FEDERAL RESERVE SYSTEM

12 CFR Parts 225 and 252

Regulations Y and YY; Docket No. 1492

RIN 7100 – AE 20

Capital Plan and Stress Test Rules

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

ACTION: Final Rule.

SUMMARY: The Board is amending the capital plan and stress test rules applicable to bank holding companies with $50 billion or more in total consolidated assets and the company-run stress test rules applicable to bank holding companies with more than $10 billion but less than $50 billion in total consolidated assets and savings and loan holding companies and state member banks with more than $10 billion in total consolidated assets to modify, following a transition period, the start date of the capital plan and stress test cycles from October 1 of a calendar year to January 1 of the following calendar year. The final rule makes other changes to the rules, including limiting the ability of a bank holding company with $50 billion or more in total consolidated assets to make capital distributions under the capital plan rule if the bank holding company's net capital issuances are less than the amount indicated in its capital plan. The final rule clarifies the application of the capital plan rule to a bank holding company that is a subsidiary of a U.S. intermediate holding company of a foreign banking organization and the characteristics of a stressed scenario to be included in company run stress tests.

DATES: Effective November 26, 2014, except the amendment to § 225.8(g)(3) (establishing a limitation on net capital distributions), which will be effective on April 1, 2015.

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SUPPLEMENTARY INFORMATION:

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I. Background

On June 12, 2014, the Board invited comment on a proposed rule to modify and clarify aspects of the Board's capital plan rule (section 225.8 of Regulation Y) and stress test rules (subparts B, E, and F of Regulation YY) and the Board's enhanced prudential standards rule applicable to foreign banking organizations (subpart O of Regulation YY).

A. Capital plan and stress test rules

Pursuant to the Board's capital plan rule and related supervisory process, the Comprehensive Capital Analysis and Review (CCAR), the Federal Reserve assesses the internal capital planning process of each bank holding company with total consolidated assets of $50

billion or more (large bank holding company) and its ability to maintain sufficient capital to continue its operations under expected and stressful conditions.[1] Under the capital plan rule, a large bank holding company is required to submit an annual capital plan to the Federal Reserve that includes a detailed description of the following: the company's internal processes for assessing its capital adequacy; the policies governing capital actions such as common stock issuances, dividends and share repurchases; and all planned capital actions over a nine-quarter planning horizon (planning horizon). In addition, the bank holding company's capital plan must contain estimates of its regulatory capital ratios and its tier 1 common ratio under expected conditions and under a range of stressed scenarios over the planning horizon.[2] A capital plan also must include a discussion of how a large bank holding company will maintain regulatory capital ratios above the regulatory minimums and above a tier 1 common ratio of 5 percent under expected conditions and stressed scenarios.[3]

The capital plan rule works in conjunction with the stress test rules adopted by the Board to implement the stress testing requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (stress test rules).[4] The stress test rules establish a framework for the Board to conduct supervisory stress tests of large bank holding companies and require these bank holding companies to conduct annual and mid-cycle company-run stress tests.[5] In addition, the

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[1] 12 CFR 225.8.

[2] *See generally* 12 CFR 225.8.

[3] *Id*. at §225.8(d)(2)(i)(B).

[4] *See* 12 USC 5365(i)(1) and 12 CFR part 252.

[5] The changes in this final rule will apply to nonbank financial companies supervised by the Board once they become subject to stress test requirements and to U.S. intermediate holding companies of foreign banking organizations in accordance with the transition provisions of the final rule incorporating enhanced prudential standards for U.S. bank holding companies and foreign banking organizations with

stress test rules require state member banks and savings and loan holding companies with total consolidated assets of more than $10 billion and bank holding companies with total consolidated assets of more than $10 billion but less than $50 billion to conduct annual company-run stress tests.[6]

The capital plan and stress test rules establish baseline requirements for all banking organizations that are subject to the rules; the Board has tailored its expectations regarding application of these requirements for companies based on their sizes, scopes of operations, activities, and systemic importance.[7] For example, the Board has significantly heightened supervisory expectations for the largest and most complex bank holding companies in all aspects of capital planning and expects these bank holding companies to have capital planning practices that are commensurate with their size and complexity.[8]

B. Intermediate holding company rule

In February 2014, the Board issued a final rule requiring foreign banking organizations with U.S. non-branch assets of $50 billion or more establish U.S. intermediate holding companies ("IHC rule").[9] The U.S. intermediate holding company is generally subject to the same prudential standards as a U.S. bank holding company, including capital planning and stress testing requirements.

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total consolidated assets of $50 billion or more. (79 FR 17240 (March 27, 2014)). For simplicity, this preamble discussion of amendments generally refers only to bank holding companies.

[6] 77 FR 62378 (October 12, 2012) (codified at 12 CFR part 252, subparts E and F).

[7] Capital Planning at Large Bank Holding Companies: Supervisory Expectations and Range of Current Practice (August 19, 2013), p. 3, available at: http://www.federalreserve.gov/bankinforeg/bcreg20130819a1.pdf.

[8] *Id*.

[9] 79 FR 17240 (March 27, 2014).

II. Proposed revisions to the capital plan and stress test rules and comments received

The Board received 18 comments in response to the proposal. Commenters included individuals, bank holding companies with total consolidated assets of more than $10 billion but less than $50 billion, large bank holding companies, and trade organizations. Commenters expressed support for certain aspects of the proposal, particularly the proposed shift to the timing of the start of the capital planning and stress test cycles. Commenters also recommended revisions to provisions of the proposed rule, including the proposed limitation on net distributions, and provided comments on the preamble to the proposal, particularly regarding expectations for the bank holding company stress scenario. The following discussion provides a summary of comments received on the proposal and the Board's responses to those comments.

A. Timing of actions in the capital plan and stress test rules

i. Timing of capital plan and stress test cycles for large bank holding companies

The current capital plan and stress test cycles for large bank holding companies begin on October 1, and large bank holding companies are required to submit their capital plans and annual company-run stress test results to the Board by January 5 of the following calendar year using data as of September 30 of the preceding calendar year. The proposed rule would have shifted the start of the capital planning and stress test cycles, as well as the related deadline for submission of results, by one calendar quarter. As a result of the proposed shift, the capital plan and stress test cycles would have started January 1, and large bank holding companies would have been required to submit their capital plans and stress test results to the Board by April 5. The proposed rule would have included a transition period to incorporate the proposed timing changes to the capital plan and stress test cycles. The capital plan cycle scheduled to begin on October 1, 2014, would have started on that date without change, and large bank holding

companies would have been required to submit a capital plan to the Board by January 5, 2015. In order to provide a transition to the proposed timing, the Federal Reserve's objection or non-objection to a 2015 capital plan would have covered a five-quarter period commencing with the second quarter of 2015 and extending through the second quarter of 2016.[10]

Table 1 sets forth the proposed revisions to the relevant dates for actions in the annual capital plan and stress test cycles for large bank holding companies and state member banks that are subsidiaries of large bank holding companies, along with the proposed transition timeline.

Table 1: Key dates of revised timeline for annual capital plan and stress test cycles for large bank holding companies (large BHC) and state member banks that are subsidiaries of large bank holding companies

For cycle beginning October 1, 2014	For cycle beginning January 1, 2016, and thereafter	Supervisory stress test action	Company-run stress test action	Capital plan action
September 30, 2014	December 31 of the preceding calendar year	As-of date for capital plan and stress test cycles		
By September 30, 2014	By December 31 of the preceding calendar year		Board notifies a large BHC that it will require the company to use one or more additional scenarios	
By November 15, 2014	By February 15	Board publishes scenarios for upcoming annual cycle		
By December 1, 2014	By March 1		Board communicates description of any additional components or	

[10] The proposal would have revised the Board's Policy Statement on the Scenario Design Framework for Stress Testing and provisions governing applicability of the stress test requirements to U.S. intermediate holding companies of foreign banking organizations to reflect the changes in the cycle shift. The final rule adopts these revisions without change.

For cycle beginning October 1, 2014	For cycle beginning January 1, 2016, and thereafter	Supervisory stress test action	Company-run stress test action	Capital plan action
			scenarios to a large BHC	
By January 5, 2015	By April 5		Large BHCs submit required regulatory report to the Board on their stress tests	Large BHCs submit capital plan (including results of bank holding company-run stress tests)
By March 31, 2015	By June 30	Board publishes summary results of the supervisory stress test	Companies disclose summary results of the annual company-run stress test[11]	Board responds to a large BHC's capital plan and publicly discloses the results
By March 31, 2015	By June 30		Board notifies a large BHC that it will require the company to use one or more additional scenarios in the mid-cycle stress test	
By June 1, 2015	By September 1		Board communicates description of any additional components or scenarios to a large BHC in the mid-cycle stress test	
By July 5, 2015	By October 5		Large BHCs submit required regulatory report to the Board on their mid-cycle stress test	

[11] As discussed in section II.A.ii of this preamble, companies must disclose summary results within 15 calendar days after the Board discloses the summary results of its supervisory stress test.

For cycle beginning October 1, 2014	For cycle beginning January 1, 2016, and thereafter	Supervisory stress test action	Company-run stress test action	Capital plan action
July 5 - July 20 (revised to July 5 - August 4 in the final rule)	October 5 – October 20 (revised to October 5 – November 4 in the final rule)		Large BHCs disclose results of their mid-cycle stress test	

Commenters generally expressed support for the proposed transition timeline, and some commenters requested that the Board accelerate the implementation of the proposed timeframe to apply to the capital planning cycle beginning October 1, 2014. The final rule adopts the proposed revisions to the start of the stress test and capital planning cycles and related dates, including the five-quarter objection or non-objection period for CCAR 2015 capital plans, but does not accelerate the implementation. The transition period is necessary to permit the Federal Reserve and banking organizations sufficient time to revise reporting schedules and change internal systems. As such, the new timeline will become effective for the capital planning cycle that begins on January 1, 2016.

Commenters also requested that the Board provide macroeconomic scenarios by January 1 and global market shock components by January 15 of a given calendar year under the revised timeline to provide companies with additional time to conduct their company-run stress tests. In developing the scenarios, the Board aims to provide companies with as much time as possible to conduct the company-run stress tests, while ensuring that the scenarios reflect timely data on economic and financial conditions. The Board notes that in the capital plan cycle that started October 1, 2013, it released the macroeconomic scenarios in advance of the November 15, 2013 deadline provided in the rules. Under the revised timeline, the Board expects to continue to work

to provide the macroeconomic scenarios as soon as possible. Accordingly, the Board has adopted this aspect of the proposal without change.

Commenters additionally requested that the length of the planning horizon be reduced from nine quarters to eight quarters. These commenters argued that the ninth quarter does not provide additional meaningful information given the incremental uncertainty as projections move further into the future, and that eight quarters would still represent two full years of capital planning. In addition, commenters noted that an eight-quarter horizon would allow the companies to better utilize the transition arrangements in the revised regulatory capital framework, which would make their capital planning less operationally complex.

The proposal would have shifted the stress testing and capital planning timeline by one quarter, but would have maintained the nine-quarter planning horizon. The nine-quarter planning horizon results, in general, in actual capital planning for eight quarters, as the first quarter of planning horizon is contemporaneous with the quarter in which the company formulates its plan. As such, in order to maintain two full years of capital planning, the final rule maintains the nine-quarter planning horizon.

A commenter expressed the view that the proposal was unclear with respect to when many of the planned rule changes would be effective. The Board clarifies that the cycle shift will take effect beginning on January 1, 2016, the limitation on net distributions described in section II.D will take effect on April 1, 2015, and all other changes will take effect beginning on November 26, 2014.

Another commenter expressed the view that the Board consider the impact of the requirements on non-financial firms. The changes included in the final rule generally are

intended to relieve burden or to formalize existing requirements and expectations, and therefore, should not have a significant impact on non-financial firms.

ii. Disclosure dates for company-run stress tests by large bank holding companies

The proposed rule would have revised the disclosure periods for a large bank holding company to publicly disclose the results of its annual and mid-cycle company-run stress test. For the annual company-run stress test, a bank holding company would be required to disclose the results within 15 calendar days after the Board disclosed the results of that bank holding company's supervisory stress test, unless that time was extended by the Board. For example, if the Board publicly disclosed supervisory stress test results on March 30, the bank holding company would have had until April 14 to publicly disclose its company-run stress test results.[12] The Board did not receive comments on the proposed changes to the disclosure dates for company-run annual stress tests, and is adopting this aspect of the proposal without change.

For the mid-cycle company-run stress tests, the proposed rule would have required a large bank holding company to publicly disclose the results of its mid-cycle stress test within 15 calendar days after it submitted the results of its mid-cycle stress test to the Board, unless that time period was extended by the Board. A commenter noted that a 15-day period to provide disclosures proposed by the Board would provide bank holding companies insufficient time to prepare thorough and meaningful disclosures and may adversely impact the amount of time bank holding companies allocate for scenario design and testing. The commenter proposed that the Board provide firms with 45 days to prepare the disclosure.

[12] As discussed in the proposal, the Board does not expect to disclose the results of the supervisory stress test results before March 1 for the 2015 stress test cycle or before June 1 in subsequent stress test cycles.

In response to the commenter's request, the final rule requires a bank holding company to disclose results of its mid-cycle stress test within 30 calendar days after the bank holding company submits the results of its mid-cycle stress test to the Board, unless that time period is extended by the Board. This extended time period will allow bank holding companies to focus on the multiple priorities of scenario design and testing, as well as publication of meaningful results.

iii. Transition provisions for capital plan and stress test rules for large bank holding companies

Transition provisions in the stress test and capital plan rules for bank holding companies that meet the $50 billion total consolidated asset threshold

The proposal would have revised the transition provisions for the capital plan and the stress test rules to align application of the rules to a bank holding company that initially exceeds the $50 billion threshold. For a bank holding company with total consolidated assets of $50 billion or more,[13] the proposal would have provided that the bank holding company would become subject to the capital plan rule and the large bank holding company stress test rules beginning on the first day of the first capital plan and stress test cycle following the date on which the bank holding company meets that threshold.[14] The Board did not receive any comments on this provision, and the final rule adopts the provision without change.

Transition provisions in the stress test rules for nonbank financial companies designated for Board supervision

[13] Average total consolidated assets means the average of the total consolidated assets as reported by a bank holding company on its Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) for the four most recent consecutive quarters.

[14] Accordingly, a bank holding company that meets the $50 billion threshold as of December 31, 2015 would be required to submit a capital plan on April 5, 2016.

The proposed rule would have provided that the Board would apply stress test requirements to a nonbank financial company supervised by the Board by rule or order and would have established timing for application of the stress test rules. If the Board issued the rule or order on or before March of the previous year, the stress test requirements would have been effective on January 1 of a given year, unless the time was accelerated or extended by the Board in writing. Commenters requested that the Board ensure that insurance nonbank financial companies have sufficient time to transition into the stress tests and capital planning regimes, and consider the lower risk profile and higher risk diversification of insurance companies in tailoring the stress test regime to insurance companies.

In response to comments, the final rule does not establish the timing for application of the stress test rules to nonbank financial companies. Instead, following designation of a nonbank financial company, the Board will consider the business model, capital structure, and risk profile of the designated company to determine how, and under what transition schedule, the stress test and capital planning standards should applied to that nonbank financial company.

Transition provisions in the capital plan and stress test rules resulting from the cycle shift

The proposal would have revised the transition provisions in the capital plan and stress test rules for initial application of the stress test rules and incorporation of the risk-based capital advanced approaches to account for the change in the cycle start date. Under the proposal, a bank holding company that had total consolidated assets of $50 billion or more on or before March 31 of a given year would have been subject to the supervisory stress test rules beginning on January 1 of the following year. In addition, beginning January 1, 2016, a large bank holding company that received notification that it must use the advanced approaches methodology in addition to the standardized approach to determine its risk-based capital requirements on or

before December 31 of a given year would have been required to use the advanced approaches to estimate its risk-based capital ratios in the stress test cycle beginning on January 1 of the following year.

While the Board did not receive comments on the revisions to the transition periods to account for the change in the cycle start date, some commenters urged the Board to reconsider the use of the advanced approaches in its capital planning and stress testing frameworks because use of the advanced approaches would require significant resources and would introduce complexity and opaqueness into the stress test framework. Certain bank holding companies are required to use the advanced approaches to determine their minimum capital requirements, and the capital plan and stress test rules require a bank holding company to estimate its regulatory capital ratios calculated under the regulatory capital rules. The proposed transition provisions were intended to align the timing of, but not otherwise impact, these requirements. Accordingly, the final rule adopts the proposed transition provisions to the stress test and capital planning cycles for firms subject to the advanced approaches without change.

iv. Timing of stress test cycle and disclosure requirements for bank holding companies with total consolidated assets of more than $10 billion but less than $50 billion and savings and loan holding companies and state member banks with total consolidated assets of more than $10 billion

The proposed rule would have shifted the start of the stress test cycle by one calendar quarter, and the related deadline for submission of results by four months, for bank holding companies with total consolidated assets of more than $10 billion but less than $50 billion and savings and loan holding companies and state member banks with total consolidated assets of

more than $10 billion.[15] For the stress testing cycle that would begin on January 1, 2016, these companies would have been required to submit the results of their company-run stress tests to the Board by July 31 and would have been required to publicly disclose those results in the period beginning on October 15 and ending on October 31.[16] Table 2 below describes the proposed changes to the stress test cycle timeline for bank holding companies with greater than $10 billion but less than $50 billion in total consolidated assets and savings and loan holding companies and state member banks with total consolidated assets of $10 billion or more, along with the proposed transition timeline. If such a company crossed the $10 billion asset threshold on or before March 31 of a given year, it would have been subject to the company-run stress test rules beginning on January 1 of the following year.

