FEDERAL RESERVE SYSTEM

12 CFR Part 252

[Regulation YY; Docket No. 1438]

RIN 7100–AD–86

Supervisory and Company-Run Stress Test Requirements for Covered Companies

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

ACTION: Final rule.

SUMMARY: The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act or Act) requires the Board to conduct annual stress tests of bank holding companies with total consolidated assets of $50 billion or more and nonbank financial companies the Financial Stability Oversight Council (Council) designates for supervision by the Board (nonbank covered companies, and together, with bank holding companies with total consolidated assets of $50 billion or more, covered companies) and also requires the Board to issue regulations that require covered companies to conduct stress tests semi-annually. The Board is adopting this final rule to implement the stress test requirements for covered companies established in the Dodd-Frank Act. This final rule does not apply to any banking organization with total consolidated assets of less than $50 billion. Furthermore, implementation of the stress testing requirements for bank holding companies that did not participate in the Supervisory Capital Assessment Program is delayed until September 2013.

DATES: The rule is effective on November 15, 2012.

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I. Background

The Board has long held the view that a banking organization, such as a bank holding company or insured depository institution, should operate with capital levels well above its minimum regulatory capital ratios and commensurate with its risk profile.[1] A banking organization should also have internal processes for assessing its capital adequacy that reflect a full understanding of its risks and ensure that it holds capital commensurate with those risks.[2] Moreover, a banking organization that is subject to the Board's advanced approaches risk-based capital requirements must satisfy specific requirements relating to their internal capital adequacy processes in order to use the advanced approaches to calculate its minimum risk-based capital requirements.[3] 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.[4] The Board and the other federal banking agencies previously have highlighted the use of stress testing as a means to better understand the range of a banking organization's potential risk exposures.[5]

In particular, as part of its effort to stabilize the U.S. financial system during the recent financial crisis, the Board, along with other federal financial regulatory agencies and the Federal Reserve system, conducted stress tests of large, complex bank holding companies through the Supervisory Capital Assessment Program (SCAP). The SCAP was a forward-looking exercise designed to estimate revenue, losses, and capital needs under an adverse economic and financial market scenario. By looking at the broad capital needs of the financial system and the specific needs of individual companies, these stress tests provided valuable information to market participants, reduced uncertainty about the financial condition of the participating bank holding companies under a scenario that was more adverse than that which was anticipated to occur at the time, and had an overall stabilizing effect.

Building on the SCAP and other supervisory work coming out of the crisis, the Board initiated the annual Comprehensive Capital Analysis and Review (CCAR) in late 2010 to assess the capital adequacy and the internal capital planning processes of large, complex bank holding companies and to incorporate stress testing as part of the Board's regular supervisory program for assessing capital adequacy and capital planning practices at large bank holding companies. The CCAR represents a substantial strengthening of previous approaches to assessing capital adequacy and promotes thorough and robust processes at large banking organizations for measuring capital needs and for managing and allocating capital resources. The CCAR focuses on the risk measurement and management

[1] *See* 12 CFR part 225, Appendix A; *see also* Supervision and Regulation Letter SR 99–18, Assessing Capital Adequacy in Relation to Risk at Large Banking Organizations and Others with Complex Risk Profiles (July 1, 1999), *available at http://www.federalreserve.gov/boarddocs/srletters/1999/SR9918.HTM* (hereinafter SR 99–18).

[2] *See* Supervision and Regulation Letter SR 09–4, Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies (Mar. 27, 2009), *available at http://www.federalreserve.gov/boarddocs/srletters/2009/SR0904.htm* (hereinafter SR 09–4).

[3] *See* 12 CFR part 225, Appendix G, section 22(a); *see also,* Supervisory Guidance: Supervisory Review Process of Capital Adequacy (Pillar 2) Related to the Implementation of the Basel II Advanced Capital Framework, 73 FR 44620 (July 31, 2008).

[4] 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.

[5] *See, e.g.,* Supervisory Guidance on Stress Testing for Banking Organizations With More Than $10 Billion in Total Consolidated Assets, 77 FR 29458 (May 17, 2012); Supervision and Regulation Letter SR 10–6, Interagency Policy Statement on Funding and Liquidity Risk Management (March 17, 2010), available at *http://www.federalreserve.gov/boarddocs/srletters/2010/sr1006.htm;* Supervision and Regulation Letter SR 10–1, Interagency Advisory on Interest Rate Risk (January 11, 2010), available at *http://www.federalreserve.gov/boarddocs/srletters/2010/sr1001.htm;* SR 09–4, supra note 2; Supervision and Regulation Letter SR 07–1, Interagency Guidance on Concentrations in Commercial Real Estate (Jan. 4, 2007), *available at http://www.federalreserve.gov/boarddocs/srletters/2007/SR0701.htm;* Supervision and Regulation Letter SR 12–7, Supervisory Guidance on Stress Testing for Banking Organizations With More Than $10 Billion in Total Consolidated Assets (May 14, 2012), available at *http://www.federalreserve.gov/bankinforeg/srletters/sr1207.htm;* SR 99–18, supra note1; Supervisory Guidance: Supervisory Review Process of Capital Adequacy (Pillar 2) Related to the Implementation of the Basel II Advanced Capital Framework, 73 FR 44620 (July 31, 2008); *The Supervisory Capital Assessment Program: SCAP Overview of Results* (May 7, 2009), *available at http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20090507a1.pdf;* and *Comprehensive Capital Analysis and Review: Objectives and Overview* (Mar. 18, 2011), available at *http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20110318a1.pdf.*

practices supporting organizations' capital adequacy assessments, including their ability to deliver credible inputs to their loss estimation techniques, as well as the governance processes around capital planning practices. On November 22, 2011, the Board issued an amendment (capital plan rule) to its Regulation Y to require all U.S. bank holding companies with total consolidated assets of $50 billion or more to submit annual capital plans to the Board to allow the Board to assess whether they have robust, forward-looking capital planning processes and have sufficient capital to continue operations throughout times of economic and financial stress.[6]

In the wake of the financial crisis, Congress enacted the Dodd-Frank Act, which requires the Board to implement enhanced prudential supervisory standards, including requirements for stress tests, for covered companies to mitigate the threat to financial stability posed by these institutions.[7] Section 165(i)(1) of the Dodd-Frank Act requires the Board to conduct an annual stress test of each covered company to evaluate whether the covered company has sufficient capital, on a total consolidated basis, to absorb losses as a result of adverse economic conditions (supervisory stress tests). The Act requires that the supervisory stress test provide for at least three different sets of conditions—baseline, adverse, and severely adverse conditions—under which the Board would conduct its evaluation. The Act also requires the Board to publish a summary of the supervisory stress test results.[8]

In addition, section 165(i)(2) of the Dodd-Frank Act requires the Board to issue regulations that require covered companies to conduct stress tests semi-annually and require financial companies with total consolidated assets of more than $10 billion that are not covered companies and for which the Board is the primary federal financial regulatory agency to conduct stress tests on an annual basis (collectively, company-run stress tests).[9] The Act requires that the Board issue regulations that: (i) Define the term ''stress test''; (ii) establish methodologies for the conduct of the company-run stress tests that provide for at least three different sets of conditions, including baseline, adverse, and severely adverse conditions; (iii) establish the form and content of the report that companies subject to the regulation must submit to the Board; and (iv) require companies to publish a summary of the results of the required stress tests.[10]

On January 5, 2012, the Board invited public comment on a notice of proposed rulemaking (proposal or NPR) that would implement the enhanced prudential standards required to be established under section 165 of the Dodd-Frank Act and the early remediation requirements established under Section 166 of the Act, including proposed rules regarding supervisory and company-run stress tests.[11] Under the proposed rules, the Board would conduct an annual supervisory stress test of covered companies under three sets of scenarios, using data as of September 30 of each year as reported by covered companies, and publish a summary of the results of the supervisory stress tests in early April of the following year. In addition, the proposed rule required each covered company to conduct two company-run stress tests each year: An ''annual'' company-run stress test using data as of September 30 of each year and the three scenarios provided by the Board, and an additional company-run stress test using data as of March 31 of each year and three scenarios developed by the company. The proposed rule required each covered company to publish the summary of the results of its company-run stress tests within 90 days of submitting the results to the Board.

Together, the supervisory stress tests and the company-run stress tests are intended to provide supervisors with forward-looking information to help identify downside risks and the potential effect of adverse conditions on capital adequacy at covered companies. The stress tests will estimate the covered company's net income and other factors affecting capital and how each covered company's capital resources would be affected under the scenarios and will produce pro forma projections of capital levels and regulatory capital ratios in each quarter of the planning horizon, under each scenario. The publication of summary results from these stress tests will enhance public information about covered companies' financial condition and the ability of those companies to absorb losses as a result of adverse economic and financial conditions. The Board will use the results of the supervisory stress tests and company-run stress tests in its supervisory evaluation of a covered company's capital adequacy and capital planning practices. In addition, the stress tests will also provide a means to assess capital adequacy across companies more fully and support the Board's financial stability efforts.

The Dodd-Frank Act mandates that the OCC and the FDIC adopt rules implementing stress testing requirements for the depository institutions that they supervise, and the OCC and FDIC invited public comment on proposed rules in January of 2012.[12]

The Board is finalizing the stress testing frameworks in two separate rules. First, the Board is issuing this final rule, which implements the supervisory and company-run stress testing requirements for covered companies (final rule).

Second, the Board is concurrently issuing a final rule implementing annual company-run stress test requirements for bank holding companies, savings and loan holding companies, and state member banks with consolidated assets greater than $10 billion that are not otherwise covered by this rule.

The Board is issuing this final rule implementing the stress testing requirements in advance of the other enhanced prudential standards and early remediation requirements in order to address the timing of when the stress testing requirements will apply to various banking organizations and to require large bank holding companies to publicly disclose the results of their company-run stress tests conducted in the fall of 2012.

II. Overview of Comments

The Board received approximately 100 comments on its NPR on enhanced prudential standards and early remediation requirements. Approximately 40 of these comments pertained to the proposed stress testing requirements. Commenters ranged from individual banking organizations to trade and industry groups and public interest groups. In general, commenters

[6] *See* Capital Plans, 76 FR 74631 (Dec. 1, 2011) (codified at 12 CFR 225.8).

[7] *See* 12 U.S.C. 5365(a). As defined above, a ''covered company'' includes any bank holding company with total consolidated assets of $50 billion or more and each nonbank financial company that the Council has designated for supervision by the Board.

[8] *See* 12 U.S.C. 5365(i)(1).

[9] 12 U.S.C. 5365(i)(2). In this final rule, the Board is implementing the requirements for covered companies only. The requirements applicable to other banking organizations with total consolidated assets of more than $10 billion and for which the Board is the primary federal financial regulatory agency are contained in a concurrently issued final rule being published in this issue of the **Federal Register**.

[10] *See* 12 U.S.C. 5365(i)(2)(C).

[11] Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies, 77 FR 594 (Jan. 5, 2012).

