



## **FEDERAL RESERVE SYSTEM**

### **12 CFR Parts 238 and 252**

**[Docket No. R-1648]**

**RIN 7100-AF37**

### **Regulations LL and YY; Amendments to the Company-run and Supervisory Stress Test Rules**

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

**ACTION:** Notice of proposed rulemaking with request for comment.

**SUMMARY:** The Board is requesting comment on a proposed rule that would amend the Board's company-run stress test and supervisory stress test rules, consistent with section 401 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA). Specifically, the proposed rule would revise the minimum threshold for state member banks to conduct stress tests from \$10 billion to \$250 billion, revise the frequency with which state member banks with assets greater than \$250 billion would be required to conduct stress tests, and remove the adverse scenario from the list of required scenarios. The proposed rule would also make conforming changes to the Board's company-run and supervisory stress test requirements for bank holding companies, U.S. intermediate holding companies of foreign banking organizations, and nonbank financial companies supervised by the Board, the Board's Policy Statement on the Scenario Design Framework for Stress Testing, and the stress testing requirements for certain savings and loan holding companies that were proposed for public comment on October 31, 2018. Finally, the proposed rule would revise the scope of applicability of the company-run stress testing requirements for certain savings and loan holding companies that were proposed for public comment on October 31, 2018.

**DATES:** Comments on the notice of proposed rulemaking must be received by February 19, 2019.

**ADDRESSES:** You may submit comments, identified by Docket No. R-1648 and RIN AF 37 by any of the following methods:

- **Agency Web site:** <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.aspx>.
- **Email:** [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov). Include the docket number and RIN number in the subject line of the message.
- **Fax:** (202) 452-3819 or (202) 452-3102.
- **Mail:** Address to Ann E. Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551.

All public comments will be made available on the Board's web site at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm> as submitted, unless modified for technical reasons or to remove personally identifiable information at the commenter's request. Accordingly, comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper in Room 146, 1709 New York Avenue, NW, between 9:00 a.m. and 5:00 p.m. on weekdays.

**FOR FURTHER INFORMATION CONTACT:** Lisa Ryu, Associate Director, (202) 263-4833, Constance Horsley, Deputy Associate Director, (202) 452-5239, Christine Graham, Manager, (202) 452-3005, Page Conkling, Senior Supervisory Financial

Analyst, (202) 912-4647, or Joseph Cox, Senior Supervisory Financial Analyst, (202) 452-3216, Division of Banking Supervision and Regulation; Benjamin W. McDonough, Assistant General Counsel, (202) 452-2036, Julie Anthony, Senior Counsel, (202) 475-6682, or Asad Kudiya, Counsel, Legal Division, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW, Washington, DC 20551. Users of Telecommunication Device for Deaf (TDD) only, call (202) 263-4869.

## **SUPPLEMENTARY INFORMATION:**

### **I. Background**

The Board has long held the view that a banking organization should operate with capital levels well above its minimum regulatory capital ratios and commensurate with its risk profile. A banking organization should also have internal processes for assessing its capital adequacy that reflects a full understanding of its risks and ensure that it holds capital commensurate with those risks. Stress testing is one tool that helps both bank supervisors and a banking organization measure the sufficiency of capital available to support the banking organization's operations throughout periods of stress.<sup>1</sup>

Prior to the passage of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA),<sup>2</sup> section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act)<sup>3</sup> required each state member bank with total consolidated assets of more than \$10 billion to conduct annual stress tests. In addition, section 165 required the Board to issue regulations that establish methodologies

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<sup>1</sup> A full assessment of a company's capital adequacy must take into account a range of risk factors, including those that are specific to a particular industry or company.

<sup>2</sup> Pub. L. 115-174, 132 Stat. 1296 (2018).

<sup>3</sup> Pub. L. 111-203, 124 Stat. 1376 (2010), codified at 12 U.S.C. 5365.

for state member banks conducting their stress test, which were required to include at least three different stress-testing scenarios: “baseline,” “adverse,” and “severely adverse.”<sup>4</sup> In October 2012, the Board published in the *Federal Register* rules implementing the Dodd-Frank Act stress testing requirements, which established company-run stress test requirements for state member banks.<sup>5</sup>

Section 401 of EGRRCPA amended certain aspects of the stress testing requirements applicable to state member banks in section 165(i) of the Dodd-Frank Act.<sup>6</sup> Specifically, after 18 months, section 401 of EGRRCPA raises the minimum asset threshold for application of the stress testing requirement from \$10 billion to \$250 billion in total consolidated assets; revises the requirement for state member banks to conduct stress tests “annually,” and instead requires them to conduct stress tests “periodically;” and no longer requires the stress test to include an “adverse” scenario, thus reducing the number of required stress test scenarios from three to two.<sup>7</sup>

## **II. Description of the Proposed Rule**

The Board is proposing to revise the Board’s stress testing rules applicable to state member banks (12 CFR part 252, subpart B), consistent with the amendments made

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<sup>4</sup> 12 U.S.C. 5365(i)(2)(C).

<sup>5</sup> 77 FR 62396 (October 12, 2012).

<sup>6</sup> Pub. L. 115-174, 132 Stat. 1296-1368 (2018).

<sup>7</sup> The amendments made by section 401 of EGRRCPA applicable to state member banks are not effective until eighteen months after the enactment of EGRRCPA. EGRRCPA section 401(d)(1). On July 6, 2018, the OCC, jointly with the Board and the FDIC, extended the deadline for all regulatory requirements related to company-run stress testing for depository institutions with average total consolidated assets of less than \$100 billion until November 25, 2019. *See* Interagency statement regarding impact of the Economic Growth, Regulatory Relief, and Consumer Protection Act, July 6, 2018, available at <https://www.occ.treas.gov/news-issuances/news-releases/2018/nr-ia-2018-69a.pdf>.

by section 401 of EGRRCPA (the proposed rule or proposal). The proposal would also make conforming changes to the supervisory stress testing and company-run stress testing requirements applicable to bank holding companies, U.S. intermediate holding companies of foreign banking organizations, and any nonbank financial company supervised by the Board (12 CFR part 252, subparts E and F), the Board's Policy Statement on the Scenario Design Framework for Stress Testing (12 CFR part 252, appendix A), and the stress testing requirements for certain savings and loan holding companies that were proposed for public comment on October 31, 2018.<sup>8</sup> The proposal also would revise the scope of applicability of the company-run stress testing requirements for certain savings and loan holding companies that were proposed for public comment on October 31, 2018. Finally, the proposal would make certain technical edits to these rules.

