


November 18, 2014

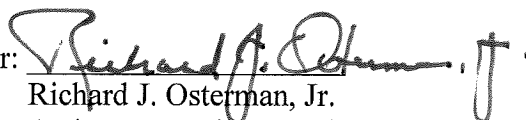
**TO:** The Board of Directors  
**FROM:** Doreen R. Eberley   
Director, Division of Risk Management Supervision  
**SUBJECT:** Final Rule to Adjust the Timing of the Annual Stress Testing Cycle

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**RECOMMENDATION:** Staff recommends that the Board of Directors of the Federal Deposit Insurance Corporation (“Board”) approve a final rule to modify the dates for the annual stress testing cycle and the corresponding reporting and public disclosure deadlines for covered banks under the Federal Deposit Insurance Corporation’s (“FDIC” or “Corporation”) Annual Stress Test rules found in sections 325.201 through 325.207 of the FDIC Rules and Regulations. This final rule will impact four over \$50 billion covered banks and twenty-two \$10 billion to \$50 billion covered banks. The Office of the Comptroller of the Currency (“OCC”) and the Board of Governors of the Federal Reserve System (“Federal Reserve”) will issue substantially similar final rules. If approved, the final rule will be published in the *Federal Register* and will become effective the later of 30 days after publication in the *Federal Register* or January 1, 2015.

The four over \$50 billion covered banks were required to conduct stress testing beginning October 1, 2012. The twenty-two \$10-\$50 billion covered banks were required to conduct stress testing under the rule beginning October 1, 2013. The four over \$50 billion covered banks and twenty-two \$10-\$50 billion covered banks will continue to conduct stress tests under the current schedule for the 2014 stress test cycle year and the revised schedule will apply to all twenty-six

Concur:

  
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covered banks beginning in the January 1, 2016 stress test cycle.

## **OVERVIEW**

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) instructs the federal banking agencies to issue regulations that require covered banks to conduct annual stress tests (“company-run stress tests”). The FDIC, OCC, and Federal Reserve each issued such regulations in October 2012 that established the dates by which covered bank financial data is to be used for completing the stress tests (the “as of” date), and agency reporting, and public disclosure dates. The current timeframes established in these regulations overlap with other resource-intensive obligations of both the covered banks and the federal banking agencies.

The banking agencies issued notices of proposed rulemaking on July 1, 2014 that would shift the timeframes to facilitate devotion of appropriate resources to stress testing in order to improve the quality and effectiveness of the stress tests. This final rule would amend the company-run stress test regulations to adopt these proposed changes.

## **BACKGROUND**

Section 165(i)(2) of the Dodd-Frank Act requires the federal banking agencies to issue regulations requiring financial companies with more than \$10 billion in total consolidated assets to conduct annual stress tests. In October 2012, the FDIC, OCC, and Federal Reserve issued substantially similar regulations to implement the company-run stress test requirements.<sup>1</sup> The FDIC’s company-run stress test regulations require the FDIC to provide to state nonmember banks and state savings associations with \$10 billion or more in total consolidated assets (“covered banks”) a minimum of three economic scenarios (baseline, adverse, and severely

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<sup>1</sup> 77 FR 62417 (October 15, 2012)(FDIC); 77 FR 61238 (October 9, 2012)(OCC); 77 FR 62396 (October 12, 2012)(Federal Reserve). The FDIC’s bank-run stress test requirements are codified Part 325 Subpart C of the FDIC’s Rules and Regulations, 12 CFR §§ 325.201-325.207.

adverse). Covered banks must conduct stress tests in which they project their financial position over a nine-quarter planning horizon under each of the three economic scenarios. The FDIC regulations require covered banks to report the results of these stress tests to the FDIC and Federal Reserve, and to publish a summary of the results.

The timeframes as currently established in the company-run stress test regulations coincide with other obligations of both the covered banks and the federal banking agencies. For example, covered banks raised concerns with the limited availability of critical resources at the end of the calendar year, including personnel who are needed to execute stress tests, validate and document results, and consult with senior management and the board of directors. In addition, the FDIC's review of the annual stress test overlaps with the review of resolution plans.

In response to these concerns, on July 1, 2014, the agencies published in the *Federal Register* substantively similar and consistent notices of proposed rulemaking ("NPR"), proposing to shift the timeframes applicable to the company-run stress test regulations.<sup>2</sup> The proposed rule would shift the stress test cycle a full quarter to have it commence on January 1, rather than October 1, as is provided for by current rules.

Under the NPR, covered banks would conduct company-run stress tests using financial data as of December 31, rather than September 30 as in the current rule. The FDIC would provide the economic scenarios to be used by covered banks in their company-run stress tests no later than February 15 rather than November 15. Under the proposed rule, all \$10 billion to \$50 billion covered banks would be required to conduct and submit the results of their company-run stress tests to the FDIC by July 31, rather than March 31, and publish those results between October 15 and October 31, rather than between June 15 and June 30. Over \$50 billion covered banks would be required to conduct and submit the results of their company-run stress tests to

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<sup>2</sup> 79 FR 37235 (July 1, 2014) (FDIC); 79 FR 37231 (July 1, 2014) (OCC); 79 FR 37419 (July 1, 2014) (FRB).

the FDIC by April 5, rather than January 5, and publish those results between June 15 and July 15, rather than between March 15 and March 31. The modified timelines are attached in a table at the end of this summary.