[12] Annual Stress Test, 77 FR 3408 (Jan. 24, 2012) (OCC); Annual Stress Test, 77 FR 3166 (Jan. 17, 2012) (FDIC).

expressed support for stress testing as a valuable tool for identifying and managing both micro- and macro-prudential risk. However, several commenters recommended changes to, or clarification of, certain provisions of the proposed rule, including its timeline for implementation, reporting requirements, and disclosure requirements. Commenters also urged greater interagency coordination regarding stress tests and requested more information on the scenario design process and the models and methodologies that the Board intends to use in the supervisory stress tests.

A. Delayed Compliance Date

Commenters suggested that covered companies that have not previously been subject to stress testing requirements need more time to develop systems and procedures to be able to conduct the stress tests and collect the information that the Board may require in connection with these tests. In response to these comments and to reduce burden on these institutions, the final rule provides that firms that have not previously participated in SCAP will begin conducting stress tests in the fall of 2013, and non-bank covered companies will begin conducting stress tests in the calendar year after the year in which the company first becomes subject to the Board's minimum regulatory capital requirements. Similarly, the rule requires any bank holding company that becomes a covered company after the effective date of this rule to comply with the requirements beginning in the fall of the calendar year that follows the year the company becomes a covered company, unless that time is extended by the Board in writing.[13]

B. Tailoring

The proposed rule would have applied consistent annual company-run stress test requirements, including the compliance date and the disclosure requirements, to all banking organizations with total consolidated assets of more than $10 billion and nonbank financial companies.[14] The Board sought public comment on whether the stress testing requirements should be tailored, particularly for financial companies that are not large bank holding companies.

Several commenters expressed concern that the NPR would have applied stress testing requirements previously applicable only to large bank holding companies, such as those conducted under the CCAR, to smaller, less complex banking organizations with smaller systemic footprints and to nonbank financial companies. Furthermore, commenters indicated that there are substantial differences between bank holding companies and nonbank financial companies, and that the Board should tailor the proposed prudential standards to account for these differences.

The Board recognizes that the population of covered companies is diverse and that certain covered companies may pose more material risk to U.S. financial stability than others. Furthermore, section 165 of the Dodd-Frank Act directs the Board to implement enhanced prudential standards that increase in stringency with the systemic footprint of each company.[15] As a result, the Board expects to use a tailored approach in implementing the stress test requirements for covered companies, using their systemic footprint as the basis for tailoring. For example, the Board is delaying the compliance date for covered companies that did not participate in SCAP. In addition, the Board expects to require a subset of large, complex covered companies to include additional components in their adverse and severely adverse scenarios or to apply additional scenarios beyond the macroeconomic scenarios applied to all covered companies.

With respect to nonbank financial companies, several commenters requested that the Board either further tailor the requirements for nonbank covered companies in the final rule or issue a separate rule for these companies. For example, some commenters requested that the Board develop standards that were ''insurance-centric'' rather than ''bank-centric,'' noting that stress test scenarios relevant for bank holding companies would ignore salient risks to insurers, such as the possibility of a natural disaster.[16] The Board may, by order or regulation, tailor the application of the enhanced standards to nonbank covered companies on an individual basis or by category, as appropriate. As noted in the proposal, the Board expects to take into account differences among bank holding companies and nonbank covered companies supervised by the Board when applying enhanced supervisory standards, including stress testing requirements. Following designation by the Council, the Board will assess the business model, capital structure, and risk profile of a designated nonbank financial company to determine how the enhanced prudential standards, including the stress test requirements in this final rule, and the early remediation requirements should apply.

Finally, the Board plans to issue supervisory guidance to provide more detail describing supervisory expectations for company-run stress tests. This guidance will be tailored based on the size and complexity of a covered company.

C. Coordination

Many commenters emphasized the need for the federal banking agencies to coordinate stress testing requirements for parent holding companies and depository institution subsidiaries and more generally in regard to stress testing frameworks. Commenters recommended that the Board, the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) coordinate in implementing the Dodd-Frank Act stress testing requirements in order to minimize regulatory burden. Commenters asked that the agencies eliminate duplicative requirements and use an interagency forum, like the Federal Financial Institutions Examination Council, to develop common forms, policies, procedures, assumptions, methodologies, and application of results.

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 stress testing requirements. The Board anticipates that it will continue to consult with the FDIC and OCC in the

[13] In extending a time period under the final rule, the Board will consider the activities, level of complexity, risk profile, scope of operations, and the regulatory capital of the covered company, and any other relevant factors.

[14] Under the proposal, savings and loan holding companies would not have been subject to the proposed requirements, including timing of required submissions to the Board, until savings and loan holding companies were subject to minimum risk-based capital and leverage requirements.

[15] *See* 12 U.S.C. 5365(a)(1).

[16] A number of commenters on the NPR expressed concerns about the application of the proposed standards to nonbank covered companies. Several of these commenters raised a concern that the NPR does not afford nonbank financial companies a meaningful opportunity to comment on how the Board should tailor the standards to nonbank financial companies. Commenters indicated that there are substantial differences between bank holding companies and nonbank financial companies, and that the Board should tailor the proposed prudential standards to account for these differences on a case-by-case basis following the rulemaking process.

implementation of the final rule, and in particular, in the development of stress scenarios. The Board plans to develop scenarios each year in close consultation with the FDIC and the OCC, so that, to the greatest extent possible, a common set of scenarios can be used for the supervisory stress tests and the annual company-run stress tests across various banking entities within the same organizational structure.

D. Consolidated Publication and Group-Wide Systems and Models

In addition to requesting better coordination, commenters inquired as to whether a company-run stress test conducted by a parent holding company would satisfy the stress testing requirements applicable to that holding company's subsidiary depository institutions. Commenters recommended that in order to reduce burden the Board develop and require the use of a single set of scenarios for a bank holding company and any depository institution subsidiary of the bank holding company, if the Board imposed separate stress testing requirements on both the bank holding company and bank.

In order to reduce burden on banking organizations, the final rule provides that a subsidiary depository institution will disclose its stress testing results as part of the results disclosed by its bank holding company parent. Disclosure by the bank holding company of its stress test results and those of any subsidiary state member bank will generally satisfy any disclosure requirements applicable to the state member bank subsidiary.

Moreover, a state member bank that is controlled by a bank holding company may rely on the systems and models of its parent bank holding company if its systems and models fully capture the state member bank's risks. For example, under those circumstances, the bank holding company and state member bank may use the same data collection processes and methods and models for projecting and calculating potential losses, pre-provision net revenues, provision for loan and lease losses, and pro forma capital positions over the stress testing planning horizon.

III. Description of the Final Rule

A. Scope of Application

This final rule applies to any bank holding company (other than a foreign banking organization) that has $50 billion or more in average total consolidated assets [17] and to any nonbank financial company that the Council has determined under section 113 of the Dodd-Frank Act must be supervised by the Board and for which such determination is in effect.

Average total consolidated assets for bank holding companies is based on the average of the total consolidated assets as reported on the bank holding company's four most recent Consolidated Financial Statement for Bank Holding Companies (FR Y–9C). If the bank holding company has not filed the FR Y–9C for each of the four most recent consecutive quarters, average total consolidated assets will be based on the average of the company's total consolidated assets, as reported on the company's FR Y–9C, for the most recent quarter or consecutive quarters. In either case, average total consolidated assets are measured on the as-of date of the relevant regulatory report.

Once the average total consolidated assets of a bank holding company exceed $50 billion, the company will remain subject to the final rule's requirements unless and until the total consolidated assets of the company are less than $50 billion, as reported on four FR Y–9C reports consecutively filed. Average total consolidated assets are measured on the as-of date of the FR Y–9C.

The final rule does not apply to foreign banking organizations. The Board expects to issue for public comment a separate rulemaking on the application of enhanced prudential standards and early remediation requirements established under the Dodd-Frank Act, including enhanced capital and stress testing requirements, to foreign banking organizations at a later date. A U.S.-domiciled bank holding company subsidiary of a foreign banking organization that has total consolidated assets of $50 billion or more is subject to the requirements of this final rule. [18]

B. Effective Date

Under the proposal, the stress testing requirements would have become effective upon adoption of a final rule. A bank holding company that was a covered company as of the effective date of the rule would have been required to immediately comply with its requirements. A bank holding company became a covered company after adoption of the rule but more than 90 days before September 30 of a given year would have been subject to the supervisory and company-run stress test requirements starting that year. With respect to the mid-cycle company-run stress test, bank holding companies that met the proposal's asset threshold more than 90 days before March 31 of a given year would need to satisfy the requirements of the mid-cycle stress tests that year (e.g., reporting and publication requirements). Nonbank financial companies designated for supervision by the Council more than 180 days before September 30 of a given year would have been required to comply with the stress test requirements starting that year.

Commenters indicated that the Board should give companies that have not participated in CCAR additional time before subjecting such companies to stress test requirements. Commenters argued that delaying implementation for these companies is necessary to allow sufficient time to develop the systems and procedures to collect the information requested by the Board in connection with these tests. In response to these comments, the Board is delaying the compliance date of stress test requirements under the final rule for certain bank holding companies that have not previously participated in stress testing through SCAP or CCAR. Under the final rule, a bank holding company that participated in SCAP, or successor to such bank holding company, is required to comply with the supervisory and company-run stress test requirements beginning on November 15, 2012, unless that time is extended by the Board in writing.[19] All other bank holding companies that are covered companies will be required to comply with the supervisory and company-run stress test requirements beginning in the fall of 2013, unless that time is extended by the Board in writing.[20]

Commenters similarly expressed concern that bank holding companies and nonbank financial companies that

[17] The final rule applies only to U.S.-domiciled bank holding companies that are covered companies, including, for example, the U.S.-domiciled bank holding company subsidiary of a foreign banking organization, but does not apply to any foreign banking organization.

[18] A U.S.-domiciled bank holding company subsidiary of a foreign banking organization that is currently relying on Supervision and Regulation Letter SR 01–01 issued by the Board (as in effect on May 19, 2010) is not required to comply with the final rule's requirements until July 21, 2015.

[19] The bank holding companies that participated in SCAP were: American Express Company, Bank of America Corporation, BB&T Corporation, Bank of New York Mellon Corporation, Capital One Financial Corp., Citigroup, Inc., Fifth Third Bancorp, GMAC LLC (now Ally Financial Inc.), Goldman Sachs Group Inc., JPMorgan Chase & Co., KeyCorp, MetLife Inc., Morgan Stanley, PNC Financial Services Group, Regions Financial Corporation, State Street Corp., SunTrust Banks, Inc., US Bancorp, and Wells Fargo & Company.

[20] Covered companies are required to submit FR Y–14 data as of September 30, 2012. In addition, all bank holding companies with total consolidated assets of $50 billion or more remain subject to the requirements of the Board's capital plan rule (12 CFR 225.8).

become covered companies after the effective date of the final rule would not have sufficient time to build the systems, contract with outside vendors, recruit experienced personnel, and develop stress testing models that are unique to their organization under the proposed compliance date. In addition, the Federal Advisory Council recommended that the Board phase in disclosure requirements to minimize risk, build precedent, and allow banks and supervisors to gain experience, expertise, and mutual understanding of stress testing models.

