the severely adverse scenario, any changes in regulatory capital ratios of the depository institution subsidiary and an explanation of the most significant causes for the changes in regulatory capital ratios. For subsidiary state member banks, the Board expects that this disclosure will include a general description of

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<sup>22</sup> A parallel provision is included in the final rule applicable to bank holding companies with total consolidated assets of \$50 billion or more.

methodologies used to estimate capital actions over the planning horizon. Such disclosure will be deemed to satisfy disclosure requirements applicable to state member bank subsidiaries under section 165(i)(2) of the Dodd-Frank Act, unless the Board determines that the disclosures at the holding company level do not adequately capture the potential impact of the scenarios on the capital of the state member bank. In this case, the state member bank would be required to make the same disclosure required of a state member bank not controlled by a bank holding company.

In addition, commenters requested that the Board not require publication of information as of each quarter-end of the planning horizon. In response to these comments, the rule clarifies that the disclosure of aggregate losses, pre-provision net revenue, provision for loan and lease losses, and net income requires disclosure of only the cumulative totals over the planning horizon, and the disclosure of regulatory capital ratios requires disclosure of the beginning value, ending value and minimum value of each ratio over the planning horizon.

As in the proposed rule, the final rule provides that the summary could be published on the website of the banking organization or in any other forum that is reasonably accessible to the public.

## 7. Scenarios

The proposal provided that the Board would publish a minimum of three different sets of economic and financial conditions, including baseline, adverse, and severely adverse scenarios, under which the Board would conduct its annual analyses and companies would conduct their annual company-run stress tests. The Board would update, make additions to, or otherwise revise these scenarios as appropriate, and would publish any such changes to the scenarios in advance of conducting each year's stress test.

Commenters suggested that significant changes in scenarios from year to year could cause a banking organization's stress testing results to dramatically change. To ameliorate this volatility, commenters suggest that the federal banking agencies have a uniform approach for identifying stress scenarios or establish a "quantitative severity limit" in the final rule to ensure that scenarios do not drastically change from year to year. Commenters pointed out that consistency in annual scenario development will make comparability of stress test results between institutions and across time periods more accurate, increase market confidence in the results of stress tests, and make for more dependable capital planning by banking organizations. Commenters also requested the opportunity to provide input on the scenarios.

The Board believes that it is important to have a consistent and transparent framework to support scenario design. To further this goal, the final rule clarifies the definition of "scenarios" and includes definitions of baseline, adverse, and severely adverse scenarios. In the final rule, "scenarios" are defined as those sets of conditions that affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, or state member bank that the Board annually determines are appropriate for use in the company-run stress tests, including, but not limited to, baseline, adverse, and severely adverse scenarios.

The baseline scenario is defined as a set of conditions that affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, or state member bank, and that reflect the consensus views of the economic and financial outlook. The adverse scenario is defined as a set of conditions that affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, or state member bank that are more adverse than those associated with the baseline scenario and may include trading or other additional components. The severely adverse scenario is defined as a set of conditions that

affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, or state member bank and that overall are more severe than those associated with the adverse scenario and may include trading or other additional components.

In general, the baseline scenario will reflect the consensus views of the macroeconomic outlook expressed by professional forecasters, government agencies, and other public-sector organizations as of the beginning of the annual stress-test cycle. The Board expects that the severely adverse scenario will, at a minimum, include the paths of economic variables that are generally consistent with the paths observed during severe post-war U.S. recessions. Each year, the Board expects to take into account of salient risks that affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, and state member bank that may not be observed in a typical severe recession. The Board expects that the adverse scenario will, at a minimum, include the paths of economic variables that are generally consistent with mild to moderate recessions. The Board may vary the approach it uses for the adverse scenario each year so that the results of the scenario provide the most value to supervisors, given the current conditions of the economy and the banking industry. Some of the approaches the Board may consider using include, but are not limited to, a less severe version of the severely adverse scenario or specifically capturing, in the adverse scenario, risks that the Board believes should be understood better or should be monitored.

The scenarios will consist of a set of conditions that affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, or state member bank over the stress test planning horizon. These conditions will include projections for a range of macroeconomic and financial indicators, such as real Gross Domestic Product (GDP), the unemployment rate, equity and property prices, and various other key financial variables, and

will be updated each year to reflect changes in the outlook for economic and financial conditions. The paths of these economic variables could reflect risks to the economic and financial outlook that are especially salient but were not prevalent in recessions of the past.

