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DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

12 CFR Part 46

[Docket ID. OCC-2014-0015]

RIN 1557-AD85

Annual Stress Test—Schedule Shift and Adjustments to Regulatory Capital Projections

AGENCY: Office of the Comptroller of the Currency, Treasury.

ACTION: Final rule.

SUMMARY: On July 1, 2014, the Office of the Comptroller of the Currency (OCC) proposed to adjust the timing of the annual stress testing cycle and to clarify the method used to calculate regulatory capital in the stress tests (proposed rule). The OCC is now adopting the proposed rule as final (final rule). The final rule shifts the dates of the annual stress testing cycle by approximately three months. The final rule also provides that covered institutions will not have to calculate their risk-weighted assets using the internal ratings-based and advanced measurement approaches until the stress testing cycle beginning on January 1, 2016.

DATES: The rule is effective [INSERT DATE 30 DAYS FROM DATE OF PUBLICATION IN FEDERAL REGISTER].

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SUPPLEMENTARY INFORMATION:

I. Introduction and Background

Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) requires the federal banking agencies to issue regulations requiring financial companies with more than \$10 billion in assets to conduct annual stress tests (“company-run stress tests”). In October 2012, the OCC, the Board of Governors of the Federal Reserve System (“Board”), and the Federal Deposit Insurance Corporation issued rules implementing the company-run stress tests required by the Dodd-Frank Act. Under these rules, the OCC distributes stress scenarios by November 15¹ to covered institutions. Covered institutions use their financial position as of September 30 (“as of date”) and must make projections that estimate their financial position under the different stress scenarios. Covered institutions with \$50 billion or more in assets must submit the results of their stress tests by January 5. Covered institutions with \$50 billion or more are required to publish a summary of their stress test results between March 15 and March 31. Covered institutions with between \$10 and \$50 billion in assets are required to submit their stress test results to the OCC by March 31 and publish a summary of their results between June 15 and June 30.

II. Description of the Final Rule

A. Shift in Stress Testing Cycle

The proposed rule would have shifted the dates of the stress testing cycle by approximately three months.² The proposed rule would have relieved covered institutions with \$50 billion or more in assets of the obligation to complete their stress testing submissions by

¹ These scenarios provided by the OCC reflect a minimum of three sets of economic and financial conditions, including baseline, adverse, and severely adverse scenarios.

² 79 FR 37231 (July 1, 2014).

January 5, a time of year when these institutions have other year-end obligations.

Under the proposed rule, covered institutions with \$50 billion or more in assets would have been required to submit the results of their company-run stress tests to the OCC by April 7³ and would have been required to disclose stress test results between June 15 and July 15. However, within this disclosure period a covered institution that is a consolidated subsidiary of a bank holding company or savings and loan holding company subject to supervisory stress tests conducted by the Board pursuant to 12 CFR part 252 could not disclose its results until the Board has published the supervisory stress test results of the covered institution's parent holding company. In addition, if the Board publishes the supervisory stress test results of the covered institution's parent holding company prior to June 15, then such covered institution could satisfy its publication requirement either through actual publication by the covered institution or through publication by the parent holding company pursuant to 12 CFR 46.8(b). Under the proposed rule, covered institutions with between \$10 and \$50 billion in assets would have been required to submit the results of their company-run stress tests to the OCC by July 31 and publish those results between October 15 and October 31.

The OCC received four comments on the proposed rule from banking organizations and trade associations. The commenters supported the proposed schedule shift and recommended that the OCC adopt the schedule shift earlier than proposed (adopting the schedule shift for the stress test cycle beginning October 1, 2014 instead of 2015, as proposed). Commenters argued that the current January 5 submission deadline has been challenging because of other year-end financial reporting obligations. The OCC recognizes these concerns and believes that covered institutions should conduct these tests at a time when they are better able to manage their

³ Under the final rule the reporting deadline has been changed to April 5.

resources. However, adopting the schedule shift one year earlier than proposed would disrupt planning for the stress testing schedule beginning October 1, 2014. Accordingly, under the final rule the schedule shift will take effect in the subsequent stress testing cycle, which will begin January 1, 2016.