In response to these comments, the Board extended the compliance date applicable to bank holding companies that become covered companies after the effective date of the rule. Under the final rule, such a bank holding company will be required to conduct its first stress tests beginning in the fall of the calendar year after the company becomes a covered company, unless that time is extended by the Board in writing.

The Board also is extending the compliance date applicable to nonbank covered companies to provide that all nonbank covered companies will be required to conduct their first stress test in the calendar year after the year in which the nonbank covered company becomes subject to the Board's minimum regulatory capital requirements, unless the Board accelerates or extends the compliance date. The extended timeline for nonbank financial companies supervised by the Board will allow those companies and the Board to build and adapt stress testing systems and processes for application to specific nonbank businesses.

C. Overview of Stress Test Requirements Applicable to Both Supervisory and Company-Run Stress Tests

The Board designed the final rule in a manner to integrate the supervisory stress tests and company-run stress tests with the Board's capital plan rule in order to achieve a streamlined regime that minimizes regulatory burden. The following discussion describes three of these integrated aspects: Timing, reporting, and scenario design.

1. Timing of the Stress Testing Requirements

Under the proposal, the Board would have required an as-of date of September 30 of information to be submitted to the Board, provided covered companies with scenarios for the supervisory and annual company-run stress tests by mid-November of each year, required the filing of regulatory reports by January 5, and provided for publication of summary results of the annual company-run stress test and supervisory stress tests in early April. For the mid-cycle company-run stress test, the Board proposed to require regulatory reports by July 5 and publication of summary results by early October.

Several commenters provided suggestions on the proposed timeline for the supervisory and company-run stress tests. Comments included those relating to the as-of date for data to be submitted by covered companies, the date for submitting results to the Board, and the dates when public disclosures of stress test results are to be made. For instance, some commenters suggested that the Board should use data collected at as-of dates other than September 30, such as June 30 or December 31, and make corresponding changes to the timing of public disclosure in order to reduce burden on companies during the year-end period. One commenter suggested having a floating submission date, allowing organizations to submit their results at the point in the year when it is most convenient. Some commenters also requested that the Board release the scenarios earlier to provide banking organizations more time to prepare the required reports for the stress tests.

In order to integrate the supervisory and company-run stress tests with the capital plan rule, the final rule generally maintains the timing for the supervisory and company-run stress tests set forth in the proposal. The capital plan rule requires bank holding companies to submit their capital plan to the Board by January 5 using a September 30 as-of date in order to provide the Board sufficient time to review the bank holding company's capital plan and to provide its assessment to the bank holding company within the first quarter, minimizing the potential to disrupt the bank holding company's ability to make capital distributions in subsequent quarters of that year. Accordingly, the final rule maintains a September 30 as-of date and the January 5th date for submission of the report to the Board in order to align the requirements and reduce any undue burden for covered companies.[21] Correspondingly, the final rule maintains the March 31 as-of date for the mid-cycle company-run stress tests.

Commenters requested that the Board release the scenarios earlier in the annual stress test cycle to provide covered companies more time to prepare the reports for supervisory stress tests and company-run stress tests. Under the final rule, the Board will provide descriptions of the baseline, adverse, and severely adverse scenarios generally applicable to covered companies no later than November 15 of each year, and provide any additional components or scenarios by December 1. The Board believes that providing scenarios earlier than November could result in the scenarios being stale, particularly in a rapidly changing economic environment, and that it is important to incorporate economic or financial market data that are as current as possible while providing sufficient time for covered companies to incorporate the scenarios in their annual company-run stress tests.

Commenters also noted that the proposed public disclosure deadlines (early April for annual supervisory and company-run stress tests and early October for mid-cycle company-run stress tests) would interfere with so-called ''quiet periods'' that some publicly-traded banking organizations enforce in the lead up to earnings announcements. These quiet periods are designed to limit communications that could disseminate proprietary company information prior to earnings announcements.

In light of these comments, the Board adjusted the disclosure date to avoid interfering with firms' quiet periods. Under the final rule, covered companies are required to disclose the results of their annual company-run stress tests between March 15 and March 31 and to disclose the results of their mid-cycle company-run stress tests between September 15 and September 30.

Table 1 describes the annual supervisory and company-run stress test cycles, including the anticipated general timeframes for each step in 2013.

[21] As described below in section III.E.1 of this **SUPPLEMENTARY INFORMATION**, 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 information collection (FR Y–14), to include a trading and counterparty scenario in its stress test. The data used in this scenario will be as of a date between October 1 and December 1 of that calendar year selected by the Board, and the Board will communicate the as-of date and a description of the component to the company no later than December 1 of the calendar year.

Table 1
Process Overview of Annual Stress Tests and Capital Plan Cycle for 2013 under this Final Rule

Timeframe	Supervisory stress test steps	Company-run stress test Steps	Capital Plan Steps
By November 15	Board publishes scenarios for upcoming annual cycle		
By January 5		Covered companies submit required regulatory report to the Board on their stress tests.	Capital plan submitted (including results of company-run stress tests)
By March 31	Board communicates results to each covered company		
By March 31	Board publishes summary results of the supervisory stress test	Covered companies disclose summary results of the annual company-run stress test[22]	Board responds to capital plan
By July 5		Covered companies submit required regulatory report to the Board on their mid-cycle stress test	
September 15 through September 30		Covered companies make required public disclosures on their mid-cycle stress test	

2. Reporting

To the greatest extent possible, the final rule's reporting framework has been designed to minimize burden on the covered company and to avoid duplication, particularly in light of other reporting requirements that may be imposed by the Board. Accordingly, the final rule will require each covered company to file a single set of regulatory reports with the Board by January 5 that contains information that will support the Board's supervisory stress tests as well as report the results of the company-run stress tests.[23] In a separate **Federal Register** notice, the Board has invited comment on these reports, the Capital Assessments and Stress Testing information collection (FR Y–14Q, FR Y–14M, and FR Y–14A, together, FR Y–14). For purposes of the mid-cycle company-run stress test, a covered company will file a regulatory report with the Board by July 5. The Board expects that this report will be identical to or modeled on the FR Y–14A, and will seek public comment on it.

In addition, the Board may require a covered company to submit any other information on a consolidated basis that the Board deems necessary in order to ensure that the Board has sufficient information to conduct supervisory stress test; and project a company's losses, pre-provision net revenue, provision for loan and lease losses, pro forma capital levels, regulatory capital ratios, and tier 1 common ratio under the scenarios it provides. In addition, the Board may obtain supplemental information from covered companies, as needed, through the supervisory process.

The confidentiality of any information submitted to the Board for the supervisory and company-run stress tests will be determined in accordance with the Board's rules regarding availability of information.[24]

3. Scenarios

The proposal provided that the Board would publish a minimum of three different sets of economic and financial conditions, including baseline, adverse, and severely adverse scenarios, under which the Board would conduct its annual analyses and companies would conduct their annual company-run stress tests. The Board would update, make additions to, or otherwise revise

[22] Covered companies must disclose their results in the period between March 15 and March 31.

[23] The FR Y–14 contains information that the Board has determined is necessary in order for the Board to derive the relevant pro forma estimates of the covered company over the planning horizon for purposes of both this rule and the Board's capital plan rule. The Board expects to apply the FR Y–14 to a nonbank financial company supervised by the Board upon such a company's designation.

[24] *See generally* 12 CFR part 261; *see also* 5 U.S.C. 552(b).

these scenarios as appropriate, and would publish any such changes to the scenarios in advance of conducting each year's stress test.

Commenters suggested that significant changes in scenarios from year to year could cause a banking organization's stress testing results to dramatically change. To ameliorate this volatility, commenters suggest that the federal banking agencies have a uniform approach for identifying stress scenarios or establish a ''quantitative severity limit'' in the final rule to ensure that scenarios do not drastically change from year to year. Commenters pointed out that consistency in annual scenario development will make comparability of stress test results between institutions and across time periods more accurate, increase market confidence in the results of stress tests, and make for more dependable capital planning by banking organizations. Commenters also requested the opportunity to provide input on the scenarios.

The Board believes that it is important to have a consistent and transparent framework to support scenario design. To further this goal, the final rule clarifies the definition of ''scenarios'' and includes definitions of baseline, adverse, and severely adverse scenarios. Scenarios are defined as those sets of conditions that affect the U.S. economy or the financial condition of a covered company that the Board, or with respect to the mid-cycle stress test, the covered company, annually determines are appropriate for use in the company-run stress tests, including, but not limited to, baseline, adverse, and severely adverse scenarios.

The baseline scenario is defined as 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. The adverse scenario is defined as a set of conditions that affect the U.S. economy or the financial condition of a covered company that are more adverse than those associated with the baseline scenario and may include trading or other additional components. The severely adverse scenario is defined as a set of conditions that affect the U.S. economy or the financial condition of a covered company and that overall are more severe than those associated with the adverse scenario and may include trading or other additional components.

In general, the baseline scenario will reflect the 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 Board expects that the severely adverse scenario will, at a minimum, include the paths of economic variables that are generally consistent with the paths observed during severe post-war U.S. recessions. Each year the Board expects to take into account of salient risks that affect the U.S. economy or the financial condition of a covered company that may not be observed in a typical severe recession. The Board expects that the adverse scenario will, at a minimum, include the paths of economic variables that are generally consistent with mild to moderate recessions. The Board may vary the approach it uses for the adverse scenario each year so that the results of the scenario provide the most value to supervisors, given the current conditions of the economy and the banking industry. Some of the approaches the Board may consider using include, but are not limited to, a less severe version of the severely adverse scenario or specifically capturing, in the adverse scenario, risks that the Board believes should be understood better or should be monitored.

The scenarios will consist of a set of conditions that affect the U.S. economy or the financial condition of a covered company over the stress test planning horizon. These conditions will include projections for a range of macroeconomic and financial indicators, such as real Gross Domestic Product (GDP), the unemployment rate, equity and property prices, and various other key financial variables, and will be updated each year to reflect changes in the outlook for economic and financial conditions. The paths of these economic variables could reflect risks to the economic and financial outlook that are especially salient but were not prevalent in recessions of the past.

Depending on the systemic footprint and scope of operations and activities of a company, the Board may use, and require that company to use, additional components in the adverse and severely adverse scenarios or additional or more complex scenarios that are designed to capture salient risks to specific lines of business. For example, the Board recognizes that certain trading positions and trading-related exposures are highly sensitive to adverse market events, potentially leading to large short-term volatility in covered companies' earnings. To address this risk, the Board may require covered companies with significant trading activities to include market price and rate ''shocks'' in their adverse and severely adverse scenarios as specified by the Board, that are consistent with historical or other adverse market events. In addition, the scenarios, in some cases, may also include stress factors that may not be directly correlated to macroeconomic or financial assumptions but nevertheless can materially affect covered companies' risks, such as factors that affect operational risks. The process by which the Board may require a covered company to include additional components in its adverse and severely adverse scenarios or to use additional scenarios is described under section III.E.2 of this **SUPPLEMENTARY INFORMATION**. The Board plans to publish for comment a policy statement that describes its framework for developing scenarios.

