FEDERAL RESERVE SYSTEM

12 CFR Part 252

Docket No. R-1464; RIN 7100 AE 02

Annual Company-Run Stress Tests at Banking Organizations with Total Consolidated Assets of more than $10 Billion but less than $50 Billion; One-Year Transition Period to Revised Regulatory Capital Framework for 2013-2014 Stress Test Cycle

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

ACTION: Interim final rule with request for comment.

SUMMARY: The Board invites comment on an interim final rule that provides a one-year transition period during which bank holding companies and most state member banks with more than $10 billion but less than $50 billion in total consolidated assets would not be required to reflect the revised regulatory capital framework that the Board approved on July 2, 2013 (revised capital framework) in their stress tests for the stress test cycle that begins October 1, 2013. For this stress test cycle, these companies will be required to estimate their pro forma capital levels and ratios over the full nine-quarter planning horizon using the Board's current regulatory capital rules. The interim final rule also clarifies when a banking organization would estimate its minimum regulatory capital ratios using the advanced approaches for a given stress test cycle.

DATES: This rule is effective on September 30, 2013. Comments must be received on or before November 25, 2013.

ADDRESSES: You may submit comments, identified by Docket No.R-1464 and RIN No. 7100 AE-02, by any of the following methods:

Agency Web Site: http://www.federalreserve.gov. Follow the instructions for submitting comments at http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm.

Federal Rulemaking Portal: http://www.regulations.gov. Follow the instructions for submitting comments.

E-mail: regs.comments@federalreserve.gov. Include docket number in the subject line of the message.

Facsimile: (202) 452-3819 or (202) 452-3102.

Mail: Robert deV. Frierson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW., Washington, DC 20551.

All public comments are available from the Board's website at http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm as submitted, unless modified for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper form in Room MP-500 of the Board's Martin Building (20th and C Streets, NW.) between 9:00 a.m. and 5:00 p.m. on weekdays.

FOR FURTHER INFORMATION CONTACT: Lisa Ryu, Deputy Associate Director, (202) 263-4833, Constance Horsley, Manager, (202) 452-5239, David Palmer, Senior Supervisory Financial Analyst, (202) 452-2904; Joseph Cox, Financial Analyst, (202) 452-3216; or Keith Coughlin, Manager, (202) 452-2056, Division of Banking Supervision and Regulation; Laurie Schaffer, Associate General Counsel, (202) 452-2272, Benjamin W. McDonough, Senior Counsel, (202) 452-2036, or Christine Graham, Senior Attorney, (202) 452-3005, Legal Division, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW., Washington, DC 20551.

Users of Telecommunication Device for Deaf (TDD) only, call (202) 263-4869.

SUPPLEMENTARY INFORMATION:

On July 2, 2013, the Board approved revised risk-based and leverage capital requirements for banking organizations that implement the Basel III regulatory capital reforms and certain changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (revised capital framework).[1] The revised capital framework introduces a new common equity tier 1 capital ratio and supplementary leverage ratio, raises the minimum tier 1 ratio and, for certain banking organizations, leverage ratio, implements strict eligibility criteria for regulatory capital instruments, and introduces a standardized methodology for calculating risk-weighted assets. The new minimum regulatory capital ratios and the eligibility criteria for regulatory capital instruments will begin to take effect as of January 1, 2014, subject to transition provisions, for banking organizations that meet the criteria for the advanced approaches rule (advanced approaches banking organizations).[2] All other banking organizations must begin to comply with the revised capital framework beginning on January 1, 2015.

---

[1] See Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule (July 2, 2013), available at: http://www.federalreserve.gov/newsevents/press/bcreg/20130702a.htm (Revised capital framework).

[2] A banking organization is subject to the advanced approaches rule if it has consolidated assets greater than or equal to $250 billion, if it has total consolidated on-balance sheet foreign exposures of at least $10 billion, or if it elects to apply the advanced approaches rule.

As the revised capital framework comes into effect, banking organizations will be required to reflect the new capital rules in their company-run stress tests conducted under the Board's rules implementing the stress tests established by the Dodd-Frank Wall Street Reform and Consumer Protection Act (stress tests rules).[3]

I. Description of Interim Final Rule

A. Transition Period for Revised Capital Framework

Under the Board's stress test rules, each bank holding company with more than $10 billion and less than $50 billion total consolidated assets and each state member bank with more than $10 billion in total consolidated assets must conduct a company-run stress test to estimate the potential impact of three scenarios provided by the Board on its regulatory capital ratios.[4] In addition, each of these companies is required to disclose a summary of the results of its company-run stress tests within 90 days of submitting the results to the Board.