In preparing the proposal, the Board has coordinated closely with the FDIC and the OCC to help to ensure that the company-run stress testing regulations are consistent and comparable across depository institutions and depository institution holding companies and to address any burden that may be associated with having multiple entities within one organizational structure having to meet different stress testing requirements.

*A. Minimum Asset Threshold for State Member Banks*

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<sup>8</sup> On October 31, 2018, the Board approved two notices of proposed rulemaking that would establish a revised framework for applying prudential standards to large U.S. banking organizations. *See* [www.federalreserve.gov/newsevents/pressreleases/bcreg20181031a.htm](http://www.federalreserve.gov/newsevents/pressreleases/bcreg20181031a.htm). Currently, savings and loan holding companies with more than \$10 billion in total consolidated assets are subject to the Board's company run stress test rules (12 CFR part 252, subpart B). Under the proposal, certain savings and loan holding companies with more than \$100 billion in assets would be subject to supervisory stress testing and company-run stress test requirements.

As described above, section 401 of EGRRCPA amends section 165 of the Dodd-Frank Act by raising the minimum asset threshold for state member banks required to conduct company-run stress tests from \$10 billion to \$250 billion. Consistent with EGRRCPA, the proposal would raise this threshold such that only state member banks with total consolidated assets greater than \$250 billion would be required to conduct stress tests.

*B. Frequency of Stress Testing for State Member Banks*

Section 401 of EGRRCPA also revised the requirement under section 165 of the Dodd-Frank Act for state member banks to conduct stress tests, changing the required frequency from “annual” to “periodic.” Under the proposal, state member banks with assets greater than \$250 billion generally would no longer be required to conduct stress tests annually, rather they would be required to conduct stress tests once every other year.

Post-crisis financial regulations have resulted in substantial gains in resiliency for individual firms and for the financial system as a whole, including requiring firms to hold higher amounts of better quality capital. Based on the Board’s experience overseeing and reviewing the results of company-run stress testing over more than five years, the Board believes that a two-year stress testing cycle generally would be appropriate for certain state member banks. Specifically, the state member banks that would be subject to a two-year stress testing cycle under the proposal would not be the subsidiaries of larger, more complex firms, which can present greater risk and therefore merit closer monitoring. As discussed below, state member banks that are subsidiaries of larger, more complex firms, would continue to have to conduct stress testing on an annual basis. The Board expects this level of frequency would provide the Board and the state member bank with

information that is sufficient to satisfy the purposes of stress testing, including: assisting in an overall assessment of the state member bank's capital adequacy, identifying downside risks and the potential impact of adverse conditions on the state member bank's capital adequacy, and determining whether additional analytical techniques and exercises are appropriate for the state member bank to employ in identifying, measuring, and monitoring risks to the soundness of the state member bank. In addition, the Board would continue to review the state member bank's stress testing processes and procedures.

Under the proposed rule, all state member banks that would conduct stress tests every other year would be required to conduct stress tests in the same even numbered year (*i.e.*, the reporting years for these state member banks would be synchronized). By requiring these state member banks to conduct their stress tests in the same year, the proposal would continue to allow the Board to make comparisons across state member banks for supervisory purposes and assess macroeconomic trends and risks to the banking industry.

As an exception to the two-year cycle, state member banks that are subsidiaries of U.S. global systemically important bank holding companies or bank holding companies that have \$700 billion or more in total assets or cross-jurisdictional activity of \$75 billion or more would be required to conduct a stress test on an annual basis. As discussed in the Board's October 31, 2018 proposal,<sup>9</sup> U.S. global systemically important bank holding

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<sup>9</sup> See [www.federalreserve.gov/newsevents/pressreleases/bcreg20181031a.htm](http://www.federalreserve.gov/newsevents/pressreleases/bcreg20181031a.htm). Under the board's October 31, 2018 proposal, U.S. global systemically important bank holding companies would be subject to Category I standards while bank holding companies with

companies and bank holding companies with \$700 or more in total assets or \$75 billion or more in cross-jurisdictional activity would be required to conduct stress tests on an annual basis. The proposed requirement for these bank holding companies to conduct stress tests on an annual basis reflects their heightened risk profile, relative to smaller, less complex firms. Requiring the depository institution subsidiaries of these holding companies to a conduct stress test on an annual basis would reflect the risk profile of the overall banking organization and align with the Board’s long-standing policy of applying similar standards to holding companies and their subsidiary banks.

Under the proposal, a state member bank that was subject to a two-year stress test cycle would become subject to an annual stress test if, for example, the parent bank holding company of the bank became a U.S. global systemically important bank holding company or a holding company with \$700 billion or more in total assets or cross-jurisdictional activity of \$75 billion or more. The proposal would not establish a transition period in these cases. Accordingly, a state member bank that becomes an annual stress test firm would be required to begin stress testing annually as of the next year. The Board would expect state member banks to anticipate and plan for this development.

*C. Removal of “Adverse” Scenario for State Member Banks*

As discussed above, section 401 of EGRRCPA amends section 165(i) of the Dodd-Frank Act to no longer require the Board to include an “adverse” stress-testing scenario in the company-run stress test, reducing the number of required company-run

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\$700 billion or more in total assets or \$75 billion or more in cross-jurisdictional activity would be subject to Category II standards.

stress test scenarios from three to two.

The “baseline” scenario is a set of conditions that affect the U.S. economy or the financial condition of the state member bank, and that reflect the consensus views of the economic and financial outlook, and the “severely adverse” scenario is a more severe set of conditions and the most stringent of the scenarios. Because the “baseline” and “severely adverse” scenarios are designed to cover the full range of expected and stressful conditions, the “adverse” stress-testing scenario has provided limited incremental information to the Board and market participants. Accordingly, the proposal would maintain the requirement for state member banks to conduct company-run stress tests under both a “baseline” and “severely adverse” stress-testing scenario. In addition, the proposal would redefine the “severely adverse” scenario to mean a set of conditions that affect the U.S. economy or the financial condition of a state member bank that overall are significantly more severe than those associated with the baseline scenario and may include trading or other additional components.

