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9LP), or is required to report consolidated total liabilities on the Quarterly Savings and Loan Holding Company Report (FR 2320)) must report to the Board its consolidated liabilities as of the previous calendar year-end in the manner and form prescribed by the Board; and

(b) A foreign financial company (other than a foreign financial company that is required to file a FR Y-7) must report to the Board its U.S. liabilities as of the previous calendar year-end in the manner and form prescribed by the Board.

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

**SOURCE:** 77 FR 62391, Oct. 12, 2012, unless otherwise noted.

### **Subpart A—General Provisions**

**SOURCE:** Reg. YY, 79 FR 17315, Mar. 27, 2014, unless otherwise noted.

#### **§ 252.1 Authority and purpose.**

(a) *Authority.* This part is issued by the Board of Governors of the Federal Reserve System (the Board) under sections 162, 165, 167, and 168 of Title I of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) (Pub. L. 111–203, 124 Stat. 1376, 1423–1432, 12 U.S.C. 5362, 5365, 5367, and 5368); section 9 of the Federal Reserve Act (12 U.S.C. 321–338a); section 5(b) of the Bank Holding Company Act (12 U.S.C. 1844(b)); section 10(g) of the Home Owners’ Loan Act, as amended (12 U.S.C. 1467a(g)); sections 8 and 39 of the Federal Deposit Insurance Act (12 U.S.C. 1818(b) and 1831p-1); the International Banking Act (12 U.S.C. 3101 *et seq.*); the Foreign Bank Supervision Enhancement Act (12 U.S.C. 3101 note); and 12 U.S.C. 3904, 3906–3909, and 4808.

(b) *Purpose.* This part implements certain provisions of section 165 of the Dodd-Frank Act (12 U.S.C. 5365), which require the Board to establish enhanced prudential standards for bank holding companies and foreign banking organizations with total consolidated assets of \$50 billion or more, nonbank financial companies supervised by the Board, and certain other companies.

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### § 252.2 Definitions.

Unless otherwise specified, the following definitions apply for purposes of this part:

(a) *Affiliate* has the same meaning as in section 2(k) of the Bank Holding Company Act (12 U.S.C. 1841(k)) and section 225.2(a) of the Board's Regulation Y (12 CFR 225.2(a)).

(b) *Applicable accounting standards* means U.S. generally accepted accounting principles, international financial reporting standards, or such other accounting standards that a company uses in the ordinary course of its business in preparing its consolidated financial statements.

(c) *Bank holding company* has the same meaning as in section 2(a) of the Bank Holding Company Act (12 U.S.C. 1841(a)) and section 225.2(c) of the Board's Regulation Y (12 CFR 225.2(c)).

(d) *Board* means the Board of Governors of the Federal Reserve System.

(e) *Combined U.S. operations* of a foreign banking organization means:

(1) Its U.S. branches and agencies, if any; and

(2)(i) If the foreign banking organization has established a U.S. intermediate holding company, the U.S. intermediate holding company and the subsidiaries of such U.S. intermediate holding company; or

(ii) If the foreign banking organization has not established a U.S. intermediate holding company, the U.S. subsidiaries of the foreign banking organization (excluding any section 2(h)(2) company, if applicable), and subsidiaries of such U.S. subsidiaries.

(f) *Company* means a corporation, partnership, limited liability company, depository institution, business trust, special purpose entity, association, or similar organization.

(g) *Control* has the same meaning as in section 2(a) of the Bank Holding Company Act (12 U.S.C. 1841(a)), and the terms *controlled* and *controlling* shall be construed consistently with the term *control*.

(h) *Council* means the Financial Stability Oversight Council established by section 111 of the Dodd-Frank Act (12 U.S.C. 5321).

(i) *DPC branch subsidiary* means any subsidiary of a U.S. branch or a U.S. agency acquired, or formed to hold as-

sets acquired, in the ordinary course of business and for the sole purpose of securing or collecting debt previously contracted in good faith by that branch or agency.

(j) *Foreign banking organization* has the same meaning as in section 211.21(o) of the Board's Regulation K (12 CFR 211.21(o)), provided that if the top-tier foreign banking organization is incorporated in or organized under the laws of any State, the foreign banking organization shall not be treated as a foreign banking organization for purposes of this part.

(k) *FR Y-7Q* means the Capital and Asset Report for Foreign Banking Organizations reporting form.

(l) *FR Y-7* means the Annual Report of Foreign Banking Organizations reporting form.

(m) *FR Y-9C* means the Consolidated Financial Statements for Holding Companies reporting form.

(n) *Nonbank financial company supervised by the Board* means a company that the 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.

(o) *Non-U.S. affiliate* means any affiliate of a foreign banking organization that is incorporated or organized in a country other than the United States.

(p) *Publicly traded* means an instrument that is traded on:

(1) Any exchange registered with the U.S. Securities and Exchange Commission as a national securities exchange under section 6 of the Securities Exchange Act of 1934 (15 U.S.C. 78f); or

(2) Any non-U.S.-based securities exchange that:

(i) Is registered with, or approved by, a non-U.S. national securities regulatory authority; and

(ii) Provides a liquid, two-way market for the instrument in question, meaning that there are enough independent bona fide offers to buy and sell so that a sales price reasonably related to the last sales price or current bona fide competitive bid and offer quotations can be determined promptly and a trade can be settled at such price within a reasonable time period conforming with trade custom.

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(3) A company can rely on its determination that a particular non-U.S.-based securities exchange provides a liquid two-way market unless the Board determines that the exchange does not provide a liquid two-way market.

(q) *Section 2(h)(2) company* has the same meaning as in section 2(h)(2) of the Bank Holding Company Act (12 U.S.C. 1841(h)(2)).

(r) *State* means any state, commonwealth, territory, or possession of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, American Samoa, Guam, or the United States Virgin Islands.

(s) *Subsidiary* has the same meaning as in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813).

(t) *U.S. agency* has the same meaning as the term “agency” in section 211.21(b) of the Board’s regulation K (12 CFR 211.21(b)).

(u) *U.S. branch* has the same meaning as the term “branch” in section 211.21(e) of the Board’s Regulation K (12 CFR 211.21(e)).

(v) *U.S. branches and agencies* means the U.S. branches and U.S. agencies of a foreign banking organization.

(w) *U.S. government agency* means an agency or instrumentality of the United States whose obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the United States.

(x) *U.S. government-sponsored enterprise* means an entity originally established or chartered by the U.S. government to serve public purposes specified by the U.S. Congress, but whose obligations are not explicitly guaranteed by the full faith and credit of the United States.

(y) *U.S. intermediate holding company* means the top-tier U.S. company that is required to be established pursuant to § 252.153.

(z) *U.S. subsidiary* means any subsidiary that is incorporated in or organized under the laws of the United States or in any State, commonwealth, territory, or possession of the United States, the Commonwealth of Puerto Rico, the Commonwealth of the North

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Mariana Islands, the American Samoa, Guam, or the United States Virgin Islands.

#### § 252.3 Reservation of authority.

(a) *In general.* Nothing in this part limits the authority of the Board under any provision of law or regulation to impose on any company additional enhanced prudential standards, including, but not limited to, additional risk-based or leverage capital or liquidity requirements, leverage limits, limits on exposures to single counterparties, risk-management requirements, stress tests, or other requirements or restrictions the Board deems necessary to carry out the purposes of this part or Title I of the Dodd-Frank Act, or to take supervisory or enforcement action, including action to address unsafe and unsound practices or conditions, or violations of law or regulation.

(b) *Modifications or extensions of this part.* The Board may extend or accelerate any compliance date of this part if the Board determines that such extension or acceleration is appropriate. In determining whether an extension or acceleration is appropriate, the Board will consider the effect of the modification on financial stability, the period of time for which the modification would be necessary to facilitate compliance with this part, and the actions the company is taking to come into compliance with this part.

#### § 252.4 Nonbank financial companies supervised by the Board.

(a) *U.S. nonbank financial companies supervised by the Board.* The Board will establish enhanced prudential standards for a nonbank financial company supervised by the Board that is incorporated in or organized under the laws of the United States or any State (U.S. nonbank financial company) by rule or order. In establishing such standards, the Board will consider the factors set forth in sections 165(a)(2) and (b)(3) of the Dodd-Frank Act, including:

(1) The nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of the U.S. nonbank financial company;

(2) The degree to which the U.S. nonbank financial company is already

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regulated by one or more primary financial regulatory agencies; and

(3) Any other risk-related factor that the Board determines is appropriate.

(b) *Foreign nonbank financial companies supervised by the Board.* The Board will establish enhanced prudential standards for a nonbank financial company supervised by the Board that is organized or incorporated in a country other than the United States (foreign nonbank financial company) by rule or order. In establishing such standards, the Board will consider the factors set forth in sections 165(a)(2), (b)(2), and (b)(3) of the Dodd-Frank Act, including:

(1) The nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of the foreign nonbank financial company;

(2) The extent to which the foreign nonbank financial company is subject to prudential standards on a consolidated basis in its home country that are administered and enforced by a comparable foreign supervisory authority; and

(3) Any other risk-related factor that the Board determines is appropriate.

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

SOURCE: Reg. YY, 79 FR 64045, Oct. 27, 2014, unless otherwise noted.

#### § 252.10 [Reserved]

#### § 252.11 Authority and purpose.

(a) *Authority.* 12 U.S.C. 321–338a, 1467a(g), 1818, 1831o, 1831p–1, 1844(b), 1844(c), 3906–3909, 5365.

(b) *Purpose.* This subpart implements section 165(i)(2) of the Dodd-Frank Act (12 U.S.C. 5365(i)(2)), which requires a bank holding company with total consolidated assets of greater than \$10 billion but less than \$50 billion and savings and loan holding companies and state member banks with total consolidated assets of greater than \$10 billion to conduct annual stress tests. This subpart also establishes definitions of stress test and related terms, meth-

odologies for conducting stress tests, and reporting and disclosure requirements.

#### § 252.12 Definitions.

For purposes of this subpart, the following definitions apply:

(a) *Advanced approaches* means the regulatory capital requirements at 12 CFR part 217, subpart E, as applicable, and any successor regulation.

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

(c) *Asset threshold* means:

(1) For a bank holding company, average total consolidated assets of greater than \$10 billion but less than \$50 billion, and

(2) For a savings and loan holding company or state member bank, average total consolidated assets of greater than \$10 billion.

(d) *Average total consolidated assets* means the average of the total consolidated assets as reported by a bank holding company, savings and loan holding company, or state member bank on its Consolidated Financial Statements for Bank Holding Companies (FR Y–9C) or Consolidated Report of Condition and Income (Call Report), as applicable, for the four most recent consecutive quarters. If the bank holding company, savings and loan holding company, or state member bank has not filed the FR Y–9C or Call Report, as applicable, for each of the four most recent consecutive quarters, average total consolidated assets means the average of the company’s total consolidated assets, as reported on the company’s FR Y–9C or Call Report, as applicable, for the most recent quarter or consecutive quarters. Average total consolidated assets are measured on the as-of date of the most recent FR Y–9C or Call Report, as applicable, used in the calculation of the average.