Some commenters suggested that the Board adopt a tailored approach to scenarios to better capture idiosyncratic characteristics of each company. For example, commenters representing the insurance industry suggested that any stress testing regime applicable to insurance companies incorporate shocks relating to the exogenous factors that actually impact a particular company, such as a shock to the insurance company's insurance policy portfolio arising from a natural disaster, and de-emphasize shocks arising from traditional banking activities.

In the Board's view, a generally uniform set of scenarios is necessary to provide a basis for comparison across companies. However, the Board expects that each company's stress testing practices will be tailored to its business model and lines of business, and that the company may not use all of the variables provided in the scenario, if those variables are not appropriate to the firm's line of business, or may add additional variables, as appropriate.[25] In addition, the Board expects banking organizations to consider other scenarios that are more idiosyncratic to their operations and associated risks as part of their ongoing internal analyses of capital adequacy and include company-specific vulnerabilities in their scenarios when complying with the Board's requirements for mid-cycle company-run stress test as described in section 252.145.

D. Annual Supervisory Stress Tests Conducted by the Board

The following discussion describes the Board's methodologies for the conduct of the stress tests, the process the Board intends to use to

[25] The Board expects banking organizations will ensure that the paths of such additional variables are consistent with the scenarios the Board provided. For example, the path of any local economic variable should be consistent with the path of a national economic variable that the Board provides.

communicate the results to the company, the post-assessment actions that a company is expected to take in response to the supervisory stress tests, and the Board's publication of the stress test results.

1. Methodology for Estimating Losses and Revenues

In the NPR, the Board proposed that it would use the analytical techniques it determines to be appropriate to identify, measure, and monitor risks of covered companies that may affect the financial stability of the United States. The Board also outlined in the proposal the general framework it would use to analyze the projected losses, pre-provision net revenue, provision for loan and lease losses, and pro forma, post-stress capital levels and regulatory capital ratios in conducting a stress test for covered companies.

The Board received numerous comments requesting greater clarity with respect to the application of the supervisory stress test models. For example, commenters requested that the Board increase the transparency of the Board's analysis, modeling techniques, and assumptions used to analyze the banks by stress tests in the final rule. Commenters further recommended that these models and applications should be subject to a final public consultative process prior to implementation and that the Board should provide a detailed description of models in the form of consultative ''white papers.''

The Board is currently considering how to provide more transparency with respect to its models while not reducing incentives on the part of covered companies to develop better internal stress test models that factor in their idiosyncratic risks and to consider the results of such models in their capital planning process. At a minimum, the Board plans to publish an overview of its stress testing methodologies each year. In addition, the Board expects to communicate the extent and timing of disclosure of information about supervisory models at a later date.

The Board has established an independent, internal model validation group to review supervisory models and their implementation, which is intended to foster continuing improvements in supervisory modeling practices. In addition, the Board formed the Model Validation Council earlier this year, composed of independent, external experts who provide input to the Board's internal model validation process used to assess the effectiveness of the models used in the supervisory stress tests.[26] The Model Validation Council is intended to improve the quality of the Board's model validation process, and, thereby, strengthen confidence in the Board's stress tests.

As described in the proposal, the anticipated framework to be used in supervisory stress tests has a number of elements. The Board will calculate each covered company's projected losses, pre-provision net revenue, provision for loan and lease losses and other factors affecting capital using a series of models and estimation techniques that relate the economic and financial variables in the baseline, adverse, and severely adverse scenarios to the company's losses and revenues. The Board has developed a series of models to estimate losses on various types of loans and securities held by the covered company, using data submitted by that company. These models may be adjusted over time. The Board will use a separate methodology or a combination of methodologies—potentially including covered companies' internal models, if appropriate—to estimate projected losses related to covered companies' trading portfolio or counterparty credit-risk exposures in the event of an adverse market shock, taking into account the complexity and idiosyncrasies of each covered company's positions. The methodology may also incorporate an approach to estimate potential losses from stress factors specifically affecting the covered companies' other risks. Finally, the framework will include a set of methodologies to assess the effect of losses, pre-provision net revenue, provision for loan and lease losses, and other factors on pro forma capital levels and ratios.

In response to commenters' requests for more clarity regarding the Board's assumptions used to calculate a covered company's stress test results, the Board is providing additional detail on the assumptions it intends to use to describe how a company's capital positions would change over time. To help ensure that the publicly disclosed results of supervisory stress tests are comparable across institutions and reflect the effect of common macroeconomic scenarios on net income and capital but not company-specific assumptions about capital distributions, the Board is applying a consistent approach to assumptions across companies.

For the first quarter of the planning horizon, the Board will take into account the company's actual capital actions as of the end of the calendar quarter. For each of the second through ninth quarters of the planning horizon, the Board will include the following items in the projections of capital: (i) Common stock dividends equal to the quarterly average dollar amount of common stock dividends that the company paid in the previous year (that is, the first quarter of the planning horizon and the preceding three calendar quarters); (ii) payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest, or principal due on such instrument during the quarter; and (iii) an assumption of no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio.

These assumptions are the same assumptions that covered companies are required to use in conducting their company-run stress tests, as described below in section III.E.3 of this **SUPPLEMENTARY INFORMATION**. Adopting a consistent, standardized approach across covered companies and across the supervisory and company-run stress tests will provide for improved comparability across companies and between the supervisory and company-run stress tests.

Another element of the supervisory-stress test framework is a set of assumptions or models to describe how a covered company's balance sheet would change over time.[27] Information about planned future acquisitions and divestitures by the companies will also be incorporated. These projections will then be analyzed to assess their combined effect on the covered company's capital position, including projected capital levels and capital ratios, at the end of each quarter in the planning horizon. The framework will incorporate all regulatory capital measures and the tier 1 common ratio. These projections used in the supervisory stress tests also will incorporate, as appropriate, any significant changes in or the significant effects of accounting requirements during the planning period.

[26] The Board published a press release on the Model Validation Council on April 20, 2012. *See* Press Release, Board of Governors of the Federal Reserve System, Federal Reserve Board announces the formation of the Model Validation Council (Apr. 20, 2012) *available at http://www.federalreserve.gov/newsevents/press/bcreg/20120420a.htm.*

[27] At times, the Board may assume in its supervisory stress tests that the covered company's balance sheet would change over time, following the paths projected by the company.

2. Description of Supervisory Assessment

The Board, through its annual analyses, will evaluate each covered company as to whether the covered company has the capital, on a total consolidated basis, necessary to continue operating under economic and financial market conditions as contained in the designated scenarios. This evaluation will include, but will not be limited to, a review of the covered company's estimated losses, pre-provision net revenue, provision for loan and lease losses, and the extent of their effect on the company's capital levels and ratios, including pro forma regulatory capital ratios and the tier 1 common ratio.

3. Communication of Results to Covered Companies

Under the Dodd-Frank Act, the Board is required to disclose a summary of the results of its annual analyses.[28] In the NPR, the Board proposed that, prior to publishing a summary of the results of its annual analyses, the Board would convey to each covered company the results of the Board's analyses of that company and explain to the company any information that the Board expected to make public.

Numerous commenters requested that the final rule include a formal appeals process to dispute the Board's findings prior to public release of stress test results. According to these commenters, banking organizations should have the opportunity to defend the results of their internal models against the results of supervisory stress tests, and explain any major differences in assumptions or potential drivers of divergent results between the two to the Board in a confidential manner prior to publication.

The final rule does not provide for a process whereby a company would be able to appeal the results of its supervisory stress test. The Board's supervisory stress tests reflect the Board's independent estimates of revenue, losses, and capital under various scenarios, using consistent models and assumptions across all companies. Covered companies are separately required to disclose the results of their own stress tests, which will provide the company's own assessment of its capital adequacy under stress conditions that are consistent with those included in the Board's supervisory stress test.

The Board expects to communicate the results of its supervisory stress tests to a company before it publicly discloses a summary of such results.

4. Post-Assessment Actions by Covered Companies

Under the final rule, subsequent to receiving the results of the Board's annual analyses, each covered company must take the results of such analysis conducted by the Board into account in making changes, as appropriate, to the company's capital plan and capital structure (including the level and composition of capital) and its exposures, concentrations, and risk positions; and any plans of the company for recovery or resolution. In addition, each covered company must make such updates to its resolution plan (required to be submitted annually to the Board and FDIC pursuant to the Board's Regulation QQ (12 CFR part 243) and the FDIC's Part 381 (12 CFR part 381)) as the Board, based on the results of its analyses of the company, determines appropriate.

5. Publication of Results by the Board

In the NPR, the Board proposed that, within a reasonable period of time after completing the annual analyses of covered companies (but no later than by mid-April of each calendar year), the Board would disclose a summary of the results of such analyses. The Board also said that it expected to disclose quarter-end results over the specified planning horizon that included estimated losses on a variety of lines of business, estimated allowance for loan and lease losses, and estimated pro forma regulatory and other capital ratios.

In response, nearly all commenters advocated that the Board use more limited disclosures requirements for the supervisory and company-run stress tests, suggesting that the disclosures proposed in the NPR go beyond what is mandated in the Act. In particular, nearly all commenters strongly recommended against the disclosure of the results under the baseline scenario. Commenters indicated the baseline scenario results would be perceived as earnings guidance, which may compel the banking organization to prioritize short-term results over more appropriate longer-term risk management and sustained long term results. Commenters also indicated that disclosure of baseline results may force the premature disclosure of future plans by the institution, create confusion among investors and the public, and give rise to liability under securities laws.

Several commenters also suggested that the Board disclose the results using the template used to disclose the CCAR results, which they likened to publication of only the severely adverse results. Commenters expressed the view that the CCAR disclosure regime was appropriately balanced by providing useful information to market participants while simultaneously ensuring that disclosure of stress tests results does not result in providing earnings guidance.

As noted above, the Board believes that public disclosure is a key component of stress test requirements mandated by the Act, and helps to provide valuable information to market participants, enhance transparency, and promote market discipline. However, the Board understands the concern that the disclosure of results (particularly baseline results) could be viewed as earnings guidance to the market. Thus, for the stress test conducted in 2012, the Board expects that, similar to the public disclosure following CCAR in early 2012, the Board will disclose results under the severely adverse scenario for each company that will include estimates of the following information:

- Pre-provision net revenue and other revenue;
- Provision for loan and lease losses, realized losses or gains on available-for-sale and held-to-maturity securities, trading and counterparty losses, and other losses or gains;[29]
- Net income before taxes;
- Loan losses (dollar amount and as a percentage of average portfolio balance) in aggregate and by subportfolio, including: Domestic closed-end first-lien mortgages; domestic junior lien mortgages and home equity lines of credit; commercial and industrial loans; commercial real estate loans; credit card exposures; other consumer loans; and all other loans; and
- Pro forma regulatory and other capital ratios (including the tier 1 common ratio, as defined in the capital plan rule, and any other capital ratios specified by the Board).

The Board expects that the results relating to pre-provision net revenue and other revenue; provision for loan and lease losses, realized losses/gains on available-for-sale and held-to-maturity securities, trading and counterparty losses, and other losses or gains; net income before taxes; loan losses in the aggregate and by subportfolio will include the cumulative total over the planning horizon, and the regulatory and other capital ratios will include at least the actual capital ratio

[28] 12 U.S.C. 5365(i)(1)(B)(v).