Depending on the systemic footprint and scope of operations and activities of a company, the Board may require that company to include additional components in its adverse or severely adverse scenarios or to use additional scenarios or more complex scenarios that are designed to capture salient risks to specific lines of business.<sup>23</sup> For example, the Board recognizes that certain trading positions and trading-related exposures are highly sensitive to adverse market events, potentially leading to large short-term volatility in certain companies' earnings. To address this risk, the Board will require companies with significant trading activities to include market price and rate "shocks," as specified by the Board, that are consistent with historical or other adverse market events. The final rule also provides that the Board may impose this trading shock on a state member bank that is subject to the Board's market risk rule (12 CFR part 208, appendix E) and that is a subsidiary of a bank holding company subject to the trading shock under the final rule or under the Board's company-run stress test rule for covered companies (12 CFR 252.144(b)(2)(i)). The Board is making this modification to allow for coordination of the trading shock between a bank holding company and any state member bank subsidiary that is subject to the market risk rule.

In addition, the scenarios, in some cases, may also include stress factors that may not be directly correlated to macroeconomic or financial assumptions but nevertheless can materially affect covered companies' risks, such as factors that affect operational risks. The process by

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<sup>23</sup> In making this assessment, the Board will consider the financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy of the company.

which the Board may require a company to include additional components or use additional scenarios is described under section D.2 of this preamble.

Some commenters suggested that the Board adopt a tailored approach to scenarios to better capture idiosyncratic characteristics of each company. For example, commenters representing the insurance industry suggested that any stress testing regime applicable to insurance companies incorporate shocks relating to the exogenous factors that actually impact a particular company, such as a shock to the insurance company's insurance policy portfolio arising from a natural disaster, and de-emphasize shocks arising from traditional banking activities.

In the Board's view, a generally uniform set of scenarios is necessary to provide a basis for comparison across companies. However, the Board expects that each company's stress testing practices will be tailored to its business model and lines of business, and that the company may not use all of the variables provided in the scenario, if those variables are not appropriate to the firm's line of business, or may add additional variables, as appropriate.<sup>24</sup> In addition, the Board expects banking organizations to consider other scenarios that are more idiosyncratic to their operations and associated risks, as part of their ongoing internal analyses of capital adequacy.

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<sup>24</sup> The Board expects banking organizations to ensure that the paths of such additional variables are consistent with the scenarios the Board provided. For example, the path of any local economic variable should be consistent with the path of a national economic variable that the Board provides.

## **IV. Administrative Law Matters**

### **A. Use of Plain Language**

Section 722 of the Gramm-Leach-Bliley Act (Pub. L. No. 106-102, 113 Stat. 1338, 1471, 12 U.S.C. 4809) requires the Federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The Board invited comment on whether the proposed rule was written plainly and clearly, or whether there were ways the Board could make the rule easier to understand. The Board received no comments on these matters and believes that the final rule is written plainly and clearly.

### **B. Riegle Community Development and Regulatory Improvement Act**

Section 302 of Riegle Community Development and Regulatory Improvement Act (12 U.S.C. 4802) generally requires that regulations prescribed by Federal banking agencies which impose additional reporting, disclosures or other new requirements on insured depository institutions take effect on the first day of a calendar quarter which begins on or after the date on which the regulation is published in final form unless the agency determines, for good cause published with the regulation, that the regulation should become effective before such time. The final rule will be effective on November 15, 2012. The first day of a calendar quarter which begins on or after the date on which the final rule will be published is January 1, 2013. As discussed below, the Board has determined for good cause that the regulation should take effect on November 15, 2012.

Stress tests provide important forward-looking information to the Board to assist in the overall assessment of a state member bank's capital adequacy. Stress tests also help determine whether additional analytical techniques and exercises are appropriate for a state member bank to employ in identifying, measuring, and monitoring risks to the financial soundness of the bank.

Further, stress tests serve as an ongoing risk management tool that support a state member bank's forward-looking assessment of its risks and better equip such institutions to address a range of adverse outcomes.

It is necessary for a final rule to be in place this fall to ensure that the six state member bank subsidiaries of bank holding companies that participated in SCAP begin conducting annual stress tests this year. A November 15, 2012, effective date will facilitate integration of these state member banks' stress testing systems and processes with the systems and processes of its parent bank holding company. These systems and processes establish the basis for a bank's stress testing framework and will permit the institution to provide critical supervisory information in a timely manner and help to ensure that the state member bank is prepared for adverse economic situations. In addition, a November 15, 2012, effective date permits the Board to synchronize its supervisory efforts related to stress testing with the OCC and the FDIC. Accordingly, the Board finds good cause for the final rule to take effect on November 15, 2012, approximately one month after publication in the Federal Register.