---

[3] *See* 77 FR 62378 (October 12, 2012) (codified at 12 CFR part, 252 subpart H) (stress test rule).

[4] Savings and loan holding companies with more than $10 billion in total consolidated assets are also subject to the stress test rules; however, savings and loan holding companies are not subject to stress tests in this coming stress test cycle and thus have been omitted from the discussion in this interim final rule. In addition to the rule described above requiring annual company-run stress tests, in October of 2012 the Board also issued stress testing rules that apply to bank holding companies with $50 billion or more in total consolidated assets and any non-bank financial companies designated for supervision by the Board. Those rules set out the process for an annual supervisory stress test by the Federal Reserve and the requirements for semi-annual company run stress tests. *See* 12 CFR part 225, subparts F and G.

In this interim final rule, the Board is providing bank holding companies and state member banks with total consolidated assets of more than $10 but less than $50 billion (other than state member banks that are subsidiaries of bank holding companies with total consolidated assets of $50 billion or more) with a one-year transition period to incorporate the revised capital framework into their company-run stress tests. In the stress test cycle that begins on October 1, 2013, these companies will estimate their pro forma capital levels and ratios over the planning horizon using the capital rules *in effect as of the beginning of the stress test cycle beginning on October 1, 2013,* and will not reflect the impact of the revised capital framework in their company-run stress tests. In particular, for this stress test cycle, such a company will not calculate common equity tier 1 capital as defined in the revised capital framework or incorporate the effects of any changes to the definition of capital, any new or additional deductions from capital, or any changes to the calculation of risk-weighted assets.

The interim final rule does not provide the one-year transition period for state member banks that are subsidiaries of bank holding companies with total consolidated assets of $50 billion or more. Consistent with the stress test rules applicable to their bank holding company parents, these state member banks must project their regulatory capital ratios for each quarter of the planning horizon *in accordance with the minimum capital requirements that will be in effect during that quarter*. The Board is concurrently issuing an interim final rule clarifying this treatment for bank holding companies with total consolidated assets of $50 billion or more and nonbank financial companies supervised by the Board.

The Board is issuing this interim final rule to tailor the application of the stress test rules for bank holding companies and state member banks with total consolidated assets of more than $10 but less than $50 billion (other than state member banks that are subsidiaries of bank holding companies with total consolidated assets of $50 billion or more). The Board believes that requiring these companies to reflect the impact of the revised capital framework during the planning horizon of the stress test cycle beginning October 1, 2013, and to model alternative capital calculations in the middle of planning horizon, would add operational complexity and increase the likelihood of erroneous calculations or assumptions without a sufficient corresponding benefit. The complexity and increased risk of error could interfere with the ability of a these company to conduct company-run stress tests that capture material risks to the company and provide a meaningful forward-looking assessment of its capital adequacy without providing a corresponding near-term benefit.

In its stress test rules, the Board tailored the application of the stress test rules for companies with total consolidated assets of more than $10 but less than $50 billion in recognition of the fact that those companies are generally less complex and pose more limited risk to U.S. financial stability than larger banking organizations. Specifically, the stress test rule provided virtually all companies with total consolidated assets of more than $10 but less than $50 billion in 2012 with an additional year to begin conducting stress tests, provided a longer period of time for these companies to conduct their stress test each year, and does not require these billion companies to publicly disclose the results of the stress test conducted in the stress test cycle beginning October 1, 2013. In the preamble of the stress test rule, the Board stated that it expected to further tailor its

approach for companies with total consolidated assets of more than $10 but less than $50 billion during implementation of the stress test rules. For example, the Board's regulatory reports that these companies use in reporting the results of their company-run stress tests (FR Y-16),[5] which are being finalized at this time, are shorter and simpler than the corresponding regulatory report, the FR Y-14 report, that is applicable to bank holding companies with $50 billion or more in total consolidated assets.[6]

The OCC and FDIC both plan to implement the Dodd-Frank Act stress testing requirements for the stress test cycle beginning October 1, 2013, in a similar manner for banks and savings associations under their supervision with between $10 and $50 billion in total consolidated assets.

B. Parallel Run Notification Date

In light of the issuance of the revised capital framework, the Board is providing clarity on when a bank holding company, savings and loan holding company, or state member bank would be required to calculate its minimum regulatory capital ratios using the advanced approaches for a given stress testing cycle.