*D. Removal of “Adverse” Scenario for all other Stress Testing Requirements*

The Board’s company-run stress testing and supervisory stress testing requirements applicable to bank holding companies, U.S. intermediate holding companies of foreign banking organizations, and any nonbank financial company supervised by the Board currently require the inclusion of an “adverse” scenario in the stress test. In addition, the stress testing requirements for certain savings and loan holding companies that were proposed for public comment on October 31, 2018, also would require the

inclusion of an “adverse” scenario.<sup>10</sup>

As discussed above, section 401 of EGRRCPA amends section 165(i)(2) of the Dodd-Frank Act to no longer require the Board to include an “adverse” stress-testing scenario in the company-run stress test. Similarly, section 401 of EGRRCPA amends section 165(i)(1) to no longer require the Board to include an “adverse” scenario in the supervisory stress tests that the Board is required to conduct, reducing the number of supervisory stress test scenarios from three to two.

Consistent with the changes made by section 401 of EGRRCPA, and for the reasons set forth above regarding why the inclusion of the “adverse” scenario is unnecessary, the proposal would remove the “adverse” scenario as a required scenario for all of the Board’s current and proposed company-run and supervisory stress testing requirements, and revise the definition of the “severely adverse” scenario. In addition, the proposal would make conforming changes to the Board’s Policy Statement on the Scenario Design Framework for Stress Testing to reflect the removal of the adverse scenario.

*E. Review by Board of Directors*

Section 252.15 of the Board’s stress testing rule for state member banks provides that “[t]he board of directors, or a committee thereof, of a 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.” Section 238.144 of Regulation LL in the Board’s October 31, 2018, proposal and § 252.56 of Regulation YY include similar approval language. The

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<sup>10</sup> See <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20181031a.htm>.

proposal would revise the frequency of these requirements from “annual” to “no less than each year a stress test is conducted” in order to make review by the board of directors consistent with the supervised firm’s stress testing cycle.

*F. Removal of Transition Language*

The proposal would remove certain transition language present in the Board’s stress testing rule that is no longer current. For example, the proposal would strike paragraph (a)(2) of § 252.14 of part 252, which provides the required timing of the stress tests for each stress test cycle prior to October 1, 2014.

*G. Scope of Applicability for Savings and Loan Holding Companies*

The proposal would revise the company-run stress testing requirements for covered savings and loan holding companies included in the Board’s October 31, 2018, proposal. As part of the October 31, 2018 proposal, the Board generally proposed to apply prudential standards to certain covered savings and loan holding companies using those standards for determining prudential standards for large U.S. banking organizations. Covered savings and loan holding companies are those large savings and loan holding companies other than those substantially engaged in insurance underwriting or commercial activities.<sup>11</sup> Section 165(i)(2) of the Dodd-Frank Act, as amended by EGRRCPA, requires all financial companies that have total consolidated assets of more than \$250 billion to conduct periodic stress tests. Consistent with EGRRCPA, the Board is proposing to revise the scope of applicability of the company-run stress testing requirements proposed on October 31, 2018, to include all savings and loan holding

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<sup>11</sup> See 12 CFR 217.2 (defining a covered savings and loan holding company).

companies that meet the thresholds for either a Category II or a Category III banking organization in the proposed § 238.10 of Regulation LL.

The proposal also would amend the proposed company-run stress test requirements to maintain the existing transition provision that provides that a savings and loan holding company would not be required to conduct its first stress test until after it is subject to minimum capital requirements.

### **III. Request for Comment**

The Board invites comment on all aspects of this proposed rule, including the following questions:

1. The proposal would require a state member bank that is consolidated under a holding company that is required to conduct a stress test at least once every calendar year to also conduct a stress test at least once every calendar year. What are the advantages and disadvantages of requiring a state member bank to conduct a stress test at the same frequency as, or at a different frequency than, its holding company?

2. What if any criteria should the Board consider for differentiating the frequency of stress tests (annual versus biennial) among depository institutions that have significantly different risk profiles and that are not consolidated under a holding company (e.g., differentiate frequency based on asset size, other risk indicators), and why?

3. What alternative frequency to the proposed biennial stress testing requirement should the Board consider and why?

4. Should the Board establish a transition period for state member banks that are already required to stress test and that move from a biennial stress testing requirement to an annual stress testing requirement, and if so, why?

#### **IV. Regulatory Analysis**

##### *A. Riegle Community Development and Regulatory Improvement Act (RCDRIA)*

Section 302 of RCDRIA generally requires that regulations prescribed by Federal banking agencies which impose additional reporting, disclosures or other new requirements on insured depository institutions take effect on the first day of a calendar quarter which begins on or after the date on which the regulation is published in final form unless the agency determines, for good cause published with the regulation, that the regulation should become effective before such time.

The proposed rule imposes no additional reporting, disclosure, or other requirements on insured depository institutions, including small depository institutions, nor on the customers of depository institutions. The proposed rule would raise the minimum asset threshold for state member banks that would be required to conduct a stress test from \$10 billion to \$250 billion, would revise the frequency with which state member banks with assets greater than \$250 billion would be required to conduct stress tests, and would reduce the number of required stress test scenarios from three to two. The requirement to conduct, report, and publish a company-run stress testing is a previously existing requirement imposed by section 165 of the Dodd-Frank Act. In connection with determining an effective date for the proposed rule, the Board invites comment on any administrative burdens that the proposed rule would place on depository institutions, including small depository institutions, and customers of depository institutions.

##### *B. Regulatory Flexibility Act*

In accordance with the Regulatory Flexibility Act (RFA), 5 U.S.C. 601 et seq., the Board is publishing an initial regulatory flexibility analysis of the proposal. The RFA requires each federal agency to prepare an initial regulatory flexibility analysis in connection with the promulgation of a proposed rule, or certify that the proposed rule will not have a significant economic impact on a substantial number of small entities.<sup>12</sup> Under regulations issued by the SBA, a small entity includes a bank, bank holding company, or savings and loan holding company with assets of \$550 million or less (small entity).<sup>13</sup> Based on the Board's analysis, and for the reasons stated below, the Board believes that this proposed rule will not have a significant economic impact on a substantial number of small entities.