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

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(f) *Baseline scenario* means a set of conditions that affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, or state member bank, and that reflect the consensus views of the economic and financial outlook.

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

(h) *Covered company subsidiary* means a state member bank that is a subsidiary of a covered company as defined in subpart F of this part.

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

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

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

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

(m) *Provision for loan and lease losses* means the provision for loan and lease losses as reported by the bank holding company, savings and loan holding company, or state member bank on the FR Y-9C or Call Report, as appropriate.

(n) *Regulatory capital ratio* means a capital ratio for which the Board established minimum requirements for the company by regulation or order, including, as applicable, a company's tier 1 and supplementary leverage ratio and common equity tier 1, tier 1, and total risk-based capital ratios as calculated under the Board's regulations, including appendices A, D, and E to 12 CFR part 225, appendices A, B, and E to 12 CFR part 208, and 12 CFR part 217, as applicable, including the transition provisions at 12 CFR 217.1(f)(4) and 12 CFR 217.300, or any successor regulation. For state member banks other than covered company subsidiaries and for all bank holding companies, for the stress test cycle that commences on October 1, 2013, regulatory capital ratios must be calculated pursuant to the

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regulatory capital framework set forth in 12 CFR part 225, appendix A, and not the regulatory capital framework set forth in 12 CFR part 217.

(o) *Savings and loan holding company* has the same meaning as in § 238.2(m) of the Board's Regulation LL (12 CFR 238.2(m)).

(p) *Scenarios* are those sets of conditions that affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, or state member bank that the Board annually determines are appropriate for use in the company-run stress tests, including, but not limited to, baseline, adverse, and severely adverse scenarios.

(q) *Severely adverse scenario* means a set of conditions that affect the U.S. economy or the financial condition of a bank holding company, savings and loan holding company, or state member bank and that overall are more severe than those associated with the adverse scenario and may include trading or other additional components.

(r) *State member bank* has the same meaning as in § 208.2(g) of the Board's Regulation H (12 CFR 208.2(g)).

(s) *Stress test* means a process to assess the potential impact of scenarios on the consolidated earnings, losses, and capital of a bank holding company, savings and loan holding company, or state member bank over the planning horizon, taking into account the current condition, risks, exposures, strategies, and activities.

(t) *Stress test cycle* means:

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

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

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

### § 252.13 Applicability.

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

(i) Any bank holding company with average total consolidated assets (as

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defined in § 252.12(d)) of greater than \$10 billion but less than \$50 billion;

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

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

(2) *Ongoing applicability.* (i) A bank holding company, savings and loan holding company, or state member bank (including any successor company) that is subject to any requirement in this subpart shall remain subject to any such requirement unless and until its total consolidated assets fall below \$10 billion for each of four consecutive quarters, as reported on the FR Y-9C or Call Report, as applicable and effective on the as-of date of the fourth consecutive FR Y-9C or Call Report, as applicable.

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

(b) *Transitional arrangements—(1) Transition periods for bank holding companies and state member banks.* (i) A bank holding company or state member bank that exceeds the asset threshold for the first time on or before March 31 of a given year, must comply with the requirements of this subpart beginning on January 1 of the following year, unless that time is extended by the Board in writing.

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

(iii) Notwithstanding paragraphs (b)(1)(i) or (ii) of this section, a bank holding company that meets the asset threshold (as defined in § 252.12(c)) and that is relying as of July 20, 2015, on Supervision and Regulation Letter SR 01-01 issued by the Board (as in effect on May 19, 2010) must comply with the

requirements of this subpart beginning on January 1, 2016, unless that time is extended by the Board in writing.

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

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

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

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

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

### § 252.14 Annual stress test.

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

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

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

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

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

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

(ii) A state member bank that is not a covered company subsidiary, a bank holding company, and a savings and loan holding company with average total consolidated assets of less than \$50 billion must conduct its stress test by July 31 of each calendar year using financial statement data as of December 31 of the preceding calendar year, unless the time or the as-of date is extended by the Board in writing.

(b) *Scenarios provided by the Board—*

(1) *In general.* In conducting a stress test under this section, a bank holding company, savings and loan holding company, or state member bank must, at a minimum, use the scenarios provided by the Board. Except as provided in paragraphs (b)(2) and (3) of this section, the Board will provide a description of the scenarios to each bank holding company, savings and loan holding company, or state member bank no later than November 15, 2014 (for the stress test cycle beginning on October 1, 2014) and no later than February 15 of that calendar year (for each stress test cycle beginning thereafter).

(2) *Additional components.* (i) The Board may require a bank holding company, savings and loan holding company, or state member bank with significant trading activity, as determined by the Board and specified in the Capital Assessments and Stress Testing report (FR Y–14), to include a trading and counterparty component in its adverse and severely adverse scenarios in the stress test required by this section. The Board may also require a state member bank that is subject to 12 CFR part 208, appendix E (or, beginning on January 1, 2015, 12 CFR 217, subpart F) or that is a subsidiary of a bank holding company that is subject to either this paragraph or § 252.54(b)(2)(i) of this part to include a trading and counterparty component in the state member bank's adverse and severely adverse scenarios in the stress test required by this section. For the stress test cycle beginning on October 1, 2014, the data used in this component must be as of a date between October 1 and December 1 of 2014 selected by the Board, and the Board will communicate the as-of date and a description of the component to the company no later than December 1 of the calendar year. For each stress test cycle beginning thereafter, the data used in this component must be as of a date between January 1 and March 1 of that calendar year selected by the Board, and the Board will communicate the as-of date and a description of the component to the company no later than March 1 of that calendar year.

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

(3) *Additional scenarios.* The Board may require a bank holding company, savings and loan holding company, or state member bank to include one or more additional scenarios in the stress test required by this section based on the company's financial condition, size,

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complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy.

(4) *Notice and response*—(i) *Notification of additional component*. If the Board requires a bank holding company, savings and loan holding company, or state member bank to include one or more additional components in its adverse and severely adverse scenarios under paragraph (b)(2) of this section or to use one or more additional scenarios under paragraph (b)(3) of this section, the Board will notify the company in writing by September 30, 2014 (for the stress test cycle beginning on October 1, 2014) and by December 31 (for each stress test cycle beginning thereafter).

(ii) *Request for reconsideration and Board response*. Within 14 calendar days of receipt of a notification under this paragraph, the bank holding company, savings and loan holding company, or state member bank may request in writing that the Board reconsider the requirement that the company include the additional component(s) or additional scenario(s), including an explanation as to why the reconsideration should be granted. The Board will respond in writing within 14 calendar days of receipt of the company's request.

(iii) *Description of component*. The Board will provide the bank holding company, savings and loan holding company, or state member bank with a description of any additional component(s) or additional scenario(s) by December 1, 2014 (for the stress test cycle beginning on October 1, 2014) and by March 1 (for each stress test cycle beginning thereafter).

### § 252.15 Methodologies and practices.

(a) *Potential impact on capital*. In conducting a stress test under § 252.14, for each quarter of the planning horizon, a bank holding company, savings and loan holding company, or state member bank must estimate the following for each scenario required to be used:

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

(2) The potential impact on pro forma regulatory capital levels and pro forma capital ratios (including regulatory

capital ratios and any other capital ratios specified by the Board), incorporating the effects of any capital actions over the planning horizon and maintenance of an allowance for loan losses appropriate for credit exposures throughout the planning horizon.

(b) *Assumptions regarding capital actions*. In conducting a stress test under § 252.14, a bank holding company or savings and loan holding company is required to make the following assumptions regarding its capital actions over the planning horizon:

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

(2) For each of the second through ninth quarters of the planning horizon, the bank holding company or savings and loan holding company must include in the projections of capital:

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

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

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

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

(c) *Controls and oversight of stress testing processes*—(1) *In general*. The senior management of a bank holding company, savings and loan holding company, or state member bank must establish and maintain a system of controls, oversight, and documentation, including policies and procedures, that are designed to ensure that its stress testing processes are effective in meeting the requirements in this subpart. These policies and procedures must, at

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a minimum, describe the company's stress testing practices and methodologies, and processes for validating and updating the company's stress test practices and methodologies consistent with applicable laws, regulations, and supervisory guidance.

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

(3) *Role of stress testing results.* The board of directors and senior management of a bank holding company, savings and loan holding company, or state member bank must consider the results of the stress test in the normal course of business, including but not limited to, the banking organization's capital planning, assessment of capital adequacy, and risk management practices.

### § 252.16 Reports of stress test results.

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

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

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

(ii) A state member bank that is not a covered company subsidiary and a bank holding company must report the results of its stress test to the Board

by March 31, 2015, unless that time is extended by the Board in writing.

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

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

(ii) A state member bank that is not a covered company subsidiary, a bank holding company, and a savings and loan holding company with average total consolidated assets of less than \$50 billion must report the results of the stress test to the Board by July 31, unless that time is extended by the Board in writing.

(b) *Contents of reports.* The report required under paragraph (a) of this section must include the following information for the baseline scenario, adverse scenario, severely adverse scenario, and any other scenario required under § 252.14(b)(3):

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

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

(3) For each quarter of the planning horizon, estimates of aggregate losses, pre-provision net revenue, provision for loan and lease losses, net income, and regulatory capital ratios;

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

(5) Any other information required by the Board.

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

**§ 252.17 Disclosure of stress test results.**

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

(ii) [Reserved]

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

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

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

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

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

(ii) A savings and loan holding company with average total consolidated assets of \$50 billion or more must publicly disclose a summary of the results of the stress test in the period beginning on June 15 and ending on June 30, unless that time is extended by the Board in writing; and

(iii) A state member bank that is not a covered company subsidiary, a bank holding company, and a savings and loan holding company with average total consolidated assets of less than \$50 billion must publicly disclose a summary of the results of the stress test in the period beginning on October

15 and ending on October 31, unless that time is extended by the Board in writing.

(3) *Disclosure method.* The summary required under this section may be disclosed on the Web site of a bank holding company, savings and loan holding company, or state member bank, or in any other forum that is reasonably accessible to the public.

(b) *Summary of results*—(1) *Bank holding companies and savings and loan holding companies.* The summary of the results of a bank holding company or savings and loan holding company must, at a minimum, contain the following information regarding the severely adverse scenario:

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

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

(iii) Estimates of—

(A) Aggregate losses;

(B) Pre-provision net revenue;

(C) Provision for loan and lease losses;

(D) Net income; and

(E) Pro forma regulatory capital ratios and any other capital ratios specified by the Board;

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

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

(2) *State member banks that are subsidiaries of bank holding companies.* A state member bank that is a subsidiary of a bank holding company satisfies the public disclosure requirements under this subpart if the bank holding company publicly discloses summary results of its stress test pursuant to this section or § 252.58 of this part, unless the Board determines that the disclosures at the holding company level do not adequately capture the potential impact of the scenarios on the capital

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of the state member bank and requires the state member bank to make public disclosures.