Table 2: Key dates of revised timeline for annual stress test cycle for bank holding companies with total consolidated assets between $10-$50 billion and savings and loan holding companies and state member banks with total consolidated assets of $10 billion or more that are not subsidiaries of large bank holding companies

For cycle beginning October 1, 2014	For cycle beginning January 1, 2016,	Company-run stress test action

[15] Savings and loan holding companies are subject to the stress test requirements beginning with the stress test cycle that commences in the year after the year in which the company becomes subject to the Board's minimum regulatory capital requirements, unless the Board accelerates or extends that date. Savings and loan holding companies (other than those substantially engaged in commercial activities or insurance underwriting activities) are subject to the Board's capital requirements in the Board's Regulation Q beginning on January 1, 2015. The Board has not applied capital requirements to savings and loan holding companies that are substantially engaged in commercial activities or insurance underwriting activities to date. The Board is currently working on developing an appropriate capital regime for those institutions.

[16] As compared to the current rule, the proposed rule would have provided bank holding companies and savings and loan holding companies with total consolidated assets of more than $10 billion but less than $50 billion and state member banks that are not covered company subsidiaries with an additional 30 calendar days to report the results of their stress tests to the Board. This change is intended to further tailor the rule for these companies by providing an additional month to conduct stress tests. This aspect of the rule is being finalized as proposed.

	and thereafter	
September 30, 2014	December 31 of the preceding calendar year	As-of date for stress test cycle
By September 30, 2014	By December 31 of the preceding calendar year	Board notifies a company that it will require the company to use one or more additional scenarios
By November 15, 2014	By February 15	Board publishes scenarios for upcoming annual cycle
By December 1, 2014	By March 1	Board communicates description of any additional components or scenarios to company
By March 31, 2015	By July 31	Companies submit required regulatory report to the Board on their stress tests
June 15, 2015 through June 30	October 15 through October 31	Companies disclose summary results of the annual company-run stress test

A commenter argued that the Board should provide a flexible submission date for bank holding companies with more than $10 billion but less than $50 billion in total consolidated assets so that such companies can implement their stress tests during their unique capital planning periods, which occur at different times of the year. The commenter also expressed concerns with the disclosure requirements, suggesting that the Board make an aggregate disclosure on behalf of all bank holding companies with more than $10 billion but less than $50 billion in total consolidated assets to avoid misinterpretation of the results or comparisons of the results to the results of stress tests conducted by large bank holding companies.[17] In the

[17] The commenter also expressed concern that the timing of the disclosure (October 15 through October 31) would overlap with the disclosure of mid-cycle stress test results by large bank holding companies (proposed to be October 5 through October 20), and would invite comparison between the results of the two sets of stress tests.

alternative, commenters requested additional clarification on the substance of the disclosure by bank holding companies with between $10 and $50 billion in assets and the basis of evaluation of their disclosure.

Generally, the Board has sought to tailor its requirements and expectations for bank holding companies with more than $10 billion but less than $50 billion in total consolidated assets. With regards to timing, the Board notes that the proposal already provides bank holding companies with more than $10 billion but less than $50 billion in total consolidated assets an additional month to conduct their company-run stress tests as compared to the previous deadline, and an additional four months as compared to the requirements for large bank holding companies. Introducing a rolling year submission date, or further delaying the submission date, may cause the stress test to become stale by the time a company reports the results to the Board. Accordingly, the final rule would adopt the timing as proposed.

With regards to disclosure, section 165(i)(2) of the Dodd-Frank Act requires the Board to adopt rules that require companies subject to the stress test requirement to publish a summary of the results of the required stress tests.[18] An aggregate disclosure by the Board would arguably not satisfy this statutory requirement, and would also lessen the extent to which the disclosure provides information to market participants and enhances market discipline. The Board's stress test rules set forth the minimum information that must be included in a company's disclosure of its stress test results, but do not prescribe the form that the disclosure must take. This flexibility permits companies to design their disclosures as appropriate for their institutions. In addition, the Board has tailored the disclosure requirements for companies with more than $10 billion but

[18] 12 U.S.C. 5365(i)(2)(C)(iv).

less than $50 billion in total consolidated assets compared to larger companies, specifically by requiring fewer items to be disclosed. While the Board may review a company's disclosure of its stress test results to ensure that it contains the required information set forth in the rule, it does not intend to conduct a formal supervisory evaluation of disclosures by a company prior to that public disclosure.

The Board carefully considers how its regulations affect bank holding companies with more than $10 billion but less than $50 billion in total consolidated assets, and has taken significant steps to tailor the regulatory stress testing requirements and its supervisory expectations applicable to these firms beyond the reporting and disclosure requirements noted above. For example, expectations for data sources, data segmentation, sophistication of estimation practices approaches, reporting and public disclosure are elevated for larger and more complex organizations than for bank holding companies with more than $10 billion but less than $50 billion in total consolidated assets.[19] The Board continues to consider ways to reduce burden on these institutions.

One commenter noted that the proposed rule lacks any analysis that fulfills the Board's obligations under the Riegle Community Development and Regulatory Improvement Act ("Riegle Act"). The Riegle Act requires a federal banking agency to consider administrative burdens and benefits in determining the effective date and administrative compliance requirements for new regulations that impose additional reporting, disclosure, or other

[19] *See, e.g.*, Supervisory Guidance on Implementing Dodd-Frank Act Company-Run Stress Tests for Banking Organizations With Total Consolidated Assets of More Than $10 Billion but Less Than $50 Billion, 79 FR 14153 (March 13, 2014).

requirements on a depository institution.[20] The proposed regulation does not impose additional reporting, disclosure, or other requirements on a depository institution. Rather, it generally reduces burden on state member banks by modifying the stress test cycle date and providing certain state member banks with an additional month to complete public disclosure of their stress test results.

B. Definition of a "BHC stress scenario"

The capital plan rule requires each large bank holding company to design its own stress scenario that is appropriate for the company's business model and portfolios. The proposed rule would have defined the term "BHC stress scenario" as a scenario designed by the bank holding company that stresses the specific vulnerabilities of the bank holding company's risk profile and operations. Commenters were generally supportive of the BHC stress scenario definition, and commenters representing insurance companies viewed the definition as consistent with the Board's commitment to tailor stress testing and capital planning requirements to the specific risks faced by firms. The final rule would finalize the definition as proposed.

The preamble to the proposal explained the Board's expectations regarding the BHC stress scenario. As described in the preamble to the proposal, an appropriately tailored scenario would likely result in an impact to projected pre-tax net income that is at least as severe as the results of the bank holding company's company run stress test under the Board's severely adverse scenario. The preamble to the proposal further clarified that, while the Board expected a BHC stress scenario to be severe enough to result in a substantial negative impact on capital, a stress scenario that produced regulatory capital and tier 1 common capital ratios that were lower

[20] 12 U.S.C. 4802.

than those produced under the Board's severely adverse scenario would not, by itself, have demonstrated that the bank holding company had developed an appropriate BHC stress scenario. In the Board's view, it would be equally critical that the stress scenario be designed to capture potential risks stemming from a bank holding company's idiosyncratic positions and activities.

Many commenters expressed concerns with the statement that the BHC stress scenario generally would result in projected pre-tax net income that is "at least as severe as" the company run stress test of the Board's severely adverse scenario. Many commenters interpreted this expectation to mean that a BHC stress scenario would be qualitatively deficient if the quantitative results of the BHC stress scenario did not reflect higher losses than the results of the company-run stress tests under the severely adverse scenario. Commenters argued that this expectation could compel a large bank holding company to tailor its BHC stress scenario as an add-on to the supervisory severely adverse scenario, rather than basing the BHC stress scenario on an evaluation of the bank holding company's idiosyncratic risks. The commenters also cited timing issues, as bank holding companies would be required to wait for the release of the supervisory scenarios in order to calibrate the severity of their BHC stress scenario.

Bank holding companies should not view the Board's general expectation for the severity of the BHC stress scenario as a rigid benchmark against the particular supervisory severely adverse scenario from a single stress test cycle. Rather, the Board expects a bank holding company to develop scenarios of severity generally comparable to the usual severity in the Board's severely adverse scenario.[21] The Board also notes that if a particular cycle's severely

[21] For guidance on the usual severity of the severely adverse scenario, a bank holding company should review the Board's "Policy Statement on the Scenario Design Framework for Stress Testing," which sets forth the Board's approach to designing the severely adverse scenario. 12

adverse scenario was notably more severe for a particular company than in previous exercises, for example, if a particular company was required to include an additional component in its severely adverse scenario for the first time, then the Board would take that into account when assessing the appropriateness of the company's BHC stress scenario.

Clarifying the Board's general expectation for the severity of the BHC stress scenario should mitigate concerns expressed by commenters that a bank holding company would be driven to base its BHC stress scenario as an add-on to the supervisory severely adverse scenario or wait for the release of the supervisory scenarios in order to calibrate the severity of their BHC stress scenario. The Board emphasizes that the proposed rule requires bank holding companies to incorporate the specific vulnerabilities of their risk profiles and operations into their BHC stress scenarios. The Board expects each large bank holding company to develop a BHC stress scenario that is both appropriately severe and that is relevant to its idiosyncratic risks.

Some commenters suggested that the Board recognize elements other than net income that may have a material impact on capital ratios when measuring the severity of a BHC stress scenario, such as the impact of other comprehensive income or the changes in the value of mortgage servicing rights. The Board agrees with the commenter that the severity of the BHC stress scenario should be evaluated based on factors in addition to net income, such as other comprehensive income. If a bank holding company can demonstrate that the combined effect of the BHC stress scenario on net income and other elements that affect capital results in a BHC stress scenario of greater severity than the severely adverse scenario, then the Board's expectations for the severity of the BHC stress scenario would be satisfied.

CFR 252, Appendix A. Additionally, bank holding companies could review the severely adverse scenarios used in previous cycles to guide the severity of the BHC stress scenario.

A central goal of the capital plan rule is to ensure that large bank holding companies have robust internal practices and policies to determine their adequate amount and composition of capital, given the bank holding company's risk exposures and corporate strategies as well as supervisory expectations and regulatory standards. While the stress scenarios designed by the Federal Reserve for use in company-run and supervisory stress testing are helpful in showing the comparative effects of a downturn in the economy across companies, these scenarios are created with the overall banking industry in mind, rather than a focus on an individual company's risk profile. For these reasons, the BHC stress scenario is a key element of a firm's capital plan that assists the Federal Reserve and the firm in gaining a deeper understanding of an individual company's vulnerabilities. The Board will continue to evaluate each BHC stress scenario on a qualitative basis to ensure that the scenario is appropriately severe and captures the bank holding company's idiosyncratic risks.

C. Modifications to capital plan resubmission requirements under the capital plan rule

The proposed rule would have provided flexibility by permitting, rather than requiring, a large bank holding company to resubmit its capital plan in the event that the Board objected to the capital plan. This proposed change targeted circumstances in which the automatic resubmission requirements may have been counterproductive by drawing a bank holding company's focus away from efforts to remediate the issues that gave rise to the Board's objection, and cases in which the remediation of such issues may have required more than the allotted 30 calendar days (the period within which companies previously had been required to resubmit their capital plans).

Commenters were supportive of this change, as it would provide firms with flexibility in their decision to resubmit capital plans and give them time to remediate issues that led to the

objection of the capital plan. The final rule adopts the changes to the capital plan resubmission requirements as proposed.

D. Consequences for failure to execute planned capital actions

The proposed rule would have limited a large bank holding company's ability to make capital distributions to the extent that the bank holding company did not execute planned capital issuances during the capital plan cycle. Under the proposed rule, if a large bank holding company were to raise less capital than the amount it projected in its capital plan for a given quarter, the bank holding company would have been required to address that shortfall by reducing capital distributions (e.g., reducing dividends or repurchases) on instruments with greater or equal ability to absorb losses (quarterly net distribution limit).[22] The proposal would have provided an exception from the quarterly net distribution limit where a large bank holding company had contemplated a capital issuance to support a merger or acquisition, but did not consummate such merger or acquisition.

Commenters requested that the Board not finalize the proposed quarterly net distribution limit, but instead use its authority to object to capital plans on qualitative grounds if a bank holding company does not adequately explain a failure to execute planned issuances. Commenters expressed the concern that the proposed limitation was too severe and would hinder a firm's ability to conduct optimal capital management. Commenters expressed the view that tying capital distributions to planned capital actions on a quarter-by-quarter basis would be impractical, as companies are not able to predict market conditions with precision in developing

[22] The proposed rule would have identified common equity tier 1 capital as having the greatest ability to absorb losses, followed by additional tier 1 capital, and tier 2 capital, each as defined in the Board's Regulation Q (12 CFR 217.2).

their capital plans. Commenters noted that, to the extent that a bank holding company had planned to declare preferred stock dividends and issue additional preferred stock but market conditions turned poor, the proposal would force firms to either undertake issuances in the poor market conditions, or cancel planned dividends on preferred stock, which would lead investors to question the bank holding company's credibility and financial condition. Commenters also contended that large bank holding companies would be less likely to include capital issuances in their capital plan in order to avoid adverse consequences under the proposed rule, rather than reflecting their actual capital issuance plans.

In the alternative, commenters proposed modifications to increase the flexibility of the limit. For instance, one commenter proposed that a firm should be allowed to proceed with planned distributions in a given quarter as long as the firm maintained applicable minimum regulatory capital ratios under the supervisory severely adverse scenario. Another commenter proposed that capital actions should be assessed on an annual cumulative basis, so that issuances in excess of those included in the capital plan in a given quarter or distributions less than those proposed in the capital plan in a given quarter are carried over to the next quarter to allow for fluctuations in actual issuances or distributions. Also, some commenters recommended that the Board include a buffer for small deviations from the capital plan. For example, a commenter asserted that a $10 million shortfall in planned capital issuance for a firm with $1 billion in capital should qualify for an exception to the quarterly net distribution limit.

Commenters also provided additional examples of circumstances in which they believed the quarterly net distribution limit would not be appropriate. For example, commenters argued that the quarterly net distribution limit should not be triggered by employee-directed issuance activity, which is at the discretion of the employee and may deviate from the bank holding

company's estimates due to employee turnover or changes in stock price. With regard to the exception for mergers and acquisitions, a commenter also argued that the Board should expand the exception for mergers and acquisitions where a bank holding company issued less stock due to changes in the merger price.

The Federal Reserve evaluates the bank holding company's post-stress capital position based on the assumption that the bank holding company actually executes the issuances contained in its plan. Relying on the Board's authority to object to a capital plan on qualitative grounds, as suggested by commenters, would not permit the Board to address behavior that deviates from that which is contemplated in a bank holding company's capital plan in a timely manner. It would also result in less transparency into the capital plan review process. In contrast, the proposed rule would have increased transparency in the operation of the capital plan rule by formalizing the Board's current practice of approving repurchases net of capital issuances. For these reasons, the final rule adopts the requirement that a bank holding company reduce its distributions to the extent it does not execute planned capital issuances.

The final rule reflects several significant changes from the proposal in order to address commenters' concerns. As noted by commenters, a bank holding company may suffer significant market consequences if it does not make scheduled payments on non-common equity instruments that qualify as additional tier 1 and tier 2 capital instruments. Accordingly, the final rule would not require a large bank holding company to reduce its scheduled payments on non-common equity instruments that qualify as additional tier 1 and tier 2 capital instruments (e.g., dividends on preferred stock) if it did not issue the additional tier 1 and tier 2 capital instruments

included in its capital plan.[23] In addition, the final rule does not require a bank holding company to reduce distributions on instruments with greater ability to absorb losses in the event that a bank holding company does not execute a planned issuance of a capital instrument with less ability to absorb losses (i.e., non-common equity instruments that qualify as additional tier 1 or tier 2 capital instruments), if it had no planned redemptions or repurchases of additional tier 1 or tier 2 capital instruments, respectively, in that quarter.

As suggested by commenters, the final rule measures issuances and distributions beginning with the third quarter of the planning horizon (cumulative net distribution limit), which provides bank holding companies with flexibility to credit excess issuances or lower distributions of capital, in each case relative to the amounts included in the company's capital plan for a given class of regulatory capital instrument.[24] Under the cumulative net distribution limit, a bank holding company that has reduced the dollar amount of its capital distributions on a given class of regulatory capital instrument, increased the dollar amount of its issuances of that class of regulatory capital instrument, or taken any combination of the foregoing actions beginning in the third quarter of the planning horizon would be permitted to recognize this net

[23] The final rule would continue to require a bank holding company to offset a failure to execute planned regulatory capital issuances in common equity tier 1 capital instruments issuances by reducing its common equity tier 1 regulatory capital distributions.