### **C. Paperwork Reduction Act Analysis**

#### Request for Comment on Final Information Collection

In accordance with section 3512 of the Paperwork Reduction Act of 1995 (44 U.S.C. § 3501-3521) (PRA), the Board may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The OMB control number will be assigned. The Board reviewed the final rule under the authority delegated to the Board by OMB.

The final rule contains requirements subject to the PRA. The recordkeeping requirements are found in section 252.155(c) (formerly section 252.145(b)(1) in the proposed

rule) and the reporting requirements for state member banks are found in section 252.156 (formerly section 252.148 in the proposed rule). The burden for the disclosure requirements for state member banks in section 252.157 is accounted for in section 252.156. These information collection requirements would implement section 165(i)(2) of the Dodd-Frank Act for Board-regulated companies with \$10 billion or more in total consolidated assets that are not covered companies, as mentioned in the Abstract below.

The reporting requirements for bank holding companies and saving and loan holding companies in section 252.156 will be addressed in a separate Federal Register notice at a later date.

The Board received general comments regarding the burden of the proposed rule, particularly for companies with less than \$50 billion in total consolidated assets. Commenters suggested that companies with total consolidated assets greater than \$10 billion but less than \$50 billion that have not previously been subject to stress-testing requirements need more time to develop the necessary systems and procedures to be able to conduct company-run stress tests and to collect the information that the Board may require in connection with these tests. In response to these comments and to reduce burden, the final rule delays the compliance date for most smaller companies, extends the timeline for most smaller companies to submit the results of the test to the Board, tailors disclosure requirements, and synchronizes the disclosure regime for bank holding companies and their depository institution subsidiaries.

The Board has an ongoing interest in your comments.

Comments are invited on:

- a) Whether the proposed collections of information are necessary for the proper performance of the Federal Reserve's functions, including whether the information has practical utility;
- b) The accuracy of the Federal Reserve's estimate of the burden of the proposed information collections, including the validity of the methodology and assumptions used;
- c) Ways to enhance the quality, utility, and clarity of the information to be collected;
- d) Ways to minimize the burden of the information collections on respondents, including through the use of automated collection techniques or other forms of information technology; and
- e) Estimates of capital or start up costs and costs of operation, maintenance, and purchase of services to provide information.

All comments will become a matter of public record. Comments on aspects of this notice that may affect reporting, recordkeeping, or disclosure requirements and burden estimates should be sent to the addresses listed in the ADDRESSES section. A copy of the comments may also be submitted to the OMB desk officer for the Agencies: By mail to U.S. Office of Management and Budget, 725 17<sup>th</sup> Street, NW, #10235, Washington, DC 20503 or by facsimile to 202-395-5806, Attention, Commission and Federal Banking Agency Desk Officer.

*Title of Information Collection:* Recordkeeping and Disclosure Requirements Associated with Regulation YY (Subpart H).

*Frequency of Response:* Annual.

*Affected Public:* Businesses or other for-profit.

*Respondents:* U.S. bank holding companies, savings and loan holding companies, and state member banks.

*Abstract:* Section 165 of the Dodd-Frank Act implements the enhanced prudential standards. The enhanced standards include risk-based capital and leverage requirements, liquidity standards, requirements for overall risk management (including establishing a risk committee), single-counterparty credit limits, stress test requirements, and debt-to-equity limits for companies that the Council has determined pose a grave threat to financial stability.

Section 252.155(c) requires that each bank holding company, savings and loan holding company, or state member bank must establish and maintain a system of controls, oversight, and documentation, including policies and procedures, that are designed to ensure that its stress testing processes are effective in meeting the requirements in Subpart H. These policies and procedures must, at a minimum, describe the company's stress testing practices and methodologies, and processes for validating and updating the company's stress test practices and methodologies consistent with applicable laws, regulations, and supervisory guidance.

Section 252.156 requires state member banks with \$50 billion or more in total consolidated assets to report the results of the stress test to the Board by March 31 of each calendar year, unless that time is extended by the Board in writing. The report must include, under the baseline scenario, adverse scenario, and severely adverse scenario, a description of the types of risks being included in the stress test, a summary description of the methodologies used in the stress test, for each quarter of the planning horizon, estimates of aggregate losses, pre-provision net revenue, provision for loan and lease losses, net income, and regulatory capital ratios; an explanation of the most significant causes for the changes in regulatory capital ratios; and any other information required by the Board. This requirement will remain applicable until

such time as the Board issues a reporting form to collect the results of the stress test required under section 252.154.