(3) *State member banks that are not subsidiaries of bank holding companies.* A state member bank that is not a subsidiary of a bank holding company or that is required to make disclosures under paragraph (b)(2) of this section must publicly disclose, at a minimum, the following information regarding the severely adverse scenario:

- (i) A description of the types of risks being included in the stress test;
- (ii) A summary description of the methodologies used in the stress test;
- (iii) Estimates of—
  - (A) Aggregate losses;
  - (B) Pre-provision net revenue
  - (C) Provision for loan and lease losses;
  - (D) Net income; and
  - (E) Pro forma regulatory capital ratios and any other capital ratios specified by the Board; and
- (iv) An explanation of the most significant causes for the changes in regulatory capital ratios.

(c) *Content of results.* (1) The disclosure of aggregate losses, pre-provision net revenue, provision for loan and lease losses, and net income that is required under paragraph (b) of this section must be on a cumulative basis over the planning horizon.

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

### **Subpart C—Risk Committee Requirement for Publicly Traded Bank Holding Companies With Total Consolidated Assets of \$10 Billion or Greater and Less Than \$50 Billion**

SOURCE: Reg. YY, 79 FR 17316, Mar. 27, 2014, unless otherwise noted.

#### § 252.20 [Reserved]

#### § 252.21 **Applicability.**

(a) *General applicability.* Subject to the initial applicability provisions of

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paragraph (c) of this section, a bank holding company with any class of stock that is publicly traded must comply with the risk-committee requirements set forth in this subpart beginning on the first day of the ninth quarter following the later of the date on which its total consolidated assets equal or exceed \$10 billion and the date on which any class of its stock becomes publicly traded.

(b) *Total consolidated assets.* Total consolidated assets of a bank holding company for purposes of this subpart are equal to its consolidated assets, calculated based on the average of the bank holding company's total consolidated assets in the four most recent quarters as reported quarterly on its FR Y-9C. If the bank holding company has not filed the FR Y-9C for each of the four most recent consecutive quarters, total consolidated assets means the average of its total consolidated assets, as reported on the FR Y-9C, for the most recent quarter or consecutive quarters, as applicable. 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) *Initial applicability provisions.* A bank holding company that, as of June 30, 2014, has total consolidated assets of \$10 billion or more and has a class of stock that is publicly traded must comply with the requirements of this subpart beginning on July 1, 2015.

(d) *Cessation of requirements.* A bank holding company will remain subject to the requirements of this subpart until the earlier of the date on which:

- (1) Its reported total consolidated assets on the FR Y-9C are below \$10 billion for each of four consecutive calendar quarters;
- (2) It becomes subject to the requirements of subpart D of this part; and
- (3) It ceases to have a class of stock that is publicly traded.

#### § 252.22 **Risk committee requirement for publicly traded bank holding companies with total consolidated assets of \$10 billion or more.**

(a) *Risk committee.* A bank holding company with any class of stock that is publicly traded and total consolidated assets of \$10 billion or more must

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maintain a risk committee that approves and periodically reviews the risk-management policies of its global operations and oversees the operation of its global risk-management framework.

(b) *Risk-management framework.* The bank holding company's global risk-management framework must be commensurate with its structure, risk profile, complexity, activities, and size and must include:

(1) Policies and procedures establishing risk-management governance, risk-management procedures, and risk-control infrastructure for its global operations; and

(2) Processes and systems for implementing and monitoring compliance with such policies and procedures, including:

(i) Processes and systems for identifying and reporting risks and risk-management deficiencies, including regarding emerging risks, and ensuring effective and timely implementation of actions to address emerging risks and risk-management deficiencies for its global operations;

(ii) Processes and systems for establishing managerial and employee responsibility for risk management;

(iii) Processes and systems for ensuring the independence of the risk-management function; and

(iv) Processes and systems to integrate risk management and associated controls with management goals and its compensation structure for its global operations.

(c) *Corporate governance requirements.* The risk committee must:

(1) Have a formal, written charter that is approved by the bank holding company's board of directors.

(2) Meet at least quarterly, and otherwise as needed, and fully document and maintain records of its proceedings, including risk-management decisions.

(d) *Minimum member requirements.* The risk committee must:

(1) Include at least one member having experience in identifying, assessing, and managing risk exposures of large, complex firms; and

(2) Be chaired by a director who:

(i) Is not an officer or employee of the bank holding company and has not

been an officer or employee of the bank holding company during the previous three years;

(ii) Is not a member of the immediate family, as defined in section 225.41(b)(3) of the Board's Regulation Y (12 CFR 225.41(b)(3)), of a person who is, or has been within the last three years, an executive officer of the bank holding company, as defined in section 215.2(e)(1) of the Board's Regulation O (12 CFR 215.2(e)(1)); and

(iii)(A) Is an independent director under Item 407 of the Securities and Exchange Commission's Regulation S-K (17 CFR 229.407(a)), if the bank holding company has an outstanding class of securities traded on an exchange registered with the U.S. Securities and Exchange Commission as a national securities exchange under section 6 of the Securities Exchange Act of 1934 (15 U.S.C. 78f) (national securities exchange); or

(B) Would qualify as an independent director under the listing standards of a national securities exchange, as demonstrated to the satisfaction of the Board, if the bank holding company does not have an outstanding class of securities traded on a national securities exchange.

### Subpart D—Enhanced Prudential Standards for Bank Holding Companies With Total Consolidated Assets of \$50 Billion or More

SOURCE: Reg. YY, 79 FR 17317, Mar. 27, 2014, unless otherwise noted.

#### § 252.30 Scope.

This subpart applies to bank holding companies with total consolidated assets of \$50 billion or more. Total consolidated assets of a bank holding company are equal to the consolidated assets of the bank holding company, as calculated in accordance with § 252.31(b).

#### § 252.31 Applicability.

(a) *General applicability.* Subject to the initial applicability provisions of paragraphs (c) and (e) of this section, a bank holding company must comply with the risk-management and risk-

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committee requirements set forth in § 252.33 and the liquidity risk-management and liquidity stress test requirements set forth in §§ 252.34 and 252.35 beginning on the first day of the fifth quarter following the date on which its total consolidated assets equal or exceed \$50 billion.

(b) *Total consolidated assets.* Total consolidated assets of a bank holding company for purposes of this subpart are equal to its consolidated assets, calculated based on the average of the bank holding company's total consolidated assets in the four most recent quarters as reported quarterly on the FR Y-9C. If the bank holding company has not filed the FR Y-9C for each of the four most recent consecutive quarters, total consolidated assets means the average of its total consolidated assets, as reported on the FR Y-9C, for the most recent quarter or consecutive quarters, as applicable. 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) *Initial applicability.* A bank holding company that, as of June 30, 2014, has total consolidated assets of \$50 billion or more, as calculated according to paragraph (b) of this section, must comply with the risk-management and risk-committee requirements set forth in § 252.33 and the liquidity risk-management and liquidity stress test requirements set forth in §§ 252.34 and 252.35, beginning on January 1, 2015.

(d) *Cessation of requirements.* Except as provided in paragraph (e) of this section, a bank holding company is subject to the risk-management and risk committee requirements set forth in § 252.33 and the liquidity risk-management and liquidity stress test requirements set forth in §§ 252.34 and 252.35 until its reported total consolidated assets on the FR Y-9C are below \$50 billion for each of four consecutive calendar quarters.

(e) *Applicability for bank holding companies that are subsidiaries of foreign banking organizations.* In the event that a bank holding company that has total consolidated assets of \$50 billion or more is controlled by a foreign banking organization, such bank holding company is subject to the risk-management and risk committee requirements

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set forth in § 252.33 and the liquidity risk-management and liquidity stress test requirements set forth in §§ 252.34 and 252.35 beginning on January 1, 2015 and ending on June 30, 2016. Beginning on July 1, 2016, the U.S. intermediate holding company established or designated by the foreign banking organization must comply with the risk-management and risk committee requirements set forth in § 252.153(e)(3) and the liquidity risk-management and liquidity stress test requirements set forth in § 252.153(e)(4).

### § 252.32 Risk-based and leverage capital and stress test requirements.

A bank holding company with total consolidated assets of \$50 billion or more must comply with, and hold capital commensurate with the requirements of, any regulations adopted by the Board relating to capital planning and stress tests, in accordance with the applicability provisions set forth therein.

### § 252.33 Risk-management and risk committee requirements.

(a) *Risk committee—(1) General.* A bank holding company with total consolidated assets of \$50 billion or more must maintain a risk committee that approves and periodically reviews the risk-management policies of the bank holding company's global operations and oversees the operation of the bank holding company's global risk-management framework. The risk committee's responsibilities include liquidity risk-management as set forth in § 252.34(b).

(2) *Risk-management framework.* The bank holding company's global risk-management framework must be commensurate with its structure, risk profile, complexity, activities, and size and must include:

(i) Policies and procedures establishing risk-management governance, risk-management procedures, and risk-control infrastructure for its global operations; and

(ii) Processes and systems for implementing and monitoring compliance with such policies and procedures, including:

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(A) Processes and systems for identifying and reporting risks and risk-management deficiencies, including regarding emerging risks, and ensuring effective and timely implementation of actions to address emerging risks and risk-management deficiencies for its global operations;

(B) Processes and systems for establishing managerial and employee responsibility for risk management;

(C) Processes and systems for ensuring the independence of the risk-management function; and

(D) Processes and systems to integrate risk management and associated controls with management goals and its compensation structure for its global operations.

(3) *Corporate governance requirements.* The risk committee must:

(i) Have a formal, written charter that is approved by the bank holding company's board of directors;

(ii) Be an independent committee of the board of directors that has, as its sole and exclusive function, responsibility for the risk-management policies of the bank holding company's global operations and oversight of the operation of the bank holding company's global risk-management framework;

(iii) Report directly to the bank holding company's board of directors;

(iv) Receive and review regular reports on not less than a quarterly basis from the bank holding company's chief risk officer provided pursuant to paragraph (b)(3)(ii) of this section; and

(v) Meet at least quarterly, or more frequently as needed, and fully document and maintain records of its proceedings, including risk-management decisions.

(4) *Minimum member requirements.* The risk committee must:

(i) Include at least one member having experience in identifying, assessing, and managing risk exposures of large, complex financial firms; and

(ii) Be chaired by a director who:

(A) Is not an officer or employee of the bank holding company and has not been an officer or employee of the bank holding company during the previous three years;

(B) Is not a member of the immediate family, as defined in section 225.41(b)(3) of the Board's Regulation Y (12 CFR

225.41(b)(3)), of a person who is, or has been within the last three years, an executive officer of the bank holding company, as defined in section 215.2(e)(1) of the Board's Regulation O (12 CFR 215.2(e)(1)); and

(C)(I) Is an independent director under Item 407 of the Securities and Exchange Commission's Regulation S-K (17 CFR 229.407(a)), if the bank holding company has an outstanding class of securities traded on an exchange registered with the U.S. Securities and Exchange Commission as a national securities exchange under section 6 of the Securities Exchange Act of 1934 (15 U.S.C. 78f) (national securities exchange); or

(2) Would qualify as an independent director under the listing standards of a national securities exchange, as demonstrated to the satisfaction of the Board, if the bank holding company does not have an outstanding class of securities traded on a national securities exchange.