[24] The classes of regulatory capital instruments are common equity tier 1, additional tier 1, and tier 2 capital instruments, as defined in 12 CFR 217.2. The final rule does not contemplate that a bank holding company would raise capital with a greater ability to absorb losses to compensate for lower issuances of capital with less ability to absorb losses. However, as noted below, if a bank holding company believes that a distribution would be appropriate even if it would not be allowed under the cumulative net distribution limit, the bank holding company may seek a non-objection from the Board to make a planned capital distribution.

increase in that class of regulatory capital relative to planned amounts in a quarter in which the company does not make its issuances as planned.[25]

In addition, the final rule includes exceptions to address specific circumstances raised by commenters. In particular, the final rule provides that the cumulative net distribution limit does not apply to the extent that the bank holding company raised a smaller dollar amount of capital due to employee-driven issuance activities or issuances related to mergers and acquisitions for which the purchase price is lower than the price projected in a bank holding company's capital plan. The final rule also provides that the cumulative net distribution limit does not apply to a capital distribution to the extent that the excess net distributions is *de minimis* (the excess net distributions are less than one percent of the bank holding company's tier 1 capital, as reported on the bank holding company's first quarter FR Y-9C), and the bank holding company notifies the appropriate Reserve Bank at least 15 calendar days in advance of any such capital distribution.

The final rule also provides bank holding companies with a means for seeking a non-objection from the Board for planned distributions when market conditions or other circumstances have prevented the company from making planned issuances. This provision would provide some flexibility for cases in which, for example, a bank holding company issued capital with greater ability to absorb losses than it had included in its capital plan, and desired to

[25] The final rule would also permit a bank holding company to calculate the gross maximum amount of its distributions on a cumulative basis so that a company may credit reduced distributions beginning in the third quarter of the planning horizon to increase the maximum permitted distributions in a later quarter up to the cumulative gross amount of its planned distributions (cumulative gross distribution limit). For the purposes of the cumulative gross distribution limit, a company may not carry reduced distributions forward beyond the end of the sixth quarter of the planning horizon to the next capital plan cycle.

execute its planned capital distributions as included in its capital plan. Consistent with other requests for approval or non-objection to execute distributions under the capital plan rule, the request for non-objection to make a planned capital distribution must contain the information set forth in section 225.8(g)(4) of the final rule. The Board expects a bank holding company to reflect its change in planned capital issuances and any other relevant changes in the capital plan is submits under section 225.8(g)(4), and may require a bank holding company to submit supporting information, including the bank holding company's forward-looking assessment of the bank holding company's capital adequacy under revised scenarios, any supporting information, and a description of any quantitative methods used that are different than those used in their original capital plan.[26]

Below are two examples that illustrate the operation of the cumulative net distribution limit in the final rule.

Example 1: Table 3 sets forth a large bank holding company's planned regulatory capital issuances and distributions included in its capital plan for the third through sixth quarters of the planning horizon. Table 4 sets forth the large bank holding company's actual regulatory capital issuances and distributions for the third through sixth quarters of the planning horizon.

[26] 12 CFR 225.8(g)(4)(i)(D).

Table 3: Planned issuances and distributions

	Planning horizon quarter			
	Q3	**Q4**	**Q5**	**Q6**
Issuance	$125 m (common stock)	$125 m (common stock)	$125 m (common stock)	$125 m (common stock)
Distribution	$100 m (common stock repurchase)	$100 m (common stock dividend)	$100 m (common stock repurchase)	$100 m (common stock dividend)

Table 4: Actual issuances and distributions

	Planning horizon quarter			
	Q3	**Q4**	**Q5**	**Q6**
Issuance	$250 m (common stock)	$0	$125 m (preferred stock)	$250 m (common stock)
Distribution	$100 m (common stock repurchase)	$100 m (common stock dividend)	$0	$100 m (common stock dividend) $100 m (common stock repurchase)

Market conditions for issuances were more favorable than anticipated in the third quarter, so the firm issued $250 million of common stock, the entire amount of common stock issuances planned in quarters three and four. In the fourth quarter, market conditions were unfavorable, and the company executed none of its planned common stock issuance. In the fifth quarter, instead of issuing common stock as planned, the company issued $125 million of preferred stock (qualifying as additional tier 1 capital). Early in the sixth quarter, the company issued $250 million of common stock, $125 million in excess of the amount it had planned for the quarter.

Under the final rule, the bank holding company would be permitted to make its planned $100 million common stock distributions in the third quarter because it issued an amount of common stock at least as large as planned for that quarter. In the fourth quarter, in which the company did not issue any common stock included in its plan, the cumulative net distribution limit under the rule permits the company to credit its over-issuance from the previous quarter. As a result, the company could make the distributions it planned in the fourth quarter ($100 million common stock dividend). Because the bank holding company did not issue common stock but instead issued $100 million in preferred stock in the fifth quarter, the cumulative net distribution limit would prohibit the company from making its planned common stock dividend in that quarter.[27] After the common stock issuance in the sixth quarter, the net distribution limitation under the final rule permits the company to make the distributions it planned but did not execute in the fifth quarter, as well as those planned in the sixth quarter ($100 million common stock repurchase and $100 million common stock dividend).

Example 2: Table 5 sets forth a large bank holding company's regulatory capital issuances and distributions included in its capital plan for the third through sixth quarters of the planning horizon. Table 6 sets forth the large bank holding company's actual regulatory capital issuances and distributions for the third through sixth quarters of the planning horizon.

[27] The final rule would not permit the bank holding company to substitute a preferred stock issuance for a common stock issuance. In the fifth quarter, the company could have sought a non-objection from the Board to make its planned distributions.

Table 5: Planned issuances and distributions

	Planning horizon quarter			
	Q3	**Q4**	**Q5**	**Q6**
Issuance	$125 m (preferred stock)	$125 m (preferred stock)	$125 m (preferred stock)	$125 m (preferred stock)
Distribution	$100 m (preferred stock dividend)	$100 m (preferred stock repurchase)	$100 m (preferred stock repurchase)	$100 m (preferred stock dividend)

Table 6: Actual issuances and distributions

	Planning horizon quarter			
	Q3	**Q4**	**Q5**	**Q6**
Issuance	$75 m (preferred stock)	$125 m (preferred stock)	$175 m (preferred stock)	$0
Distribution	$100 m (preferred stock dividend)	$50 m (preferred stock repurchase)	$150 m (preferred stock repurchase)	$100 m (preferred stock dividend)

In the third quarter of the planning horizon, the company issued $75 million of the $125 million preferred stock included in its plan for that quarter. In the fourth quarter, the company issued the full $125 million of preferred stock included in its capital plan for that quarter. Early in the fifth quarter, market conditions were particularly favorable, and the company issued $175 million of preferred stock instead of the $125 million included in its capital plan for that quarter.

In the sixth quarter, the company issued none of the $125 million of preferred stock it had planned for that quarter.

Although the company issued less preferred stock than it included in its plan for the third quarter, the rule permits the company to make the full $100 million of its planned preferred stock dividend for that quarter because the rule permits the company to make scheduled payments on an additional tier 1 capital instrument. In the fourth quarter, the cumulative net distribution limit requires the bank holding company to reduce its preferred stock repurchases to $50 million of the planned $100 million for that quarter. This is because the rule requires the company to reduce its planned repurchases of preferred stock to the extent that it failed to make planned issuances in that class of regulatory capital instrument. (The $50 million reduction in preferred stock repurchases reflects the $50 million shortfall in issuances of preferred stock in the third quarter.)[28] After the preferred stock issuance in the fifth quarter, the cumulative net distribution limit in the final rule permits the company to make the full $100 million of its planned preferred stock repurchases and an additional $50 million of the planned preferred stock repurchases that the bank holding company was required to reduce in the fourth quarter, for a total of $150 million in preferred stock repurchases. This is because the company can credit the excess preferred stock issuance it made in the fifth quarter to make the remaining preferred stock repurchase originally planned for the fourth quarter. In the sixth quarter, as in the third quarter, the rule permits the company to make the full $100 million of preferred stock dividends as it is a scheduled payment on an additional tier 1 capital instrument, even though the company did not issue the preferred stock included in its plan.

[28] If the company wished to make the full $100 in preferred repurchases in the fourth quarter, the company could seek a non-objection from the Board.

Under the final rule, as under the proposed rule, the Board may object to a large bank holding company's capital plan in the following cycle, or require resubmission of its capital plan in the current cycle, if the assumptions and analysis underlying the bank holding company's capital plan, or the bank holding company's methodologies for reviewing the robustness of its capital adequacy process, are not reasonable or appropriate. The Board generally expects that a bank holding company will undertake the capital actions included in its capital plan and be able to justify discrepancies between its planned and executed capital issuances. A bank holding company's consistent failure to do so may be indicative of shortcomings in its capital planning processes and may indicate that the assumptions and analysis underlying the bank holding company's capital plan, or the bank holding company's methodologies for reviewing the robustness of its capital adequacy process, are not reasonable or appropriate. Accordingly, a bank holding company's consistent failure to execute capital issuances in its capital plan may form the basis for objection if it is unable to explain the discrepancies between its planned and executed capital issuances.

E. Practice of large discrepancies in planned capital distributions in the out quarters

The preamble to the proposal described a practice whereby some large bank holding companies have included markedly reduced distributions in the final three quarters of the planning horizon (i.e., the quarters that are not subject to objection in the current capital plan cycle, sometimes referred to as "out-quarters") relative to the distributions in the preceding four quarters of the capital plan (i.e., the distributions that are subject to possible objection in the current cycle). In the next capital plan cycle, when the previous capital plan cycle's "out quarters" become subject to possible objection, the bank holding companies submit a capital plan with significantly increased distributions relative to the previous capital plan cycle's "out-

quarters," while again submitting reduced distributions for the "out-quarters" of the new capital plan cycle.

The proposal explained that, in the Board's view, the practice of widely varying planned capital distributions based on whether they occur in an "out-quarter" as compared to a quarter that is subject to a possible objection may be indicative of shortcomings in a bank holding company's capital planning processes and may indicate that "the assumptions and analysis underlying the bank holding company's capital plan, or the bank holding company's methodologies for reviewing the robustness of its capital adequacy process, are not reasonable or appropriate."[29] This may form the basis for objection to a bank holding company's capital plan. The proposal further clarified that, in reviewing this type of practice, the Federal Reserve would consider whether the bank holding company can adequately explain why the bank holding company revised its planned distributions for the same period of time from one capital plan cycle to the next capital plan cycle.

Commenters noted that there are legitimate reasons bank holding companies would raise their capital distributions from year to year to reflect new expectations and business conditions. Commenters also argued that if a bank holding company projected a decline in net income, it should be allowed to plan for lower capital distributions. Some commenters noted that bank holding companies do not have sufficient predictive insight into out quarters to support realistic assumptions around capital distributions.

The Board uses CCAR as an assessment of a bank holding company's capital planning processes, and it generally expects that a firm will project its distributions in the final three

[29] 12 CFR 225.8(e)(2)(ii)(B).

quarters of their capital plans based on realistic assumptions about the future and in a manner broadly consistent with previous quarters, unless the bank holding company is in fact planning to reduce its distributions. The Board understands that circumstances may arise, such as changes in market conditions, the profitability of the company, or the risk profile of the company, that may cause a bank holding company to revise its out-quarter capital distributions in a capital plan cycle as compared to the treatment of the same quarters in the next capital plan cycle. However, the Board will continue to closely monitor this behavior, and if bank holding companies are unable to provide sufficient explanation for changes in planned capital actions, the Board may see that as an indication of poor capital planning.

F. Application of CCAR process to bank holding company subsidiaries of foreign banking organizations

Under the Board's IHC rule, a foreign banking organization with U.S. non-branch assets of $50 billion or more is required to establish a U.S. intermediate holding company by July 1, 2016. The foreign banking organization may do so either by designating an existing bank holding company, designating an existing nonbank company, or forming a new holding company. The U.S. intermediate holding company is subject to enhanced prudential standards following the transition periods set forth in the IHC rule.

i. Formation of a new U.S. intermediate holding company

Under the transition provisions in the IHC rule, a company that is formed or designated as an intermediate holding company that was not previously subject to prudential standards would not be subject to prudential standards until the effective date of the IHC rule's requirements.[30] An intermediate holding company that is formed in anticipation of the IHC rule

[30] *See* 12 CFR 252.152(c)(1); 12 CFR 252.153(e)(1)(ii).

would not be subject to risk-based capital, liquidity, and risk management standards until July 1, 2016, the capital plan rule until the 2017 cycle, and the stress testing rule and the CCAR process until the 2018 cycle. This transition period was designed to provide foreign banking organizations with a reasonable transition period during which to prepare for the compliance with the IHC rule, including the required structural reorganization.[31] This transition period applies notwithstanding that, upon its formation, the intermediate holding company may become a bank holding company.

However, the IHC rule does not relieve existing subsidiary bank holding companies of foreign banking organizations that were not formed to comply with the IHC rule and that were previously subject to prudential standards from compliance with the regulatory requirements that apply to U.S. bank holding companies. The Board notes that these bank holding companies may be designated by a foreign banking organization as an intermediate holding company or moved under a foreign banking organization's intermediate holding company in order to comply with the intermediate holding company requirement. In either case, these existing bank holding companies are required to continue complying with all applicable prudential requirements that applied to them prior to their designation as an intermediate holding company or the transfer of their ownership to an intermediate holding company, including with respect to any assets transferred to the existing bank holding company before the IHC requirements become effective.[32] To ensure that bank holding company subsidiaries of foreign banking organizations

[31] 79 FR 17240, 17244 (March 27, 2014).

[32] As discussed below, for the 2015 capital planning cycle, the Board will not require a bank holding company subsidiary of a foreign banking organization to reflect the reorganization required by the IHC rule in its capital plan and stress test results.

remain subject to stress testing requirements during this transition period, the Board proposed that any bank holding company subsidiary of a foreign banking organization must comply with any applicable stress test requirements through the 2017 stress test cycle. Similarly, the Board proposed that any bank holding company subsidiary of a foreign banking organization must comply with the capital plan rule through the 2017 capital planning cycle.[33]

One commenter argued that, by continuing to apply the various enhanced prudential standards to bank holding company subsidiaries of foreign banking organizations while providing some transition relief for newly formed U.S. intermediate holding companies, the proposal provides an incentive for a foreign banking organization to establish a new company to serve as the U.S. intermediate holding company rather than to designate an existing subsidiary bank holding company. To remove this incentive and provide foreign banking organizations with more options for organizing their U.S. operations, commenters requested that the Board provide the transition period to an existing bank holding company subsidiary of a foreign banking organization. Commenters also suggested that the Board temporarily exclude from the stress test and capital planning frameworks subsidiaries that have been transferred into a bank holding company subsidiary of a foreign banking organization in order to provide additional time for foreign banking organizations to comply with the stress test and capital plan rules.

In developing the transition provisions in the IHC rule, the Board intended to prevent foreign-owned bank holding companies from weakening their capital or risk management during the transition period under the IHC rule and to ensure that existing U.S. subsidiary bank holding

[33] With the mutual consent of the company and the Board, another U.S. bank holding company owned by the foreign banking organization could comply with the requirements of the capital plan rule in lieu of the subsidiary bank holding company. 12 CFR 225.8(c)(2)(iii)(A).

companies of foreign banking organizations would continue to be held to consistent prudential standards that maintain a level playing field between U.S. and foreign-owned bank holding companies. The approaches suggested by commenters would be inconsistent with these principles. The commenter's suggestion of excluding assets that have been transferred to the bank holding company in compliance with the IHC rule from capital planning and stress testing would not address the fact that the bank holding company is exposed to the risks of the assets it holds and, therefore, should be holding capital commensurate with those risks. Generally, the Board expects that foreign banking organizations will determine whether to designate an existing bank holding company and when to transfer assets to an existing bank holding company depending on a variety of facts and circumstances, including the effect of the transition periods in the IHC rule. For these reasons, the Board reaffirms that existing U.S. subsidiary bank holding companies of foreign banking organizations remain subject to prudential standards during the transition provisions in the IHC rule.

ii. Designation of existing bank holding company

Commenters noted that certain foreign banking organizations intend to designate existing bank holding company subsidiaries as their U.S. intermediate holding companies, and requested that the Board clarify that such a bank holding company subsidiary would not be required to project the formation of a U.S. intermediate holding company in its capital plan for 2015 and 2016. Commenters expressed the view that this approach would introduce uncertainty into the organization's 2015 capital plan and would effectively prohibit the organization from giving effect to any additional capital that would be contributed or otherwise raised in connection with the designation as a U.S. intermediate holding company unless the capital was contributed prior to December 31, 2014. To address these concerns, a commenter suggested that, for purposes of

their capital plans and stress test results submitted January 5, 2015, and April 5, 2016, the Board permit a bank holding company owned by a foreign banking organization to exclude any effect on the capital plans that could arise from the formation of the U.S. intermediate holding company.

The capital plan rule requires a bank holding company to include in its capital plan an assessment of its expected uses and sources of capital, including estimates of projected revenues, losses, reserves, and pro forma capital levels over the planning horizon.[34] To the extent that a foreign banking organization controls nonbank subsidiaries outside of a bank holding company, those nonbank subsidiaries would not likely have the systems and models in place to make the necessary projections to comply with the capital plan rule. As such, subsidiary bank holding companies may not have sufficient time to adjust their management information and accounting systems to take into account exposures of those nonbank subsidiaries for the 2015 capital planning cycle. Thus, for the 2015 capital planning cycle, the Board will not require a bank holding company subsidiary of a foreign banking organization to reflect the reorganization required by the IHC rule in its capital plan and stress test results. For the 2016 capital planning cycle, the Board expects a bank holding company subsidiary of a foreign banking organization to reflect the effects of any transfers associated with the IHC rule in the bank holding company's capital plan due April 5, 2016.[35] By April 2016 foreign banking organizations should have completed any necessary adjustments to their management information and accounting systems in order to comply with the IHC rule on July 1, 2016, which would be less than three months

[34] 12 CFR 225.8.