[29] Other losses and gains include, but are not limited to projected losses on loans that are held-for-sale and held-for-investment measured under the fair value option, and goodwill impairment.

as of September 30, 2012, and the minimum and ending capital ratios over the planning horizon. In addition, the Board may include additional elements under the severely adverse scenario, as it deems appropriate. The Board will disclose these summary results no later than March 31 of a calendar year.

As the Board implements the Dodd-Frank stress testing requirements, it intends to evaluate whether public disclosure of the results of the adverse and baseline would assist in informing the company and market participants about the condition of the banking organization. The Board expects to revisit the scope of the disclosure from time to time, and may disclose the results under the adverse and baseline scenario in the future.

In response to commenters' concerns that market participants may misunderstand the published results of the Board's analyses, the Board emphasizes that there are certain factors to bear in mind when interpreting these published results. For example, the outputs of the analyses might not align with those produced by other parties conducting similar exercises, even if a similar set of scenarios were used, due to differences in methodologies and assumptions used to produce those outputs. In addition, the outputs under the severely adverse scenarios should not be viewed as forecasts or expected outcomes or as a measure of any covered company's solvency. Instead, those outputs are the estimates from forward-looking exercises that consider possible outcomes based on a set of hypothetical scenarios.

E. Annual and Mid-Cycle Stress Tests Conducted by the Covered Companies

1. Overview

The final rule requires each covered company to conduct an annual stress test by January 5 of each calendar year and a mid-cycle stress test by July 5 of each calendar year. A stress test is defined as a process to assess the potential impact of scenarios on the consolidated earnings, losses, and capital of a covered company over the planning horizon, taking into account its current condition, risks, exposures, strategies, and activities.

A covered company is required to run its annual stress test using financial data as of September 30 of the preceding calendar year and its mid-cycle stress test using financial data as of March 31 of the preceding calendar year. The following discussion describes the scenarios, methodology, and practices that a company will use in conducting the annual and mid-cycle stress tests and disclosure requirements applicable to the company.

2. Scenarios

For the annual stress test, covered companies will use the same scenarios as the Board will use for its supervisory stress analysis. The scenarios will include a minimum of three different sets of economic and financial conditions, including baseline, adverse, and severely adverse scenarios, which covered companies will be required to use to conduct their annual company-run stress tests. The Board will publish baseline, adverse, and severely adverse scenarios by no later than November 15 of each year, except with respect to additional components or scenarios described below.

As discussed in section III.C.3 of the **SUPPLEMENTARY INFORMATION**, the Board may require a covered company with significant trading activity, as determined by the Board and reflected on the FR Y–14, to include a global market shock component in its adverse and severely adverse scenario that measures potential stress losses from trading activities and counterparty exposures in its stress test.[30] The data used in this component for purposes of the annual company-run stress test will have an as-of date between October 1 and December 1 of that calendar year selected by the Board and the as-of date will be communicated to the company no later than December 1 of the calendar year.

In addition, depending on the systemic footprint and scope of operations and activities of a covered company, the Board may require the company to use additional components in its adverse and severely adverse or to use additional or more complex scenarios that are designed to capture salient risks stemming from specific lines of business.[31] Scenarios may also include stress factors, such as operational risk, that materially affect the financial condition of a covered company but are not directly correlated to macroeconomic or financial assumptions.

The Board will notify a covered company in writing no later than September 30 that it will be required to include additional components in its adverse and severely adverse scenarios or additional scenarios in its stress test. The notification will include the basis for requiring the company to include the additional components or additional scenarios in its stress test. Within 14 calendar days of receipt of a notification, a covered company may request in writing that the Board reconsider the requirement that the company include additional components or additional scenarios in its stress test, including an explanation as to why the reconsideration should be granted. The Board will respond in writing within 14 calendar days of receipt of the covered company's request. The Board will provide a covered company with a description of any additional components or additional scenarios, including the trading component described above, by December 1.

Under the final rule, the Board will not provide scenarios to covered companies for the mid-cycle company-run stress tests. Rather, for the mid-cycle company-run stress test, a covered company will be required to develop and use a minimum of three sets of its own scenarios—a baseline, adverse, and severely adverse scenario. The Board anticipates that covered companies may use a variety of quantitative and qualitative approaches to develop the scenarios. The adverse and severely adverse scenarios used in mid-cycle stress tests should reflect a company's unique vulnerabilities to factors that affect its firm-wide activities and risk exposures, including macroeconomic, market-wide, and firm-specific events. The Board expects the companies to consider their own risk profiles and operations in designing specific elements of the adverse and severely adverse scenarios. If appropriate, the Board will publish additional guidance to covered companies describing the considerations they should take into account in developing the scenarios for the mid-cycle company-run stress tests.

The Board may require a covered company to include additional components or scenarios in its stress test based on the company's financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy. The notice and response procedures are parallel to those applicable in the annual company-run stress test.

3. Methodologies and Practices

Under the final rule, a covered company will be required to use the applicable scenarios discussed above in conducting its stress tests to calculate, for each quarter-end within the

[30] As of September 30, 2012, companies subject to the global market shock scenario included those bank holding companies with total consolidated assets of $500 billion or more that are subject to the market-risk measure set forth in Appendix E of the Board's Regulation Y (12 CFR Part 225, Appendix E).

[31] In making this assessment, the Board will consider the financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy of the company.

planning horizon, potential losses, pre-provision net revenue, provision for loan and lease losses, and capital levels over the planning horizon. Each covered company will also be required to calculate, for each quarter in the planning horizon, the potential effect of the specific scenarios on its regulatory capital ratios and tier 1 common ratio.

Several commenters asked that the Board generally adopt the disclosure approach it used in CCAR 2012, which provided for a uniform set of assumptions of capital actions across bank holding companies. In response to these commenters and to enable comparisons across firms and between the company-run and supervisory stress tests, the final rule requires a covered company to make the following assumptions regarding its capital actions over the planning horizon. For the first quarter of the planning horizon, the covered company must take into account its actual capital actions as of the end of the calendar quarter. For each of the second through ninth quarters of the planning horizon, the covered company must include the following items in the projections of capital: (i) Common stock dividends equal to the quarterly average dollar amount of common stock dividends that the company paid in the previous year (that is, the first quarter of the planning horizon and the preceding three calendar quarters); (ii) payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest, or principal due on such instrument during the quarter; and (iii) an assumption of no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio. The Board is requiring companies to adopt a standard approach to developing these assumptions to ensure that the publicly disclosed results of company-run stress tests are comparable across institutions and reflect the effect of common macroeconomic scenarios on net income and capital but not company-specific assumptions about capital distributions.

The proposed rule would have required a covered company to establish and maintain a system of controls, oversight, and documentation, including policies and procedures, designed to ensure that the stress testing processes were effective. It also would have required the board of directors and senior management of the covered company to annually review the controls, oversight, and documentation established pursuant to the final rule.

Several commenters asked for clarification on the roles of the board of directors and senior management in establishing and reviewing these controls. In response to these commenters, the final rule clarifies that the senior management is responsible for establishing and maintaining a system of controls, oversight, and documentation, including policies and procedures, designed to ensure that the stress testing processes used by the company are effective in meeting the requirements of the final rule. The board of directors, or an appropriate committee thereof, is responsible for approving and reviewing the policies and procedures of the stress testing processes as frequently as economic conditions or the condition of the company may warrant, but no less than annually. The board of directors and senior management of the company must receive a summary of the results of the stress test.

The company's policies and procedures must, at a minimum, outline the company's stress testing practices and methodologies, and processes for validating and updating the company's stress testing practices and methodologies consistent with applicable laws, regulations, and supervisory guidance. Each covered company must also include in its policies information describing its processes for scenario development for the mid-cycle stress test required under the final rule.

The final rule also requires that the board of directors and senior management of each covered company to consider the results of the stress tests when developing and maintaining the covered company's capital plan and capital planning processes and any plans for recovery and resolution, and assessing the exposures, concentration, and risk positions, including under times of stress, in light of the bank's risk profile.

4. Publication of Results by the Company

Under the proposal, consistent with the requirements of the Dodd-Frank Act, a covered company would have been required to disclose a summary of the results of its company-run stress tests within 75 days of submitting its required report to the Board.

Consistent with comments on the supervisory stress testing disclosure, nearly all commenters suggested that companies should not be required to disclose information relating to their baseline results or on a quarter-by-quarter basis, and that the Board adopt the template used in reporting the CCAR results.

As noted above, the Board believes that public disclosure is a key component of stress test requirements mandated by the Act, and helps to provide valuable information to market participants, enhance transparency, and facilitate market discipline. However, the Board also understands the concern that the disclosure of results (particularly baseline results) could be viewed as earnings guidance to the market. Thus, the final rule requires banking organizations to disclose only the severely adverse results. As companies begin conducting company-run stress tests, submitting the results of all scenarios to the Board, and disclosing a summary of their results under the severely adverse scenario, the Board expects to evaluate whether public disclosure of the results of the adverse and baseline scenarios would assist the public in understanding the condition of the banking organization. Thus, the Board expects to revisit the scope of required public disclosure from time to time, and may determine to require disclosure of the results under the adverse and baseline scenarios in the future.

At a minimum, the publication of summary results by a covered company must include with respect to the severely adverse scenario:

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

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

(iii) Results of company-run stress tests, including, but not limited to estimated:

- Pre-provision net revenue and other revenue;
- Provision for loan and lease losses, realized losses/gains on available-for-sale and held-to-maturity securities), trading and counterparty losses, and other losses/gains; [32]
- Net income before taxes;
- Loan losses (dollar amount and as a percentage of average portfolio balance) in the aggregate and by subportfolio, including: Domestic closed-end first-lien mortgages; domestic junior lien mortgages and home equity lines of credit; commercial and industrial loans; commercial real estate loans; credit card exposures; other

[32] Other losses and gains include, but are not limited to projected losses on loans that are held-for-sale and held-for-investment measured under the fair value option, and goodwill impairment.

consumer loans; and all other loans; [33] and

• Pro forma regulatory capital ratios and the tier 1 common ratio; and

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

The results disclosed by covered companies must include the cumulative total for (1) pre-provision net revenue and other revenue; (2) provision for loan and lease losses, realized losses/gains on available-for-sale and held-to-maturity securities, trading and counterparty losses, and other losses or gains; (3) net income before taxes; and (4) loan losses in the aggregate and by subportfolio over the planning horizon. The disclosure of pro forma capital ratios must include at least the actual beginning ratios (as of September 30 for annual stress tests and as of March 31 for mid-cycle stress tests), the ending ratios, and the minimum ratios over the planning horizon.

Several commenters suggested that regulatory agencies coordinate disclosure requirements for multiple banking organizations within a single parent company as the release of conflicting test results could confuse market participants. Additionally, commenters recommended more limited disclosure requirements for depository institution subsidiaries.