As discussed in the Supplementary Information, the Board is proposing to adopt amendments to Regulation YY and LL to reflect revisions made by section 401 of EGRRCPA to section 165 of the Dodd-Frank Act. Specifically, the proposal would affect the regulatory requirements that apply to state member banks with \$10 billion or more in total consolidated assets, along with bank holding companies and requirements that have been proposed to apply to savings and loan holding companies with \$100 billion or more in total consolidated assets.

The proposal would not apply to small entities. Companies that are affected by the proposal, include state member banks with \$10 billion or more in total consolidated assets, along with bank holding companies and savings and loan holding companies with

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<sup>12</sup> See 5 U.S.C. 603, 604, and 605.

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

\$100 billion or more in total consolidated assets and, therefore, substantially exceed the \$550 million asset threshold at which a banking entity is considered a “small entity” under SBA regulations.

The proposal would not impose any new reporting, recordkeeping, or other compliance requirements on banking organizations. Because the proposal would increase the minimum asset threshold for state member banks to conduct stress tests, the proposal would reduce the amount of state member banks subject to the Board’s stress test rules. Moreover, as discussed above, the proposal does not apply to small entities and, therefore, the Board expects that the proposed rule will not impose any reporting, recordkeeping, or other compliance costs on small entities.

The Board does not believe that the proposal duplicates, overlaps, or conflicts with any other Federal rules.

In light of the foregoing, the Board does not believe that the proposal, if adopted in final form, would have a significant economic impact on a substantial number of small entities supervised by the Board and does not believe there are any significant alternatives to the proposal that would reduce the impact of the proposal. Nonetheless, the Board seeks comment on whether the proposal would impose undue burdens on, or would have unintended consequences for, small banking organizations, and whether there are ways such potential burdens or consequences could be minimized in a manner consistent with the purposes of the proposal.

### *C. Paperwork Reduction Act of 1995*

Certain provisions of the proposed rule contain a “collection of information” within the meaning of the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-

3521). In accordance with the requirements of the PRA, the agencies may not conduct or sponsor, and the respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The OMB control numbers are 7100-0350, which will be extended for three years with revision, and 7100-NEW. The Board reviewed the proposed rule under the authority delegated to the Board by OMB.

Comments are invited on:

a. Whether the collections of information are necessary for the proper performance of the Board's functions, including whether the information has practical utility;

b. The accuracy or the estimate of the burden of the information collections, including the validity of the methodology and assumptions used;

c. Ways to enhance the quality, utility, and clarity of the information to be collected;

d. Ways to minimize the burden of the information collections on respondents, including through the use of automated collection techniques or other forms of information technology; and

e. Estimates of capital or startup costs and costs of operation, maintenance, and purchase of services to provide information.

All comments will become a matter of public record. Comments on aspects of this notice that may affect reporting, recordkeeping, or disclosure requirements and burden estimates should be sent to the addresses listed in the ADDRESSES section of this document. A copy of the comments may also be submitted to the OMB desk officer

by mail to U.S. Office of Management and Budget, 725 17th Street NW, #10235, Washington, DC 20503; facsimile to (202) 395-6974; or e-mail to [oir\\_submission@omb.eop.gov](mailto:oir_submission@omb.eop.gov), Attention, Federal Reserve Desk Officer.

*Proposed Information Collections*

1) *Title of Information Collection:* Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulation YY.

Agency Form Number: FR YY.

*OMB control number:* 7100-0350.

*Frequency:* Annual, semiannual, and quarterly.

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

*Respondents:* State member banks, U.S. bank holding companies, savings and loan holding companies, nonbank financial companies, foreign banking organizations, U.S. intermediate holding companies, foreign savings and loan holding companies, and foreign nonbank financial companies supervised by the Board.

*Description of the Information Collection:* Section 252.16 of Regulation YY requires a state member bank that has average total consolidated assets of \$250 billion or more to report the results of the stress test to the Board by April 5, unless that time is extended by the Board in writing, in a manner consistent with the requirements of the section.

*Current Actions:* The proposed rule would raise the minimum threshold for state member banks to conduct stress tests from \$10 billion to \$250 billion. As a result, the number of respondents filing the reporting requirements in § 252.16 of Regulation YY would

decrease to one. The reporting requirements for § 252.57 of Regulation YY are being revised in the Capital Assessments and Stress Testing (FR Y-14; OMB No. 7100-0341).<sup>14</sup>

*Legal authorization and confidentiality:* This information collection is authorized by section 165(i)(2) of the Dodd-Frank Act. The obligation of covered institutions to report this information is mandatory.

The information collected in these reports is collected as part of the Board's supervisory process, and therefore is afforded confidential treatment pursuant to exemption 8 of the Freedom of Information Act (FOIA) (5 U.S.C. 552(b)(8)). In addition, individual respondents may request that certain data be afforded confidential treatment pursuant to exemption 4 of FOIA if the data has not previously been publicly disclosed and the release of the data would likely cause substantial harm to the competitive position of the respondent (5 U.S.C. 552(b)(4)). Determinations of confidentiality based on exemption 4 of FOIA would be made on a case-by-case basis.

*Current estimated annual burden hours:* 119,264.

*Estimated annual burden hours due to proposed revisions:* (1,400).

*Proposed estimated annual burden hours:* 117,864.

2) *Title of Information Collection:* Disclosure Requirements Associated with Regulation LL.

Agency Form Number: FR LL.

*OMB control number:* 7100-NEW.

*Frequency:* Annual, biennial.

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

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<sup>14</sup> See 83 FR 61408 (November 29, 2018).

*Respondents:* Savings and loan holding companies.

*Description of the Information Collection:* The proposed § 238.146 of Regulation LL, which was proposed as part of the Board's October 31 proposal regarding prudential standards for large bank holding companies and savings and loan holdings companies<sup>15</sup> requires certain savings and loan holding companies with \$100 billion or more in assets to publicly disclose a summary of the results of the stress test conducted pursuant to proposed § 238.143 of Regulation LL in a manner consistent with the requirements of proposed § 238.146 of Regulation LL.

*Current Actions:* The proposed § 238.146 of Regulation LL would implement disclosure requirements that were previously proposed for savings and loan holding companies. The reporting requirements for proposed §§ 238.133 and 238.145 of Regulation LL are being revised in the Capital Assessments and Stress Testing (FR Y-14; OMB No. 7100-0341).<sup>16</sup>

*Legal authorization and confidentiality:* This information collection is authorized by section 10 of the Home Owners' Loan Act (HOLA) and section 165(i)(2) of the Dodd-Frank Act. The obligation of covered institutions to report this information is mandatory. This information would be disclosed publicly and, as a result, no issue of confidentiality is raised.