(b) *Chief risk officer—(1) General.* A bank holding company with total consolidated assets of \$50 billion or more must appoint a chief risk officer with experience in identifying, assessing, and managing risk exposures of large, complex financial firms.

(2) *Responsibilities.* (i) The chief risk officer is responsible for overseeing:

(A) The establishment of risk limits on an enterprise-wide basis and the monitoring of compliance with such limits;

(B) The implementation of and ongoing compliance with the policies and procedures set forth in paragraph (a)(2)(i) of this section and the development and implementation of the processes and systems set forth in paragraph (a)(2)(ii) of this section; and

(C) The management of risks and risk controls within the parameters of the company's risk control framework, and monitoring and testing of the company's risk controls.

(ii) The chief risk officer is responsible for reporting risk-management deficiencies and emerging risks to the risk committee and resolving risk-management deficiencies in a timely manner.

(3) *Corporate governance requirements.*

(i) The bank holding company must ensure that the compensation and other incentives provided to the chief risk officer are consistent with providing an objective assessment of the risks taken by the bank holding company; and

(ii) The chief risk officer must report directly to both the risk committee and chief executive officer of the company.

**§ 252.34 Liquidity risk-management requirements.**

(a) *Responsibilities of the board of directors—(1) Liquidity risk tolerance.* The board of directors of a bank holding company with total consolidated assets of \$50 billion or more must:

(i) Approve the acceptable level of liquidity risk that the bank holding company may assume in connection with its operating strategies (liquidity risk tolerance) at least annually, taking into account the bank holding company’s capital structure, risk profile, complexity, activities, and size; and

(ii) Receive and review at least semi-annually information provided by senior management to determine whether the bank holding company is operating in accordance with its established liquidity risk tolerance.

(2) *Liquidity risk-management strategies, policies, and procedures.* The board of directors must approve and periodically review the liquidity risk-management strategies, policies, and procedures established by senior management pursuant to paragraph (c)(1) of this section.

(b) *Responsibilities of the risk committee.* The risk committee (or a designated subcommittee of such committee composed of members of the board of directors) must approve the contingency funding plan described in paragraph (f) of this section at least annually, and must approve any material revisions to the plan prior to the implementation of such revisions.

(c) *Responsibilities of senior management—(1) Liquidity risk.* (i) Senior management of a bank holding company with total consolidated assets of \$50 billion or more must establish and implement strategies, policies, and procedures designed to effectively manage the risk that the bank holding com-

pany’s financial condition or safety and soundness would be adversely affected by its inability or the market’s perception of its inability to meet its cash and collateral obligations (liquidity risk). The board of directors must approve the strategies, policies, and procedures pursuant to paragraph (a)(2) of this section.

(ii) Senior management must oversee the development and implementation of liquidity risk measurement and reporting systems, including those required by this section and § 252.35.

(iii) Senior management must determine at least quarterly whether the bank holding company is operating in accordance with such policies and procedures and whether the bank holding company is in compliance with this section and § 252.35 (or more often, if changes in market conditions or the liquidity position, risk profile, or financial condition warrant), and establish procedures regarding the preparation of such information.

(2) *Liquidity risk tolerance.* Senior management must report to the board of directors or the risk committee regarding the bank holding company’s liquidity risk profile and liquidity risk tolerance at least quarterly (or more often, if changes in market conditions or the liquidity position, risk profile, or financial condition of the company warrant).

(3) *Business lines or products.* (i) Senior management must approve new products and business lines and evaluate the liquidity costs, benefits, and risks of each new business line and each new product that could have a significant effect on the company’s liquidity risk profile. The approval is required before the company implements the business line or offers the product. In determining whether to approve the new business line or product, senior management must consider whether the liquidity risk of the new business line or product (under both current and stressed conditions) is within the company’s established liquidity risk tolerance.

(ii) Senior management must review at least annually significant business lines and products to determine whether any line or product creates or has created any unanticipated liquidity

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risk, and to determine whether the liquidity risk of each strategy or product is within the company's established liquidity risk tolerance.

(4) *Cash-flow projections.* Senior management must review the cash-flow projections produced under paragraph (e) of this section at least quarterly (or more often, if changes in market conditions or the liquidity position, risk profile, or financial condition of the bank holding company warrant) to ensure that the liquidity risk is within the established liquidity risk tolerance.

(5) *Liquidity risk limits.* Senior management must establish liquidity risk limits as set forth in paragraph (g) of this section and review the company's compliance with those limits at least quarterly (or more often, if changes in market conditions or the liquidity position, risk profile, or financial condition of the company warrant).

(6) *Liquidity stress testing.* Senior management must:

(i) Approve the liquidity stress testing practices, methodologies, and assumptions required in §252.35(a) at least quarterly, and whenever the bank holding company materially revises its liquidity stress testing practices, methodologies or assumptions;

(ii) Review the liquidity stress testing results produced under §252.35(a) at least quarterly;

(iii) Review the independent review of the liquidity stress tests under §252.34(d) periodically; and

(iv) Approve the size and composition of the liquidity buffer established under §252.35(b) at least quarterly.

(d) *Independent review function.* (1) A bank holding company with total consolidated assets of \$50 billion or more must establish and maintain a review function that is independent of management functions that execute funding to evaluate its liquidity risk management.

(2) The independent review function must:

(i) Regularly, but no less frequently than annually, review and evaluate the adequacy and effectiveness of the company's liquidity risk management processes, including its liquidity stress test processes and assumptions;

(ii) Assess whether the company's liquidity risk-management function complies with applicable laws, regulations, supervisory guidance, and sound business practices; and

(iii) Report material liquidity risk management issues to the board of directors or the risk committee in writing for corrective action, to the extent permitted by applicable law.

(e) *Cash-flow projections.* (1) A bank holding company with total consolidated assets of \$50 billion or more must produce comprehensive cash-flow projections that project cash flows arising from assets, liabilities, and off-balance sheet exposures over, at a minimum, short- and long-term time horizons. The bank holding company must update short-term cash-flow projections daily and must update longer-term cash-flow projections at least monthly.

(2) The bank holding company must establish a methodology for making cash-flow projections that results in projections that:

(i) Include cash flows arising from contractual maturities, intercompany transactions, new business, funding renewals, customer options, and other potential events that may impact liquidity;

(ii) Include reasonable assumptions regarding the future behavior of assets, liabilities, and off-balance sheet exposures;

(iii) Identify and quantify discrete and cumulative cash flow mismatches over these time periods; and

(iv) Include sufficient detail to reflect the capital structure, risk profile, complexity, currency exposure, activities, and size of the bank holding company and include analyses by business line, currency, or legal entity as appropriate.

(3) The bank holding company must adequately document its methodology for making cash flow projections and the included assumptions and submit such documentation to the risk committee.

(f) *Contingency funding plan.* (1) A bank holding company with total consolidated assets of \$50 billion or more must establish and maintain a contingency funding plan that sets out the company's strategies for addressing liquidity needs during liquidity stress

events. The contingency funding plan must be commensurate with the company's capital structure, risk profile, complexity, activities, size, and established liquidity risk tolerance. The company must update the contingency funding plan at least annually, and when changes to market and idiosyncratic conditions warrant.

(2) *Components of the contingency funding plan*—(i) *Quantitative assessment*. The contingency funding plan must:

(A) Identify liquidity stress events that could have a significant impact on the bank holding company's liquidity;

(B) Assess the level and nature of the impact on the bank holding company's liquidity that may occur during identified liquidity stress events;

(C) Identify the circumstances in which the bank holding company would implement its action plan described in paragraph (f)(2)(ii)(A) of this section, which circumstances must include failure to meet any minimum liquidity requirement imposed by the Board;

(D) Assess available funding sources and needs during the identified liquidity stress events;

(E) Identify alternative funding sources that may be used during the identified liquidity stress events; and

(F) Incorporate information generated by the liquidity stress testing required under § 252.35(a) of this subpart.

(ii) *Liquidity event management process*. The contingency funding plan must include an event management process that sets out the bank holding company's procedures for managing liquidity during identified liquidity stress events. The liquidity event management process must:

(A) Include an action plan that clearly describes the strategies the company will use to respond to liquidity shortfalls for identified liquidity stress events, including the methods that the company will use to access alternative funding sources;

(B) Identify a liquidity stress event management team that would execute the action plan described in paragraph (f)(2)(ii)(A) of this section;

(C) Specify the process, responsibilities, and triggers for invoking the contingency funding plan, describe the de-

cision-making process during the identified liquidity stress events, and describe the process for executing contingency measures identified in the action plan; and

(D) Provide a mechanism that ensures effective reporting and communication within the bank holding company and with outside parties, including the Board and other relevant supervisors, counterparties, and other stakeholders.

(iii) *Monitoring*. The contingency funding plan must include procedures for monitoring emerging liquidity stress events. The procedures must identify early warning indicators that are tailored to the company's capital structure, risk profile, complexity, activities, and size.

(iv) *Testing*. The bank holding company must periodically test:

(A) The components of the contingency funding plan to assess the plan's reliability during liquidity stress events;

(B) The operational elements of the contingency funding plan, including operational simulations to test communications, coordination, and decision-making by relevant management; and

(C) The methods the bank holding company will use to access alternative funding sources to determine whether these funding sources will be readily available when needed.

(g) *Liquidity risk limits*—(1) *General*. A bank holding company with total consolidated assets of \$50 billion or more must monitor sources of liquidity risk and establish limits on liquidity risk, including limits on:

(i) Concentrations in sources of funding by instrument type, single counterparty, counterparty type, secured and unsecured funding, and as applicable, other forms of liquidity risk;

(ii) The amount of liabilities that mature within various time horizons; and

(iii) Off-balance sheet exposures and other exposures that could create funding needs during liquidity stress events.

(2) *Size of limits*. Each limit established pursuant to paragraph (g)(1) of this section must be consistent with

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the company's established liquidity risk tolerance and must reflect the company's capital structure, risk profile, complexity, activities, and size.

(h) *Collateral, legal entity, and intraday liquidity risk monitoring.* A bank holding company with total consolidated assets of \$50 billion or more must establish and maintain procedures for monitoring liquidity risk as set forth in this paragraph.

(1) *Collateral.* The bank holding company must establish and maintain policies and procedures to monitor assets that have been, or are available to be, pledged as collateral in connection with transactions to which it or its affiliates are counterparties. These policies and procedures must provide that the bank holding company:

(i) Calculates all of its collateral positions on a weekly basis (or more frequently, as directed by the Board), specifying the value of pledged assets relative to the amount of security required under the relevant contracts and the value of unencumbered assets available to be pledged;

(ii) Monitors the levels of unencumbered assets available to be pledged by legal entity, jurisdiction, and currency exposure;

(iii) Monitors shifts in the bank holding company's funding patterns, such as shifts between intraday, overnight, and term pledging of collateral; and

(iv) Tracks operational and timing requirements associated with accessing collateral at its physical location (for example, the custodian or securities settlement system that holds the collateral).