In response to these comments, the final rule requires bank holding companies that are covered companies to include in their public disclosure a summary of any company-run stress test conducted by a depository institution subsidiary that is required to disclose a summary of stress test results under applicable regulations.[34] The public disclosures with respect to a depository institution subsidiary must include changes in pro forma regulatory capital ratios of the depository institution subsidiary over the planning horizon, including an explanation of the most significant causes for the changes in those ratios. For subsidiary state member banks, the Board expects that this disclosure will include a general description of methodologies used to estimate capital actions over the planning horizon. As described in the concurrently issued final rule applicable to state member banks with total consolidated assets of more than $10 billion, disclosure by a bank holding company of the results of its state member bank subsidiary's stress test will satisfy public disclosure requirements applicable to that subsidiary under section 165(i)(2) of the Dodd-Frank Act, unless the Board determines that the disclosures at the holding company level do not adequately capture the potential impact of the scenarios on the capital of the state member bank.

IV. Administrative Law Matters

A. Use of Plain Language

Section 722 of the Gramm-Leach-Bliley Act (Pub. L. 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 invited comment on whether the proposed rule was written plainly and clearly, or whether there were ways the Board could make the rule easier to understand. The Board received no comments on these matters and believes that the final rule is written plainly and clearly.

B. Paperwork Reduction Act Analysis

Request for Comment on Final Information Collection

In accordance with section 3512 of the Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3521) (PRA), the Board may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The OMB control number will be assigned. The Board reviewed the final rule under the authority delegated to the Board by OMB.

The final rule contains requirements subject to the PRA. The recordkeeping requirements are found in section 252.146(c)(1) [35] (formerly section 252.145(b)(1) in the proposed rule) and the disclosure requirements are found in section 252.148. These information collection requirements will implement sections 165(i)(1) and (2) of the Dodd-Frank Act for covered companies, as mentioned in the Abstract below.

The reporting requirements found in section 252.137(b) have been addressed in the Resolution Plans Required Regulation (Reg QQ; OMB No. 7100–0346).[36] The reporting requirements found in sections 252.135(a), 252.144, 252.146(a), and 252.147(a)(1) have been incorporated into the Capital Assessments and Stress Testing (FR Y–14; OMB No. 7100–0341). The reporting requirements found in sections 252.145 and 252.147(a)(2) will be addressed as separate **Federal Register** notice for the FR Y–14 at a later date. The recordkeeping requirements found in section 252.137(a)(1) have been incorporated into the Capital Plans Regulation (Reg Y–13; OMB No. 7100–0342).

The Board received general comments regarding the burden of the proposed rule. In response to these comments and to reduce burden, only covered companies that are bank holding companies and that participated in SCAP will be required to conduct a stress test under the final rule this year. Other bank holding companies that are covered companies with $50 billion or more in total consolidated assets will not begin conducting stress tests under the final rule until fall 2013.

The Board has an ongoing interest in your comments.

Comments are invited on:

(a) Whether the proposed collections of information are necessary for the proper performance of the Federal Reserve's functions, including whether the information has practical utility;

(b) The accuracy of the Federal Reserve's estimate of the burden of the proposed 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 start up 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. A copy of the comments may also be submitted to the OMB desk officer for the Agencies: By mail to U.S. Office of Management and Budget, 725 17th Street NW., #10235,

[33] In the proposed rule, the Board noted that it expected covered companies to disclose the loan loss results of their company-run stress tests in the aggregate and by subportfolio. In response to commenters' requests for clarity on disclosure expectations, the final rule specifies the subportfolios for which a company will be required to disclose loan losses.

[34] *See, e.g.,* 12 CFR 252.157(b)(2).

[35] Some of the recordkeeping requirements for Subpart G—Company-Run Stress Test Requirements for Covered Companies have been addressed in the proposed Recordkeeping and Disclosure Provisions Associated with Stress Testing Guidance (FR 4202). *See* the **Federal Register** notice published on June 15, 2011 (76 FR 35072). Only new recordkeeping requirements are being addressed with this proposed rulemaking

[36] *See* the **Federal Register** notice published on November 1, 2011 (76 FR 67323).

Washington, DC 20503 or by facsimile to 202–395–5806, Attention, Commission and Federal Banking Agency Desk Officer.

Title of Information Collection: Recordkeeping and Disclosure Requirements Associated with Regulation YY (Subparts F and G).

Frequency of Response: Annual and semiannual.

Affected Public: Businesses or other for-profit.

Respondents: U.S. bank holding companies and nonbank financial companies.

Abstract: Section 165 of the Dodd-Frank Act implements the enhanced prudential standards. The enhanced standards include risk-based capital and leverage requirements, liquidity standards, requirements for overall risk management (including establishing a risk committee), single-counterparty credit limits, stress test requirements, and debt-to-equity limits for companies that the Council has determined pose a grave threat to financial stability.

Section 252.146(c)(1) requires that each covered company must establish and maintain a system of controls, oversight, and documentation, including policies and procedures, that are designed to ensure that its stress testing processes are effective in meeting the requirements in Subpart G. These policies and procedures must, at a minimum, describe the covered company's stress testing practices and methodologies, and processes for validating and updating the covered institution's stress test practices and methodologies consistent with applicable laws, regulations, and supervisory guidance. Policies of covered companies must describe processes for scenario development for the mid-cycle stress test required under section 252.145.

Section 252.148 requires a covered company to publish a summary of the results of the stress test required under section 252.144 in the period beginning on March 15 and ending on March 31, unless that time is extended by the Board in writing. A covered company must also publish a summary of the results of the stress test required under section 252.145 in the period beginning on September 15 and ending on September 30, unless that time is extended by the Board in writing. The information disclosed by each covered company, at a minimum, include the following information regarding the severely adverse scenario: (1) A description of the types of risks being included in the stress test; (2) a general description of the methodologies used in the stress test, including those employed to estimate losses, revenues, provision for loan and lease losses, and changes in capital positions over the planning horizon; (3) estimates of pre-provision net revenue and other revenue; provisions for loan and lease losses, realized losses/gains on available-for-sale and held-to-maturity securities, trading and counterparty losses, and other losses or gains; net income before taxes; loan losses (dollar amount and as a percentage of average portfolio balance) in the aggregate and by subportfolio, including: Domestic first-lien mortgages; domestic junior lien and home equity lines of credit; commercial and industrial loans; commercial real estate loans; credit cards; other consumer loans; and all other loans; and regulatory capital ratios and the tier 1 common ratio; (4) an explanation of the most significant causes for the changes in regulatory capital ratios and tier 1 common ratio; and (5) with respect to a stress test conducted by an insured depository institution subsidiary of the covered company pursuant to subpart H of this part 252, changes in regulatory capital ratios of the depository institution subsidiary over the planning horizon, including an explanation of the most significant causes for the changes in regulatory capital ratios.

Estimated Paperwork Burden

Estimated Burden per Response:

Section 252.146(c)(1) recordkeeping—40 hours (Initial setup 280 hours for U.S. bank holding companies $50 billion and over in total consolidated assets).

Section 252.148 disclosure—80 hours (Initial setup 200 hours).

Number of respondents: 34 U.S. bank holding companies with total consolidated assets of $50 billion or more.

Total estimated annual burden: 29,920 hours (23,120 hours for initial setup and 6,800 hours for ongoing compliance).

C. Regulatory Flexibility Act Analysis

The Regulatory Flexibility Act, 5 U.S.C. 601 *et seq.* (RFA), requires each federal agency to prepare a final regulatory flexibility analysis in connection with the promulgation of a final rule, or certify that the final rule will not have a significant economic impact on a substantial number of small entities.[37] The Board believes that the final rule will not have a significant economic impact on a substantial number of small entities, but nonetheless is conducting the RFA analysis for this final rule.

In accordance with section 165(i)(1) and (2) of the Dodd-Frank Act, the Board is adopting the final rule as Regulation YY and adding new Part 252 (12 CFR part 252) to establish the requirements that a covered company provide data to support the Board's annual supervisory stress test and conduct company-run stress tests semi-annually.[38] The reasons and justification for the final rule are described in the **SUPPLEMENTARY INFORMATION.**

Under regulations issued by the Small Business Administration (SBA), a ''small entity'' includes those firms within the ''Finance and Insurance'' sector with asset sizes that vary from $7 million or less in assets to $175 million or less in assets.[39] The Board believes that the Finance and Insurance sector constitutes a reasonable universe of firms for these purposes because such firms generally engage in actives that are financial in nature. Consequently, bank holding companies or nonbank financial companies with assets sizes of $175 million or less are small entities for purposes of the RFA.

As discussed in the **SUPPLEMENTARY INFORMATION**, the final rule applies to a ''covered company,'' which includes only bank holding companies with $50 billion or more in total consolidated assets, and nonbank financial companies that the Council has determined under section 113 of the Dodd-Frank Act must be supervised by the Board and for which such determination is in effect. Bank holding companies that are subject to the final rule therefore substantially exceed the $175 million asset threshold at which a banking entity is considered a ''small entity'' under SBA regulations. The final rule will apply to a nonbank financial company supervised by the Board regardless of such a company's asset size. Although the asset size of nonbank financial companies may not be the determinative factor of whether such companies may pose systemic risks and would be designated by the Council for supervision by the Board, it is an important consideration.[40] It is therefore unlikely that a financial firm that is at or below the $175 million asset threshold would be designated by the Council under section 113 of the Dodd-Frank Act because material financial distress at such firms, or the nature,

[37] *See* 5 U.S.C. 603, 604 and 605.

[38] *See* 12 U.S.C. 5365(i)(1) and (2).

[39] 13 CFR 121.201.

[40] *See* Authority To Require Supervision and Regulation of Certain Nonbank Financial Companies, 77 FR 21637 (April 11, 2012) (to be codified at 12 CFR part 1310).

scope, size, scale, concentration, interconnectedness, or mix of it activities, are not likely to pose a threat to the financial stability of the United States.

As noted above, because the final rule is not likely to apply to any company with assets of $175 million or less, the final rule is not expected to apply to any small entity for purposes of the RFA. Moreover, as discussed in the **SUPPLEMENTARY INFORMATION**, the Dodd-Frank Act requires the Board to adopt rules implementing the provisions of section 165(i)(2) of the Dodd-Frank Act. The Board does not believe that the final rule would have a significant economic impact on a substantial number of small entities or that the final rule duplicates, overlaps, or conflicts with any other Federal rules.

List of Subjects in 12 CFR Part 252

Administrative practice and procedure, Banks, Banking, Federal Reserve System, Holding companies, Nonbank Financial Companies Supervised by the Board, Reporting and recordkeeping requirements, Securities, Stress Testing.

Authority and Issuance

For the reasons stated in the preamble, the Board of Governors of the Federal Reserve System adds 12 CFR part 252 to read as follows:

PART 252—ENHANCED PRUDENTIAL STANDARDS (REGULATION YY)

Sec.

Subparts A—E [Reserved]

Subpart F—Supervisory Stress Test Requirements for Covered Companies

252.131 Authority and purpose.
252.132 Definitions.
252.133 Applicability.
252.134 Annual analysis conducted by the Board.
252.135 Data and information required to be submitted in support of the Board's analyses.
252.136 Review of the Board's analysis; publication of summary results.
252.137 Use requirement.