A bank holding company, savings and loan holding company, or state member bank that is an advanced approaches banking organization is required to use the advanced

---

[5] *See* 78 FR 16502 (March 15, 2013).

[6] In addition, in July 2013, the Board, jointly with the OCC and the Federal Deposit Insurance Corporation (FDIC), issued proposed supervisory guidance for companies the agencies supervise with between $10 and $50 billion in assets that builds upon the tailoring in the stress testing rule by further clarifying minimum expectations for company-run stress test practices and providing examples of satisfactory practices. *See* 78 FR 18716 (August 5, 2013).

approaches to calculate its minimum regulatory capital ratios if it has conducted a satisfactory parallel run, which is defined as a period of no less than four consecutive calendar quarters during which a banking organization complies with certain qualification requirements of the advanced approaches.[7] Currently, all advanced approaches banking organizations are in parallel run, but it is possible that firms could complete a satisfactory parallel run in the near term and, as a result, be required to calculate their regulatory capital ratios using the advanced approaches. Under the current stress test rule, such a firm arguably would be required to estimate its capital ratios over the planning horizon using the advanced approaches if the firm is notified any time before January 5, which is the date on which a banking organization must submit its stress test results to the Board.

In order to provide sufficient notice to an advanced approaches banking organization so that it could calculate its regulatory capital ratios based on the advanced approaches in a given stress test cycle, the interim final rule provides that a bank holding company, savings and loan holding company, or state member bank must be notified that it has completed its parallel run by September 30 of a given year in order to be required to estimate its capital ratios using the advanced approaches for the stress test cycle that begins on October 1 of that year.

---

[7] 12 CFR 225, Appendix G, section 21(c).

II. Effective Date; Solicitation of Comments

This interim final rule is effective October 1, 2013. Pursuant to the Administrative Procedure Act (APA), at 5 U.S.C. 553(b)(B), notice and comment are not required prior to the issuance of a final rule if an agency, for good cause, finds that "notice and public procedure thereon are impracticable, unnecessary, or contrary to the public interest."[8] Similarly, a final rule may be published with an immediate effective date if an agency finds good cause and publishes such with the final rule.[9]

Consistent with section 553(b)(B) of the APA, the Board finds that issuing this rule as an interim final rule is necessary to clarify the process for bank holding companies and state member banks with total consolidated assets of more than $10 but less than $50 billion conducting Dodd-Frank Act stress tests in the stress test cycle that begins on the effective date of the interim final rule. Obtaining notice and comment prior to issuing the interim final rule would be impracticable and contrary to the public interest. Furthermore, the Board finds that there is good cause to publish the interim final rule with an immediate effective date.

The approval by the Board of the revised capital framework in July prompted a need to clarify how companies should incorporate the revised capital framework into conducting their first Dodd-Frank Act company-run stress test. Requiring bank holding companies and state member banks with total consolidated assets of more than $10 but

---

[8] 5 U.S.C. 553(b)(B).

less than $50 billion (other than state member banks that are subsidiaries of bank holding companies with total consolidated assets of $50 billion or more) to reflect the impact of the revised capital framework during the planning horizon of the stress test cycle beginning October 1, 2013, and model alternative capital calculations in the middle of the planning horizon, would add operational complexity and increase the likelihood of erroneous calculations or assumptions without a sufficient corresponding benefit. This complexity and increased risk of error may interfere with the ability of a company to conduct company-run stress tests that capture salient material risks to the company and provide a meaningful forward-looking assessment of its capital adequacy.

Moreover, the interim final rule should not impose any incremental burden on these firms. The interim final rule relieves burden on these companies by clarifying the process for their upcoming company-run stress tests and allowing them additional time to build systems and processes necessary to effectively implement the requirements of the revised capital framework.

Although notice and comment are not required prior to the effective date of this interim final rule, the Board invites comment on all aspects of this rulemaking and will revise this interim final rule if necessary or appropriate in light of the comments received. The Board is interested in receiving comments on all aspects of the interim final rule. In particular, are there any areas where the Board should further clarify the process for incorporating accounting and regulatory changes into a company's Dodd-Frank Act stress tests?

III. Regulatory Analysis

A. Regulatory Flexibility Act Analysis

The Board has considered the potential impact of the interim final rule on small companies in accordance with the Regulatory Flexibility Act (5 U.S.C. 603(b)). Based on its analysis and for the reasons stated below, the Board believes that the interim final rule will not have a significant economic impact on a substantial number of small entities. Nevertheless, the Board is publishing a regulatory flexibility analysis.