[35] The Board has moved the date for the capital plan submission for 2016 to April 2016. 12 CFR 225.8(e)(1)(ii).

after the capital plan submission. In the April 5, 2016 capital plan submission, a bank holding company should reflect any capital issuances or contributions planned during the planning horizon that are related to the capitalization of the intermediate holding company.[36]

If a bank holding company that will be designated as the U.S. intermediate holding company elects to avail itself of this relief for the 2015 capital planning cycle, the Board expects that, generally, the U.S. bank holding company will have a capital plan that includes planned capital distributions (net of capital issuance) that are no greater than those included in the bank holding company's capital plan for the previous cycle (or, if the bank holding company has not previously submitted a capital plan, the amount of capital distributions (net of capital issuance) actually made in the previous year). In the Board's view, this limitation is appropriate because the Board would expect such a bank holding company to retain capital as compared to its previous capital plan in preparation for compliance with the U.S. intermediate holding company requirement. For a bank holding company that avails itself of this relief, neither the assets of subsidiaries that will be transferred under the bank holding company as part of IHC formation, nor the projections of earnings from those subsidiaries, would be included in the bank holding company's capital plan.

iii. Guidance for 2017 cycle

Commenters requested further information for U.S. intermediate holding companies that will be subject for the first time to the stress test and capital plan processes in the 2017 capital planning cycle. Commenters suggested that requirements and details be provided as soon as

[36] If the bank holding company did not execute its planned issuances, the final rule generally would require the bank holding company to reduce its planned capital distributions, as described in section II.D of this preamble.

possible to allow U.S. intermediate holding companies the opportunity to prepare for the Board's requests. In addition, commenters suggested that the initial assessment of an intermediate holding company's capital plan by the Board be similar to the process used for bank holding companies entering CCAR that had not previously been subject to the Supervisory Capital Assessment Program.[37] Commenters also suggested that public disclosures for the new participants be limited, similar to the CapPR process.

As noted above, for the 2017 capital planning cycle, U.S. intermediate holding companies (unless the U.S. intermediate holding company was a bank holding company subject to the CCAR process prior to its designation) will not be subject to the stress test rules. Accordingly, for the 2017 cycle, the Federal Reserve's assessment of the U.S. intermediate holding company's capital plan will not be based on a supervisory stress test estimates conducted under those rules.[38] Instead, the Federal Reserve intends to conduct a more limited quantitative assessment of the U.S. intermediate holding company's capital plan based on the company's own stress scenario and any scenarios provided by the Board and a qualitative assessment of its capital planning processes and supporting practices. The Board expects that this assessment will be similar to the Board's CapPR process, and that the disclosures will also be limited. Beginning with the 2018 cycle, the Board anticipates that a U.S. intermediate holding company will be subject to the full CCAR process. The Board recognizes the challenges that will face the U.S. intermediate holding companies that are new to the CCAR process, and expects that these bank holding companies

[37] These firms were not immediately required to participate in the full CCAR process, and were given a two-year transition period under the Board's CapPR process.

[38] *See* 12 CFR part 252, subpart E.

will continue to work to enhance their capital planning systems and processes to meet supervisory expectations.[39]

Commenters requested further detail on how U.S. intermediate holding companies and their subsidiary bank holding companies can jointly submit their capital plans during the cycle when they are both subject to the capital plan rule. As noted in the proposal, companies may jointly submit a capital plan that clearly explains how certain aspects of the capital plan for the U.S. intermediate holding company build upon the bank holding company's capital plan. For example, if the U.S. intermediate holding company and the bank holding company subsidiary rely on common stress testing models and practices, both companies could submit the same supporting documentation for these models, provided that each company's submission meets all of the requirements of the capital plan rule. The Board intends to provide additional information regarding this submission in the future.

G. Modification of the capital plan rule regarding capital actions not requiring approval

The proposed rule would have modified a provision of the capital plan rule that required a large bank holding company to request prior approval or provide prior notice of a capital distribution if the "dollar amount of the capital distribution will exceed the amount described in the capital plan for which a non-objection was issued."[40] This provision applied to all capital distributions, including those associated with new issuances of regulatory capital instruments.

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[39] Commenters also requested that bank holding companies subject to the Board's SR Letter 01-01 be granted an extension before becoming subject to the "Capital Assessments and Stress Testing" (FR Y-14) regulatory report, arguing that the bank holding companies were not given sufficient prior notice of their inclusion in the proposal. Those comments are addressed in the final reporting collection. 79 FR 59264 (October 1, 2014).

[40] *See* section 225.8(f) of the capital plan rule (12 CFR 225.8(f)).

Accordingly, large bank holding companies that issued accretive capital instruments with fixed dividends were required to seek the Board's approval or provide notice to the Board in order to issue these instruments. The Board approved the prior requests, and would anticipate approving similar requests in the future, provided that the proposed capital issuance would result in net capital accretion. In order to relieve the burden on the bank holding companies going forward, the proposed rule would have removed prior approval and prior notice requirements for distributions involving incremental issuances of instruments that would qualify for inclusion in the numerator of regulatory capital ratios (i.e., common equity tier 1, additional tier 1, and tier 2 capital). Commenters were generally supportive of this proposed change, and the final rule adopts it without change.

H. Clarification of assumptions regarding capital actions under the stress test rules

The stress test rules require companies to assume, as part of company-run stress tests, that they issue no capital and redeem no capital instruments in the second through ninth quarters of the planning horizon. The proposal would have provided an exception to this assumption for issuances related to expensed employee compensation.

While the Board received no comments on this proposed exception, one commenter expressed the view that the Board should allow the inclusion of new capital issuances in stress testing if the issuance is related to a discretely defined strategic initiative that could not take place without the capital issuance.

The stress test rule requires companies to make consistent assumptions about their capital actions in order to enhance the comparability of the stress test across companies. An exception for expensed employee compensation does not undermine this comparability because all companies subject to stress testing generally have outstanding employee compensation

programs, and have little to no discretion to direct issuances relating to employee compensation. In contrast, strategic initiatives vary across firms, and may be halted in times of stress. As such, the Board is finalizing the change to the stress testing capital action assumptions as proposed.

I. Other modifications to the capital plan rule and related requirements

i. Hearing procedures

The proposal would have revised the hearing procedures in the capital plan rule. Under the proposal, a large bank holding company would have had 15 calendar days to request an informal hearing, and the hearing would have been held within 30 calendar days of the request. The Board would have provided written notice of its final decision to the bank holding company within 60 calendar days of the conclusion of any informal hearing. Commenters were supportive of the flexibility provided to firms under the informal hearing procedures, and the final rule adopts the proposed revisions without change.

ii. Submission of loss, revenue, and expense estimation models to the Board in connection with capital plan

The proposed rule also would have required a bank holding company to be capable of providing to the Board its loss, revenue, and expense estimation models used by the bank holding company for stress scenario analysis, including supporting documentation regarding each model's development and validation status.

Commenters argued that they would have difficulty presenting the Board with certain models as they may be housed on third party servers or for other reasons. Commenters requested that the Board provide flexibility to firms to meet this requirement given the wide variety of loss, revenue and expense estimation models employed by firms and the contractual obligations firms may have with third party vendors regarding the dissemination of proprietary models.

In response, the Board clarifies that it will require companies to provide an inventory and description of models and methodologies, not the models themselves. This information is needed by supervisors in order to properly assess a bank holding company's capital adequacy and capital planning processes. In this regard, the information helps facilitate cross-firm comparisons of bank holding companies' loss, revenue, and expense estimation models and their approaches to model validation. The Board is finalizing the additional required documentation supporting a capital plan as proposed.

J. Comments on the tier 1 common ratio and capital plan capital action assumptions

While the Board did not propose to change the role of the tier 1 common ratio or the capital plan's capital action assumptions in the proposal, commenters provided views on these aspects of the rules.

Regarding the tier 1 common ratio, commenters noted that the components of the tier 1 common ratio will no longer be calculated as part of the regulatory capital calculations, and projecting the ratio for purposes of the capital plan and stress test rules imposes an additional burden on bank holding companies. The Board notes that the common equity tier 1 ratio will not be fully phased in until January 1, 2018. During the transition period, the Board expects that, for certain firms, the common equity tier 1 ratio will require less capital than the tier 1 common ratio under the supervisory severely adverse scenario. Consistent with the principle articulated in other aspects of the final rule where transition periods are relevant (see, for example, the discussion regard the clarification of the CCAR process for bank holding company subsidiaries of foreign banking organizations), the Board aims to ensure that bank holding companies are not held to lower standards during transition periods than they were prior to the adoption of the relevant rule. Accordingly, the final rule retains the tier 1 common ratio. However, the Board

intends to monitor the common equity tier 1 ratio as it is phased in under the revised risk-based capital framework and implemented in stress testing and capital planning, and expects to revisit the issue as additional relevant data becomes available.

Commenters also provided views regarding the requirement that companies assume that they continue to execute capital actions planned in baseline conditions throughout the adverse and severely adverse supervisory scenarios for purposes of the capital plan rule. Commenters argue that this assumption does not reflect the fact that bank holding companies operate subject to internal capital management policies, and that the Board has supervisory authority to force banks to preserve capital in times of stress distributions in CCAR. In addition, commenters noted that the use of planned capital distributions in times of stress will be inconsistent with the soon-to-be-implemented capital conservation buffer requirements under the revised risk-based capital rules. [41]

The Board notes that CCAR makes conservative assumptions in order to provide a rigorous assessment of the capital adequacy of large bank holding companies. By assuming that distributions continue even during a stress period, CCAR is designed to approximate the tendency of losses in a crisis to occur suddenly, with capital continuing to be distributed until losses are realized or unavoidable. In this way, it helps to ensure that a bank holding company would remain sufficiently capitalized even if the timing of the losses were different or more sudden than that projected in the severely adverse scenario. Thus, the Board is not modifying its assumptions regarding baseline capital actions. With respect to the capital conservation buffer, the Board notes that the effects of the capital conservation buffer distribution limitations are

[41] *See* 12 CFR 217.11.

likely to be limited for the stress testing and capital planning cycle that begins on October 1, 2014, given the small portion of the buffer that will be effective during the planning horizon (0.625 percent of risk-weighted assets, only one quarter the size of the fully phased-in capital conservation buffer). Therefore, as noted in the CCAR 2015 instructions, the Board will not consider the limitation effects of the capital conservation buffer in the last four quarters of the CCAR 2015 planning horizon when performing its post-stress capital analysis of a bank holding company's planned capital distributions and bank holding companies should not assume the operation of distribution limitations of the capital conservation buffer when conducting their stress tests.[42] The Board is considering the appropriate treatment of the capital conservation buffer distribution limitations in stress testing and capital planning for future capital planning cycles and intends to address this issue in due course.

III. Administrative Law Matters

A. Paperwork Reduction Act

In accordance with the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. § 3506; 5 C.F.R. § 1320, Appendix A.1), the Board reviewed the final rule under the authority delegated to the Board by Office of Management and Budget (OMB). 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 OMB control number. The OMB control for this information collection is 7100-0342. In addition, as permitted by the PRA, the Board is extending for three years, with revision, the Recordkeeping and Reporting Requirements Associated with Regulation Y (Capital Plans) (Reg Y-13; OMB No. 7100-0342).

[42] *See* Comprehensive Capital Analysis and Review 2015 Summary Instructions and Guidance (October 17, 2014).

As mentioned in the preamble, the Board received 18 comment letters, however, none specifically addressed the PRA analysis. One commenter, however, did express general concerns regarding their ability to provide supporting documentation, due to third party legal and physical impediments, required by section 225.8(e)(3)(vi). In response to this comment, the Board adjusted its PRA burden estimate associated with this requirement.

The final rule contains requirements subject to the PRA. The collection of information revised by this final rule is found in section 225.8 of Regulation Y (12 CFR part 225). Section 225.8(e)(3)(vi) requires a bank holding company to be capable of providing to the Board its loss, revenue, and expense estimation models used by the bank holding company for stress scenario analysis, including supporting documentation regarding each model's development and validation status. This information is needed by supervisors in order to properly assess a bank holding company's capital adequacy and capital planning processes. In this regard, the information helps facilitate cross-firm comparisons of bank holding companies' loss, revenue, and expense estimation models and their approaches to model validation. The Board estimates that, on average, respondents take an additional 5 hours to comply with the requirements in section 225.8(e)(3)(vi).

Section 225.8(g)(1) removes prior approval and prior notice requirements for distributions involving incremental issuances of instruments that would qualify for inclusion in the numerator of regulatory capital ratios (i.e., common equity tier 1, additional tier 1, and tier 2 capital). As mentioned in the preamble, the Board believes that removing the requirement would reduce unnecessary efforts by a bank holding company to submit requests for distributions outside of the capital plan that are associated with issuances of regulatory capital. The Board

estimates that respondent burden associated with section 225.8(g)(1) would be reduced by approximately 50 percent.

Section 225.8(g)(3)(iii)(A) - Net distribution limitation exceptions – To the extent that the Board or the appropriate Reserve Bank indicates in writing its non-objection pursuant to section 225.8(g)(5), following a request for non-objection from the bank holding company that includes all of the information required to be submitted under section 225.8(g)(4). The Board estimates that, on average, respondents take 16 hours to comply with the requirement in section 225.8(g)(3)(iii)(A).

Title of Information Collection: Recordkeeping and Reporting Requirements Associated with Regulation Y (Capital Plans) (Reg Y-13).

Frequency of Response: Recordkeeping requirements, annually. Reporting requirements, varied— the capital plan exercise would be done at least annually, capital plan resubmissions and prior approval requirements would be event-generated.

Affected Public: This information collection applies to every top-tier bank holding company domiciled in the United States that has $50 billion or more in total consolidated assets (large U.S. bank holding companies) and U.S. intermediate holding companies with total consolidated assets of $50 billion or more.

General Description of Information Collection: This information collection is mandatory and the recordkeeping requirement to maintain the Capital Plan is in effect until either a bank holding company is no longer operational or until further notice by the Board. Section 616(a) of the Dodd-Frank Act amended section 5(b) of the Bank Holding Company Act (BHC Act) (12 U.S.C. § 1844(b)) to specifically authorize the Board to issue regulations and orders relating to capital requirements for bank holding companies. The Board is also authorized to collect and

require reports from bank holding companies pursuant to section 5(c) of the BHC Act (12 U.S.C. § 1844(c)). Additionally, the Board's rulemaking authority for the information collection requirements associated with Reg Y-13 is found in sections 908 and 910 of the International Lending Supervision Act, as amended (12 U.S.C. §§ 3907 and 3909). Additional support for Reg Y-13 is found in sections 165 and 166 of the Dodd-Frank Act (12 U.S.C. §§ 5365 and 5366). The capital plan information submitted by the covered bank holding company would consist of confidential and proprietary modeling information and highly sensitive business plans, such as acquisition plans submitted to the Federal Reserve for approval. Therefore, it appears the information would be subject to withholding under exemption 4 of the Freedom of Information Act (5 U.S.C. §552(b)(4)).

Estimated Burden

Number of Respondents: 52

Estimated Burden Per Response:

__.8(e)(1)(i) and (ii) Recordkeeping and Reporting, 12,000 hours

__.8(e)(1)(iii) Recordkeeping, 100 hours

__.8(e)(3)(i)-(vii) Reporting, 1,005 hours

__.8(e)(4) Reporting, 100 hours

__.8(f)(3)(i) Reporting, 16 hours

__.8(g)(1), (3) and (4) Reporting, 100 hours

__.8(g)(3)(iii)(A) Reporting, 16 hours

__.8(g)(6) Reporting, 16 hours

Total Estimated Annual Burden: 685,156 hours

The Board has a continuing interest in the public's opinions of collections of information. At any time, comments regarding the burden estimate, or any other aspect of this collection of information, including suggestions for reducing the burden, may be sent to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, DC 20551; and to the Office of Management and Budget, Paperwork Reduction Project (7100-0342), Washington, DC 20503.

B. Regulatory Flexibility Act Analysis

The Board has considered the potential impact of the 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 final rule will not have a significant economic impact on a substantial number of small entities. Nevertheless, the Board is publishing a final regulatory flexibility analysis.

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 $550 million or less (a small banking organization).[43] The final rule will apply to bank holding companies, savings and loan holding companies, and state member banks with total consolidated asset of $10 billion or more and nonbank financial companies supervised by the Board. Companies that will be subject to the final rule therefore substantially exceed the $550 million total asset threshold at which a company is considered a small company under SBA regulations.

[43] *See* 13 CFR 121.201. Effective July 14, 2014, the SBA revised the size standards for banking organizations to $550 million in assets from $500 million in assets. 79 FR 33647 (June 12, 2014).

In light of the foregoing, the Board does not believe that the final rule will have a significant economic impact on a substantial number of small entities.

C. Solicitation of Comments on the 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 sought to present the proposed rule in a simple and straightforward manner and solicited comment on how to make the proposed rule easier to understand. No comments were received on the use of plain language.

List of Subjects

12 CFR Part 225

Administrative practice and procedure, Banks, banking, Capital planning, Holding companies, Reporting and recordkeeping requirements Securities, Stress testing.

12 CFR Part 252

Administrative practice and procedure, Banks, Banking, Capital planning, 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 225—BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL (REGULATION Y)

1. The authority citation for part 225 is revised to read as follows:

Authority: 12 U.S.C. 1817(j)(13), 1818, 1828(o), 1831i, 1831p-1, 1843(c)(8), 1844(b), 1972(1), 3106, 3108, 3310, 3331-3351, 3906, 3907, and 3909; 15 U.S.C. 1681s, 1681w, 6801 and 6805.