*Estimated number of respondents:* 1.

*Estimated average hours per response:* 200 for initial setup and 80 for ongoing.

*Estimated annual burden hours:* 140.

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<sup>15</sup> See [www.federalreserve.gov/newsevents/pressreleases/bcreg20181031a.htm](http://www.federalreserve.gov/newsevents/pressreleases/bcreg20181031a.htm)

<sup>16</sup> See 83 FR 61408 (November 29, 2018).

#### *D. 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 has sought to present the proposed rule in a simple and straightforward manner, and invites comment on the use of plain language.

For example:

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

#### **List of Subjects**

##### **12 CFR Part 238**

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

## 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 proposes to amend 12 CFR parts 238 and 252 as follows:

### **PART 238—SAVINGS AND LOAN HOLDING COMPANIES (REGULATION LL)**

1. The authority citation for part 238 continues to read as follows:

Authority: 5 U.S.C. 552, 559; 12 U.S.C. 1462, 1462a, 1463, 1464, 1467, 1467a, 1468, 1813, 1817, 1829e, 1831i, 1972; 15 U.S.C. 78 l.

### **Subpart O—Supervisory Stress Test Requirements for Covered Savings and Loan Holding Companies**

2. Section 238.130, which was proposed to be added at 83 FR 61408 (November 29, 2018), is further amended by:

- a. Revising the definitions of *Advanced approaches*;
- b. Removing the definition *Adverse scenario*; and
- c. Revising the definitions *Baseline scenario*, *Scenarios*, and *Severely adverse scenario*.

The revisions read as follows:

#### **§ 238.130 Definitions.**

\* \* \* \* \*

Advanced approaches means the risk-weighted assets calculation methodologies at 12 CFR part 217, subpart E, as applicable.

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.

\* \* \* \* \*

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 and severely adverse scenarios.

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 significantly more severe than those associated with the baseline scenario and may include trading or other additional components.

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3. Section 238.132, which was proposed to be added at 83 FR 61408 (November 29, 2018), is further amended by revising paragraph (b) to read as follows:

**§ 238.132 Analysis conducted by the Board.**

\* \* \* \* \*

(b) Economic and financial scenarios related to the Board's analysis. The Board will conduct its analysis using a minimum of two different scenarios, including a baseline scenario and a severely adverse scenario. The Board will notify covered companies of the scenarios that the Board will apply to conduct the analysis for each stress test cycle to

which the covered company is subject by no later than February 15 of that 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.

\* \* \* \* \*

4. Section 238.134, which was proposed to be added at 83 FR 61408 (November 29, 2018), is further amended by revising paragraph (a) to read as follows:

**§ 238.134 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 and severely adverse scenarios, and any additional scenarios.

\* \* \* \* \*

**Subpart P—Company-Run Stress Test Requirements for Savings and Loan Holding Companies**

5. Section 238.141, which was proposed to be added on 83 FR 61408 (November 29, 2018), is further amended by:

- a. Revising the definition *Advanced approaches*;
- b. Removing the definition *Adverse scenario*; and
- c. Revising the definitions *Baseline scenario*, *Covered company*, *Regulatory capital ratio*, *Scenarios*, and *Severely adverse scenario*.

The revisions read as follows:

**§ 238.141 Definitions.**

*Advanced approaches* means the risk-weighted assets calculation methodologies at 12 CFR part 217, subpart E, as applicable.

*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.

\* \* \* \* \*

*Covered company* means:

(1) A savings and loan holding company identified as a Category II banking organization pursuant to § 238.10; or

(2) A savings and loan holding company identified as a Category III banking organization pursuant to § 238.10.

\* \* \* \* \*

*Regulatory capital ratio* means a capital ratio for which the Board has established minimum requirements for the savings and loan holding company by regulation or order, including, as applicable, the company's regulatory capital ratios calculated under 12 CFR part 217 and the deductions required under 12 CFR 248.12; except that the company shall not use the advanced approaches to calculate its regulatory capital ratios.

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

*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 significantly more severe than those associated with the baseline scenario and may include trading or other additional components.

\* \* \* \* \*

6. Section 238.142, which was proposed to be added at 83 FR 61408 (November 29, 2018), is further revised to read as follows:

**§ 238.142 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 savings and loan holding company identified as a Category II banking organization pursuant to § 238.10; and

(ii) Any savings and loan holding company identified as a Category III banking organization pursuant to § 238.10.

(2) Ongoing applicability. A savings and loan 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 the savings and loan holding company:

(i) Is not a savings and loan holding company identified as a Category II banking organization pursuant to § 238.10; and

(ii) Is not a savings and loan holding company identified as a Category III banking organization pursuant to § 238.10.

(b) Transitional arrangements. (1) A savings and loan holding company that is subject to minimum capital requirements and that becomes a covered company on or

before September 30 of a calendar year must comply with the requirements of this subpart beginning on January 1 of the second calendar year after the savings and loan holding company becomes a covered company, unless that time is extended by the Board in writing.

(2) A savings and loan holding company that is subject to minimum capital requirements and that becomes a covered company after September 30 of a calendar year must comply with the requirements of this subpart beginning on January 1 of the third calendar year after the savings and loan holding company becomes a covered company, unless that time is extended by the Board in writing.

7. Section 238.143, which was proposed to be added at 83 FR 61408 (November 29, 2018), is further amended by revising paragraphs (a), (b)(2) and (b)(4)(i) to read as follows:

**§ 238.143 Stress test.**

(a) Stress test requirement—(1) In general. A covered company must conduct a stress test as required under this subpart.

(2) Frequency. (i) Except as provided in paragraph (a)(2)(ii) of this section, a covered company must conduct an annual stress test. 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.

(ii) A savings and loan holding company identified as a Category III banking organization pursuant to § 238.10 must conduct a biennial stress test. The stress test must be conducted by April 5 of each calendar year ending in an even number, 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) \* \* \*

(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 severely adverse scenario in the stress test required by this section. The data used in this component must be as-of a date selected by the Board between October 1 of the previous calendar year and March 1 of the calendar year in which the stress test is performed pursuant to this section, 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 calendar year in which the stress test is performed pursuant to this section.