Subpart G—Company-Run Stress Test Requirements for Covered Companies

252.141 Authority and purpose.
252.142 Definitions.
252.143 Applicability.
252.144 Annual stress test.
252.145 Mid-cycle stress test.
252.146 Methodologies and practices.
252.147 Reports of stress test results.
252.148 Disclosure of stress test results.

Subpart H [Reserved]

Subpart I [Reserved]

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

Subparts A—E [Reserved]

Subpart F—Supervisory Stress Test Requirements for Covered Companies

§ 252.131 Authority and purpose.

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

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

§ 252.132 Definitions.

For purposes of this subpart, the following definitions apply:

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

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

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

(d) *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.

(e) *Covered company* means:

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

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

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

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

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

(i) *Planning horizon* means the period of at least nine quarters, beginning on the first day of a stress test cycle (on October 1) over which the relevant projections extend.

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

(k) *Provision for loan and lease losses* means the provision for loan and lease losses as reported by the covered company on the FR Y–9C.

(l) *Regulatory capital ratio* means a capital ratio for which the Board established minimum requirements by regulation or order, including a company's leverage ratio and tier 1 and total risk-based capital ratios as calculated under the Board's regulations, including appendices A, D, E, and G to 12 CFR part 225 or any successor regulation.

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

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

(o) *Stress test cycle* means the period between October 1 of a calendar year and September 30 of the following calendar year. For the purposes of the stress test cycle commencing in 2012, such cycle will begin on November 15, 2012.

(p) *Subsidiary* has the same meaning as in section 225.2(o) of the Board's Regulation Y (12 CFR 225.2).

(q) *Tier 1 common ratio* has the same meaning as in section 225.8(c)(9) of the Board's Regulation Y (12 CFR 225.8(c)(9)).

§ 252.133 Applicability.

(a) *Compliance date for bank holding companies that are covered companies as of November 15, 2012.* (1) *In general.* Except as provided in paragraph (a)(2) or (a)(3) of this section, a bank holding company that is a covered company as of November 15, 2012, must comply with the requirements of this subpart beginning with the stress test cycle that commences on October 1, 2013, unless that time is extended by the Board in writing.

(2) *2009 Supervisory Capital Assessment Program.* A bank holding company that participated in the 2009 Supervisory Capital Assessment Program, or a successor to such a bank holding company, must comply with the requirements of this subpart beginning with the stress test cycle that commences on November 15, 2012, unless that time is extended by the Board in writing.

(3) *SR Letter 01–01.* A U.S.-domiciled bank holding company that is a covered company as of November 15, 2012, and is a subsidiary of a foreign banking organization that is currently relying on Supervision and Regulation Letter SR 01–01 issued by the Board (as in effect on May 19, 2010) must comply with the requirements of this subpart beginning with the stress test cycle that commences on October 1, 2015, unless that time is extended by the Board in writing.

(b) *Compliance date for institutions that become covered companies after November 15, 2012.* (1) *Bank holding companies.* A bank holding company that becomes a covered company after November 15, 2012, must comply with the requirements of this subpart beginning with the stress test cycle that commences in the calendar year after the year in which the bank holding company becomes a covered company, unless that time is extended by the Board in writing.

(2) *Nonbank financial companies supervised by the Board.* A company that becomes a nonbank financial company supervised by the Board must comply with the requirements of this subpart beginning with the stress test cycle that commences in the calendar year after the year in which the company first becomes subject to the Board's minimum regulatory capital requirements, unless the Board accelerates or extends the compliance date.

(c) *Ongoing application.* A bank holding company that is a covered company will remain subject to the requirements of this subpart unless and until its total consolidated assets fall below $50 billion for each of four consecutive quarters, as reported on the FR Y–9C. The calculation will be effective on the as-of date of the fourth consecutive FR Y–9C.

§ 252.134 Annual analysis conducted by the Board.

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

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

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

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

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

(a) *Regular submissions.* Each covered company must submit to the Board such data, on a consolidated basis, that the Board determines is necessary in order for the Board to derive the relevant pro forma estimates of the covered company over the planning horizon under the scenarios described in § 252.134(b).

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

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

(2) Project a company's pre-provision net revenue, losses, provision for loan and lease losses, and net income; and, pro forma capital levels, regulatory capital ratios, tier 1 common ratio, and any other capital ratio specified by the Board under the scenarios described in section 252.134(b).

(c) *Confidential treatment of information submitted.* The confidentiality of information submitted to the Board under this subpart and related materials shall be determined in accordance with the Freedom of Information Act (5 U.S.C. 552(b)) and the Board's Rules Regarding Availability of Information (12 CFR part 261).

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

(a) *Review of results.* Based on the results of the analysis conducted under this subpart, the Board will conduct an evaluation to determine whether the covered company has the capital, on a total consolidated basis, necessary to absorb losses and continue its operation by maintaining ready access to funding, meeting its obligations to creditors and other counterparties, and continuing to serve as a credit intermediary under baseline, adverse and severely adverse scenarios, and any additional scenarios.

(b) *Communication of results to covered companies.* The Board will convey to a covered company a summary of the results of the Board's analyses of such covered company within a reasonable period of time, but no later than March 31.

(c) *Publication of results by the Board.* By March 31 of each calendar year, the Board will disclose a summary of the results of the Board's analyses of a covered company.

§ 252.137 Use requirement.

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

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

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

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

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

Subpart G—Company-Run Stress Test Requirements for Covered Companies

§ 252.141 Authority and purpose.

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

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

§ 252.142 Definitions.

For purposes of this subpart, the following definitions apply:

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

(b) *Average total consolidated assets* means the average of the total consolidated assets as reported by a bank holding company on its Consolidated Financial Statements for Bank Holding Companies (FR Y–9C) for the four most recent consecutive quarters. If the bank holding company has not filed the FR Y–9C for each of the four most recent consecutive quarters, average total consolidated assets means the average of the company's total consolidated assets, as reported on the company's FR Y–9C, for the most recent quarter or consecutive quarters. Average total consolidated assets are measured on the as of date of the most recent FR Y–9C used in the calculation of the average.

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

(d) *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.

(e) *Capital action* has the same meaning as in section 225.8(c)(1) of the Board's Regulation Y (12 CFR 225.8(c)(1)).

(g) *Covered company* means:

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

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

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

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

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

(k) *Planning horizon* means the period of at least nine quarters, beginning on the first day of a stress test cycle (on October 1 or April 1, as appropriate) over which the relevant projections extend.

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

(m) *Provision for loan and lease losses* means the provision for loan and lease losses as reported by the covered company on the FR Y–9C.

(n) *Regulatory capital ratio* means a capital ratio for which the Board established minimum requirements by regulation or order, including a company's leverage ratio and tier 1 and total risk-based capital ratios as calculated under the Board's regulations, including appendices A, D, E, and G to 12 CFR part 225, and appendices A, B, E, and F to part 208 or any successor regulation.

(o) *Scenarios* are those sets of conditions that affect the U.S. economy or the financial condition of a covered company that the Board, or with respect to the mid-cycle stress test required under section 252.145 of this subpart, the covered company, annually determines are appropriate for use in the company-run stress tests, including, but not limited to, baseline, adverse, and severely adverse scenarios.

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

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

(r) *Stress test cycle* means the period between October 1 of a calendar year and September 30 of the following calendar year. For the purposes of the stress test cycle commencing in 2012, such cycle will begin on November 15, 2012.

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

(t) *Tier 1 common ratio* has the same meaning as in section 225.8(c)(9) of the Board's Regulation Y (12 CFR 225.8(c)(9)).

§ 252.143 Applicability.

(a) *Compliance date for bank holding companies that are covered companies as of November 15, 2012*—(1) *In general.* Except as provided in paragraph (a)(2) or (a)(3) of this section, a bank holding company that is a covered company as of November 15, 2012, must comply with the requirements of this subpart beginning with the stress test cycle commencing on October 1, 2013, unless that time is extended by the Board in writing.

(2) *2009 Supervisory Capital Assessment Program.* A bank holding company that participated in the 2009 Supervisory Capital Assessment Program, or a successor to such a bank holding company, must comply with the requirements of this subpart beginning with the stress test cycle commencing on November 15, 2012, unless that time is extended by the Board in writing.

(3) *SR Letter 01–01.* A U.S.-domiciled bank holding company that is a covered company as of November 15, 2012, and is a subsidiary of a foreign banking organization that is currently relying on Supervision and Regulation Letter SR 01–01 issued by the Board (as in effect on May 19, 2010) must comply with the requirements of this subpart beginning with the stress test cycle commencing on October 1, 2015, unless that time is extended by the Board in writing.

(b) *Compliance date for institutions that become covered companies after November 15, 2012*—(1) *Bank holding companies.* A bank holding company that becomes a covered company after November 15, 2012, must comply with the requirements of this subpart beginning with the stress test cycle that commences in the calendar year after the year in which the bank holding company becomes a covered company,

unless that time is extended by the Board in writing.

(2) *Nonbank financial companies supervised by the Board.* A company that becomes a nonbank financial company supervised by the Board must comply with the requirements of this subpart beginning with the stress test cycle that commences in the calendar year after the year in which company first becomes subject to the Board's minimum regulatory capital requirements, unless the Board accelerates or extends the compliance date.

(c) *Ongoing application.* A bank holding company that is a covered company will remain subject to the requirements of this subpart unless and until its total consolidated assets fall below $50 billion for each of four consecutive quarters, as reported on the FR Y–9C. The calculation will be effective on the as-of date of the fourth consecutive FR Y–9C.

§ 252.144 Annual stress test.

(a) *In general.* A covered company must conduct an annual stress test by January 5 during each stress test cycle based on data as of September 30 of the preceding calendar year, unless the time or the as of date is extended by the Board in writing.

(b) *Scenarios provided by the Board.* (1) *In general.* In conducting a stress test under this section, a covered company must use the scenarios provided by the Board. Except as provided in paragraphs (b)(2) and (3) of this section, the Board will provide a description of the scenarios to each covered company no later than November 15 of that calendar year.

(2) *Additional components.* (i) The Board may require a covered company with significant trading activity, as determined by the Board and specified in the Capital Assessments and Stress Testing report (FR Y–14), to include a trading and counterparty component in its adverse and severely adverse scenarios in the stress test required by this section. The data used in this component will be as of a date between October 1 and December 1 of that calendar year selected by the Board, and the Board will communicate the as-of date and a description of the component to the company no later than December 1 of the calendar year.

(ii) The Board may require a covered company to include one or more additional components in its adverse and severely adverse scenarios in the stress test required by this section based on the company's financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy.

(3) *Additional scenarios.* The Board may require a covered company to use one or more additional scenarios in the stress test required by this section based on the company's financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy.

(4) *Notice and response.* If the Board requires a covered company to include one or more additional components in its adverse and severely adverse scenarios under paragraph (b)(2)(ii) of this section or to use one or more additional scenarios under paragraph (b)(3) of this section, the Board will notify the company in writing no later than September 30. The notification will include a general description of the additional component(s) or additional scenario(s) and the basis for requiring the company to include the additional component(s) or additional scenario(s). Within 14 calendar days of receipt of a notification under this paragraph, the covered company may request in writing that the Board reconsider the requirement that the company include the additional component(s) or additional scenario(s), including an explanation as to why the reconsideration should be granted. The Board will respond in writing within 14 calendar days of receipt of the company's request. The Board will provide the covered company with a description of any additional component(s) or additional scenario(s) by December 1.