Subpart A—General Provisions

2. Section 225.8 is revised to read as follows:

§ 225.8 Capital planning.

(a) Purpose. This section establishes capital planning and prior notice and approval requirements for capital distributions by certain bank holding companies.

(b) Scope and reservation of authority—(1) Applicability. Except as provided in paragraph (c) of this section, this section applies to:

(i) Any top-tier bank holding company domiciled in the United States with average total consolidated assets of $50 billion or more ($50 billion asset threshold);

(ii) Any other bank holding company domiciled in the United States that is made subject to this section, in whole or in part, by order of the Board;

(iii) Any U.S. intermediate holding company subject to this section pursuant to 12 CFR 252.153; and

(iv) Any nonbank financial company supervised by the Board that is made subject to this section pursuant to a rule or order of the Board.

(2) Average total consolidated assets. For purposes of this section, average total consolidated assets means the average of the total consolidated assets as reported by a bank holding

company on its Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) for the four most recent consecutive quarters. If the bank holding company has not filed the FR Y-9C 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, for the most recent quarter or consecutive quarters, as applicable. Average total consolidated assets are measured on the as-of date of the most recent FR Y-9C used in the calculation of the average.

(3) Ongoing applicability. A bank holding company (including any successor bank holding company) that is subject to any requirement in this section shall remain subject to any such requirement unless and until its total consolidated assets fall below $50 billion for each of four consecutive quarters, as reported on the FR Y-9C and effective on the as-of date of the fourth consecutive FR Y-9C.

(4) Reservation of authority. Nothing in this section shall limit the authority of the Federal Reserve to issue a capital directive or take any other supervisory or enforcement action, including an action to address unsafe or unsound practices or conditions or violations of law.

(5) Rule of construction. Unless the context otherwise requires, any reference to bank holding company in this section shall include a U.S. intermediate holding company and shall include a nonbank financial company supervised by the Board to the extent this section is made applicable pursuant to a rule or order of the Board.

(c) Transitional arrangements—(1) Transition periods for certain bank holding companies. (i) A bank holding company is subject to this section beginning on the first day of the first capital plan cycle that begins after the bank holding company meets or exceeds the $50 billion asset threshold (as measured under paragraph (b) of this section), unless that time is extended by the Board in writing.

(ii) The Board or the appropriate Reserve Bank with the concurrence of the Board, may require a bank holding company described in paragraph (c)(1)(i) of this section to comply with any or all of the requirements in paragraphs (e)(1), (e)(3), (f), or (g) of this section if the Board or appropriate Reserve Bank with concurrence of the Board, determines that the requirement is appropriate on a different date based on the company's risk profile, scope of operation, or financial condition and provides prior notice to the company of the determination.

(2) Transition periods for subsidiaries of certain foreign banking organizations—

(i) Bank holding companies that rely on SR Letter 01-01. (A) A bank holding company that meets the $50 billion asset threshold (as measured under paragraph (b) of this section) and is relying as of July 20, 2015, on Supervision and Regulation Letter SR 01-01 issued by the Board (as in effect on May 19, 2010) is subject to this section beginning on January 1, 2016, unless that time is extended by the Board in writing.

(B) The Board or the appropriate Reserve Bank with the concurrence of the Board, may require a bank holding company described in paragraph (c)(2)(i)(A) of this section to comply with any or all of the requirements in paragraphs (e)(1), (e)(3), (f), or (g) of this section if the Board or appropriate Reserve Bank with concurrence of the Board, determines that the requirement is appropriate on a different date based on the company's risk profile, scope of operation, or financial condition and provides prior notice to the company of the determination.

(ii) U.S. intermediate holding companies. (A) A U.S. intermediate holding company is subject to this section beginning on the first day of the first capital plan cycle after the date that the U.S. intermediate holding company is required to be established pursuant to 12 CFR 252.153, unless that time is extended by the Board in writing.

(B) The Board or the appropriate Reserve Bank with the concurrence of the Board, may require a U.S. intermediate holding company described in paragraph (c)(2)(ii)(A) of this section to comply with any or all of the requirements in paragraphs (e)(1), (e)(3), (f), or (g) of this section if the Board or appropriate Reserve Bank with concurrence of the Board, determines that the requirement is appropriate on a different date based on the company's risk profile, scope of operation, or financial condition and provides prior notice to the company of the determination.

(iii) Bank holding company subsidiaries of U.S. intermediate holding companies required to be established by July 1, 2016. (A) Notwithstanding any other requirement in this section, a bank holding company that is a subsidiary of a U.S. intermediate holding company (or, with the mutual consent of the company and Board, another bank holding company domiciled in the United States) shall remain subject to paragraph (e) of this section until December 31, 2017 and shall remain subject to the requirements of paragraphs (f) and (g) of this section until the Board issues an objection or non-objection to the capital plan of the relevant U.S. intermediate holding company.

(B) After the time periods set forth in paragraph (c)(iii)(A) of this section, this section will cease to apply to a bank holding company that is a subsidiary of a U.S. intermediate holding company, unless otherwise determined by the Board in writing.

(3) Transition periods for bank holding companies subject to the advanced approaches. (i) Notwithstanding any other requirement in this section, a bank holding company must use 12 CFR part 225, appendices A and E (as applicable), and 12 CFR part 217, subpart D and F, as applicable, to estimate its pro forma regulatory capital ratios and its pro forma tier 1 common ratio for the capital plan cycle beginning on October 1, 2014, and the bank holding company may

not use the advanced approaches to estimate its pro forma regulatory capital ratios and its pro forma tier 1 common ratio until January 1, 2016.

(ii) Beginning January 1, 2016, a bank holding company must use the advanced approaches to estimate its pro forma regulatory capital ratios and its pro forma tier 1 common ratio for purposes of its capital plan submission under paragraph (e) of this section if the Board notifies the bank holding company before the first day of the capital plan cycle that the bank holding company is required to use the advanced approaches to determine its risk-based capital requirements.

(d) Definitions. For purposes of this section, the following definitions apply:

(1) Advanced approaches means the risk-weighted assets calculation methodologies at 12 CFR part 217, subpart E, as applicable, and any successor regulation.

(2) BHC stress scenario means a scenario designed by a bank holding company that stresses the specific vulnerabilities of the bank holding company's risk profile and operations, including those related to the company's capital adequacy and financial condition.

(3) Capital action means any issuance or redemption of a debt or equity capital instrument, any capital distribution, and any similar action that the Federal Reserve determines could impact a bank holding company's consolidated capital.

(4) Capital distribution means a redemption or repurchase of any debt or equity capital instrument, a payment of common or preferred stock dividends, a payment that may be temporarily or permanently suspended by the issuer on any instrument that is eligible for inclusion in the numerator of any minimum regulatory capital ratio, and any similar transaction that the Federal Reserve determines to be in substance a distribution of capital.

(5) Capital plan means a written presentation of a bank holding company's capital planning strategies and capital adequacy process that includes the mandatory elements set forth in paragraph (e)(2) of this section.

(6) Capital plan cycle means:

(i) Until September 30, 2015, the period beginning on October 1 of a calendar year and ending on September 30 of the following calendar year, and

(ii) Beginning October 1, 2015, the period beginning on January 1 of a calendar year and ending on December 31 of that year.

(7) Capital policy means a bank holding company's written assessment of the principles and guidelines used for capital planning, capital issuance, capital usage and distributions, including internal capital goals; the quantitative or qualitative guidelines for capital distributions; the strategies for addressing potential capital shortfalls; and the internal governance procedures around capital policy principles and guidelines.

(8) Minimum regulatory capital ratio means any minimum regulatory capital ratio that the Federal Reserve may require of a bank holding company, by regulation or order, including, as applicable, the bank holding company's tier 1 and supplementary leverage ratios and common equity tier 1, tier 1, and total risk-based capital ratios as calculated under appendices A, D, and E to this part (12 CFR part 225) 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.

(9) Nonbank financial company supervised by the Board means a company that the Financial Stability Oversight Council has determined under section 113 of the Dodd-Frank Act (12 U.S.C. 5323) shall be supervised by the Board and for which such determination is still in effect.

(10) Planning horizon means the period of at least nine consecutive quarters, beginning with the quarter preceding the quarter in which the bank holding company submits its capital plan, over which the relevant projections extend.

(11) Tier 1 capital has the same meaning as under appendix A to this part or under 12 CFR part 217, as applicable, or any successor regulation.

(12) Tier 1 common capital means tier 1 capital as defined under appendix A to this part less the non-common elements of tier 1 capital, including perpetual preferred stock and related surplus, minority interest in subsidiaries, trust preferred securities and mandatory convertible preferred securities.

(13) Tier 1 common ratio means the ratio of a bank holding company's tier 1 common capital to total risk-weighted assets as defined under appendices A and E to this part.

(14) U.S. intermediate holding company means the top-tier U.S. company that is required to be established pursuant to 12 CFR 252.153.

(e) General requirements—(1) Annual capital planning. (i) A bank holding company must develop and maintain a capital plan.

(ii) A bank holding company must submit its complete capital plan to the Board and the appropriate Reserve Bank each year. For the capital plan cycle beginning on October 1, 2014, the capital plan must be submitted by January 5, 2015, or such later date as directed by the Board or by the appropriate Reserve Bank with concurrence of the Board. For each capital plan cycle beginning thereafter, the capital plan must be submitted by April 5, or such later date as directed by the Board or by the appropriate Reserve Bank with concurrence of the Board.

(iii) The bank holding company's board of directors or a designated committee thereof must at least annually and prior to submission of the capital plan under paragraph (e)(1)(ii) of this section:

(A) Review the robustness of the bank holding company's process for assessing capital adequacy,

(B) Ensure that any deficiencies in the bank holding company's process for assessing capital adequacy are appropriately remedied; and

(C) Approve the bank holding company's capital plan.

(2) Mandatory elements of capital plan. A capital plan must contain at least the following elements:

(i) An assessment of the expected uses and sources of capital over the planning horizon that reflects the bank holding company's size, complexity, risk profile, and scope of operations, assuming both expected and stressful conditions, including:

(A) Estimates of projected revenues, losses, reserves, and pro forma capital levels, including any minimum regulatory capital ratios (for example, leverage, tier 1 risk-based, and total risk-based capital ratios) and any additional capital measures deemed relevant by the bank holding company, over the planning horizon under expected conditions and under a range of scenarios, including any scenarios provided by the Federal Reserve and at least one BHC stress scenario;

(B) A calculation of the pro forma tier 1 common ratio over the planning horizon under expected conditions and under a range of stressed scenarios and discussion of how the company will maintain a pro forma tier 1 common ratio above 5 percent under expected conditions and the stressed scenarios required under paragraphs (e)(2)(i)(A) and (e)(2)(ii) of this section;

(C) A discussion of the results of any stress test required by law or regulation, and an explanation of how the capital plan takes these results into account; and

(D) A description of all planned capital actions over the planning horizon.

(ii) A detailed description of the bank holding company's process for assessing capital adequacy, including:

(A) A discussion of how the bank holding company will, under expected and stressful conditions, maintain capital commensurate with its risks, maintain capital above the minimum regulatory capital ratios and above a tier 1 common ratio of 5 percent, and serve as a source of strength to its subsidiary depository institutions;

(B) A discussion of how the bank holding company will, under expected and stressful conditions, maintain sufficient capital to continue its operations by maintaining ready access to funding, meeting its obligations to creditors and other counterparties, and continuing to serve as a credit intermediary;

(iii) The bank holding company's capital policy; and

(iv) A discussion of any expected changes to the bank holding company's business plan that are likely to have a material impact on the bank holding company's capital adequacy or liquidity.

(3) Data collection. Upon the request of the Board or appropriate Reserve Bank, the bank holding company shall provide the Federal Reserve with information regarding:

(i) The bank holding company's financial condition, including its capital;

(ii) The bank holding company's structure;

(iii) Amount and risk characteristics of the bank holding company's on- and off-balance sheet exposures, including exposures within the bank holding company's trading account, other

trading-related exposures (such as counterparty-credit risk exposures) or other items sensitive to changes in market factors, including, as appropriate, information about the sensitivity of positions to changes in market rates and prices;

(iv) The bank holding company's relevant policies and procedures, including risk management policies and procedures;

(v) The bank holding company's liquidity profile and management;

(vi) The loss, revenue, and expense estimation models used by the bank holding company for stress scenario analysis, including supporting documentation regarding each model's development and validation; and

(vii) Any other relevant qualitative or quantitative information requested by the Board or by the appropriate Reserve Bank to facilitate review of the bank holding company's capital plan under this section.

(4) Re-submission of a capital plan. (i) A bank holding company must update and re-submit its capital plan to the appropriate Reserve Bank within 30 calendar days of the occurrence of one of the following events:

(A) The bank holding company determines there has been or will be a material change in the bank holding company's risk profile, financial condition, or corporate structure since the bank holding company last submitted the capital plan to the Board and the appropriate Reserve Bank under this section; or

(B) The Board or the appropriate Reserve Bank with concurrence of the Board, directs the bank holding company in writing to revise and resubmit its capital plan for any of the following reasons:

(*1*) The capital plan is incomplete or the capital plan, or the bank holding company's internal capital adequacy process, contains material weaknesses;

(*2*) There has been, or will likely be, a material change in the bank holding company's risk profile (including a material change in its business strategy or any risk exposure), financial condition, or corporate structure;

(*3*) The BHC stress scenario(s) are not appropriate for the bank holding company's business model and portfolios, or changes in financial markets or the macro-economic outlook that could have a material impact on a bank holding company's risk profile and financial condition require the use of updated scenarios; or

(*4*) The capital plan or the condition of the bank holding company raise any of the issues described in paragraph (f)(2)(ii) of this section.

(ii) A bank holding company may resubmit its capital plan to the Federal Reserve if the Board or the appropriate Reserve Bank objects to the capital plan.

(iii) The Board or the appropriate Reserve Bank with concurrence of the Board, may extend the 30-day period in paragraph (e)(4)(i) of this section for up to an additional 60 calendar days, or such longer period as the Board or the appropriate Reserve Bank, with concurrence of the Board, determines, in its discretion, appropriate.

(iv) Any updated capital plan must satisfy all the requirements of this section; however, a bank holding company may continue to rely on information submitted as part of a previously submitted capital plan to the extent that the information remains accurate and appropriate.

(5) Confidential treatment of information submitted. The confidentiality of information submitted to the Board under this section 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).

(f) Review of capital plans by the Federal Reserve; publication of summary results—(1) Considerations and inputs. (i) The Board or the appropriate Reserve Bank with concurrence of the Board, will consider the following factors in reviewing a bank holding company's capital plan:

(A) The comprehensiveness of the capital plan, including the extent to which the analysis underlying the capital plan captures and addresses potential risks stemming from activities across the firm and the company's capital policy;

(B) The reasonableness of the bank holding company's capital plan, the assumptions and analysis underlying the capital plan, and the robustness of its capital adequacy process; and

(C) The bank holding company's ability to maintain capital above each minimum regulatory capital ratio and above a tier 1 common ratio of 5 percent on a pro forma basis under expected and stressful conditions throughout the planning horizon, including but not limited to any scenarios required under paragraphs (e)(2)(i)(A) and (e)(2)(ii) of this section.

(ii) The Board or the appropriate Reserve Bank with concurrence of the Board, will also consider the following information in reviewing a bank holding company's capital plan:

(A) Relevant supervisory information about the bank holding company and its subsidiaries;

(B) The bank holding company's regulatory and financial reports, as well as supporting data that would allow for an analysis of the bank holding company's loss, revenue, and reserve projections;

(C) As applicable, the Federal Reserve's own pro forma estimates of the firm's potential losses, revenues, reserves, and resulting capital adequacy under expected and stressful conditions, including but not limited to any scenarios required under paragraphs (e)(2)(i)(A) and (e)(2)(ii) of this section, as well as the results of any stress tests conducted by the bank holding company or the Federal Reserve; and

(D) Other information requested or required by the Board or the appropriate Reserve Bank, as well as any other information relevant, or related, to the bank holding company's capital adequacy.

(2) Federal Reserve action on a capital plan. (i) The Board or the appropriate Reserve Bank with concurrence of the Board, will object, in whole or in part, to the capital plan or provide the bank holding company with a notice of non-objection to the capital plan:

(A) For the capital plan cycle beginning on October 1, 2014, by March 31, 2015;

(B) For each capital plan cycle beginning thereafter, by June 30 of the calendar year in which a capital plan was submitted pursuant to paragraph (e)(1)(ii) of this section; and

(C) For a capital plan resubmitted pursuant to paragraph (e)(4) of this section, within 75 calendar days after the date on which a capital plan is resubmitted, unless the Board provides notice to the company that it is extending the time period.

(ii) The Board or the appropriate Reserve Bank with concurrence of the Board, may object to a capital plan if it determines that:

(A) The bank holding company has material unresolved supervisory issues, including but not limited to issues associated with its capital adequacy process;

(B) The assumptions and analysis underlying the bank holding company's capital plan, or the bank holding company's methodologies for reviewing the robustness of its capital adequacy process, are not reasonable or appropriate;

(C) The bank holding company has not demonstrated an ability to maintain capital above each minimum regulatory capital ratio and above a tier 1 common ratio of 5 percent, on a pro forma basis under expected and stressful conditions throughout the planning horizon; or

(D) The bank holding company's capital planning process or proposed capital distributions otherwise constitute an unsafe or unsound practice, or would violate any law, regulation, Board order, directive, or condition imposed by, or written agreement with, the Board or the appropriate Reserve Bank. In determining whether a capital plan or any proposed capital distribution would constitute an unsafe or unsound practice, the Board or the appropriate Reserve Bank would consider whether the bank holding company is and would remain in sound financial condition after giving effect to the capital plan and all proposed capital distributions.