(ii) The Board may require a covered company to include one or more additional components in its severely adverse scenario 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) \* \* \*

(i) Notification of additional component. If the Board requires a covered company to include one or more additional components in its severely adverse scenario 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. 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).

\* \* \* \* \*

8. Section 238.144, which was proposed to be added on 83 FR 61408 (November 29, 2018), is further amended by revising paragraph (c)(2) to read as follows:

**§ 238.144 Methodologies and practices.**

\* \* \* \* \*

(c) \* \* \*

(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 each year a stress test is conducted. 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.

\* \* \* \* \*

**PART 252—ENHANCED PRUDENTIAL STANDARDS (REGULATION YY)**

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

Authority: 12 U.S.C. 321–338a, 481–486, 1467a, 1818, 1828, 1831n, 1831o, 1831p–l, 1831w, 1835, 1844(b), 1844(c), 3101 et seq., 3101 note, 3904, 3906–3909, 4808, 5361, 5362, 5365, 5366, 5367, 5368, 5371.

10. Revise the heading for subpart B to read as follows:

**Subpart B—Company-Run Stress Test Requirements for State Member Banks with**

**Total Consolidated Assets Over \$250 Billion**

11. Section 252.11, which was proposed to be revised at 83 FR 61408 (November 29, 2018), is further amended by revising the section heading and paragraph (b) to read as follows:

**§ 252.11 Authority and purpose.**

\* \* \* \* \*

(b) Purpose. This subpart implements section 165(i)(2) of the Dodd-Frank Act (12 U.S.C. 5365(i)(2)), which requires state member banks with total consolidated assets of greater than \$250 billion to conduct stress tests. This subpart also establishes definitions of stress tests and related terms, methodologies for conducting stress tests, and reporting and disclosure requirements.

12. Section 252.12, which was proposed to be revised at 83 FR 61408 (November 29, 2018), is further amended by removing and reserving paragraph (b) and revising paragraphs (c), (g), (n), (o), and (p) to read as follows:

**§ 252.12 Definitions.**

\* \* \* \* \*

(b) [Reserved]

(c) Asset threshold means a state member bank with average total consolidated assets of greater than \$250 billion.

\* \* \* \* \*

(g) *Capital action* has the same meaning as in §225.8(d) of the Board's Regulation Y (12 CFR 225.8(d)).

\* \* \* \* \*

(n) Regulatory capital ratio means a capital ratio for which the Board has established minimum requirements for the state member bank by regulation or order, including, as applicable, the state member bank's regulatory capital ratios calculated under 12 CFR part 217 and the deductions required under 12 CFR 248.12; except that the state member bank shall not use the advanced approaches to calculate its regulatory capital ratios.

\* \* \* \* \*

(o) *Scenarios* are those sets of conditions that affect the U.S. economy or the financial condition of a state member bank that the Board annually determines are appropriate for use in the company-run stress tests, including, but not limited to baseline 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 state member bank and that overall are significantly more severe than those associated with the baseline scenario and may include trading or other additional components.

\* \* \* \* \*

13. Section 252.13, which was proposed to be revised at 83 FR 61408 (November 29, 2018), is further revised to read as follows:

**§ 252.13 Applicability.**

(a) Scope—(1) Applicability. Except as provided in paragraph (b) of this section, this subpart applies to any state member bank with average total consolidated assets (as defined in §252.12(d)) of greater than \$250 billion.

(2) Ongoing applicability. A 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 \$250 billion for each of four consecutive quarters, as reported on the Call Report and effective on the as-of date of the fourth consecutive Call Report.

(b) Transition period. (1) A 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.

(2) A 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.

14. Section 252.14, which was proposed to be amended at 83 FR 61408 (November 29, 2018), is further amended by revising the section heading and paragraphs (a), (b)(2)(i), and (b)(4)(i) and (ii) to read as follows:

**§ 252.14 Stress test.**

(a) General requirements—(1) General. Except as provided in paragraph (a)(2):

(i) A state member bank that is a covered company subsidiary must conduct a biennial stress test. The stress test must be conducted by April 5 of each calendar year ending in an even number, 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 must conduct a biennial stress test. The stress test must be conducted by July 31 of each calendar year

ending in an even number, 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.

(2) Annual stress test for certain state member banks. A state member bank that is a subsidiary of a global systemically important BHC or a Category II bank holding company must conduct an annual stress test. 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) \* \* \*

(2) \* \* \*

(i) The Board may require a 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 severely adverse scenario in the stress test required by this section. The Board may also require a state member bank that is subject to 12 CFR part 217, subpart F or that is a subsidiary of a bank holding company that is subject to either this paragraph (b)(2) or §252.54(b)(2)(i) to include a trading and counterparty component in the state member bank's severely adverse scenario in the stress test required by this section. 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.

\* \* \* \* \*

(4) \* \* \*

(i) Notification of additional component. If the Board requires a state member bank to include one or more additional components in its severely adverse scenario 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 December 31.

(ii) Request for reconsideration and Board response. Within 14 calendar days of receipt of a notification under this paragraph (b)(4), the 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 request for reconsideration should be granted. The Board will respond in writing within 14 calendar days of receipt of the company's request.

\* \* \* \* \*

15. Section 252.15, which was proposed to be revised at 83 FR 61408 (November 29, 2018), is further amended by revising paragraphs (b)(1) and (2) to read as follows:

**§ 252.15 Methodologies and practices.**

\* \* \* \* \*

(b) \* \* \*

(1) In general. The senior management of a 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 and regulations.

(2) Oversight of stress testing processes. The board of directors, or a committee thereof, of a 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 each year a stress test is conducted. The board of directors and senior management of the state member bank must receive a summary of the results of the stress test conducted under this section.

\* \* \* \* \*

16. Section 252.16, is amended by revising paragraphs (a) and (b) introductory text to read as follows:

**§ 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) of this section.

(2) *Timing.* For each stress test cycle in which a stress test is conducted:

(i) A state member bank that is a covered company subsidiary 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 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, severely adverse scenario, and any other scenario required under §252.14(b)(3):

\* \* \* \* \*

17. Section 252.17, which was proposed to be revised at 83 FR 61408 (November 29, 2018), is further amended by revising paragraph (a) to read as follows:

**§ 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.

(ii) [Reserved]

(2) *Timing.* For each stress test cycle in which a stress test is conducted:

(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), unless that time is extended by the Board in writing; and

(ii) A state member bank that is not a covered company subsidiary 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.