*Estimated Paperwork Burden*

*Estimated Burden per Response:*

Section 252.155(c) recordkeeping – 40 hours (Initial setup 240 hours for institutions over \$10 million in total consolidated assets).

Section 252.156 reporting – 80 hours (Initial setup 200 hours).

*Number of respondents:* For recordkeeping requirements - 39 U.S. bank holding companies with total consolidated assets over \$10 billion and less than \$50 billion, 21 state member banks with total consolidated assets over \$10 billion, 39 savings and loan holding companies with total consolidated assets over \$10 billion.

For reporting requirements - 6 large state member banks.

*Total estimated annual burden:* 29,400 hours (24,960 hours for initial setup and 4,440 hours for ongoing compliance).

**D. Regulatory Flexibility Act Analysis**

The Regulatory Flexibility Act, 5 U.S.C. 601 et seq. (RFA), requires each federal agency to prepare a final regulatory flexibility analysis in connection with the promulgation of a final rule, or certify that the final rule will not have a significant economic impact on a substantial number of small entities.<sup>25</sup> The Board believes that the final rule will not have a significant economic impact on a substantial number of small entities, but nonetheless is conducting the RFA Analysis for this final rule.

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<sup>25</sup> See 5 U.S.C. 603, 604 and 605.

In accordance with section 165(i) (2) of the Dodd-Frank Act, the Board is adopting the final rule as Regulation YY and is adding new Part 252 (12 CFR part 252) to establish the requirements that a holding company, savings and loan holding company, or state member bank conduct company-run stress tests annually.<sup>26</sup> The reasons and justification for the final rule are described in the Supplementary Information.

Under regulations issued by the Small Business Administration (“SBA”), a “small entity” includes those firms within the “Finance and Insurance” sector with asset sizes that vary from \$7 million or less in assets to \$175 million or less in assets.<sup>27</sup> The Board believes that the Finance and Insurance sector constitutes a reasonable universe of firms for these purposes because such firms generally engage in activities that are financial in nature. Consequently, bank holding companies, savings and loan holding companies, or state member banks with asset sizes of \$175 million or less are small entities for purposes of the RFA.

As discussed in the Supplementary Information, the final rule applies to bank holding companies with greater than \$10 billion but less than \$50 billion in total consolidated assets and state member banks and savings and loan holding companies with greater than \$10 billion in total consolidated assets. Companies that are subject to the final rule therefore substantially exceed the \$175 million asset threshold at which a banking entity is considered a “small entity” under SBA regulations.

As noted above, because the final rule will not apply to any company with assets of \$175 million or less, the final rule will not apply to any small entity for purposes of the RFA.

Moreover, as discussed in the Supplementary Information, the Dodd-Frank Act requires the

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<sup>26</sup> See 12 U.S.C. 5365(d).

<sup>27</sup> 13 CFR 121.201.

Board to adopt rules implementing the provisions of section 165(i)(2) of the Dodd-Frank Act. The Board does not believe that the final rule would have a significant economic impact on a substantial number of small entities or that the final rule duplicates, overlaps, or conflicts with any other federal rules.

### **List of Subjects in 12 CFR Part 252**

Administrative practice and procedure, Banks, Banking, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Securities, Stress Testing.

### **Authority and Issuance**

For the reasons stated in the preamble, the Board of Governors of the Federal Reserve System amends 12 CFR part 252 as follows:

### **PART 252—ENHANCED PRUDENTIAL STANDARDS (Regulation YY).**

1. The authority citation for part 252 continues to read as follows:

**Authority:** 12 U.S.C. 321-338a, 1467a(g), 1818, 1831p-1, 1831o, 1844(b), 1844(c), 5365.

2. Subpart H to part 252 is added to read as follows:

### **Subpart H—Company-Run Stress Test Requirements for Banking Organizations with Total Consolidated Assets over \$10 Billion that are not Covered Companies**

Sec.

- 252.151 Authority and Purpose.
- 252.152 Definitions.
- 252.153 Applicability.
- 252.154 Annual stress test.
- 252.155 Methodologies and practices.
- 252.156 Reports of stress test results.
- 252.157 Disclosure of stress test results.

### **§ 252.151 Authority and purpose.**

(a) Authority. 12 U.S.C. 321-338a, 1467a(g), 1818, 1831o, 1831p-1, 1844(b), 1844(c), 3906-3909, 5365.