A covered bank that is a subsidiary of a bank holding company or savings and loan holding company that is also required to conduct an annual company-run stress test under regulations of the Federal Reserve may continue to elect to conduct its stress test and report to the FDIC on the same timeline as its parent bank holding company or savings and loan holding company. Under the proposed rule, an over \$50 billion bank that is a subsidiary of a banking holding company or savings and loan holding company that is subject to supervisory stress tests conducted by the Federal Reserve may publish the required summary of its company-run stress test no earlier than the date that the Federal Reserve publishes supervisory stress test results for the organization, but no later than July 15.

## **SUMMARY OF COMMENTS**

The NPR solicited comment on all aspects of the proposed rule and the FDIC received five comments in response. The commenters supported the proposed timing shift for the start of the stress test cycles to address the challenges to banking organizations and personnel presented at the end of the calendar year. Some commenters encouraged the FDIC to accelerate implementation of the proposed time frame and apply the revisions earlier than January 1, 2016. Other commenters requested that the FDIC provide stress test scenarios by no later than January 15 of a given calendar year given the compressed timeframe for implementation of stress testing processes. The FDIC also received comments that went beyond the scope of the proposed revisions in the NPR. Some commenters requested that the length of the planning horizon be reduced from nine quarters to eight quarters. Lastly, commenters requested that the federal

banking agencies delay incorporation of advanced approaches risk-based capital rules into the annual stress testing process indefinitely.

## **SUMMARY OF FINAL RULE**

Having given full consideration to the comments received, the final rule adopts the proposed rule with minor changes. If issued, the final rule would amend the company-run stress test regulations and revise the timelines for the 2016 stress test cycle year and thereafter as follows:

- The as of date for financial data used in the company-run stress tests shifts from September 30 to December 31;
- The date by which the FDIC would provide covered banks with the economic scenarios shifts from November 15 to February 15;
- With respect to \$10 billion to \$50 billion covered banks:
  - the date on which reports are due to the FDIC and Federal Reserve shifts from March 31 to July 31; and
  - the dates that \$10 billion to \$50 billion covered banks are required to publish summaries of their stress test results shifts from between June 15 and June 30 to between October 15 and October 31.
- With respect to over \$50 billion covered banks:
  - the date on which reports are due to the FDIC and Federal Reserve shifts from January 5 to April 5; and
  - the dates that over \$50 billion covered banks are required to publish summaries of their stress test results shifts from between March 15 and March 31 to between June 15 and July 15; however,

- an over \$50 billion covered bank that is a subsidiary of a banking holding company or savings and loan holding company that is subject to supervisory stress tests conducted by the Federal Reserve may publish the required summary of its company-run stress test no earlier than the date that the Federal Reserve publishes the supervisory stress test results for the organization, but no later than July 15.
- Provides a minimum of nine months between the date on which a state nonmember bank or state savings association becomes a covered bank and the start date of the stress testing cycle in which the covered bank must conduct its first stress test.

The OCC and the Federal Reserve will issue substantially similar final rules that include modifications to their timeframes applicable to their respective company-run stress test regulations.

**Table 1 – Modified Annual Stress Test Timeline for \$10 Billion to \$50 Billion Covered Banks**

<b>Action Required</b>	<b>Current Rule</b>	<b>Final Rule</b>
“As of” Date for Financial Data	September 30	<b>December 31</b>
Distribution of Scenarios for Annual Stress Tests by FDIC	By November 15	<b>By February 15</b>
Reporting of Annual Stress Test Results	By March 31	<b>By July 31</b>
Public Disclosure of Annual Stress Test Results	Between June 15 and June 30	<b>Between October 15 and October 31</b>

**Table 2 – Modified Annual Stress Test Timeline for over \$50 Billion Covered Banks**

<b>Action Required</b>	<b>Current Rule</b>	<b>Final Rule</b>
“As of” Date for Financial Data	September 30	<b>December 31</b>
Distribution of Scenarios for Annual Stress Tests by FDIC	By November 15	<b>By February 15</b>
Reporting of Annual Stress Test Results	By January 5	<b>By April 5</b>
Public Disclosure of Annual Stress Test Results	Between March 15 and March 31	<b>Between June 15 and July 15<sup>3</sup></b>

**CONCLUSION**

For the reasons stated above, staff recommends that the Board approve the attached final rule for publication in the *Federal Register*.

**Contacts**

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Attachments: The final rule entitled “Annual Stress Test”

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<sup>3</sup> No earlier than publication of the supervisory stress test results of the covered bank’s holding company. If the Federal Reserve releases supervisory stress test results prior to June 15, then the covered bank may release its annual stress test results prior to June 15.