(2) *Legal entities, currencies and business lines.* The bank holding company must establish and maintain procedures for monitoring and controlling liquidity risk exposures and funding needs within and across significant legal entities, currencies, and business lines, taking into account legal and regulatory restrictions on the transfer of liquidity between legal entities.

(3) *Intraday exposures.* The bank holding company must establish and maintain procedures for monitoring intraday liquidity risk exposure. These procedures must address how the management of the bank holding company will:

(i) Monitor and measure expected daily gross liquidity inflows and outflows;

(ii) Manage and transfer collateral to obtain intraday credit;

(iii) Identify and prioritize time-specific obligations so that the bank holding company can meet these obligations as expected and settle less critical obligations as soon as possible;

(iv) Manage the issuance of credit to customers where necessary; and

(v) Consider the amounts of collateral and liquidity needed to meet payment systems obligations when assessing the bank holding company's overall liquidity needs.

### § 252.35 Liquidity stress testing and buffer requirements.

(a) *Liquidity stress testing requirement—(1) General.* A bank holding company with total consolidated assets of \$50 billion or more must conduct stress tests to assess the potential impact of the liquidity stress scenarios set forth in paragraph (a)(3) on its cash flows, liquidity position, profitability, and solvency, taking into account its current liquidity condition, risks, exposures, strategies, and activities.

(i) The bank holding company must take into consideration its balance sheet exposures, off-balance sheet exposures, size, risk profile, complexity, business lines, organizational structure, and other characteristics of the bank holding company that affect its liquidity risk profile in conducting its stress test.

(ii) In conducting a liquidity stress test using the scenarios described in paragraphs (a)(3)(i) and (iii) of this section, the bank holding company must address the potential direct adverse impact of associated market disruptions on the bank holding company and incorporate the potential actions of other market participants experiencing liquidity stresses under the market disruptions that would adversely affect the bank holding company.

(2) *Frequency.* The liquidity stress tests required under paragraph (a)(1) of this section must be performed at least monthly. The Board may require the bank holding company to perform stress testing more frequently.

(3) *Stress scenarios.* (i) Each liquidity stress test conducted under paragraph (a)(1) of this section must include, at a minimum:

(A) A scenario reflecting adverse market conditions;

(B) A scenario reflecting an idiosyncratic stress event for the bank holding company; and

(C) A scenario reflecting combined market and idiosyncratic stresses.

(ii) The bank holding company must incorporate additional liquidity stress scenarios into its liquidity stress test, as appropriate, based on its financial condition, size, complexity, risk profile, scope of operations, or activities. The Board may require the bank holding company to vary the underlying assumptions and stress scenarios.

(4) *Planning horizon.* Each stress test conducted under paragraph (a)(1) of this section must include an overnight planning horizon, a 30-day planning horizon, a 90-day planning horizon, a one-year planning horizon, and any other planning horizons that are relevant to the bank holding company's liquidity risk profile. For purposes of this section, a "planning horizon" is the period over which the relevant stressed projections extend. The bank holding company must use the results of the stress test over the 30-day planning horizon to calculate the size of the liquidity buffer under paragraph (b) of this section.

(5) *Requirements for assets used as cash-flow sources in a stress test.* (i) To the extent an asset is used as a cash flow source to offset projected funding needs during the planning horizon in a liquidity stress test, the fair market value of the asset must be discounted to reflect any credit risk and market volatility of the asset.

(ii) Assets used as cash-flow sources during a planning horizon must be diversified by collateral, counterparty, borrowing capacity, and other factors associated with the liquidity risk of the assets.

(iii) A line of credit does not qualify as a cash flow source for purposes of a stress test with a planning horizon of 30 days or less. A line of credit may qualify as a cash flow source for purposes of a stress test with a planning horizon that exceeds 30 days.

(6) *Tailoring.* Stress testing must be tailored to, and provide sufficient detail to reflect, a bank holding company's capital structure, risk profile, complexity, activities, and size.

(7) *Governance—(i) Policies and procedures.* A bank holding company with total consolidated assets of \$50 billion or more must establish and maintain policies and procedures governing its liquidity stress testing practices, methodologies, and assumptions that provide for the incorporation of the results of liquidity stress tests in future stress testing and for the enhancement of stress testing practices over time.

(ii) *Controls and oversight.* A bank holding company with total consolidated assets of \$50 billion or more must establish and maintain a system of controls and oversight that is designed to ensure that its liquidity stress testing processes are effective in meeting the requirements of this section. The controls and oversight must ensure that each liquidity stress test appropriately incorporates conservative assumptions with respect to the stress scenario in paragraph (a)(3) of this section and other elements of the stress test process, taking into consideration the bank holding company's capital structure, risk profile, complexity, activities, size, business lines, legal entity or jurisdiction, and other relevant factors. The assumptions must be approved by the chief risk officer and be subject to the independent review under § 252.34(d) of this subpart.

(iii) *Management information systems.* The bank holding company must maintain management information systems and data processes sufficient to enable it to effectively and reliably collect, sort, and aggregate data and other information related to liquidity stress testing.

(b) *Liquidity buffer requirement.* (1) A bank holding company with total consolidated assets of \$50 billion or more must maintain a liquidity buffer that is sufficient to meet the projected net stressed cash-flow need over the 30-day planning horizon of a liquidity stress test conducted in accordance with paragraph (a) of this section under each scenario set forth in paragraph (a)(3)(i) through (iii) of this section.

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(2) *Net stressed cash-flow need.* The net stressed cash-flow need for a bank holding company is the difference between the amount of its cash-flow need and the amount of its cash flow sources over the 30-day planning horizon.

(3) *Asset requirements.* The liquidity buffer must consist of highly liquid assets that are unencumbered, as defined in paragraph (b)(3)(ii) of this section:

(i) *Highly liquid asset.* A highly liquid asset includes:

(A) Cash;

(B) Securities issued or guaranteed by the United States, a U.S. government agency, or a U.S. government-sponsored enterprise; or

(C) Any other asset that the bank holding company demonstrates to the satisfaction of the Board:

(1) Has low credit risk and low market risk;

(2) Is traded in an active secondary two-way market that has committed market makers and independent bona fide offers to buy and sell so that a price reasonably related to the last sales price or current bona fide competitive bid and offer quotations can be determined within one day and settled at that price within a reasonable time period conforming with trade custom; and

(3) Is a type of asset that investors historically have purchased in periods of financial market distress during which market liquidity has been impaired.

(ii) *Unencumbered.* An asset is unencumbered if it:

(A) Is free of legal, regulatory, contractual, or other restrictions on the ability of such company promptly to liquidate, sell or transfer the asset; and

(B) Is either:

(1) Not pledged or used to secure or provide credit enhancement to any transaction; or

(2) Pledged to a central bank or a U.S. government-sponsored enterprise, to the extent potential credit secured by the asset is not currently extended by such central bank or U.S. government-sponsored enterprise or any of its consolidated subsidiaries.

(iii) *Calculating the amount of a highly liquid asset.* In calculating the amount of a highly liquid asset included in the liquidity buffer, the bank holding com-

pany must discount the fair market value of the asset to reflect any credit risk and market price volatility of the asset.

(iv) *Diversification.* The liquidity buffer must not contain significant concentrations of highly liquid assets by issuer, business sector, region, or other factor related to the bank holding company's risk, except with respect to cash and securities issued or guaranteed by the United States, a U.S. government agency, or a U.S. government-sponsored enterprise.

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

SOURCE: Reg. YY, 79 FR 64049, Oct. 27, 2014, unless otherwise noted.

#### § 252.40 [Reserved]

#### § 252.41 Authority and purpose.

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

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

#### § 252.42 Definitions.

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

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

(b) *Adverse scenario* means a set of conditions that affect the U.S. economy or the financial condition of a covered company that are more adverse

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

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

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

(e) *Baseline scenario* means a set of conditions that affect the U.S. economy or the financial condition of a covered company and that reflect the consensus views of the economic and financial outlook.

(f) *Covered company* means:

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

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

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

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

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

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

(j) *Planning horizon* means the period of at least nine consecutive quarters,

beginning on the first day of a stress test cycle over which the relevant projections extend.

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

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

(m) *Regulatory capital ratio* means a capital ratio for which the Board established minimum requirements for the company by regulation or order, including, as applicable, the company’s tier 1 and supplementary leverage ratios and common equity tier 1, tier 1, and total risk-based capital ratios as calculated under appendices A, D, and E to this part (12 CFR part 225) and 12 CFR part 217, as applicable, including the transition provisions at 12 CFR 217.1(f)(4) and 12 CFR 217.300, or any successor regulation.

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

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

(p) *Stress test cycle* means:

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

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

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

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

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### § 252.43 Applicability.

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

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

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

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

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

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

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

(2) *Bank holding companies that rely on SR Letter 01-01*. A covered company that is relying as of July 20, 2015, on Supervision and Regulation Letter SR 01-01 issued by the Board (as in effect on May 19, 2010) must comply with the requirements of this subpart beginning on January 1, 2016, unless that time is extended by the Board in writing.

(c) *Transition periods for covered companies subject to the advanced approaches*. Notwithstanding any other

requirement in this section, for a given stress test cycle:

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

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

### § 252.44 Annual analysis conducted by the Board.

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

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

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

(b) *Economic and financial scenarios related to the Board's analysis*. The Board will conduct its analysis under this section using a minimum of three different scenarios, including a baseline scenario, adverse scenario, and severely adverse scenario. For the stress test cycle beginning on October 1, 2014,

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the Board will notify covered companies of the scenarios that the Board will apply to conduct the analysis for each stress test cycle by no later than November 15, 2014, except with respect to trading or any other components of the scenarios and any additional scenarios that the Board will apply to conduct the analysis, which will be communicated by no later than December 1, 2014. For each stress test cycle beginning thereafter, the Board will notify covered companies of the scenarios that the Board will apply to conduct the analysis for each stress test cycle by no later than February 15 of each year, except with respect to trading or any other components of the scenarios and any additional scenarios that the Board will apply to conduct the analysis, which will be communicated by no later than March 1 of that year.

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

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

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

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

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

(c) *Confidential treatment of information submitted.* The confidentiality of information submitted to the Board under this subpart and related materials shall be determined in accordance with the Freedom of Information Act (5

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

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

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

(b) *Publication of results by the Board.*

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

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

### **§ 252.47 Corporate use of stress test results.**

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

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

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

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

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

SOURCE: Reg. YY, 79 FR 64051, Oct. 27, 2014, unless otherwise noted.