(b) Purpose. This subpart implements section 165(i)(2) of the Dodd-Frank Act (12 U.S.C. 5365(i)(2)), which requires a bank holding company with total consolidated assets of greater than \$10 billion but less than \$50 billion and savings and loan holding companies and state member banks with total consolidated assets of greater than \$10 billion to conduct annual stress tests. This subpart also establishes definitions of stress test and related terms, methodologies for conducting stress tests, and reporting and disclosure requirements.

**§ 252.152 Definitions.**

For purposes of this subpart, the following definitions apply:

(a) Adverse scenario means a set of conditions that affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, or state member bank that are more adverse than those associated with the baseline scenario and may include trading or other additional components.

(b) Asset threshold means—

(1) For a bank holding company, average total consolidated assets of greater than \$10 billion but less than \$50 billion, and

(2) For a savings and loan holding company or state member bank, average total consolidated assets of greater than \$10 billion.

(c) Average total consolidated assets means the average of the total consolidated assets as reported by a bank holding company, savings and loan holding company, or state member bank on its Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) or Consolidated Report of Condition and Income (Call Report), as applicable, for the four most

recent consecutive quarters. If the bank holding company, savings and loan holding company, or state member bank has not filed the FR Y-9C or Call Report, as applicable, for each of the four most recent consecutive quarters, average total consolidated assets means the average of the company's total consolidated assets, as reported on the company's FR Y-9C or Call Report, as applicable, for the most recent quarter or consecutive quarters. Average total consolidated assets are measured on the as-of date of the most recent FR Y-9C or Call Report, as applicable, used in the calculation of the average.

(d) Bank holding company has the same meaning as in section 225.2(c) of the Board's Regulation Y (12 CFR 225.2(c)).

(e) Baseline scenario means a set of conditions that affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, or state member bank, and that reflect the consensus views of the economic and financial outlook.

(f) Capital action has the same meaning as in section 225.8(c)(1) of the Board's Regulation Y (12 CFR 225.8(c)(1)).

(g) Covered company subsidiary means a state member bank that is a subsidiary of a covered company as defined in subpart F of this part.

(h) Depository institution has the same meaning as in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(c)).

(i) Foreign banking organization has the same meaning as in section 211.21(o) of the Board's Regulation K (12 CFR 211.21(o)).

(j) Planning horizon means the period of at least nine quarters, beginning on the first day of a stress test cycle (on October 1) over which the relevant projections extend.

(k) Pre-provision net revenue means the sum of net interest income and non-interest income less expenses before adjusting for loss provisions.

(l) Provision for loan and lease losses means the provision for loan and lease losses as reported by the bank holding company, savings and loan holding company, or state member bank on the FR Y-9C or Call Report, as appropriate.

(m) Regulatory capital ratio means a capital ratio for which the Board established minimum requirements by regulation or order, including a company's leverage ratio and tier 1 and total risk-based capital ratios as calculated under the Board's regulations, including appendices A, D, E, and G to 12 CFR part 225 and appendices A, B, E, and F to 12 CFR part 208 or any successor regulation.

(n) Savings and loan holding company has the same meaning as in section 238.2(m) of the Board's Regulation LL (12 CFR 238.2(m)).

(o) Scenarios are those sets of conditions that affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, or state member bank that the Board annually determines are appropriate for use in the company-run stress tests, including, but not limited to, baseline, adverse, and severely adverse scenarios.

(p) Severely adverse scenario means a set of conditions that affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, or state member bank and that overall are more severe than those associated with the adverse scenario and may include trading or other additional components.

(q) State member bank has the same meaning as in section 208.2(g) of the Board's Regulation H (12 CFR 208.2(g)).

(r) Stress test means a process to assess the potential impact of scenarios on the consolidated earnings, losses, and capital of a bank holding company, savings and loan holding company, or state member bank over the planning horizon, taking into account the current condition, risks, exposures, strategies, and activities.

(s) Stress test cycle means the period between October 1 of a calendar year and September 30 of the following calendar year. For the purposes of the stress test cycle commencing in 2012, such cycle will begin on November 15, 2012.

(t) Subsidiary has the same meaning as in section 225.2(o) the Board's Regulation Y (12 CFR 225.2(o)).

### **§ 252.153 Applicability.**

(a) Compliance date for bank holding companies and state member banks that meet the asset threshold on or before December 31, 2012. (1) Bank holding companies. (i) In general. Except as provided in paragraph (a)(1)(ii) of this section, a bank holding company that meets the asset threshold on or before December 31, 2012, must comply with the requirements of this subpart beginning with the stress test cycle that commences on October 1, 2013, unless that time is extended by the Board in writing.