The following table summarizes the changes made by the final rule.

**Table 1—Revised Annual Stress Test Timeline
for Covered Institutions with \$50 Billion or More in Assets**

Action Required	Current Rule	Final Rule
"As of" Date for Financial Data Used by Stress Test	September 30	December 31
Distribution of Stress Scenarios in OCC	By November 15	By February 15
Submission of Stress Test Results	By January 5	By April 5
Disclosure of Results Summary	Between March 15 and March 31	Between June 15 and July 15 except no earlier than Board publication of the supervisory stress test results of the bank holding company

**Table 2—Revised Annual Stress Test Timeline
for Covered Institutions with Between \$10 and \$50 Billion in Assets**

Action Required	Current Rule	Proposed Rule
"As of" Date for Financial Data Used in Stress Test	September 30	December 31
Distribution of Stress Scenarios by OCC	By November 15	By February 15
Submission of Stress Test Results	By March 31	By July 31
Disclosure of Results Summary	Between June 15 and June 30	Between October 15 and October 31

All covered institutions with between \$10 and \$50 billion in assets will be required to

submit the results of their company-run stress tests to the OCC by July 31 and publish those results between October 15 and October 31. Covered institutions with \$50 billion or more will be required to submit the results of their company-run stress tests to the OCC by April 5 and publish those results between June 15 and July 15. The April 5 reporting deadline for covered institutions with \$50 billion or more in assets is a minor change from the April 7 deadline proposed in the proposed rule. The final rule also adopts the provisions in the proposed rule that prohibit a covered institution that is a consolidated subsidiary of a bank holding company or savings and loan holding company supervised by the Board from disclosing its results until the Board has published the supervisory stress test results of the covered institution's parent holding company.

With respect to covered institutions with assets between \$10 and \$50 billion, pursuant to 12 CFR 46.3(e) a covered institution may elect to conduct its stress test under the stress test requirements applicable to a covered institution with assets of \$50 billion or more. In that case we note that the covered institution also would be subject to the disclosure requirements applicable to covered institutions with \$50 billion or more in assets.

One commenter requested that the OCC release the stress test scenarios earlier than February 15 to give covered institutions more time to prepare their stress test submissions. Under the final rule, the OCC will provide the scenarios "no later than" February 15. The OCC recognizes the need for covered institutions to have adequate time to complete their submissions and will attempt to distribute the scenarios as early as possible.

Two commenters requested that the OCC reduce the stress test planning horizon from nine quarters to eight quarters. Under the current stress testing rule covered institutions are required to make stress test projections over a planning horizon lasting nine quarters. The OCC

believes that the nine-quarter planning horizon results in an actual planning horizon of eight quarters, as the first quarter of the horizon is contemporaneous with the quarter in which the covered institution submits its stress test results. As such, in order to maintain a two-year stress test planning horizon, the final rule maintains the nine-quarter requirement. The OCC will consider the appropriate length of the planning horizon in light of future experience with stress testing.

The proposed rule would also have amended the applicability provisions in § 46.3 of the Annual Stress Test rule to reflect the changed timeline. Currently, a national bank or Federal savings association that becomes a covered institution must conduct its first annual stress test beginning in the next calendar year after the date the national bank or Federal savings association becomes a covered institution. Under the new stress testing timeline, if this applicability provision were left unchanged and a national bank or Federal savings association became a covered institution as of September 30 of a given year, the institution would be required to conduct its first stress test in the stress testing cycle beginning the following January 1, three months after becoming a covered institution. The current Annual Stress Test rule provides a minimum of nine months between the date on which a national bank or Federal savings association becomes a covered institution and the start date of the stress testing cycle in which the covered institution must conduct its first stress test. To preserve the nine-month minimum the proposed rule would have established a March 31 cutoff date. A national bank or Federal savings association that becomes a covered institution on or before March 31 of a given year would be required to conduct its first stress test in the next calendar year. For example, a national bank or Federal savings association that becomes a covered institution on March 31, 2015 would be required to conduct its first stress test in the stress testing cycle beginning January