#### § 252.50 [Reserved]

#### § 252.51 Authority and purpose.

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

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

#### § 252.52 Definitions.

For purposes of this subpart, the following definitions apply:

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

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

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

bank holding company has not filed the FR Y–9C for each of the four most recent consecutive quarters, average total consolidated assets means the average of the company's total consolidated assets, as reported on the company's FR Y–9C, for the most recent quarter or consecutive quarters. Average total consolidated assets are measured on the as-of date of the most recent FR Y–9C used in the calculation of the average.

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

(e) *Baseline scenario* means a set of conditions that affect the U.S. economy or the financial condition of a covered company and that reflect the consensus views of the economic and financial outlook.

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

(g) *Covered company* means:

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

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

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

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

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

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

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

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

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

(n) *Regulatory capital ratio* means a capital ratio for which the Board established minimum requirements for the company by regulation or order, including, as applicable, the company's tier 1 and supplementary leverage ratios and common equity tier 1, tier 1, and total risk-based capital ratios as calculated under appendices A, D, and E to this part (12 CFR part 225) and 12 CFR part 217, as applicable, including the transition provisions at 12 CFR 217.1(f)(4) and 12 CFR 217.300, or any successor regulation.

(o) *Scenarios* are those sets of conditions that affect the U.S. economy or the financial condition of a covered company that the Board, or with respect to the mid-cycle stress test required under §252.55, the covered company, annually determines are appropriate for use in the company-run stress tests, including, but not limited to, baseline, adverse, and severely adverse scenarios.

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

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

(r) *Stress test cycle* means:

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

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

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

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

### § 252.53 Applicability.

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

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

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

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

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

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

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

(2) *Bank holding companies that rely on SR Letter 01-01.* A covered company that is relying as of July 20, 2015, on Supervision and Regulation Letter SR 01-01 issued by the Board (as in effect on May 19, 2010) must comply with the

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requirements of this subpart beginning on January 1, 2016, unless that time is extended by the Board in writing.

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

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

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

### § 252.54 Annual stress test.

(a) *In general.* A covered company must conduct an annual stress test. For the stress test cycle beginning on October 1, 2014, the stress test must be conducted by January 5, 2015, based on data as of September 30, 2014, unless the time or the as-of date is extended by the Board in writing. For each stress test cycle beginning thereafter, the stress test must be conducted by April 5 of each calendar year based on data as of December 31 of the preceding calendar year, unless the time or the as-of date is extended by the Board in writing.

(b) *Scenarios provided by the Board—*  
(1) *In general.* In conducting a stress test under this section, a covered company must, at a minimum, use the scenarios provided by the Board. Except as provided in paragraphs (b)(2) and (3) of this section, for the stress test cycle beginning on October 1, 2014, the Board will provide a description of the scenarios to each covered company no later than November 15, 2014. Except as provided in paragraphs (b)(2) and (3) of this section, for each stress test cycle beginning thereafter, the Board will

provide a description of the scenarios to each covered company no later than February 15 of that calendar year.

(2) *Additional components.* (i) The Board may require a covered company with significant trading activity, as determined by the Board and specified in the Capital Assessments and Stress Testing report (FR Y-14), to include a trading and counterparty component in its adverse and severely adverse scenarios in the stress test required by this section. For the stress test cycle beginning on October 1, 2014, the data used in this component must be as of a date between October 1 and December 1, 2014, as selected by the Board, and the Board will communicate the as-of date and a description of the component to the company no later than December 1, 2014. For the stress test cycle beginning on January 1, 2016, and for each stress test cycle beginning thereafter, the data used in this component must be as of a date between January 1 and March 1 of that calendar year selected by the Board, and the Board will communicate the as-of date and a description of the component to the company no later than March 1 of the relevant calendar year.

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

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

(4) *Notice and response—*(i) *Notification of additional component.* If the Board requires a covered company to include one or more additional components in its adverse and severely adverse scenarios under paragraph (b)(2) of this section or to use one or more additional scenarios under paragraph (b)(3) of this section, the Board will notify the company in writing. For the stress test cycle beginning on October 1, 2014,

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the Board will provide such notification no later than September 30, 2014, and for each stress test cycle beginning thereafter, the Board will provide such notification no later than December 31 of the preceding calendar year. The notification will include a general description of the additional component(s) or additional scenario(s) and the basis for requiring the company to include the additional component(s) or additional scenario(s).

(ii) *Request for reconsideration and Board response.* Within 14 calendar days of receipt of a notification under this paragraph, the covered company may request in writing that the Board reconsider the requirement that the company include the additional component(s) or additional scenario(s), including an explanation as to why the reconsideration should be granted.

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

### § 252.55 Mid-cycle stress test.

(a) *Mid-cycle stress test requirement.* In addition to the stress test required under § 252.54, a covered company must conduct a mid-cycle stress test. For the stress test cycle beginning on October 1, 2014, the mid-cycle stress test must be conducted by July 5 based on data as of March 31 of that calendar year, unless the time or the as-of date is extended by the Board in writing. For each stress test cycle beginning thereafter, the stress test must be conducted by September 30 of each calendar year based on data as of June 30 of that calendar year, unless the time or the as-of date is extended by the Board in writing.

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

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ations, in conducting the stress test required by this section.

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

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

(4) *Notice and response—(i) Notification of additional component.* If the Board requires a covered company to include one or more additional components in its adverse and severely adverse scenarios under paragraph (b)(2) of this section or one or more additional scenarios under paragraph (b)(3) of this section, the Board will notify the company in writing. For the stress test cycle beginning on October 1, 2014, the Board will provide such notification no later than March 31, and for each stress test cycle beginning thereafter, the Board will provide such notification no later than June 30. The notification will include a general description of the additional component(s) or additional scenario(s) and the basis for requiring the company to include the additional component(s) or additional scenario(s).

(ii) *Request for reconsideration and Board response.* Within 14 calendar days of receipt of a notification under this paragraph, the covered company may request in writing that the Board reconsider the requirement that the company include the additional component(s) or additional scenario(s), including an explanation as to why the reconsideration should be granted. The Board will respond in writing within 14 calendar days of receipt of the company's request.

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

### § 252.56 Methodologies and practices.

(a) *Potential impact on capital.* In conducting a stress test under §§ 252.54 and 252.55, for each quarter of the planning horizon, a covered company must estimate the following for each scenario required to be used:

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

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

(b) *Assumptions regarding capital actions.* In conducting a stress test under §§ 252.54 and 252.55, a covered company is required to make the following assumptions regarding its capital actions over the planning horizon:

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

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

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

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

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

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

(c) *Controls and oversight of stress testing processes—(1) In general.* The senior management of a covered company must establish and maintain a system of controls, oversight, and documentation, including policies and procedures, that are designed to ensure that its stress testing processes are effective in meeting the requirements in this subpart. These policies and procedures must, at a minimum, describe the covered company's stress testing practices and methodologies, and processes for validating and updating the company's stress test practices and methodologies consistent with applicable laws, regulations, and supervisory guidance. Policies of covered companies must also describe processes for scenario development for the mid-cycle stress test required under § 252.55.

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

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

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

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

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

### § 252.57 Reports of stress test results.

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

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

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

### § 252.58 Disclosure of stress test results.

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

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

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October 1, 2014, this disclosure must occur in the period beginning on July 5 and ending on August 4, unless that time is extended by the Board in writing. For all stress test cycles beginning thereafter, this disclosure must occur in the period beginning on October 5 and ending on November 4, unless that time is extended by the Board in writing.

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

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

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

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

(3) Estimates of—

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

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

(iii) Net income before taxes;

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

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

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

(5) With respect to any depository institution subsidiary that is subject to stress testing requirements pursuant to 12 U.S.C. 5365(i)(2), as implemented by subpart B of this part, 12 CFR part

46 (OCC), or 12 CFR part 325, subpart C (FDIC), changes over the planning horizon in regulatory capital ratios and any other capital ratios specified by the Board and an explanation of the most significant causes for the changes in regulatory capital ratios.

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

- (i) Pre-provision net revenue and other revenue;
- (ii) Provision for loan and lease losses, realized losses/gains on available-for-sale and held-to-maturity securities, trading and counterparty losses, and other losses or gains;
- (iii) Net income before taxes; and
- (iv) Loan losses in the aggregate and by subportfolio.

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

### Subparts G–K [Reserved]

### Subpart L—Company-Run Stress Test Requirements for Foreign Banking Organizations and Foreign Savings and Loan Holding Companies With Total Consolidated Assets Over \$10 Billion but Less Than \$50 Billion

SOURCE: Reg. YY, 79 FR 17322, Mar. 27, 2014, unless otherwise noted.

#### § 252.120 Definitions.

For purposes of this subpart, the following definitions apply:

(a) *Eligible asset* means any asset of the U.S. branch or U.S. agency held in the United States that is recorded on the general ledger of a U.S. branch or U.S. agency of the foreign banking organization (reduced by the amount of any specifically allocated reserves held in the United States and recorded on the general ledger of the U.S. branch or U.S. agency in connection with such

assets), subject to the following exclusions and, for purposes of this definition, as modified by the rules of valuation set forth in paragraph (a)(2) of this section.

(1) The following assets do not qualify as eligible assets:

- (i) Equity securities;
- (ii) Any assets classified as loss at the preceding examination by a regulatory agency, outside accountant, or the bank's internal loan review staff;
- (iii) Accrued income on assets classified loss, doubtful, substandard or value impaired, at the preceding examination by a regulatory agency, outside accountant, or the bank's internal loan review staff;
- (iv) Any amounts due from the home office, other offices and affiliates, including income accrued but uncollected on such amounts;
- (v) The balance from time to time of any other asset or asset category disallowed at the preceding examination or by direction of the Board for any other reason until the underlying reasons for the disallowance have been removed;
- (vi) Prepaid expenses and unamortized costs, furniture and fixtures and leasehold improvements; and
- (vii) Any other asset that the Board determines should not qualify as an eligible asset.

(2) The following rules of valuation apply:

- (i) A marketable debt security is valued at its principal amount or market value, whichever is lower;
- (ii) An asset classified doubtful or substandard at the preceding examination by a regulatory agency, outside accountant, or the bank's internal loan review staff, is valued at 50 percent and 80 percent, respectively;
- (iii) With respect to an asset classified value impaired, the amount representing the allocated transfer risk reserve that would be required for such exposure at a domestically chartered bank is valued at 0 and the residual exposure is valued at 80 percent; and
- (iv) Real estate located in the United States and carried on the accounting records as an asset are valued at net book value or appraised value, whichever is less.

(b) *Foreign savings and loan holding company* means a savings and loan holding company as defined in section 10 of the Home Owners' Loan Act (12 U.S.C. 1467a(a)) that is incorporated or organized under the laws of a country other than the United States.

(c) *Liabilities of all U.S. branches and agencies of a foreign banking organization* means all liabilities of all U.S. branches and agencies of the foreign banking organization, including acceptances and any other liabilities (including contingent liabilities), but excluding:

(1) Amounts due to and other liabilities to other offices, agencies, branches and affiliates of such foreign banking organization, including its head office, including unremitted profits; and

(2) Reserves for possible loan losses and other contingencies.