(ii) SR Letter 01-01. A U.S.-domiciled bank holding company that is a subsidiary of a foreign banking organization that is currently relying on Supervision and Regulation Letter SR 01-01 issued by the Board (as in effect on May 19, 2010) must comply with the requirements of this subpart beginning with the stress test cycle that commences on October 1, 2015, unless that time is extended by the Board in writing.

(2) State member banks. (i) A state member bank that meets the asset threshold as of November 15, 2012, and is a subsidiary of a bank holding company that participated in the 2009

Supervisory Capital Assessment Program, or a successor to such bank holding company, must comply with the requirements of this subpart beginning with the stress test cycle that commences on November 15, 2012, unless that time is extended by the Board in writing.

(ii) A state member bank that meets the asset threshold on or before December 31, 2012, and is not described in paragraph (a)(2)(i) of this section must comply with the requirements of this subpart beginning with the stress test cycle that commences on October 1, 2013, unless that time is extended by the Board in writing.

(b) Compliance date for bank holding companies and state member banks that meet the asset threshold after December 31, 2012. A bank holding company or state member bank that meets the asset threshold after December 31, 2012, must comply with the requirements of this subpart beginning with the stress test cycle that commences in the calendar year after the year in which the company meets the asset threshold, unless that time is extended by the Board in writing.

(c) Compliance date for savings and loan holding companies. (1) A savings and loan holding company that meets the asset threshold on or before the date on which it is subject to minimum regulatory capital requirements must comply with the requirements of this subpart beginning with the stress test cycle that commences in the calendar year after the year in which the company becomes subject to the Board's minimum regulatory capital requirements, unless the Board accelerates or extends the compliance date.

(2) A savings and loan holding company that meets the asset threshold after the date on which it is subject to minimum regulatory capital requirements must comply with the requirements of this subpart beginning with the stress test cycle that commences in the calendar

year after the year in which the company becomes subject to the Board's minimum regulatory capital requirements, unless that time is extended by the Board in writing.

(d) Ongoing application. A bank holding company, savings and loan holding company, or state member bank that meets the asset threshold will remain subject to the requirements of this subpart unless and until its total consolidated assets fall below \$10 billion for each of four consecutive quarters, as reported on the FR Y-9C or Call Report, as applicable. The calculation will be effective on the as-of date of the fourth consecutive FR Y-9C or Call Report, as applicable.

(e) Interaction with 12 CFR part 252, subpart G. Notwithstanding paragraph (d) of this section, a bank holding company or savings and loan holding company that becomes a covered company as defined in subpart G of this part and conducts a stress test pursuant to that subpart is not subject to the requirements of this subpart.

#### **§ 252.154 Annual stress test.**

(a) General requirements. (1) Savings and loan holding companies with average total consolidated assets of \$50 billion or more and state member banks that are covered company subsidiaries. A savings and loan holding company with average total consolidated assets of \$50 billion or more or a state member bank that is a covered company subsidiary or must conduct a stress test by January 5 of each calendar year based on data as of September 30 of the preceding calendar year, unless the time or the as-of date is extended by the Board in writing.

(2) Bank holding companies, savings and loan holding companies with total consolidated assets of less than \$50 billion, and state member banks that are not covered company subsidiaries. Except as provided in paragraph (a)(1) of this section, a bank holding company, savings and loan holding company, or state member bank must conduct a stress test by March 31

of each calendar year using financial statement data as of September 30 of the preceding calendar year, unless the time or the as-of date is extended by the Board in writing.

(b) Scenarios provided by the Board. (1) In general. In conducting a stress test under this section, a bank holding company, savings and loan holding company, or state member bank must use the scenarios provided by the Board. Except as provided in paragraphs (b)(2) and (3) of this section, the Board will provide a description of the scenarios to each bank holding company, savings and loan holding company, or state member bank no later than November 15 of that calendar year.

(2) Additional components. (i) The Board may require a bank holding company, savings and loan holding company, or state member bank with significant trading activity, as determined by the Board and specified in the Capital Assessments and Stress Testing report (FR Y-14), to include a trading and counterparty component in its adverse and severely adverse scenarios in the stress test required by this section. The Board may also require a state member bank that is subject to 12 CFR part 208, Appendix E and that is a subsidiary of a bank holding company subject to this paragraph (b)(2)(i) or 12 CFR 252.144(b)(2)(i) to include a trading and counterparty component in the state member bank's adverse and severely adverse scenarios in the stress test required by this section. The data used in this component will be as of a date between October 1 and December 1 of that calendar year selected by the Board, and the Board will communicate the as-of date and a description of the component to the company no later than December 1 of the calendar year.