1, 2016. A national bank or Federal savings association that becomes a covered institution after March 31 of a given year would be required to conduct its first stress test in the second calendar year after the date the national bank or Federal savings association becomes a covered institution. For example, a national bank or Federal savings association that becomes a covered institution on June 30, 2015 would be required to conduct its first stress test in the stress testing cycle beginning January 1, 2017. The OCC received no comments on this aspect of the proposed rule and is adopting the proposed changes as final.

B. Clarification on the Use of Basel III Advanced Approaches

On October 11, 2013, the OCC published revised risk-based and leverage capital rules that implement the Basel III framework.⁴ In light of the issuance of the revised capital rules, the proposed rule would have clarified when covered institutions would be required to estimate their minimum regulatory capital ratios over the stress-test planning horizon using the Basel III advanced approaches methodology. The current OCC stress testing rule requires covered institutions to estimate the impact of stress scenarios on the covered institution's regulatory capital levels and ratios applicable to the covered institution under 12 CFR part 3 (for national banks) or part 167 (for Federal savings associations), as applicable, and any other capital ratios specified by the OCC.⁵ A national bank or Federal savings association that is an advanced approaches banking organization is required to use the advanced approaches to calculate its minimum regulatory capital ratios if it has conducted a satisfactory parallel run.⁶ The proposed rule would have provided that covered institutions are not required to calculate their risk-

⁴ 78 FR 62018.

⁵ 12 CFR 46.6(a)(2).

⁶ A satisfactory parallel run is defined as a period of no less than four consecutive calendar quarters during which a banking organization complies with certain qualification requirements. 12 CFR 3.21(c).

weighted assets using the advanced approaches in their stress testing projections until the stress testing cycle beginning on January 1, 2016—even if an organization has previously exited parallel run.

On February 14, 2014, the OCC announced that certain national banks had completed a successful parallel run. Given the operational complexity associated with incorporating the advanced approaches into the stress testing process, the proposed rule would have clarified that incorporating the advanced approaches into stress testing would be deferred for one stress testing cycle. The transition period will provide the OCC with sufficient time to integrate the advanced approaches into its stress testing examination processes and to provide guidance to advanced approaches banking organizations regarding supervisory expectations on the use of the advanced approaches in stress testing projections. The OCC received no comments on this aspect of the proposed rule and is adopting it as final.

III. Regulatory Analysis

Paperwork Reduction Act

Under the Paperwork Reduction Act (PRA) (44 U.S.C. 3501-3520), the OCC may not conduct or sponsor, and a person is not required to respond to, an information collection unless the information collection displays a valid Office of Management and Budget (OMB) control number. The final rule amends 12 CFR part 46, which has an approved information collection under the PRA (OMB Control No. 1557-0311). The amendments do not introduce any new collections of information, nor do they amend 12 CFR part 46 in a way that modifies the collection of information that OMB has approved. Therefore, this final rule does not require a PRA submission to OMB.

Regulatory Flexibility Act

The Regulatory Flexibility Act (RFA), 5 U.S.C. 601 et seq., requires generally that, in connection with a final rule, an agency prepare a regulatory flexibility analysis that describes the impact of a proposed rule on small entities (defined by the Small Business Administration for purposes of the RFA to include banking entities with total assets of \$550 million or less). However, the regulatory flexibility analysis otherwise required under the RFA is not required if an agency certifies that the rule will not have a significant economic impact on a substantial number of small entities and publishes its certification and a brief explanatory statement in the **Federal Register** together with the rule.