(iii) The Board or the appropriate Reserve Bank will notify the bank holding company in writing of the reasons for a decision to object to a capital plan.

(iv) If the Board or the appropriate Reserve Bank objects to a capital plan and until such time as the Board or the appropriate Reserve Bank with concurrence of the Board, issues a non-objection to the bank holding company's capital plan, the bank holding company may not make any capital distribution, other than capital distributions arising from the issuance of a regulatory capital instrument eligible for inclusion in the numerator of a minimum regulatory capital ratio or capital distributions with respect to which the Board or the appropriate Reserve Bank has indicated in writing its non-objection.

(v) The Board may disclose publicly its decision to object or not object to a bank holding company's capital plan under this section, along with a summary of the Board's analyses of that company. Any disclosure under this paragraph will occur by March 31 (for the capital plan cycle beginning on October 1, 2014) or June 30 (for each capital plan cycle beginning thereafter), unless the Board determines that a later disclosure date is appropriate.

(3) Request for reconsideration or hearing—(i) General. Within 15 calendar days of receipt of a notice of objection to a capital plan by the Board or the appropriate Reserve Bank:

(A) A bank holding company may submit a written request to the Board requesting reconsideration of the objection, including an explanation of why reconsideration should be granted. Within 15 calendar days of receipt of the bank holding company's request, the Board will notify the company of its decision to affirm or withdraw the objection to the bank holding company's capital plan or a specific capital distribution; or

(B) As an alternative to paragraph (f)(3)(i)(A) of this section, a bank holding company may request an informal hearing on the objection.

(ii) Request for an informal hearing. (A) A request for an informal hearing shall be in writing and shall be submitted within 15 calendar days of a notice of an objection. The Board may, in its sole discretion, order an informal hearing if the Board finds that a hearing is appropriate or necessary to resolve disputes regarding material issues of fact.

(B) An informal hearing shall be held within 30 calendar days of a request, if granted, provided that the Board may extend this period upon notice to the requesting party.

(C) Written notice of the final decision of the Board shall be given to the bank holding company within 60 calendar days of the conclusion of any informal hearing ordered by the Board, provided that the Board may extend this period upon notice to the requesting party.

(D) While the Board's final decision is pending and until such time as the Board or the appropriate Reserve Bank with concurrence of the Board issues a non-objection to the bank holding company's capital plan, the bank holding company may not make any capital distribution, other than those capital distributions with respect to which the Board or the appropriate Reserve Bank has indicated in writing its non-objection.

(4) Application of this section to other bank holding companies. The Board may apply this section, in whole or in part, to any other bank holding company by order based on the institution's size, level of complexity, risk profile, scope of operations, or financial condition.

(g) Approval requirements for certain capital actions—(1) Circumstances requiring approval. Notwithstanding a notice of non-objection under paragraph (f)(2)(i) of this section, a bank holding company may not make a capital distribution (excluding any capital distribution arising from the issuance of a regulatory capital instrument eligible for inclusion in the numerator of a minimum regulatory capital ratio) under the following circumstances, unless it receives prior approval from the Board or appropriate Reserve Bank pursuant to paragraph (g)(5) of this section:

(i) After giving effect to the capital distribution, the bank holding company would not meet a minimum regulatory capital ratio or a tier 1 common ratio of at least 5 percent;

(ii) The Board or the appropriate Reserve Bank with concurrence of the Board, notifies the company in writing that the Federal Reserve has determined that the capital distribution would result in a material adverse change to the organization's capital or liquidity structure or that the company's earnings were materially underperforming projections;

(iii) Except as provided in paragraph (g)(2) of this section, the dollar amount of the capital distribution will exceed the amount described in the capital plan for which a non-

objection was issued under this section, as measured on an aggregate basis beginning in the third quarter of the planning horizon through the quarter at issue; or

(iv) The capital distribution would occur after the occurrence of an event requiring resubmission under paragraphs (e)(4)(i)(A) or (B) of this section and before the Federal Reserve has acted on the resubmitted capital plan.

(2) Exception for well capitalized bank holding companies. (i) A bank holding company may make a capital distribution for which the dollar amount exceeds the amount described in the capital plan for which a non-objection was issued under paragraph (f)(2)(i) of this section if the following conditions are satisfied:

(A) The bank holding company is, and after the capital distribution would remain, well capitalized as defined in § 225.2(r) of Regulation Y (12 CFR 225.2(r));

(B) The bank holding company's performance and capital levels are, and after the capital distribution would remain, consistent with its projections under expected conditions as set forth in its capital plan under paragraph (f)(2)(i) of this section;

(C) The annual aggregate dollar amount of all capital distributions (for purposes of the capital plan cycle beginning on October 1, 2014, in the period beginning on April 1, 2015 and ending on March 31, 2016, and for purposes of each capital plan cycle beginning thereafter, in the period beginning on July 1 of a calendar year and ending on June 30 of the following calendar year) would not exceed the total amounts described in the company's capital plan for which the bank holding company received a notice of non-objection by more than 1.00 percent multiplied by the bank holding company's tier 1 capital, as reported to the Federal Reserve on the bank holding company's first quarter FR Y-9C;

(D) The bank holding company provides the appropriate Reserve Bank with notice 15 calendar days prior to a capital distribution that includes the elements described in paragraph (g)(4) of this section; and

(E) The Board or the appropriate Reserve Bank with concurrence of the Board, does not object to the transaction proposed in the notice. In determining whether to object to the proposed transaction, the Board or the appropriate Reserve Bank shall apply the criteria described in paragraph (g)(5)(ii) of this section.

(ii) The exception in this paragraph (g)(2) shall not apply if the Board or the appropriate Reserve Bank notifies the bank holding company in writing that it may not take advantage of this exception.

(3) Net distribution limitation—(i) General. Notwithstanding a notice of non-objection under paragraph (f)(2)(i) of this section, a bank holding company must reduce its capital distributions in accordance with paragraph (g)(3)(ii) of this section if the bank holding company raises a smaller dollar amount of capital of a given category of regulatory capital instruments than it had included in its capital plan, as measured on an aggregate basis beginning in the third quarter of the planning horizon through the end of the current quarter.

(ii) Reduction of distributions—(A) Common equity tier 1 capital. If the bank holding company raises a smaller dollar amount of common equity tier 1 capital (as defined in 12 CFR 217.2), the bank holding company must reduce its capital distributions relating to common equity tier 1 capital such that the dollar amount of the bank holding company's capital distributions, net of the dollar amount of its capital raises, ("net distributions") relating to common equity tier 1 capital is no greater than the dollar amount of net distributions relating to

common equity tier 1 capital included in its capital plan, as measured on an aggregate basis beginning in the third quarter of the planning horizon through the end of the current quarter.

(B) Additional tier 1 capital. If the bank holding company raises a smaller dollar amount of additional tier 1 capital (as defined in 12 CFR 217.2), the bank holding company must reduce its capital distributions relating to additional tier 1 capital (other than scheduled payments on additional tier 1 capital instruments) such that the dollar amount of the bank holding company's net distributions relating to additional tier 1 capital is no greater than the dollar amount of net distributions relating to additional tier 1 capital included in its capital plan, as measured on an aggregate basis beginning in the third quarter of the planning horizon through the end of the current quarter.

(C) Tier 2 capital. If the bank holding company raises a smaller dollar amount of tier 2 capital (as defined in 12 CFR 217.2), the bank holding company must reduce its capital distributions relating to tier 2 capital (other than scheduled payments on tier 2 capital instruments) such that the dollar amount of the bank holding company's net distributions relating to tier 2 capital is no greater than the dollar amount of net distributions relating to tier 2 capital included in its capital plan, as measured on an aggregate basis beginning in the third quarter of the planning horizon through the end of the current quarter.

(iii) Exceptions. Paragraphs (g)(3)(i) and (ii) of this section shall not apply:

(A) To the extent that the Board or appropriate Reserve Bank indicates in writing its non-objection pursuant to paragraph (g)(5) of this section, following a request for non-objection from the bank holding company that includes all of the information required to be submitted under paragraph (g)(4) of this section;

(B) To capital distributions arising from the issuance of a regulatory capital instrument eligible for inclusion in the numerator of a minimum regulatory capital ratio that the bank holding company had not included in its capital plan;

(C) To the extent that the bank holding company raised a smaller dollar amount of capital in the category of regulatory capital instruments described in paragraph (g)(3)(i) of this section due to employee-directed capital issuances related to an employee stock ownership plan;

(D) To the extent that the bank holding company raised a smaller dollar amount of capital in the category of regulatory capital instruments described in paragraph (g)(3)(i) of this section due to a planned merger or acquisition that is no longer expected to be consummated or for which the consideration paid is lower than the projected price in the capital plan; or

(E) To the extent that the dollar amount by which the bank holding company's net distributions exceed the dollar amount of net distributions included in its capital plan in the category of regulatory capital instruments described in paragraph (g)(3)(i) of this section, as measured on an aggregate basis beginning in the third quarter of the planning horizon through the end of the current quarter, is less than 1.00 percent of the bank holding company's tier 1 capital, as reported to the Federal Reserve on the bank holding company's first quarter FR Y-9C, and the bank holding company notifies the appropriate Reserve Bank at least 15 calendar days in advance of any capital distribution in that category of regulatory capital instruments.

(4) Contents of request. (i) A request for a capital distribution under this section shall be filed with the appropriate Reserve Bank and the Board and shall contain the following information:

(A) The bank holding company's current capital plan or an attestation that there have been no changes to the capital plan since it was last submitted to the Federal Reserve;

(B) The purpose of the transaction;

(C) A description of the capital distribution, including for redemptions or repurchases of securities, the gross consideration to be paid and the terms and sources of funding for the transaction, and for dividends, the amount of the dividend(s); and

(D) Any additional information requested by the Board or the appropriate Reserve Bank (which may include, among other things, an assessment of the bank holding company's capital adequacy under a revised stress scenario provided by the Federal Reserve, a revised capital plan, and supporting data).

(ii) Any request submitted with respect to a capital distribution described in paragraph (g)(1)(i) of this section shall also include a plan for restoring the bank holding company's capital to an amount above a minimum level within 30 calendar days and a rationale for why the capital distribution would be appropriate.

(5) Approval of certain capital distributions. (i) The Board or the appropriate Reserve Bank with concurrence of the Board, will act on a request under this paragraph (g)(5) within 30 calendar days after the receipt of all the information required under paragraph (g)(4) of this section.

(ii) In acting on a request under this paragraph, the Board or appropriate Reserve Bank will apply the considerations and principles in paragraph (f) of this section. In addition, the Board or the appropriate Reserve Bank may disapprove the transaction if the bank holding company does not provide all of the information required to be submitted under paragraph (g)(4) of this section.

(6) Disapproval and hearing. (i) The Board or the appropriate Reserve Bank will notify the bank holding company in writing of the reasons for a decision to disapprove any proposed

capital distribution. Within 15 calendar days after receipt of a disapproval by the Board, the bank holding company may submit a written request for a hearing.

(A) The Board may, in its sole discretion, order an informal hearing if the Board finds that a hearing is appropriate or necessary to resolve disputes regarding material issues of fact.

(B) An informal hearing shall be held within 30 calendar days of a request, if granted, provided that the Board may extend this period upon notice to the requesting party.

(C) Written notice of the final decision of the Board shall be given to the bank holding company within 60 calendar days of the conclusion of any informal hearing ordered by the Board, provided that the Board may extend this period upon notice to the requesting party.

(D) While the Board's final decision is pending and until such time as the Board or the appropriate Reserve Bank with concurrence of the Board, approves the capital distribution at issue, the bank holding company may not make such capital distribution.

Appendix A to Part 225 [Removal Withdrawn]

3. The removal of appendix A to part 225 published October 11, 2013, at 78 FR 62291, and effective January 1, 2019, is withdrawn.

PART 252—ENHANCED PRUDENTIAL STANDARDS (Regulation YY).

4. The authority citation for part 252 is revised to read as follows:

Authority: 12 U.S.C. 321-338a, 1467a(g), 1818, 1831p-1, 1844(b), 1844(c), 5361, 5365, 5366.

5. Subpart B is revised to read as follows:

Subpart B—Company-Run Stress Test Requirements for Certain U.S. Banking Organizations with Total Consolidated Assets Over $10 Billion and Less than $50 Billion

Sec.
252.10 [Reserved]

§ 252.10 [Reserved]

§ 252.11 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.

§ 252.12 Definitions.

For purposes of this subpart, the following definitions apply:

(a) Advanced approaches means the regulatory capital requirements at 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 § 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 § 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 § 211.21(o) of the Board's Regulation K (12 CFR 211.21(o)).

(k) Planning horizon means the period of at least nine consecutive quarters, beginning on the first day of a stress test cycle 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, and E to 12 CFR part 225, appendices A, B, and E 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:

(1) Until September 30, 2015, the period beginning on October 1 of a calendar year and ending on September 30 of the following calendar year, and

(2) Beginning October 1, 2015, the period beginning on January 1 of a calendar year and ending on December 31 of that year.

(u) Subsidiary has the same meaning as in § 225.2(o) the Board's Regulation Y (12 CFR 225.2(o)).

§ 252.13 Applicability.

(a) Scope—(1) Applicability. Except as provided in paragraph (b) of this section, this subpart applies to:

(i) Any bank holding company with average total consolidated assets (as defined in § 252.12(d)) of greater than $10 billion but less than $50 billion;

(ii) Any savings and loan holding company with average total consolidated assets (as defined in § 252.12(d)) of greater than $10 billion; and

(iii) Any state member bank with average total consolidated assets (as defined in § 252.12(d)) of greater than $10 billion.

(2) Ongoing applicability. (i) A bank holding company, savings and loan holding company, or state member bank (including any successor company) that is subject to any requirement in this subpart shall remain subject to any such requirement 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 and effective on the as-of date of the fourth consecutive FR Y-9C or Call Report, as applicable.

(ii) A bank holding company or savings and loan holding company that becomes a covered company as defined in subpart F of this part and conducts a stress test pursuant to that subpart is not subject to the requirements of this subpart.

(b) Transitional arrangements—(1) Transition periods for bank holding companies and state member banks. (i) A bank holding company or state member bank that exceeds the asset threshold for the first time on or before March 31 of a given year, must comply with the

requirements of this subpart beginning on January 1 of the following year, unless that time is extended by the Board in writing.

(ii) A bank holding company or state member bank that exceeds the asset threshold for the first time after March 31 of a given year must comply with the requirements of this subpart beginning on January 1 of the second year following that given year, unless that time is extended by the Board in writing.

(iii) Notwithstanding paragraphs (b)(1)(i) or (ii) of this section, a bank holding company that meets the asset threshold (as defined in § 252.12(c)) and that is relying as of July 20, 2015, 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 on January 1, 2016, unless that time is extended by the Board in writing.

(2) Transition period for savings and loan holding companies. (i) A savings and loan holding company that is subject to minimum regulatory capital requirements and exceeds the asset threshold for the first time on or before March 31 of a given year, must comply with the requirements of this subpart beginning on January 1 of the following year, unless that time is extended by the Board in writing.

(ii) A savings and loan holding company that is subject to minimum regulatory capital requirements and exceeds the asset threshold for the first time after March 31 of a given year must comply with the requirements of this subpart beginning on January 1 of the second year following that given year, unless that time is extended by the Board in writing.

(3) Transition periods for companies subject to the advanced approaches. Notwithstanding any other requirement in this section:

(i) A bank holding company, savings and loan holding company, or state member bank must use 12 CFR part 225, appendices A and E (as applicable), and 12 CFR part 217, subpart D and F, as applicable, to estimate its pro forma regulatory capital ratios and its pro forma tier 1 common ratio for the stress test cycle beginning on October 1, 2014, and may not use the advanced approaches until January 1, 2016; and

(ii) Beginning January 1, 2016, a bank holding company, savings and loan holding company, or state member bank must use the advanced approaches to estimate its pro forma regulatory capital ratios if the Board notifies the company before the first day of the stress test cycle that the company is required to use the advanced approaches to determine its risk-based capital requirements.

§ 252.14 Annual stress test.

(a) General requirements—(1) General. A bank holding company, savings and loan holding company, and state member bank must conduct an annual stress test in accordance with paragraphs (a)(2) and (3) of this section.

(2) Timing for the stress test cycle beginning on October 1, 2014. For the stress test cycle beginning on October 1, 2014:

(i) A state member bank that is a covered company subsidiary must conduct its stress test by January 5, 2015, based on data as of September 30, 2014, unless the time or the as-of date is extended by the Board in writing; and

(ii) A state member bank that is not a covered company subsidiary and a bank holding company must conduct its stress test by March 31, 2015 based on data as of September 30, 2014, unless the time or the as-of date is extended by the Board in writing.