\* \* \* \* \*

**Subpart E—Supervisory Stress Test Requirements for Certain U.S. Banking Organizations With \$100 Billion or More in Total Consolidated Assets and**

**Nonbank Financial Companies Supervised by the Board**

18. Section 252.42 is amended by removing and reserving paragraph (b) and revising paragraphs (n) and (o) to read as follows:

**§ 252.42 Definitions**

\* \* \* \* \*

(b) [Reserved]

\* \* \* \* \*

(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 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 significantly more severe than those associated with the baseline scenario and may include trading or other additional components.

\* \* \* \* \*

19. Section 252.44, which was proposed to be amended at 83 FR 61408 (November 29, 2018), is further amended by revising paragraph (b) to read as follows:

**§ 252.44 Analysis conducted by the Board.**

\* \* \* \* \*

(b) Economic and financial scenarios related to the Board’s analysis. The Board will conduct its analysis using a minimum of two different scenarios, including a baseline scenario and a severely adverse scenario. The Board will notify covered companies of the scenarios that the Board will apply to conduct the analysis for each stress test cycle to which the covered company is subject by no later than February 15 of that 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.

\* \* \* \* \*

**Subpart F—Company-Run Stress Test Requirements for Certain U.S. Bank**

**Holding Companies and Nonbank Financial Companies Supervised by the Board**

20. Section 252.52, which was proposed to be revised at 83 FR 61408 (November 29, 2018), is further amended by removing and reserving paragraph (b) and revising paragraphs (o) and (p) to read as follows:

**§ 252.52 Definitions.**

\* \* \* \* \*

(b) [Reserved]

\* \* \* \* \*

(o) Scenarios are those sets of conditions that affect the U.S. economy or the financial condition of a covered company that the Board annually or biennially determines are appropriate for use in the company-run stress tests, including, but not limited to, baseline 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

significantly more severe than those associated with the baseline scenario and may include trading or other additional components.

\* \* \* \* \*

21. Section 252.54, which was proposed to be revised at 83 FR 61408 (November 29, 2018), is further amended by revising paragraphs (b)(2)(i) and (ii) to read as follows:

**§ 252.54 Stress test.**

\* \* \* \* \*

(b) \* \* \*

(2) \* \* \*

(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 severely adverse scenario in the stress test required by this section. The data used in this component must be as of a date selected by the Board between October 1 of the previous calendar year and March 1 of the calendar year in which the stress test is performed pursuant to this section, 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 calendar year in which the stress test is performed pursuant to this section.

(ii) The Board may require a covered company to include one or more additional components in its severely adverse scenario 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.

\* \* \* \* \*

22. Section 252.55, which was proposed to be revised at 83 FR 61408 (November 29, 2018), is further amended by revising paragraphs (b)(1) and (2) and (b)(4)(i) to read as follows:

**§ 252.55 Mid-cycle stress test.**

\* \* \* \* \*

(b) \* \* \*

(1) In general. A U.S. intermediate holding company must develop and employ a minimum of two scenarios, including a baseline 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 U.S. intermediate holding company to include one or more additional components in its severely adverse scenario 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) \* \* \*

(i) Notification of additional component. If the Board requires a U.S. intermediate holding company to include one or more additional components in its severely adverse scenario 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. 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).

\* \* \* \* \*

23. Section 252.56 is amended by revising paragraph (c)(2) to read as follows:

**§ 252.56 Methodologies and practices.**

\* \* \* \* \*

(c) \* \* \*

(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 each year a stress test is conducted. 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.

\* \* \* \* \*

24. Appendix A is amended by:

a. Revising Section 1a and b, Section 2c, Section 3a, Section 3.2(a), Section 4, Section 4.1a, and Section 4.2;

b. Removing Section 4.3;

c. Revising Section 5a and b and Section 5.2.2a; and

d. Removing Section 5.3 and Section 6d.

The revisions read as follows:

**APPENDIX A TO PART 252 – POLICY STATEMENT ON THE SCENARIO DESIGN  
FRAMEWORK FOR STRESS TESTING**

**1. BACKGROUND**

a. The Board has imposed stress testing requirements through its regulations (stress test rules) implementing section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act or Act) and through its capital plan rule (12 CFR 225.8). Under the stress test rules issued under section 165(i)(1) of the Act, the Board conducts an annual stress test (supervisory stress tests), on a consolidated basis, of each bank holding company with total consolidated assets of \$100 billion or more, intermediate holding company of a foreign banking organization, and nonbank financial company that the Financial Stability Oversight Council has designated for supervision by the Board (together, covered companies).<sup>1</sup> In addition, under the stress test rules issued under section 165(i)(2) of the Act, covered companies must conduct stress tests semi-

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<sup>1</sup> 12 U.S.C. 5365(i)(1); 12 CFR part 252, subpart E.

annually and other financial companies with total consolidated assets of more than \$250 billion and for which the Board is the primary regulatory agency must conduct stress tests on a periodic basis (together, company-run stress tests).<sup>2</sup> The Board will provide for at least two different sets of conditions (each set, a scenario), including baseline and severely adverse scenarios for both supervisory and company-run stress tests (macroeconomic scenarios).<sup>3</sup>

b. The stress test rules provide that the Board will notify covered companies by no later than February 15 of each year of the scenarios it will use to conduct its annual supervisory stress tests and provide, also by no later than February 15, covered companies and other financial companies subject to the final rules the set of scenarios they must use to conduct their annual company-run stress tests. Under the stress test rules, the Board may require certain companies to use additional components in the severely adverse scenario or additional scenarios. 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 severely adverse scenario. The Board will provide any additional components or scenario

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<sup>2</sup> 12 U.S.C. 5365(i)(2); 12 CFR part 252, subparts B and F.

<sup>3</sup> The stress test rules define scenarios as those sets of conditions that affect the United States economy or the financial condition of a company that the Board annually determines are appropriate for use in stress tests, including, but not limited to, baseline and severely adverse scenarios. The stress test rules define baseline scenario as a set of conditions that affect the United States economy or the financial condition of a company and that reflect the consensus views of the economic and financial outlook. The stress test rules define severely adverse scenario as a set of conditions that affect the United States economy or the financial condition of a company and that overall are significantly more severe than those associated with the baseline scenario and may include trading or other additional components.

by no later than March 1 of each year.<sup>4</sup> 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).