As discussed in the **SUPPLEMENTARY INFORMATION** above, the modified dates of the annual stress test cycle will only affect institutions with more than \$10 billion in total assets. As such, pursuant to section 605(b) of the RFA, the OCC certifies that this final rule will not have a significant economic impact on a substantial number of small entities because no small national banks or Federal savings associations will be affected by the final rule. Accordingly, a regulatory flexibility analysis is not required.

Unfunded Mandates Reform Act

The OCC has analyzed the final rule under the factors in the Unfunded Mandates Reform Act of 1995 (UMRA) (2 U.S.C. 1532). Under this analysis, the OCC considered whether the final rule includes a Federal mandate that may result in the expenditure by State, local, and tribal governments, in the aggregate, or by the private sector, of \$100 million or more in any one year (adjusted annually for inflation). The OCC has determined that this final rule will not result in expenditures by State, local, and tribal governments, or the private sector, of \$100 million or more in any one year. Accordingly, this final rule is not subject to section 202 of the Unfunded Mandates Act (2 U.S.C. 1532).

Plain Language

Section 722 of the Gramm-Leach-Bliley Act requires the OCC to use plain language in all proposed and final rules published after January 1, 2000. The OCC has sought to present the final rule in a simple and straightforward manner. The OCC did not receive any comment on its use of plain language.

List of Subjects in 12 CFR Part 46

Banking, Banks, Capital, Disclosures, National banks, Recordkeeping, Risk, Savings associations, Stress test.

Authority and Issuance

For the reasons set forth in the preamble, the OCC amends 12 CFR part 46 as follows:

PART 46—ANNUAL STRESS TEST

1. The authority citation for part 46 is revised to read as follows:

Authority: 12 U.S.C. 93a; 1463(a)(2); 5365(i)(2); and 5412(b)(2)(B).

2. Section 46.3 is amended by revising paragraph (c) to read as follows:

§ 46.3 Applicability.

* * * * *

(c) Covered institutions that become subject to stress testing requirements under revised Annual Stress Test schedule. A national bank or Federal savings association that becomes a covered institution, as defined in § 46.2, after March 31, 2014 and on or before March 31, 2015 shall conduct its first annual stress test in the stress test beginning January 1, 2016. A national bank or Federal savings association that becomes a covered institution on or before March 31 of a given year (after 2014) shall conduct its first annual stress test under this part in the next

calendar year after the date the national bank or Federal savings association becomes a covered institution. A national bank or Federal savings association that becomes a covered institution after March 31 of a given year (after 2014) shall conduct its first annual stress test under this part in the second calendar year after the date the national bank or Federal savings association becomes a covered institution.

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3. Section 46.5 is amended by revising paragraphs (a) through (c) to read as follows:

§ 46.5 Annual stress test.

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(a) Financial data. A covered institution must use financial data as of September 30 (for the stress test beginning October 1, 2014) or December 31 (for the stress test beginning January 1, 2016, and all stress tests thereafter) of that calendar year.

(b) Scenarios provided by the OCC. In conducting the stress test under this part, each covered institution must use the scenarios provided by the OCC. The scenarios provided by the OCC will reflect a minimum of three sets of economic and financial conditions, including baseline, adverse, and severely adverse scenarios. The OCC will provide a description of the scenarios required to be used by each covered institution no later than November 15 (for the stress test beginning October 1, 2014) or February 15 (for the stress test beginning January 1, 2016, and all stress tests thereafter) of that calendar year.

(c) Significant trading activities. The OCC may require a covered institution with significant trading activities, as determined by the OCC, to include trading and counterparty components in its adverse and severely adverse scenarios. The trading and counterparty position data to be used in this component will be as of a date between October 1 and December 1 (for the

stress test beginning October 1, 2014) or between January 1 and March 1 (for the stress test beginning January 1, 2016, and all stress tests thereafter) of that calendar year that will be selected by the OCC and communicated to the covered institution no later than December 1 (for the stress test beginning October 1, 2014) or March 1 (for the stress test beginning January 1, 2016, and all stress tests thereafter) of the calendar year.