(3) Timing for each stress test cycle beginning after October 1, 2014. For each stress test cycle beginning after October 1, 2014:

(i) A state member bank that is a covered company subsidiary and a savings and loan holding company with average total consolidated assets of $50 billion or more must conduct its stress test by April 5 of each calendar year based on data as of December 31 of the preceding calendar year, unless the time or the as-of date is extended by the Board in writing; and

(ii) A state member bank that is not a covered company subsidiary, a bank holding company, and a savings and loan holding company with average total consolidated assets of less than $50 billion must conduct its stress test by July 31 of each calendar year using financial statement data as of December 31 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, at a minimum, 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, 2014 (for the stress test cycle beginning on October 1, 2014) and no later than February 15 of that calendar year (for each stress test cycle beginning thereafter).

(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 (or, beginning on January 1, 2015, 12 CFR 217, subpart F) or that is a subsidiary of a bank holding company that is subject to either this paragraph or § 252.54(b)(2)(i) of this part 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. For the stress test cycle beginning on October 1, 2014, the data used in this component must be as of a date between October 1 and December 1 of 2014 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. For each stress test cycle beginning thereafter, the data used in this component must be as of a date between January 1 and March 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 March 1 of that 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—(i) Notification of additional component. 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) 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 by September 30, 2014 (for the stress test cycle beginning on October 1, 2014) and by December 31 (for each stress test cycle beginning thereafter).

(ii) Request for reconsideration and Board response. 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.

(iii) Description of component. 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, 2014 (for the stress test cycle beginning on October 1, 2014) and by March 1 (for each stress test cycle beginning thereafter).

§ 252.15 Methodologies and practices.

(a) Potential impact on capital. In conducting a stress test under § 252.14, 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 § 252.14, 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;

(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; and

(iv) An assumption of no issuances of common stock or preferred stock, except for issuances related to expensed employee compensation.

(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 review and approve 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.

§ 252.16 Reports of stress test results.

(a) Reports to the Board of stress test results—(1) General. A bank holding company, savings and loan holding company, and state member bank must report the results of the stress test to the Board in the manner and form prescribed by the Board, in accordance with paragraphs (a)(2) and (3) of this section.

(2) Timing for the stress test cycle beginning on October 1, 2014. For the stress test cycle beginning on October 1, 2014:

(i) A state member bank that is a covered company subsidiary must report the results of its stress test to the Board by January 5, 2015, unless that time is extended by the Board in writing; and

(ii) A state member bank that is not a covered company subsidiary and a bank holding company must report the results of its stress test to the Board by March 31, 2015, unless that time is extended by the Board in writing.

(3) Timing for each stress test cycle beginning after October 1, 2014. For each stress test cycle beginning after October 1, 2014:

(i) A state member bank that is a covered company subsidiary and a savings and loan holding company that has average total consolidated assets of $50 billion or more must report the results of the stress test to the Board by April 5, unless that time is extended by the Board in writing; and

(ii) A state member bank that is not a covered company subsidiary, a bank holding company, and a savings and loan holding company with average total consolidated assets of less than $50 billion must report the results of the stress test to the Board by July 31, 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 the following information for the baseline scenario, adverse scenario, severely adverse scenario, and any other scenario required under § 252.14(b)(3):

(1) A description of the types of risks being included in the stress test;

(2) A summary description of the methodologies used in the stress test; and

(3) 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;

(4) An explanation of the most significant causes for the changes in regulatory capital ratios; and

(5) Any other information required by the Board.

(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).

§ 252.17 Disclosure of stress test results.

(a) Public disclosure of results—(1) General. (i) A bank holding company, savings and loan holding company, and state member bank must publicly disclose a summary of the results of the stress test required under this subpart.

(2) Timing for the stress test cycle beginning on October 1, 2014. For the stress test cycle beginning on October 1, 2014:

(i) A state member bank that is a covered company subsidiary must publicly disclose a summary of the results of the stress test within 15 calendar days after the Board discloses the results of its supervisory stress test of the covered company pursuant to § 252.46(c) of this part, unless that time is extended by the Board in writing; and

(ii) A state member bank that is not a covered company subsidiary and a bank holding company must publicly disclose a summary of the results of the stress test in the period beginning on June 15 and ending on June 30, 2015, unless that time is extended by the Board in writing.

(3) Timing for each stress test cycle beginning after October 1, 2014. For each stress test cycle beginning after October 1, 2014:

(i) A state member bank that is a covered company subsidiary must publicly disclose a summary of the results of the stress test within 15 calendar days after the Board discloses the results of its supervisory stress test of the covered company pursuant to § 252.46(c) of this part, unless that time is extended by the Board in writing;

(ii) A savings and loan holding company with average total consolidated assets of $50 billion or more must publicly 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; and

(iii) A state member bank that is not a covered company subsidiary, a bank holding company, and a savings and loan holding company with average total consolidated assets of less than $50 billion must publicly disclose a summary of the results of the stress test in the period beginning on October 15 and ending on October 31, unless that time is extended by the Board in writing.

(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. The summary of the results of a bank holding company or savings and loan holding company must, at a minimum, contain 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 any depository institution subsidiary that is subject to stress testing requirements pursuant to 12 U.S.C. 5365(i)(2), as implemented by this subpart, 12 CFR part 46 (OCC), or 12 CFR part 325, subpart C (FDIC), changes over the planning horizon in regulatory capital ratios and any other capital ratios specified by the Board and 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 satisfies the public disclosure requirements under this subpart if the bank holding company publicly discloses summary results of its stress test pursuant to this section or § 252.58 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 and requires the state member bank to make public disclosures.

(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 or that is required to make disclosures under paragraph (b)(2) of this section must publicly 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.

6. Subpart E is revised to read as follows:

Subpart E- Supervisory Stress Test Requirements for U.S. Bank Holding Companies with $50 Billion or More in Total Consolidated Assets and Nonbank Financial Companies Supervised by the Board.

Sec.
252.40 [Reserved].
252.41 Authority and purpose.
252.42 Definitions.
252.43 Applicability.
252.44 Annual analysis conducted by the Board.
252.45 Data and information required to be submitted in support of the Board's analyses.
252.46 Review of the Board's analysis; publication of summary results.
252.47 Corporate use of stress test results.

§ 252.40 [Reserved].

§ 252.41 Authority and purpose.

(a) Authority. 12 U.S.C. 321-338a, 1467a(g), 1818, 1831p-1, 1844(b), 1844(c), 5361, 5365, 5366.

(b) Purpose. This subpart implements section 165(i)(1) of the Dodd-Frank Act (12 U.S.C. 5365(i)(1)), which requires the Board to conduct annual analyses of nonbank financial companies supervised by the Board and bank holding companies with $50 billion or more in total consolidated assets to evaluate whether such companies have the capital, on a total consolidated basis, necessary to absorb losses as a result of adverse economic conditions.

§ 252.42 Definitions.

For purposes of this subpart F, the following definitions apply:

(a) Advanced approaches means the risk-weighted assets calculation methodologies at 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 covered company that are more adverse than those associated with the baseline scenario and may include trading or other additional components.

(c) Average total consolidated assets means the average of the total consolidated assets as reported by a bank holding company on its Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) for the four most recent consecutive quarters. If the bank holding company has not filed the FR Y-9C 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, 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 used in the calculation of the average.

(d) Bank holding company has the same meaning as in §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 covered company and that reflect the consensus views of the economic and financial outlook.

(f) Covered company means:

(1) A bank holding company (other than a foreign banking organization) with average total consolidated assets of $50 billion or more;

(2) A U.S. intermediate holding company subject to this section pursuant to § 252.153 of this part; and

(3) A nonbank financial company supervised by the Board.

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

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

(i) Nonbank financial company supervised by the Board means a nonbank financial company that the Financial Stability Oversight Council has determined under section 113 of the Dodd-Frank Act (12 U.S.C. 5323) shall be supervised by the Board and for which such determination is still in effect.

(j) Planning horizon means the period of at least nine consecutive quarters, beginning on the first day of a stress test cycle 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 covered company on the FR Y–9C.

(m) Regulatory capital ratio means a capital ratio for which the Board established minimum requirements for the company by regulation or order, including, as applicable, the company's tier 1 and supplementary leverage ratios and common equity tier 1, tier 1, and total risk-based capital ratios as calculated under appendices A, D, and E to this part (12 CFR part 225) 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.

(n) Scenarios are those sets of conditions that affect the U.S. economy or the financial condition of a covered company that the Board annually determines are appropriate for use in the supervisory stress tests, including, but not limited to, baseline, adverse, and severely adverse scenarios.

(o) Severely adverse scenario means a set of conditions that affect the U.S. economy or the financial condition of a covered company and that overall are more severe than those associated with the adverse scenario and may include trading or other additional components.

(p) Stress test cycle means:

(1) Until September 30, 2015, the period beginning on October 1 of a calendar year and ending on September 30 of the following calendar year, and

(2) Beginning October 1, 2015, the period beginning on January 1 of a calendar year and ending on December 31 of that year.

(q) Subsidiary has the same meaning as in § 225.2(o) the Board's Regulation Y (12 CFR 225.2).

(r) Tier 1 common ratio has the same meaning as in the Board's Regulation Y (12 CFR 225.8).

§ 252.43 Applicability.

(a) Scope—(1) Applicability. Except as provided in paragraph (b) of this section, this subpart applies to any covered company, which includes:

(i) Any bank holding company with average total consolidated assets (as defined in § 252.42(c)) of $50 billion or more;

(ii) Any U.S. intermediate holding company subject to this section pursuant to § 252.153 of this part; and

(iii) Any nonbank financial company supervised by the Board that is made subject to this section pursuant to a rule or order of the Board.

(2) Ongoing applicability. A bank holding company (including any successor company) that is subject to any requirement in this subpart shall remain subject to any such requirement unless and until its total consolidated assets fall below $50 billion for each of four consecutive quarters, as reported on the FR Y-9C and effective on the as-of date of the fourth consecutive FR Y-9C.

(b) Transitional arrangements—(1) Transition periods for bank holding companies that become covered companies after October 1, 2014. (i) A bank holding company that becomes a covered company on or before March 31 of a given year must comply with the requirements of this subpart beginning on January 1 of the following year, unless that time is extended by the Board in writing.

(ii) A bank holding company that becomes a covered company after March 31 of a given year must comply with the requirements of this subpart beginning on January 1 of the second year following that given year, unless that time is extended by the Board in writing.

(2) Bank holding companies that rely on SR Letter 01-01. A covered company that is relying as of July 20, 2015, 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 on January 1, 2016, unless that time is extended by the Board in writing.

(c) Transition periods for covered companies subject to the advanced approaches. Notwithstanding any other requirement in this section, for a given stress test cycle:

(1) The Board will use 12 CFR part 225, appendices A and E (as applicable), and 12 CFR part 217, subpart D and F, as applicable, to estimate a covered company's pro forma regulatory capital ratios and its pro forma tier 1 common ratio for the stress test cycle beginning on October 1, 2014 and will not use the advanced approaches until January 1, 2016; and

(2) Beginning January 1, 2016, the Board will use the advanced approaches to estimate a covered company's pro forma regulatory capital ratios and pro forma tier 1 common ratio if the Board notified the covered company before the first day of the stress test cycle that the covered company is required to use the advanced approaches to determine its risk-based capital requirements.

§ 252.44 Annual analysis conducted by the Board.

(a) In general. (1) On an annual basis, the Board will conduct an analysis of each covered company's capital, on a total consolidated basis, taking into account all relevant exposures and activities of that covered company, to evaluate the ability of the covered company to absorb losses in specified economic and financial conditions.

(2) The analysis will include an assessment of the projected losses, net income, and pro forma capital levels and regulatory capital ratios, tier 1 common ratio, and other capital ratios for the covered company and use such analytical techniques that the Board determines are appropriate to identify, measure, and monitor risks of the covered company that may affect the financial stability of the United States.

(3) In conducting the analyses, the Board will coordinate with the appropriate primary financial regulatory agencies and the Federal Insurance Office, as appropriate.

(b) Economic and financial scenarios related to the Board's analysis. The Board will conduct its analysis under this section using a minimum of three different scenarios, including a baseline scenario, adverse scenario, and severely adverse scenario. For the stress test cycle beginning on October 1, 2014, the Board will notify covered companies of the scenarios that the Board will apply to conduct the analysis for each stress test cycle by no later than November 15, 2014, except with respect to trading or any other components of the scenarios and any additional scenarios that the Board will apply to conduct the analysis, which will be communicated by no later than December 1, 2014. For each stress test cycle beginning thereafter, the Board will notify covered companies of the scenarios that the Board will apply to conduct the analysis for each stress test cycle by no later than February 15 of each year, except with respect to trading or

any other components of the scenarios and any additional scenarios that the Board will apply to conduct the analysis, which will be communicated by no later than March 1 of that year.

§ 252.45 Data and information required to be submitted in support of the Board's analyses.

(a) Regular submissions. Each covered company must submit to the Board such data, on a consolidated basis, that the Board determines is necessary in order for the Board to derive the relevant pro forma estimates of the covered company over the planning horizon under the scenarios described in §252.44(b).

(b) Additional submissions required by the Board. The Board may require a covered company to submit any other information on a consolidated basis that the Board deems necessary in order to:

(1) Ensure that the Board has sufficient information to conduct its analysis under this subpart; and

(2) Project a company's pre-provision net revenue, losses, provision for loan and lease losses, and net income; and, pro forma capital levels, regulatory capital ratios, tier 1 common ratio, and any other capital ratio specified by the Board under the scenarios described in § 252.44(b).

(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 the Freedom of Information Act (5 U.S.C. 552(b)) and the Board's Rules Regarding Availability of Information (12 CFR part 261).

§ 252.46 Review of the Board's analysis; publication of summary results.

(a) Review of results. Based on the results of the analysis conducted under this subpart, the Board will conduct an evaluation to determine whether the covered company has the capital,

on a total consolidated basis, necessary to absorb losses and continue its operation by maintaining ready access to funding, meeting its obligations to creditors and other counterparties, and continuing to serve as a credit intermediary under baseline, adverse and severely adverse scenarios, and any additional scenarios.

(b) Publication of results by the Board. (1) The Board will publicly disclose a summary of the results of the Board's analyses of a covered company by March 31, 2015 (for the stress test cycle beginning on October 1, 2014) and by June 30 (for each stress test cycle beginning thereafter).

(2) The Board will notify companies of the date on which it expects to publicly disclose a summary of the Board's analyses pursuant to paragraph (b)(1) of this section at least 14 calendar days prior to the expected disclosure date.

§ 252.47 Corporate use of stress test results.

(a) In general. The board of directors and senior management of each covered company must consider the results of the analysis conducted by the Board under this subpart, as appropriate:

(1) As part of the covered company's capital plan and capital planning process, including when making changes to the covered company's capital structure (including the level and composition of capital);

(2) When assessing the covered company's exposures, concentrations, and risk positions; and

(3) In the development or implementation of any plans of the covered company for recovery or resolution.

(b) Resolution plan updates. Each covered company must update its resolution plan as the Board determines appropriate, based on the results of the Board's analyses of the covered company under this subpart.

8. Subpart F is revised to read as follows:

Subpart F— Company-Run Stress Test Requirements for U.S. Bank Holding Companies with $50 Billion or More in Total Consolidated Assets and Nonbank Financial Companies Supervised by the Board.

Sec.

§ 252.50 [Reserved].

§ 252.51 Authority and purpose.

(a) Authority. 12 U.S.C. 321-338a, 1467a(g), 1818, 1831p-1, 1844(b), 1844(c), 5361, 5365, 5366.

(b) Purpose. This subpart implements section 165(i)(2) of the Dodd-Frank Act (12 U.S.C. 5365(i)(2)), which requires a covered company to conduct annual and semi-annual stress tests. This subpart also establishes definitions of stress test and related terms, methodologies for conducting stress tests, and reporting and disclosure requirements.

§ 252.52 Definitions.

For purposes of this subpart, the following definitions apply:

(a) Advanced approaches means the risk-weighted assets calculation methodologies at 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 covered company that are more adverse than those associated with the baseline scenario and may include trading or other additional components.

(c) Average total consolidated assets means the average of the total consolidated assets as reported by a bank holding company on its Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) for the four most recent consecutive quarters. If the bank holding company has not filed the FR Y-9C 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, 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 used in the calculation of the average.

(d) Bank holding company has the same meaning as in § 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 covered company and that reflect the consensus views of the economic and financial outlook.

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

(g) Covered company means:

(1) A bank holding company (other than a foreign banking organization) with average total consolidated assets of $50 billion or more;

(2) A U.S. intermediate holding company subject to this section pursuant to § 252.153 of this part; and

(3) A nonbank financial company supervised by the Board.

(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 § 211.21(o) of the Board's Regulation K (12 CFR 211.21(o)).

(j) Nonbank financial company supervised by the Board means a nonbank financial company that the Financial Stability Oversight Council has determined under section 113 of the Dodd-Frank Act (12 U.S.C. 5323) shall be supervised by the Board and for which such determination is still in effect.

(k) Planning horizon means the period of at least nine consecutive quarters, beginning on the first day of a stress test cycle (on October 1 or April 1, as appropriate) 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 covered company on the FR Y–9C.

(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, the company's tier 1 and supplementary leverage ratios and common equity tier 1, tier 1, and total risk-based capital ratios as calculated under appendices A, D, and E to this part (12 CFR part

225) 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.

(o) Scenarios are those sets of conditions that affect the U.S. economy or the financial condition of a covered company that the Board, or with respect to the mid-cycle stress test required under § 252.55, the covered company, 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 covered company and that overall are more severe than those associated with the adverse scenario and may include trading or other additional components.

(q) Stress test means a process to assess the potential impact of scenarios on the consolidated earnings, losses, and capital of a covered company over the planning horizon, taking into account its current condition, risks, exposures, strategies, and activities.