\* \* \* \* \*

## 2. Overview and scope

\* \* \* \* \*

c. The remainder of this policy statement is organized as follows. Section 3 provides a broad description of the baseline and severely adverse scenarios and describes the types of variables that the Board expects to include in the macroeconomic scenarios and the market shock component of the stress test scenarios applicable to companies with significant trading activity. Section 4 describes the Board's approach for developing the macroeconomic scenarios, and section 5 describes the approach for the market shocks. Section 6 describes the relationship between the macroeconomic scenario and the market shock components. Section 7 provides a timeline for the formulation and publication of the macroeconomic assumptions and market shocks.

## 3. CONTENT OF THE STRESS TEST SCENARIOS

a. The Board will publish a minimum of two different scenarios, including baseline and severely adverse conditions, for use in stress tests required in the stress test rules.<sup>9</sup> In general, the Board anticipates that it will not issue additional scenarios. Specific circumstances or vulnerabilities that in any given year the Board determines require particular vigilance to ensure the resilience of the banking sector will be captured

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<sup>4</sup> *Id.*

in the severely adverse scenario. A greater number of scenarios could be needed in some years—for example, because the Board identifies a large number of unrelated and uncorrelated but nonetheless significant risks.

<sup>9</sup>: 12 CFR 252.14(b), 12 CFR 252.44(b), 12 CFR 252.54(b).

\* \* \* \* \*

### 3.2 *Market Shock Component*

a. The market shock component of the severely adverse scenario will only apply to companies with significant trading activity and their subsidiaries.<sup>12</sup> The component consists of large moves in market prices and rates that would be expected to generate losses. Market shocks differ from macroeconomic scenarios in a number of ways, both in their design and application. For instance, market shocks that might typically be observed over an extended period (*e.g.*, 6 months) are assumed to be an instantaneous event which immediately affects the market value of the companies' trading assets and liabilities. In addition, under the stress test rules, the as-of date for market shocks will differ from the quarter-end, and the Board will provide the as-of date for market shocks no later than February 1 of each year. Finally, as described in section 4, the market shock includes a much larger set of risk factors than the set of economic and financial variables included in macroeconomic scenarios. Broadly, these risk factors include shocks to financial market variables that affect asset prices, such as a credit spread or the yield on a bond, and, in some cases, the value of the position itself (*e.g.*, the market value of private equity positions).

<sup>12</sup>. Currently, companies with significant trading activity include any bank holding company or intermediate holding company that (1) has aggregate trading assets and liabilities of \$50 billion or more, or aggregate trading assets and liabilities equal to 10 percent or more of total consolidated assets, and (2) is not a large and noncomplex firm. The Board may also subject a state member bank subsidiary of any such bank holding company to the market shock component. The set of companies subject to the market shock

component could change over time as the size, scope, and complexity of financial company's trading activities evolve.

\* \* \* \* \*

#### **4. APPROACH FOR FORMULATING THE MACROECONOMIC ASSUMPTIONS FOR SCENARIOS**

a. This section describes the Board's approach for formulating macroeconomic assumptions for each scenario. The methodologies for formulating this part of each scenario differ by scenario, so these methodologies for the baseline and severely adverse scenarios are described separately in each of the following subsections.

b. In general, the baseline scenario will reflect the most recently available consensus views of the macroeconomic outlook expressed by professional forecasters, government agencies, and other public-sector organizations as of the beginning of the annual stress-test cycle. The severely adverse scenario will consist of a set of economic and financial conditions that reflect the conditions of post-war U.S. recessions.

c. Each of these scenarios is described further in sections below as follows:  
baseline (subsection 4.1) and severely adverse (subsection 4.2)

##### **4.1 Approach for Formulating Macroeconomic Assumptions in the Baseline Scenario**

a. The stress test rules define the baseline scenario as a set of conditions that affect the U.S. economy or the financial condition of a banking organization, and that reflect the consensus views of the economic and financial outlook. Projections under a baseline scenario are used to evaluate how companies would perform in more likely economic and financial conditions. The baseline serves also as a point of comparison to the severely adverse scenario, giving some sense of how much of the company's capital

decline could be ascribed to the scenario as opposed to the company's capital adequacy under expected conditions.

\* \* \* \* \*

#### **4.2 Approach for Formulating the Macroeconomic Assumptions in the Severely Adverse scenario**

The stress test rules define a severely adverse scenario as a set of conditions that affect the U.S. economy or the financial condition of a financial company and that overall are significantly more severe than those associated with the baseline scenario. The financial company will be required to publicly disclose a summary of the results of its stress test under the severely adverse scenario, and the Board intends to publicly disclose the results of its analysis of the financial company under the severely adverse scenario.

\* \* \* \* \*

### **5. APPROACH FOR FORMULATING THE MARKET SHOCK COMPONENT**

a. This section discusses the approach the Board proposes to adopt for developing the market shock component of the severely adverse scenario appropriate for companies with significant trading activities. The design and specification of the market shock component differs from that of the macroeconomic scenarios because profits and losses from trading are measured in mark-to-market terms, while revenues and losses from traditional banking are generally measured using the accrual method. As noted above, another critical difference is the time-evolution of the market shock component. The market shock component consists of an instantaneous "shock" to a large number of risk factors that determine the mark-to-market value of trading positions, while the

macroeconomic scenarios supply a projected path of economic variables that affect traditional banking activities over the entire planning period.

b. The development of the market shock component that are detailed in this section are as follows: baseline (subsection 5.1) and severely adverse (subsection 5.2).

\* \* \* \* \*

### ***5.2.2 Approaches to Market Shock Design***

a. As an additional component of the severely adverse scenario, the Board plans to use a standardized set of market shocks that apply to all companies with significant trading activity. The market shocks could be based on a single historical episode, multiple historical periods, hypothetical (but plausible) events, or some combination of historical episodes and hypothetical events (hybrid approach). Depending on the type of hypothetical events, a scenario based on such events may result in changes in risk factors that were not previously observed. In the supervisory scenarios for 2012 and 2013, the shocks were largely based on relative moves in asset prices and rates during the second half of 2008, but also included some additional considerations to factor in the widening of spreads for European sovereigns and financial companies based on actual observation during the latter part of 2011.

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