For the reason discussed in the Supplementary Information above, the Board is issuing this interim final rule to clarify the requirements for certain companies required to conduct Dodd-Frank Act company run stress tests in the stress test cycle commencing on October 1, 2013. Under regulations issued by the Small Business Administration ("SBA"), a small entity includes a depository institution, bank holding company, or savings and loan holding company with total assets of $500 million or less (a small banking organization). The interim final rule would apply to state member banks, bank holding companies, and savings and loan holding companies with more than $10 billion but less than $50 billion in total consolidated assets. Companies that would be subject to the interim finale rule therefore substantially exceed the $500 million total asset threshold at which a company is considered a small company under SBA regulations. In light of the foregoing, the Board does not believe that the interim final rule would have a significant economic impact on a substantial number of small entities.

B. Solicitation of Comments on Use of Plain Language

Section 722 of the Gramm-Leach-Bliley Act required the Federal banking agencies to use plain language in all proposed and final rules published after January 1,

2000. The Board invites comment on how to make this interim final rule easier to understand. For example:

- Has the Board organized the material to suit your needs? If not, how could the rule be more clearly stated?
- Are the requirements in the rule clearly stated? If not, how could the rule be more clearly stated?
- Do the regulations contain technical language or jargon that is not clear? If so, which language requires clarification?
- Would a different format (grouping and order of sections, use of headings, paragraphing) make the regulation easier to understand? If so, what changes would make the regulation easier to understand?
- Would more, but shorter, sections be better? If so, which sections should be changed?
- What else could the Board do to make the regulation easier to understand?

C. Paperwork Reduction Act

Request for Comment on Proposed Information Collection

This interim final rule references currently approved collections of information under the Paperwork Reduction Act (44 U.S.C. 3501-3520) provided for in the DFA stress test rules. This interim final rule does not introduce any new collections of information nor does it substantively modify the collections of information that Office of Management and Budget (OMB) has approved. Therefore, no Paperwork Reduction Act submissions to OMB are required.

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 Supplementary Information, the Board of Governors of the Federal Reserve System amends 12 CFR chapter II 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, 1844(b), 1844(c), 5361, 5365, 5366.

2. Subpart H to part 252 is revised 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.

(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) Advanced approaches means the regulatory capital requirements at 12 CFR part 225, appendix G, and 12 CFR part 217, subpart E, as applicable, and any successor regulation.

(b) 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.

(c) 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.

(d) 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.

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

(f) 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.

(g) Capital action has the same meaning as in section 225.8(c)(2) of the Board's Regulation Y (12 CFR 225.8(c)(2)).

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

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

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

(k) 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.

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

(m) 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.

(n) Regulatory capital ratio means a capital ratio for which the Board established minimum requirements for the company by regulation or order, including, as applicable, a company's tier 1 and supplementary leverage ratio and common equity tier 1, 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 and 12 CFR part 217, as applicable, including the transition provisions at 12 CFR 217.1(f)(4) and 12 CFR 217.300, or any successor regulation. For state member banks other than covered company subsidiaries and for all bank holding companies, for the stress test cycle that commences on October 1, 2013, regulatory capital ratios must be

calculated pursuant to the regulatory capital framework set forth in 12 CFR part 225, appendix A, and not the regulatory capital framework set forth in 12 CFR part 217.

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

(p) 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.

(q) 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.

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

(s) 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.

(t) Stress test cycle means the period between October 1 of a calendar year and September 30 of the following calendar year.

(u) Subsidiary has the same meaning as in § 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.[10]

(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.

---

[10] See § 252.152(m).

(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. [11]

(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

---

[11] See § 252.152(m).

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.

(f) Advanced approaches. Notwithstanding any other requirement in this section, for a given stress test cycle, a bank holding company, savings and loan holding company, or state member bank's estimates of its pro forma regulatory capital ratios over the planning horizon shall not include estimates using the advanced approaches if the company is notified on or after the first day of that stress test cycle that it is required to calculate its risk-based capital requirements using the advanced approaches.

§ 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), 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 § 252.154(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—

(A) 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

(B) 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, September 24, 2013.

Robert deV. Frierson,
Secretary of the Board.
Billing Code: 6210-01-P

[FR Doc. 2013-23619 Filed 09/27/2013 at 8:45 am; Publication Date: 09/30/2013]