§ 252.145 Mid-cycle stress test.

(a) *Mid-cycle stress test requirement.* In addition to the stress test required under section 252.144 of this subpart, a covered company must conduct a stress test by July 5 during each stress test cycle based on data as of March 31 of that calendar year, unless the time or the as-of date is extended by the Board in writing.

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

(2) *Additional components.* The Board may require a covered company to include one or more additional components in its adverse and severely adverse scenarios in the stress test required by this section based on the company's financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy.

(3) *Additional scenarios.* The Board may require a covered company to use one or more additional scenarios in the stress test required by this section based on the company's financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy.

(4) *Notice and response.* If the Board requires a covered company to include one or more additional components in its adverse and severely adverse scenarios under paragraph (b)(2) of this section or one or more additional scenarios under paragraph (b)(3) of this section, the Board will notify the company in writing no later than March 31. The notification will include a general description of the additional component(s) or additional scenario(s) and the basis for requiring the company to include the additional component(s) or additional scenario(s). Within 14 calendar days of receipt of a notification under this paragraph, the covered company may request in writing that the Board reconsider the requirement that the company include the additional component(s) or additional scenario(s), including an explanation as to why the reconsideration should be granted. The Board will respond in writing within 14 calendar days of receipt of the company's request. The Board will provide the covered company with a description of any additional component(s) or additional scenario(s) by June 1.

§ 252.146 Methodologies and practices.

(a) *Potential impact on capital.* In conducting a stress test under §§ 252.144 and 252.145, for each quarter of the planning horizon, a covered company must estimate the following for each scenario required to be used:

(1) Losses, pre-provision net revenue, provision for loan and lease losses, and net income; and

(2) The potential impact on pro forma regulatory capital levels and pro forma capital ratios (including regulatory capital ratios, the tier 1 common ratio, and any other capital ratios specified by the Board), incorporating the effects of any capital actions over the planning horizon and maintenance of an allowance for loan losses appropriate for credit exposures throughout the planning horizon.

(b) *Assumptions regarding capital actions.* In conducting a stress test under §§ 252.144 and 252.145, a covered company is required to make the following assumptions regarding its capital actions over the planning horizon—

(1) For the first quarter of the planning horizon, the covered company must take into account its actual capital actions as of the end of that quarter; and

(2) For each of the second through ninth quarters of the planning horizon, the covered company must include in the projections of capital:

(i) Common stock dividends equal to the quarterly average dollar amount of common stock dividends that the company paid in the previous year (that is, the first quarter of the planning horizon and the preceding three calendar quarters);

(ii) Payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest, or principal due on such instrument during the quarter; and

(iii) An assumption of no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio.

(c) *Controls and oversight of stress testing processes*—(1) *In general.* The senior management of a covered company must establish and maintain a system of controls, oversight, and documentation, including policies and procedures, that are designed to ensure that its stress testing processes are effective in meeting the requirements in this subpart. These policies and procedures must, at a minimum, describe the covered company's stress testing practices and methodologies, and processes for validating and updating the company's stress test practices and methodologies consistent with applicable laws, regulations, and supervisory guidance. Policies of covered companies must also describe processes for scenario development for the mid-cycle stress test required under § 252.145.

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

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

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

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

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

§ 252.147 Reports of stress test results.

(a) *Reports to the Board of stress test results.* (1) A covered company must report the results of the stress test required under section 252.144 to the Board by January 5 of each calendar year in the manner and form prescribed by the Board, unless that time is extended by the Board in writing.

(2) A covered company must report the results of the stress test required under section 252.145 to the Board by July 5 of each calendar year in the manner and form prescribed by the Board, unless that time is extended by the Board in writing.

(b) *Confidential treatment of information submitted.* The confidentiality of information submitted to the Board under this subpart and related materials shall be determined in accordance with applicable exemptions under the Freedom of Information Act (5 U.S.C. 552(b)) and the Board's Rules Regarding Availability of Information (12 CFR part 261).

§ 252.148 Disclosure of stress test results.

(a) *Public disclosure of results*—(1) *In general.* (i) A covered company must disclose a summary of the results of the stress test required under section 252.144 in the period beginning on March 15 and ending on March 31, unless that time is extended by the Board in writing.

(ii) A covered company must disclose a summary of the results of the stress test required under section 252.145 in the period beginning on September 15 and ending on September 30, unless that time is extended by the Board in writing.

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

(b) *Summary of results.* A covered company must disclose, at a minimum, the following information regarding the severely adverse scenario:

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

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

(3) Estimates of—

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

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

(iii) Net income before taxes;

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

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

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

(5) With respect to a stress test conducted pursuant to section 165(i)(2) of the Dodd-Frank Act by an insured depository institution that is a subsidiary of the covered company and that is required to disclose a summary of its stress tests results under applicable regulations, changes in regulatory capital ratios and any other capital ratios specified by the Board of the depository institution subsidiary over the planning horizon, including an explanation of the most significant causes for the changes in regulatory capital ratios.

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

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

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

(iii) Net income before taxes; and

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

(2) The disclosure of pro forma regulatory capital ratios, the tier 1 common ratio, and any other capital ratios specified by the Board that is required under paragraph (b) of this section must include the beginning value, ending value, and minimum value of each ratio over the planning horizon.

Subpart H [Reserved]

Subpart I [Reserved]

By order of the Board of Governors of the Federal Reserve System, October 5, 2012.

Robert deV. Frierson,

Secretary of the Board.

[FR Doc. 2012–24987 Filed 10–11–12; 8:45 am]

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FEDERAL RESERVE SYSTEM

12 CFR Part 252

[Regulation YY; Docket No. 1438]

RIN 7100–AD–86

Annual Company-Run Stress Test Requirements for Banking Organizations With Total Consolidated Assets Over $10 Billion Other Than Covered Companies

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

ACTION: Final rule.

SUMMARY: The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act or Act) requires the Board to issue regulations that require financial companies with total consolidated assets of more than $10 billion and for which the Board is the primary federal financial regulatory agency to conduct stress tests on an annual basis. The Board is adopting this final rule to implement the company-run stress test requirements in the Dodd-Frank Act regarding company-run stress tests for bank holding companies with total consolidated assets greater than $10 billion but less than $50 billion and state member banks and savings and loan holding companies with total consolidated assets greater than $10 billion. This final rule does not apply to any banking organization with total consolidated assets of less than $10 billion. Furthermore, implementation of the stress testing requirements for bank holding companies, savings and loan holding companies, and state member banks with total consolidated assets of greater than $10 billion but less than $50 billion is delayed until September 2013.

DATES: This rule is effective November 15, 2012.

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I. Background

The Board has long held the view that a banking organization, such as a bank holding company or insured depository institution, should operate with capital levels well above its minimum regulatory capital ratios and commensurate with its risk profile.[1] A banking organization should also have internal processes for assessing its capital adequacy that reflect a full understanding of its risks and ensure that it holds capital commensurate with those risks.[2] Moreover, a banking organization that is subject to the Board's advanced approaches risk-based capital requirements must satisfy specific requirements relating to their internal capital adequacy processes in order to use the advanced approaches to calculate its minimum risk-based capital requirements.[3] 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.[4] The Board and the other federal banking agencies previously have highlighted the use of stress testing as a means to better understand the range of a banking organization's potential risk exposures.[5]

In particular, as part of its effort to stabilize the U.S. financial system during the recent financial crisis, the Board, along with other federal financial regulatory agencies and the Federal Reserve system, conducted stress tests of large, complex bank holding companies through the Supervisory Capital Assessment Program (SCAP). The SCAP was a forward-looking exercise designed to estimate revenue, losses, and capital needs under an adverse economic and financial market scenario. By looking at the broad capital needs of the financial system and the specific needs of individual companies, these stress tests provided valuable information to market participants, reduced uncertainty about the financial condition of the participating bank holding companies under a scenario that was more adverse than that which was anticipated to occur at the time, and had an overall stabilizing effect.

Building on the SCAP and other supervisory work coming out of the crisis, the Board initiated the annual Comprehensive Capital Analysis and Review (CCAR) in late 2010 to assess the capital adequacy and the internal capital planning processes of large, complex bank holding companies and to incorporate stress testing as part of the Board's regular supervisory program for

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[1] *See* 12 CFR part 225, Appendix A; *see also* Supervision and Regulation Letter SR 99–18, Assessing Capital Adequacy in Relation to Risk at Large Banking Organizations and Others with Complex Risk Profiles (July 1, 1999), *available at http://www.federalreserve.gov/boarddocs/srletters/1999/SR9918.HTM* (hereinafter SR 99–18).

[2] *See* Supervision and Regulation Letter SR 09–4, Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies (Mar. 27, 2009), *available at http://www.federalreserve.gov/boarddocs/srletters/2009/SR0904.htm* (hereinafter SR 09–4).

[3] *See* 12 CFR part 225, Appendix G, section 22(a); *see also,* Supervisory Guidance: Supervisory Review Process of Capital Adequacy (Pillar 2) Related to the Implementation of the Basel II Advanced Capital Framework, 73 FR 44620 (July 31, 2008).

[4] 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.

[5] *See, e.g.,* Supervisory Guidance on Stress Testing for Banking Organizations With More Than $10 Billion in Total Consolidated Assets, 77 FR 29458 (May 17, 2011); Supervision and Regulation Letter SR 10–6, Interagency Policy Statement on Funding and Liquidity Risk Management (Mar. 17, 2010), *available at http://www.federalreserve.gov/boarddocs/srletters/2010/sr1006.htm;* Supervision and Regulation Letter SR 10–1, Interagency Advisory on Interest Rate Risk (Jan. 11, 2010), *available at http://www.federalreserve.gov/boarddocs/srletters/2010/sr1001.htm;* SR 09–4, *supra* note2note2170; Supervision and Regulation Letter SR 07–1, Interagency Guidance on Concentrations in Commercial Real Estate (Jan. 4, 2007), available at *http://www.federalreserve.gov/boarddocs/srletters/2007/SR0701.htm;* SR 99–18, *supra* note 11boarddocs/srletters/2007/SR0701.htm; Supervision and Regulation Letter SR 12–7, Supervisory Guidance on Stress Testing for Banking Organizations with More Than $10 Billion in Total Consolidated Assets, 77 FR 29458 (May 14, 2012), available at *http://www.federalreserve.gov/bankinforeg/srletters/sr1207.htm;* SR 99–18, supra note 169; Supervisory Guidance: Supervisory Review Process of Capital Adequacy (Pillar 2) Related to the Implementation of the Basel II Advanced Capital Framework, 73 FR 44620 (Jul. 31, 2008); *The Supervisory Capital Assessment Program:* SCAP *Overview of Results* (May 7, 2009), available at *http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20090507a1.pdf;* and *Comprehensive Capital Analysis and Review: Objectives and Overview* (Mar. 18, 2011), *available at http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20110318a1.pdf.*