(d) *Pre-provision net revenue* means revenue less expenses before adjusting for total loan loss provisions.

(e) *Stress test cycle* has the same meaning as in subpart F of this part.

(f) *Total loan loss provisions* means the amount needed to make reserves adequate to absorb estimated credit losses, based upon management's evaluation of the loans and leases that the company has the intent and ability to hold for the foreseeable future or until maturity or payoff, as determined under applicable accounting standards.

#### § 252.121 Applicability.

(a) *Applicability for foreign banking organizations with total consolidated assets of more than \$10 billion but less than \$50 billion*—(1) *General applicability*. Subject to the initial applicability provisions of paragraph (a)(3) of this section, a foreign banking organization must comply with the stress test requirements set forth in this section beginning on the first day of the ninth quarter following the date on which its total consolidated assets exceed \$10 billion.

(2) *Total consolidated assets*. For purposes of this subpart, total consolidated assets of a foreign banking organization are equal to the average of the total assets for the two most recent periods as reported by the foreign banking organization on the FR Y-7. Total

consolidated assets are measured on the as-of date of the most recent FR Y-7 used in the calculation of the average.

(3) *Initial applicability*. A foreign banking organization that, as of June 30, 2015, has total consolidated assets of \$10 billion or more must comply with the requirements of this subpart beginning on July 1, 2016.

(4) *Cessation of requirements*. A foreign banking organization will remain subject to the requirements of this subpart until the earlier of the date on which:

(i) Its reported total consolidated assets on the FR Y-7 are below \$10 billion for each of four consecutive calendar quarters; and

(ii) It becomes subject to the requirements of subpart N or subpart O of this subpart, as applicable.

(b) *Applicability for foreign savings and loan holding companies with total consolidated assets of more than \$10 billion*—(1) *General*. A foreign savings and loan holding company must comply with the stress test requirements set forth in this section beginning on the first day of the ninth quarter following the date on which its total consolidated assets exceed \$10 billion.

(2) *Total consolidated assets*. Total consolidated assets of a foreign savings and loan holding company for purposes of this subpart are equal to the average of total assets for the four most recent consecutive quarters as reported by the foreign savings and loan holding company on its applicable regulatory report. If the foreign savings and loan holding company has not filed four regulatory reports, total consolidated assets are equal to the average of total assets as reported for the most recent period or consecutive periods. Total consolidated assets are measured on the as-of date of the most recent regulatory reporting form used in the calculation of the average.

(3) *Cessation of requirements*. A foreign savings and loan holding company will remain subject to requirements of this subpart until the date on which the foreign savings and loan holding company's total consolidated assets on its applicable regulatory report are below \$10 billion for each of four consecutive calendar quarters.

**§ 252.122 Capital stress testing requirements.**

(a) *In general.* (1) A foreign banking organization with total consolidated assets of more than \$10 billion but less than \$50 billion and a foreign savings and loan holding company with total consolidated assets of more than \$10 billion must:

(i) Be subject on a consolidated basis to a capital stress testing regime by its home-country supervisor that meets the requirements of paragraph (a)(2) of this section; and

(ii) Conduct such stress tests or be subject to a supervisory stress test and meet any minimum standards set by its home-country supervisor with respect to the stress tests.

(2) The capital stress testing regime of a foreign banking organization or foreign savings and loan holding company's home-country supervisor must include:

(i) An annual supervisory capital stress test conducted by the relevant home-country supervisor or an annual evaluation and review by the home-country supervisor of an internal capital adequacy stress test conducted by the foreign banking organization; and

(ii) Requirements for governance and controls of stress testing practices by relevant management and the board of directors (or equivalent thereof).

(b) *Additional standards.* (1) Unless the Board otherwise determines in writing, a foreign banking organization or a foreign savings and loan holding company that does not meet each of the requirements in paragraph (a)(1) and (2) of this section must:

(i) Maintain eligible assets in its U.S. branches and agencies that, on a daily basis, are not less than 105 percent of the average value over each day of the previous calendar quarter of the total liabilities of all branches and agencies operated by the foreign banking organization in the United States;

(ii) Conduct an annual stress test of its U.S. subsidiaries to determine whether those subsidiaries have the capital necessary to absorb losses as a result of adverse economic conditions; and

(iii) Report on an annual basis a summary of the results of the stress test to the Board that includes a description

of the types of risks included in the stress test, a description of the conditions or scenarios used in the stress test, a summary description of the methodologies used in the stress test, estimates of aggregate losses, pre-provision net revenue, total loan loss provisions, net income before taxes and pro forma regulatory capital ratios required to be computed by the home-country supervisor of the foreign banking organization or foreign savings and loan holding company and any other relevant capital ratios, and an explanation of the most significant causes for any changes in regulatory capital ratios.

(2) An enterprise-wide stress test that is approved by the Board may meet the stress test requirement of paragraph (b)(1)(ii) of this section.

**Subpart M—Risk Committee Requirement for Publicly Traded Foreign Banking Organizations With Total Consolidated Assets of at Least \$10 Billion but Less Than \$50 Billion**

SOURCE: Reg. YY, 79 FR 17323, Mar. 27, 2014, unless otherwise noted.

**§ 252.130 [Reserved]****§ 252.131 Applicability.**

(a) *General applicability.* Subject to the initial applicability provisions of paragraph (c) of this section, a foreign banking organization with total consolidated assets of at least \$10 billion but less than \$50 billion and any class of stock (or similar interest) that is publicly traded must comply with the risk-committee requirements set forth in this subpart beginning on the first day of the ninth quarter following the later of the date on which its total consolidated assets equal or exceed \$10 billion and the date on which any class of its stock (or similar interest) becomes publicly traded.

(b) *Total consolidated assets.* For purposes of this subpart, total consolidated assets of a foreign banking organization for purposes of this subpart are equal to the average of the total assets for the two most recent periods as

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reported by the foreign banking organization on the FR Y-7. Total consolidated assets are measured on the as-of date of the most recent FR Y-7 used in the calculation of the average.

(c) *Initial applicability.* A foreign banking organization that, as of June 30, 2015, has total consolidated assets of \$10 billion or more and has a class of stock (or similar interest) that is publicly traded must comply with the risk-committee requirements of this section beginning on July 1, 2016.

(d) *Cessation of requirements.* A foreign banking organization will remain subject to the risk-committee requirements of this section until the earlier of the date on which: (i) its reported total consolidated assets on the FR Y-7 are below \$10 billion for each of four consecutive calendar quarters; (ii) it becomes subject to the requirements of subpart N of this part; and (iii) it ceases to have a class of stock (or similar interest) that is publicly traded.

**§ 252.132 Risk-committee requirements for foreign banking organizations with total consolidated assets of \$10 billion or more but less than \$50 billion.**

(a) *U.S. risk committee certification.* A foreign banking organization with a class of stock (or similar interest) that is publicly traded and total consolidated assets of at least \$10 billion but less than \$50 billion, must, on an annual basis, certify to the Board that it maintains a committee of its global board of directors (or equivalent thereof), on a standalone basis or as part of its enterprise-wide risk committee (or equivalent thereof) that:

(1) Oversees the risk management policies of the combined U.S. operations of the foreign banking organization; and

(2) Includes at least one member having experience in identifying, assessing, and managing risk exposures of large, complex firms.

(b) *Timing of certification.* The certification required under paragraph (a) of this section must be filed on an annual basis with the Board concurrently with the FR Y-7.

(c) *Responsibilities of the foreign banking organization.* The foreign banking organization must take appropriate measures to ensure that its combined

U.S. operations implement the risk management policies overseen by the U.S. risk committee described in paragraph (a) of this section, and its combined U.S. operations provide sufficient information to the U.S. risk committee to enable the U.S. risk committee to carry out the responsibilities of this subpart.

(d) *Noncompliance with this section.* If a foreign banking organization does not satisfy the requirements of this section, the Board may impose requirements, conditions, or restrictions relating to the activities or business operations of the combined U.S. operations of the foreign banking organization. The Board will coordinate with any relevant State or Federal regulator in the implementation of such requirements, conditions, or restrictions. If the Board determines to impose one or more requirements, conditions, or restrictions under this paragraph, the Board will notify the company before it applies any requirement, condition or restriction, and describe the basis for imposing such requirement, condition, or restriction. Within 14 calendar days of receipt of a notification under this paragraph, the company may request in writing that the Board reconsider the requirement, condition, or restriction. The Board will respond in writing to the company's request for reconsideration prior to applying the requirement, condition, or restriction.

**Subpart N—Enhanced Prudential Standards for Foreign Banking Organizations With Total Consolidated Assets of \$50 Billion or More But Combined U.S. Assets of Less Than \$50 Billion**

SOURCE: Reg. YY, 79 FR 17324, Mar. 27, 2014, unless otherwise noted.

**§ 252.140 Scope.**

This subpart applies to foreign banking organizations with total consolidated assets of \$50 billion or more, but combined U.S. assets of less than \$50 billion. Total consolidated assets of a foreign banking organization are equal

to the consolidated assets of the foreign banking organization, and combined U.S. assets of a foreign banking organization are equal to the sum of the consolidated assets of each top-tier U.S. subsidiary of the foreign banking organization (excluding any section 2(h)(2) company, if applicable) and the total assets of each U.S. branch and U.S. agency of the foreign banking organization, each as defined in section §252.142(b).

**§ 252.141 [Reserved]**

**§ 252.142 Applicability.**

(a) *General applicability.* Subject to the initial applicability provisions in paragraph (c) of this section, a foreign banking organization with total consolidated assets of \$50 billion or more and combined U.S. assets of less than \$50 billion must comply with the capital requirements, risk-management and risk committee requirements, liquidity risk-management requirements, and the capital stress testing requirements set forth in this subpart beginning on the first day of the ninth quarter following the date on which its total consolidated assets equal or exceed \$50 billion.

(b) *Asset measures*—(1) *Total consolidated assets.* Total consolidated assets of a foreign banking organization are equal to the consolidated assets of the foreign banking organization. For purposes of this subpart, “total consolidated assets” are calculated as the average of the foreign banking organization’s total assets for the four most recent consecutive quarters as reported by the foreign banking organization on the FR Y-7Q. If the foreign banking organization has not filed the FR Y-7Q for the four most recent consecutive quarters, the Board shall use an average of the foreign banking organization’s total consolidated assets reported on its most recent two FR Y-7Qs. Total consolidated assets are measured on the as-of date of the most recent FR Y-7Q used in the calculation of the average.