(ii) The Board may require a bank holding company, savings and loan holding company, or state member bank to include one or more additional components in its adverse and severely adverse scenarios in the stress test required by this section based on the company's financial

condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy.

(3) Additional scenarios. The Board may require a bank holding company, savings and loan holding company, or state member bank to include one or more additional scenarios in the stress test required by this section based on the company's financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy.

(4) Notice and response. If the Board requires a bank holding company, savings and loan holding company, or state member bank to include one or more additional components in its adverse and severely adverse scenarios under paragraph (b)(2)(ii) of this section or to use one or more additional scenarios under paragraph (b)(3) of this section, the Board will notify the company in writing no later than September 30. The notification will include a general description of the additional component(s) or additional scenario(s) and the basis for requiring the company to include the additional component(s) or additional scenario(s). Within 14 calendar days of receipt of a notification under this paragraph, the bank holding company, savings and loan holding company, or state member bank may request in writing that the Board reconsider the requirement that the company include the additional component(s) or additional scenario(s), including an explanation as to why the reconsideration should be granted. The Board will respond in writing within 14 calendar days of receipt of the company's request. The Board will provide the bank holding company, savings and loan holding company, or state member bank with a description of any additional component(s) or additional scenario(s) by December 1.

**§ 252.155 Methodologies and practices.**

(a) Potential impact on capital. In conducting a stress test under § 252.154, for each quarter of the planning horizon, a bank holding company, savings and loan holding company, or state member bank must estimate the following for each scenario required to be used:

(1) Losses, pre-provision net revenue, provision for loan and lease losses, and net income; and

(2) The potential impact on pro forma regulatory capital levels and pro forma capital ratios (including regulatory capital ratios and any other capital ratios specified by the Board), incorporating the effects of any capital actions over the planning horizon and maintenance of an allowance for loan losses appropriate for credit exposures throughout the planning horizon.

(b) Assumptions regarding capital actions. In conducting a stress test under § 252.154 of this part, a bank holding company or savings and loan holding company is required to make the following assumptions regarding its capital actions over the planning horizon—

(1) For the first quarter of the planning horizon, the bank holding company or savings and loan holding company must take into account its actual capital actions as of the end of that quarter; and

(2) For each of the second through ninth quarters of the planning horizon, the bank holding company or savings and loan holding company must include in the projections of capital—

(i) Common stock dividends equal to the quarterly average dollar amount of common stock dividends that the company paid in the previous year (that is, the first quarter of the planning horizon and the preceding three calendar quarters);

(ii) Payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest, or principal due on such instrument during the quarter; and

(iii) An assumption of no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio.

(c) Controls and oversight of stress testing processes. (1) In general. The senior management of a bank holding company, savings and loan holding company, or state member bank must establish and maintain a system of controls, oversight, and documentation, including policies and procedures, that are designed to ensure that its stress testing processes are effective in meeting the requirements in this subpart. These policies and procedures must, at a minimum, describe the company's stress testing practices and methodologies, and processes for validating and updating the company's stress test practices and methodologies consistent with applicable laws, regulations, and supervisory guidance.

(2) Oversight of stress testing processes. The board of directors, or a committee thereof, of a bank holding company, savings and loan holding company, or state member bank must approve and review the policies and procedures of the stress testing processes as frequently as economic conditions or the condition of the company may warrant, but no less than annually. The board of directors and senior management of the bank holding company, savings and loan holding company, or state member bank must receive a summary of the results of the stress test conducted under this section.

(3) Role of stress testing results. The board of directors and senior management of a bank holding company, savings and loan holding company, or state member bank must consider the results of the stress test in the normal course of business, including but not limited to, the

banking organization's capital planning, assessment of capital adequacy, and risk management practices.

**§ 252.156 Reports of stress test results.**

(a) Reports to the Board of stress test results. (1) Savings and loan holding companies with average total consolidated assets of \$50 billion or more and state member banks that are covered company subsidiaries. A savings and loan holding company with average total consolidated assets of \$50 billion or more or a state member bank that is a covered company subsidiary must report the results of the stress test to the Board by January 5 of each calendar year in the manner and form prescribed by the Board, unless that time is extended by the Board in writing.

(2) Bank holding companies, savings and loan holding companies, and state member banks. Except as provided in paragraph (a)(1) of this section, a bank holding company, savings and loan holding company, or state member bank must report the results of the stress test to the Board by March 31 of each calendar year in the manner and form prescribed by the Board, unless that time is extended by the Board in writing.