* * * * *

4. Section 46.6 is amended by revising paragraph (a)(2) to read as follows:

§ 46.6 Stress test methodologies and practices.

(a) * * *

(2) The potential impact on the covered institution's regulatory capital levels and ratios applicable to the covered institution under 12 CFR part 3 or part 167, as applicable, and any other capital ratios specified by the OCC, incorporating the effects of any capital actions over the planning horizon and maintenance by the covered institution of an allowance for loan losses appropriate for credit exposures throughout the planning horizon. Until December 31, 2015, or such other date specified by the OCC, a covered institution is not required to calculate its risk-based capital requirements using the internal ratings-based and advanced measurement approaches as set forth in 12 CFR part 3, subpart E.

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5. Section 46.7 is amended by revising paragraphs (a) and (b) to read as follows:

§ 46.7 Reports to the Office of the Comptroller of the Currency and the Federal Reserve Board.

(a) \$10 to \$50 billion covered institution. A \$10 to \$50 billion covered institution must report to the OCC and to the Board of Governors of the Federal Reserve System, on or before

March 31 (for the stress test beginning October 1, 2014) and on or before July 31 (for the stress test beginning January 1, 2016, and all stress tests thereafter), the results of the stress test in the manner and form specified by the OCC.

(b) Over \$50 billion covered institution. An over \$50 billion covered institution must report to the OCC and to the Board of Governors of the Federal Reserve System, on or before January 5 (for the stress test beginning October 1, 2014) and on or before April 5 (for the stress test beginning January 1, 2016, and all stress tests thereafter), the results of the stress test in the manner and form specified by the OCC.

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6. Section 46.8 is amended by revising paragraphs (a)(1) and (2) to read as follows:

§ 46.8 Publication of disclosures.

(a) Publication date--(1) Over \$50 billion covered institution. (i) Prior to January 1, 2016, an over \$50 billion covered institution must publish a summary of the results of its annual stress test in the period starting March 15 and ending March 31 (for the stress test cycle beginning October 1, 2014).

(ii) Effective January 1, 2016, an over \$50 billion covered institution must publish a summary of the results of its annual stress test in the period starting June 15 and ending July 15 (for the stress test cycle beginning January 1, 2016, and for all stress tests thereafter) provided:

(A) Unless the OCC determines otherwise, if the over \$50 billion covered institution is a consolidated subsidiary of a bank holding company or savings and loan holding company subject to supervisory stress tests conducted by the Board of Governors of the Federal Reserve System pursuant to 12 CFR part 252, then within the June 15 to July 15 period such covered institution may not publish the required summary of its annual stress test earlier than the date that the Board

of Governors of the Federal Reserve System publishes the supervisory stress test results of the covered bank's parent holding company.

(B) If the Board of Governors of the Federal Reserve System publishes the supervisory stress test results of the covered institution's parent holding company prior to June 15, then such covered institution may publish its stress test results prior to June 15, but no later than July 15, through actual publication by the covered institution or through publication by the parent holding company pursuant to paragraph (b) of this section.

(2) \$10 to \$50 billion covered institution. (i) Prior to January 1, 2016, a \$10 to \$50 billion covered institution must publish a summary of the results of its annual stress test in the period starting June 15 and ending June 30 (for the stress test cycle beginning October 1, 2014).

(ii) Effective January 1, 2016, a \$10 to \$50 billion covered institution must publish a summary of the results of its annual stress test in the period starting October 15 and ending October 31 (for the stress test cycle beginning January 1, 2016, and for all stress tests thereafter).

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Dated: November 19, 2014.

Thomas J. Curry,
Comptroller of the Currency.

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