(r) Stress test cycle means:

(1) Until September 30, 2015, the period beginning on October 1 of a calendar year and ending on September 30 of the following calendar year, and

(2) Beginning October 1, 2015, the period beginning on January 1 of a calendar year and ending on December 31 of that year.

(s) Subsidiary has the same meaning as in § 225.2(o) the Board's Regulation Y (12 CFR 225.2).

(t) Tier 1 common ratio has the same meaning as in § 225.8 of the Board's Regulation Y (12 CFR 225.8).

§ 252.53 Applicability.

(a) Scope—(1) Applicability. Except as provided in paragraph (b) of this section, this subpart applies to any covered company, which includes:

(i) Any bank holding company with average total consolidated assets (as defined in § 252.42(c) of this part) of $50 billion or more;

(ii) Any U.S. intermediate holding company subject to this section pursuant to § 252.153 of this part; and

(iii) Any nonbank financial company supervised by the Board that is made subject to this section pursuant to a rule or order of the Board.

(2) Ongoing applicability. A bank holding company (including any successor company) that is subject to any requirement in this subpart shall remain subject to any such requirement unless and until its total consolidated assets fall below $50 billion for each of four consecutive quarters, as reported on the FR Y-9C and effective on the as-of date of the fourth consecutive FR Y-9C.

(b) Transitional arrangements—(1) Transition periods for bank holding companies that become covered companies after October 1, 2014. (i) A bank holding company that becomes a covered company on or before March 31 of a given year must comply with the requirements of this subpart beginning on January 1 of the following year, unless that time is extended by the Board in writing.

(ii) A bank holding company that becomes a covered company after March 31 of a given year must comply with the requirements of this subpart beginning on January 1 of the second year following that given year, unless that time is extended by the Board in writing.

(2) Bank holding companies that rely on SR Letter 01-01. A covered company that is relying as of July 20, 2015, 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 on January 1, 2016, unless that time is extended by the Board in writing.

(3) Transition periods for covered companies subject to the advanced approaches. Notwithstanding any other requirement in this section:

(i) A covered company must use 12 CFR part 225, appendices A and E (as applicable), and 12 CFR part 217, subpart D and F, as applicable, to estimate its pro forma regulatory capital ratios and its pro forma tier 1 common ratio for the stress test cycle beginning on October 1, 2014, and may not use the advanced approaches until January 1, 2016; and

(ii) Beginning January 1, 2016, a covered company must use the advanced approaches to estimate its pro forma regulatory capital ratios and its pro forma tier 1 common ratio for purposes of its stress test under § 252.54 if the Board notifies the company before the first day of the stress test cycle that the company is required to use the advanced approaches to determine its risk-based capital requirements.

§ 252.54 Annual stress test.

(a) In general. A covered company must conduct an annual stress test. For the stress test cycle beginning on October 1, 2014, the stress test must be conducted by January 5, 2015, based on data as of September 30, 2014, unless the time or the as-of date is extended by the Board in writing. For each stress test cycle beginning thereafter, the stress test must be conducted by April 5 of each calendar year based on data as of December 31 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 covered company must, at a minimum, use the scenarios provided by the Board. Except as provided in paragraphs (b)(2) and (3) of this section, for the stress test cycle beginning

on October 1, 2014, the Board will provide a description of the scenarios to each covered company no later than November 15, 2014. Except as provided in paragraphs (b)(2) and (3) of this section, for each stress test cycle beginning thereafter, the Board will provide a description of the scenarios to each covered company no later than February 15 of that calendar year.

(2) Additional components. (i) The Board may require a covered company 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. For the stress test cycle beginning on October 1, 2014, the data used in this component must be as of a date between October 1 and December 1, 2014, as 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, 2014. For the stress test cycle beginning on January 1, 2016, and for each stress test cycle beginning thereafter, the data used in this component must be as of a date between January 1 and March 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 March 1 of the relevant calendar year.

(ii) The Board may require a covered company 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 covered company to use 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—(i) Notification of additional component. If the Board requires a covered company to include one or more additional components in its adverse and severely adverse scenarios under paragraph (b)(2) 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. For the stress test cycle beginning on October 1, 2014, the Board will provide such notification no later than September 30, 2014, and for each stress test cycle beginning thereafter, the Board will provide such notification no later than December 31 of the preceding calendar year. 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).

(ii) Request for reconsideration and Board response. Within 14 calendar days of receipt of a notification under this paragraph, the covered company 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.

(iii) Description of component. The Board will respond in writing within 14 calendar days of receipt of the company's request. The Board will provide the covered company with a description of any additional component(s) or additional scenario(s) by December 1, 2014 (for the stress test cycle beginning on October 1, 2014) and by March 1 (for each stress test cycle beginning thereafter).

§ 252.55 Mid-cycle stress test.

(a) Mid-cycle stress test requirement. In addition to the stress test required under § 252.54 , a covered company must conduct a mid-cycle stress test. For the stress test cycle beginning on October 1, 2014, the mid-cycle stress test must be conducted by July 5 based on data as of March 31 of that calendar year, unless the time or the as-of date is extended by the Board in writing. For each stress test cycle beginning thereafter, the stress test must be

conducted by September 30 of each calendar year based on data as of June 30 of that calendar year, unless the time or the as-of date is extended by the Board in writing.

(b) Scenarios related to mid-cycle stress tests—(1) In general. A covered company must develop and employ a minimum of three scenarios, including a baseline scenario, adverse scenario, and severely adverse scenario, that are appropriate for its own risk profile and operations, in conducting the stress test required by this section.

(2) Additional components. The Board may require a covered company 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 covered company to use 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—(i) Notification of additional component. If the Board requires a covered company to include one or more additional components in its adverse and severely adverse scenarios under paragraph (b)(2) of this section or one or more additional scenarios under paragraph (b)(3) of this section, the Board will notify the company in writing. For the stress test cycle beginning on October 1, 2014, the Board will provide such notification no later than March 31, and for each stress test cycle beginning thereafter, the Board will provide such notification no later than June 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).

(ii) Request for reconsideration and Board response. Within 14 calendar days of receipt of a notification under this paragraph, the covered company 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.

(iii) Description of component. The Board will provide the covered company with a description of any additional component(s) or additional scenario(s) by June 1 (for the stress test cycle beginning on October 1, 2014) and by September 1 (for each stress test cycle beginning thereafter).

§ 252.56 Methodologies and practices.

(a) Potential impact on capital. In conducting a stress test under §§ 252.54 and 252.55, for each quarter of the planning horizon, a covered company 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, the tier 1 common ratio, 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 §§ 252.54 and 252.55, a covered 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 covered 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 covered 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;

(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; and

(iv) An assumption of no issuances of common stock or preferred stock, except for issuances related to expensed employee compensation.

(c) Controls and oversight of stress testing processes—(1) In general. The senior management of a covered company 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 covered 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. Policies of covered companies must also describe processes for scenario development for the mid-cycle stress test required under § 252.55.

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

(3) Role of stress testing results. The board of directors and senior management of each covered company must consider the results of the analysis it conducts under this subpart, as appropriate:

(i) As part of the covered company's capital plan and capital planning process, including when making changes to the covered company's capital structure (including the level and composition of capital);

(ii) When assessing the covered company's exposures, concentrations, and risk positions; and

(iii) In the development or implementation of any plans of the covered company for recovery or resolution.

§ 252.57 Reports of stress test results.

(a) Reports to the Board of stress test results. (1) A covered company must report the results of the stress test required under § 252.54 to the Board in the manner and form prescribed by the Board. For the stress test cycle beginning on October 1, 2014, such results must be submitted by January 5, unless that time is extended by the Board in writing. For each stress test cycle beginning thereafter, such results must be submitted by April 5, unless that time is extended by the Board in writing.

(2) A covered company must report the results of the stress test required under § 252.55 to the Board in the manner and form prescribed by the Board. For the stress test cycle beginning on October 1, 2014, such results must be submitted by July 5, unless that time is extended by the Board in writing. For each stress test cycle beginning thereafter, such results must be submitted by October 5, unless that time is extended by the Board in writing.

(b) 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).

§ 252.58 Disclosure of stress test results.

(a) Public disclosure of results—(1) In general. (i) A covered company must publicly disclose a summary of the results of the stress test required under §252.54 within the period that is 15 calendar days after the Board publicly discloses the results of its supervisory stress test of the covered company pursuant to § 252.46(c) of this part, unless that time is extended by the Board in writing.

(ii) A covered company must publicly disclose a summary of the results of the stress test required under § 252.55. For the stress test cycle beginning on October 1, 2014, this disclosure

must occur in the period beginning on July 5 and ending on August 4, unless that time is extended by the Board in writing. For all stress test cycles beginning thereafter, this disclosure must occur in the period beginning on October 5 and ending on November 4, unless that time is extended by the Board in writing.

(2) Disclosure method. The summary required under this section may be disclosed on the website of a covered company, or in any other forum that is reasonably accessible to the public.

(b) Summary of results. The summary results must, at a minimum, contain the following information regarding the severely adverse scenario:

(1) A description of the types of risks included in the stress test;

(2) A general description of the methodologies used in the stress test, including those employed to estimate losses, revenues, provision for loan and lease losses, and changes in capital positions over the planning horizon;

(3) Estimates of—

(i) Pre-provision net revenue and other revenue;

(ii) Provision for loan and lease losses, realized losses or gains on available-for-sale and held-to-maturity securities, trading and counterparty losses, and other losses or gains;

(iii) Net income before taxes;

(iv) Loan losses (dollar amount and as a percentage of average portfolio balance) in the aggregate and by subportfolio, including: domestic closed-end first-lien mortgages; domestic junior lien mortgages and home equity lines of credit; commercial and industrial loans; commercial real estate loans; credit card exposures; other consumer loans; and all other loans; and

(v) Pro forma regulatory capital ratios and the tier 1 common ratio and any other capital ratios specified by the Board;

(4) An explanation of the most significant causes for the changes in regulatory capital ratios and the tier 1 common ratio; and

(5) With respect to any depository institution subsidiary that is subject to stress testing requirements pursuant to 12 U.S.C. 5365(i)(2), as implemented by subpart B of this part, 12 CFR part 46 (OCC), or 12 CFR part 325, subpart C (FDIC), changes over the planning horizon in regulatory capital ratios and any other capital ratios specified by the Board and an explanation of the most significant causes for the changes in regulatory capital ratios.

(c) Content of results. (1) The following disclosures required under paragraph (b) of this section must be on a cumulative basis over the planning horizon:

(i) Pre-provision net revenue and other revenue;

(ii) Provision for loan and lease losses, realized losses/gains on available-for-sale and held-to-maturity securities, trading and counterparty losses, and other losses or gains;

(iii) Net income before taxes; and

(iv) Loan losses in the aggregate and by subportfolio.

(2) The disclosure of pro forma regulatory capital ratios, the tier 1 common ratio, 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.

Subpart O—Enhanced Prudential Standards for Foreign Banking Organizations With Total Consolidated Assets of $50 Billion or More and Combined U.S. Assets of $50 Billion or More

8. In § 252.153, revise paragraph (e) to read as follows:

§ 252.153 U.S. intermediate holding company requirement for foreign banking organizations with U.S. non-branch assets of $50 billion or more.

* * * * *

(e) *Enhanced prudential standards for U.S. intermediate holding companies*—(1) *Applicability*—(i) *Ongoing application*. Subject to the initial applicability provisions in paragraph (e)(1)(ii) of this section, a U.S. intermediate holding company must comply with the capital, risk management, and liquidity requirements set forth in paragraphs (e)(2)(i), (e)(3), and (e)(4) of this section beginning on the date it is required to be established, comply with the capital plan requirements set forth in paragraph (e)(2)(ii) of this section in accordance with § 225.8(c)(2) of the Board's Regulation Y (12 CFR 225.8(c)(2)), and comply with the stress test requirements set forth in paragraph (e)(5) beginning with the stress test cycle the calendar year following that in which it becomes subject to regulatory capital requirements.

(ii) Initial applicability—(A) General. A U.S. intermediate holding company required to be established by July 1, 2016 must comply with the risk-based capital, risk management, and liquidity requirements set forth in paragraphs (e)(2)(i), (e)(3), and (e)(4) of this section beginning on July 1, 2016, and comply with the capital planning requirements set forth in (e)(2)(ii) of this section in accordance with § 225.8(c)(2) of the Board's Regulation Y (12 CFR 225.8(c)(2)).

(B) Transition provisions for leverage. (1) A U.S. intermediate holding company required to be established by July 1, 2016 must comply with the leverage capital requirements set forth in paragraph (e)(2)(i) of this section beginning on January 1, 2018, provided that each subsidiary bank holding company and insured depository institution controlled by the foreign banking organization immediately prior to the establishment or designation of the U.S. intermediate holding company, and each bank holding company and insured depository institution acquired

by the foreign banking organization after establishment of the intermediate holding company, is subject to leverage capital requirements under 12 CFR part 217 until December 31, 2017.

(2) The Board may accelerate the application of the leverage ratio to a U.S. intermediate holding company if it determines that the foreign banking organization has taken actions to evade the application of this subpart.

(C) Transition provisions for stress testing. A U.S. intermediate holding company required to be established by July 1, 2016 must comply with the stress test requirements set forth in paragraph (e)(5) of this section beginning on January 1, 2018, provided that each subsidiary bank holding company and insured depository institution controlled by the foreign banking organization immediately prior to the establishment or designation of the U.S. intermediate holding company, and each bank holding company and insured depository institution acquired by the foreign banking organization after establishment of the intermediate holding company, must comply with the stress test requirements in subparts B, E, or F of this subpart, as applicable, until December 31, 2017.

8. Appendix A to part 252 is amended by:

a. Redesignating footnotes 21 through 40 as footnotes 1 through 20.

b. Revising newly redesignated footnotes 1, 2, 9, 19, and 20; and

c. Revising paragraphs 1.b, 2.a, and 7.a

The revisions read as follows:

Appendix A to Part 252 – Policy Statement on the Scenario Design Framework for Stress Testing

1. BACKGROUND

[1]12 U.S.C. 5365(i)(1); 12 CFR part 252, subpart E.

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[2]12 U.S.C. 5365(i)(2); 12 CFR part 252, subparts B and F.

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[9]12 CFR 252.14(b), 12 CFR 252.44(b), 12 CFR 252.54(b).

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[19] 12 CFR 252.55.

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[20]12 CFR 252.55.

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b. The stress test rules provide that, for the stress test cycle beginning on October 1, 2014, the Board will notify covered companies by no later than November 15, 2014 of the scenarios it will use to conduct its annual supervisory stress tests and the scenarios that covered companies must use to conduct their annual company-run stress tests.[4] For each stress test cycle beginning thereafter, the Board will provide a description of these scenarios to covered companies by no later than February 15 of that calendar year. Under the stress test rules, the Board may require certain companies to use additional components in the adverse or severely adverse scenario or additional scenarios.[5] For example, the Board expects to require large banking organizations with significant trading activities to include a trading and counterparty component (market shock, described in the following sections) in their adverse and severely adverse scenarios. The Board will provide any additional components or scenario by no later

than December 1 of each year.[6] The Board expects that the scenarios it will require the companies to use will be the same as those the Board will use to conduct its supervisory stress tests (together, stress test scenarios).

[4] 12 CFR 252.44(b), 12 CFR 252.54(b). For the stress test cycle beginning on October 1, 2014, the annual company-run stress tests use data as of September 30 of each calendar year. For each stress test cycle beginning thereafter, the annual company-run stress tests use data as of December 31 of each calendar year.

[5] *Id.*

[6] *Id.*

* * * * *

2. Overview and scope

a. This policy statement provides more detail on the characteristics of the stress test scenarios and explains the considerations and procedures that underlie the approach for formulating these scenarios. The considerations and procedures described in this policy statement apply to the Board's stress testing framework, including to the stress tests required under 12 CFR part 252, subparts E, F, and G, as well as the Board's capital plan rule (12 CFR 225.8).[8]

[8]12 CFR 252.44(b), 12 CFR 252.54(b). For the stress test cycle beginning on October 1, 2014, the annual company-run stress tests use data as of September 30 of each calendar year. For each stress test cycle beginning thereafter, the annual company-run stress tests use data as of December 31 of each calendar year.

* * * * *

7. Timeline for Scenario Publication

a. The Board will provide a description of the macroeconomic scenarios by no later than November 15, 2014 (for the stress test cycle beginning on October 1, 2014) and no later than February 15 (for each stress test cycle beginning thereafter). During the period immediately

preceding the publication of the scenarios, the Board will collect and consider information from academics, professional forecasters, international organizations, domestic and foreign supervisors, and other private-sector analysts that regularly conduct stress tests based on U.S. and global economic and financial scenarios, including analysts at the covered companies. In addition, the Board will consult with the FDIC and the OCC on the salient risks to be considered in the scenarios. For the stress test cycle beginning on October 1, 2014, the Board expects to conduct this process in July and August of 2014 and to update the scenarios based on incoming macroeconomic data releases and other information through the end of October. For each stress test cycle beginning thereafter, the Board expects to conduct this process in October and November of each year and to update the scenarios based on incoming macroeconomic data releases and other information through the end of January.

* * * * *

By order of the Board of Governors of the Federal Reserve System, October 17, 2014.

Margaret McCloskey Shanks,
Deputy Secretary of the Board.
Billing Code: 6210-01-P

[FR Doc. 2014-25170 Filed 10/24/2014 at 8:45 am; Publication Date: 10/27/2014]