(b) Contents of reports. The report required under paragraph (a) of this section must include, under the baseline scenario, adverse scenario, severely adverse scenario, and any other scenario required under § 252.154(b)(3) of this part, a description of the types of risks being included in the stress test; a summary description of the methodologies used in the stress test; and, for each quarter of the planning horizon, estimates of aggregate losses, pre-provision net revenue, provision for loan and lease losses, net income, and regulatory capital ratios. In addition, the report must include an explanation of the most significant causes for the changes in regulatory capital ratios and any other information required by the Board. This paragraph will

remain applicable until such time as the Board issues a reporting form to collect the results of the stress test required under § 252.154 of this part.

(c) Confidential treatment of information submitted. The confidentiality of information submitted to the Board under this subpart and related materials shall be determined in accordance with applicable exemptions under the Freedom of Information Act (5 U.S.C. 552(b)) and the Board's Rules Regarding Availability of Information (12 CFR part 261).

**§ 252.157 Disclosure of stress test results.**

(a) Public disclosure of results. (1) In general. (i) Except as provided in paragraph (a)(1)(ii) or (b)(2) of this section, a bank holding company, savings and loan holding company, or state member bank must disclose a summary of the results of the stress test in the period beginning on June 15 and ending on June 30 unless that time is extended by the Board in writing.

(ii) Except as provided in paragraph (b)(2) of this section, a state member bank that is a covered company subsidiary or a savings and loan holding company with average total consolidated assets of \$50 billion or more must disclose a summary of the results of the stress test in the period beginning on March 15 and ending on March 31, unless that time is extended by the Board in writing.

(2) Initial disclosure. A bank holding company, savings and loan holding company, or state member bank that has total consolidated assets of less than \$50 billion on or before December 31, 2012, must comply with the requirements of this section beginning with the stress test cycle commencing on October 1, 2014.

(3) Disclosure method. The summary required under this section may be disclosed on the website of a bank holding company, savings and loan holding company, or state member bank, or in any other forum that is reasonably accessible to the public.

(b) Summary of results. (1) Bank holding companies and savings and loan holding companies. A bank holding company or savings and loan holding company must disclose, at a minimum, the following information regarding the severely adverse scenario:

- (i) A description of the types of risks included in the stress test;
- (ii) A summary description of the methodologies used in the stress test;
- (iii) Estimates of—
  - (A) Aggregate losses;
  - (B) Pre-provision net revenue;
  - (C) Provision for loan and lease losses;
  - (D) Net income; and
  - (E) Pro forma regulatory capital ratios and any other capital ratios specified by the Board;
- (iv) An explanation of the most significant causes for the changes in regulatory capital ratios; and
- (v) With respect to a stress test conducted by an insured depository institution subsidiary of the bank holding company or savings and loan holding company pursuant to section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, changes in regulatory capital ratios and any other capital ratios specified by the Board of the depository institution subsidiary over the planning horizon, including an explanation of the most significant causes for the changes in regulatory capital ratios.

(2) State member banks that are subsidiaries of bank holding companies. A state member bank that is a subsidiary of a bank holding company will satisfy the public disclosure requirements under section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act when the bank holding company publicly discloses summary results of its stress

test pursuant to this section or section 252.148 of this part, unless the Board determines that the disclosures at the holding company level do not adequately capture the potential impact of the scenarios on the capital of the state member bank. In this case, the state member bank must make the same disclosure as required by paragraph (b)(3) of this section.

(3) State member banks that are not subsidiaries of bank holding companies. A state member bank that is not a subsidiary of a bank holding company must disclose, at a minimum, the following information regarding the severely adverse scenario:

- (i) A description of the types of risks being included in the stress test;
- (ii) A summary description of the methodologies used in the stress test;
- (iii) Estimates of—
  - (A) Aggregate losses;
  - (B) Pre-provision net revenue
  - (C) Provision for loan and lease losses;
  - (D) Net income; and
  - (E) Pro forma regulatory capital ratios and any other capital ratios specified by the

Board; and

(iv) An explanation of the most significant causes for the changes in regulatory capital ratios.

(c) Content of results. (1) The disclosure of aggregate losses, pre-provision net revenue, provision for loan and lease losses, and net income that is required under paragraph (b) of this section must be on a cumulative basis over the planning horizon.

(2) The disclosure of pro forma regulatory capital ratios and any other capital ratios specified by the Board that is required under paragraph (b) of this section must include the beginning value, ending value and minimum value of each ratio over the planning horizon.

**By order of the Board of Governors of the Federal Reserve System, October 5, 2012.**

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Robert deV. Frierson,  
Secretary of the Board.

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