(2) *Combined U.S. assets.* Combined U.S. assets of a foreign banking organization are equal to the sum of the consolidated assets of each top-tier U.S. subsidiary of the foreign banking orga-

nization (excluding any section 2(h)(2) company, if applicable) and the total assets of each U.S. branch and U.S. agency of the foreign banking organization. For purposes of this subpart, combined U.S. assets are calculated as the average of the total combined assets of U.S. operations for the four most recent consecutive quarters as reported by the foreign banking organization on the FR Y-7Q, or, if the foreign banking organization has not reported this information on the FR Y-7Q for each of the four most recent consecutive quarters, the average of the combined U.S. assets for the most recent quarter or consecutive quarters as reported on the FR Y-7Q. Combined U.S. assets are measured on the as-of date of the most recent FR Y-7Q used in the calculation of the average.0

(c) *Initial applicability.* A foreign banking organization that, as of June 30, 2015, has total consolidated assets of \$50 billion or more but combined U.S. assets of less than \$50 billion must comply with the capital requirements, risk-management requirements, liquidity requirements, and the capital stress test requirements set forth in this subpart beginning on July 1, 2016.

(d) *Cessation of requirements.* A foreign banking organization will remain subject to the requirements set forth in this subpart until its reported total assets on the FR Y-7Q are below \$50 billion for each of four consecutive calendar quarters, or it becomes subject to the requirements of subpart O of this part.

**§ 252.143 Risk-based and leverage capital requirements for foreign banking organizations with total consolidated assets of \$50 billion or more but combined U.S. assets of less than \$50 billion.**

(a) *General requirements.* (1) A foreign banking organization with total consolidated assets of \$50 billion or more and combined U.S. assets of less than \$50 billion must certify to the Board that it meets capital adequacy standards on a consolidated basis established by its home-country supervisor that are consistent with the regulatory capital framework published by the Basel Committee on Banking Supervision, as amended from time to time (Basel Capital Framework).

(i) For purposes of this paragraph, home-country capital adequacy standards that are consistent with the Basel Capital Framework include all minimum risk-based capital ratios, any minimum leverage ratio, and all restrictions based on any applicable capital buffers set forth in “Basel III: A global regulatory framework for more resilient banks and banking systems” (2010) (Basel III Accord), each as applicable and as implemented in accordance with the Basel III Accord, including any transitional provisions set forth therein.

(ii) [Reserved]

(2) In the event that a home-country supervisor has not established capital adequacy standards that are consistent with the Basel Capital Framework, the foreign banking organization must demonstrate to the satisfaction of the Board that it would meet or exceed capital adequacy standards on a consolidated basis that are consistent with the Basel Capital Framework were it subject to such standards.

(b) *Reporting.* A foreign banking organization with total consolidated assets of \$50 billion or more and combined U.S. assets of less than \$50 billion must provide to the Board reports relating to its compliance with the capital adequacy measures described in paragraph (a) of this section concurrently with filing the FR Y-7Q.

(c) *Noncompliance with the Basel Capital Framework.* If a foreign banking organization does not satisfy the requirements of this section, the Board may impose requirements, conditions, or restrictions, including risk-based or leverage capital requirements, relating to the activities or business operations of the U.S. operations of the foreign banking organization. The Board will coordinate with any relevant State or Federal regulator in the implementation of such requirements, conditions, or restrictions. If the Board determines to impose one or more requirements, conditions, or restrictions under this paragraph, the Board will notify the company before it applies any requirement, condition or restriction, and describe the basis for imposing such requirement, condition, or restriction. Within 14 calendar days of receipt of a notification under this paragraph, the

company may request in writing that the Board reconsider the requirement, condition, or restriction. The Board will respond in writing to the company’s request for reconsideration prior to applying the requirement, condition, or restriction.

**§ 252.144 Risk-management and risk committee requirements for foreign banking organizations with total consolidated assets of \$50 billion or more but combined U.S. assets of less than \$50 billion.**

(a) *U.S. risk committee certification.* A foreign banking organization with total consolidated assets of \$50 billion or more and combined U.S. assets of less than \$50 billion must, on an annual basis, certify to the Board that it maintains a committee of its global board of directors (or equivalent thereof), on a standalone basis or as part of its enterprise-wide risk committee (or equivalent thereof) that:

(1) Oversees the risk management policies of the combined U.S. operations of the foreign banking organization; and

(2) Includes at least one member having experience in identifying, assessing, and managing risk exposures of large, complex firms.

(b) *Timing of certification.* The certification required under paragraph (a) of this section must be filed on an annual basis with the Board concurrently with the FR Y-7.

(c) *Responsibilities of the foreign banking organization.* The foreign banking organization must take appropriate measures to ensure that its combined U.S. operations implement the risk management policies overseen by the U.S. risk committee described in paragraph (a) of this section, and that its combined U.S. operations provide sufficient information to the U.S. risk committee to enable the U.S. risk committee to carry out the responsibilities of this subpart.

(d) *Noncompliance with this section.* If a foreign banking organization does not satisfy the requirements of this section, the Board may impose requirements, conditions, or restrictions relating to the activities or business operations of the combined U.S. operations of the foreign banking organization. The Board will coordinate with

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any relevant State or Federal regulator in the implementation of such requirements, conditions, or restrictions. If the Board determines to impose one or more requirements, conditions, or restrictions under this paragraph, the Board will notify the company before it applies any requirement, condition, or restriction, and describe the basis for imposing such requirement, condition, or restriction. Within 14 calendar days of receipt of a notification under this paragraph, the company may request in writing that the Board reconsider the requirement, condition, or restriction. The Board will respond in writing to the company's request for reconsideration prior to applying the requirement, condition, or restriction.

### **§ 252.145 Liquidity risk-management requirements for foreign banking organizations with total consolidated assets of \$50 billion or more but combined U.S. assets of less than \$50 billion.**

(a) A foreign banking organization with total consolidated assets of \$50 billion or more and combined U.S. assets of less than \$50 billion must report to the Board on an annual basis the results of an internal liquidity stress test for either the consolidated operations of the foreign banking organization or the combined U.S. operations of the foreign banking organization. Such liquidity stress test must be conducted consistently with the Basel Committee principles for liquidity risk management and must incorporate 30-day, 90-day, and one-year stress-test horizons. The "Basel Committee principles for liquidity risk management" means the document titled "Principles for Sound Liquidity Risk Management and Supervision" (September 2008) as published by the Basel Committee on Banking Supervision, as supplemented and revised from time to time.

(b) A foreign banking organization that does not comply with paragraph (a) of this section must limit the net aggregate amount owed by the foreign banking organization's non-U.S. offices and its non-U.S. affiliates to the combined U.S. operations to 25 percent or less of the third party liabilities of its combined U.S. operations, on a daily basis.

### **§ 252.146 Capital stress testing requirements for foreign banking organizations with total consolidated assets of \$50 billion or more but combined U.S. assets of less than \$50 billion.**

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

(1) *Eligible asset* means any asset of the U.S. branch or U.S. agency held in the United States that is recorded on the general ledger of a U.S. branch or U.S. agency of the foreign banking organization (reduced by the amount of any specifically allocated reserves held in the United States and recorded on the general ledger of the U.S. branch or U.S. agency in connection with such assets), subject to the following exclusions and, for purposes of this definition, as modified by the rules of valuation set forth in paragraph (a)(1)(ii) of this section.

(i) The following assets do not qualify as eligible assets:

- (A) Equity securities;
- (B) Any assets classified as loss at the preceding examination by a regulatory agency, outside accountant, or the bank's internal loan review staff;
- (C) Accrued income on assets classified loss, doubtful, substandard or value impaired, at the preceding examination by a regulatory agency, outside accountant, or the bank's internal loan review staff;
- (D) Any amounts due from the home office, other offices and affiliates, including income accrued but uncollected on such amounts;

(E) The balance from time to time of any other asset or asset category disallowed at the preceding examination or by direction of the Board for any other reason until the underlying reasons for the disallowance have been removed;

(F) Prepaid expenses and unamortized costs, furniture and fixtures and leasehold improvements; and

(G) Any other asset that the Board determines should not qualify as an eligible asset.

(ii) The following rules of valuation apply:

(A) A marketable debt security is valued at its principal amount or market value, whichever is lower;

(B) An asset classified doubtful or substandard at the preceding examination by a regulatory agency, outside accountant, or the bank's internal loan review staff, is valued at 50 percent and 80 percent, respectively;

(C) With respect to an asset classified value impaired, the amount representing the allocated transfer risk reserve that would be required for such exposure at a domestically chartered bank is valued at 0 and the residual exposure is valued at 80 percent; and

(D) Real estate located in the United States and carried on the accounting records as an asset are valued at net book value or appraised value, whichever is less.

(2) *Liabilities of all U.S. branches and agencies of a foreign banking organization* means all liabilities of all U.S. branches and agencies of the foreign banking organization, including acceptances and any other liabilities (including contingent liabilities), but excluding:

(i) Amounts due to and other liabilities to other offices, agencies, branches and affiliates of such foreign banking organization, including its head office, including unremitted profits; and

(ii) Reserves for possible loan losses and other contingencies.

(3) *Pre-provision net revenue* means revenue less expenses before adjusting for total loan loss provisions.

(4) *Stress test cycle* has the same meaning as in subpart F of this part.

(5) *Total loan loss provisions* means the amount needed to make reserves adequate to absorb estimated credit losses, based upon management's evaluation of the loans and leases that the company has the intent and ability to hold for the foreseeable future or until maturity or payoff, as determined under applicable accounting standards.

(b) *In general.* (1) A foreign banking organization with total consolidated assets of more than \$50 billion and combined U.S. assets of less than \$50 billion must:

(i) Be subject on a consolidated basis to a capital stress testing regime by its home-country supervisor that meets the requirements of paragraph (b)(2) of this section; and

(ii) Conduct such stress tests or be subject to a supervisory stress test and meet any minimum standards set by its home-country supervisor with respect to the stress tests.

(2) The capital stress testing regime of a foreign banking organization's home-country supervisor must include:

(i) An annual supervisory capital stress test conducted by the foreign banking organization's home-country supervisor or an annual evaluation and review by the foreign banking organization's home-country supervisor of an internal capital adequacy stress test conducted by the foreign banking organization; and

(ii) Requirements for governance and controls of stress testing practices by relevant management and the board of directors (or equivalent thereof) of the foreign banking organization;

(c) *Additional standards.* (1) Unless the Board otherwise determines in writing, a foreign banking organization that does not meet each of the requirements in paragraphs (b)(1) and (2) of this section must:

(i) Maintain eligible assets in its U.S. branches and agencies that, on a daily basis, are not less than 105 percent of the average value over each day of the previous calendar quarter of the total liabilities of all branches and agencies operated by the foreign banking organization in the United States;

(ii) Conduct an annual stress test of its U.S. subsidiaries to determine whether those subsidiaries have the capital necessary to absorb losses as a result of adverse economic conditions; and

(iii) Report on an annual basis a summary of the results of the stress test to the Board that includes a description of the types of risks included in the stress test, a description of the conditions or scenarios used in the stress test, a summary description of the methodologies used in the stress test, estimates of aggregate losses, pre-provision net revenue, total loan loss provisions, net income before taxes and pro forma regulatory capital ratios required to be computed by the home-country supervisor of the foreign banking organization and any other relevant capital ratios, and an explanation of the most significant causes

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for any changes in regulatory capital ratios.

(2) An enterprise-wide stress test that is approved by the Board may meet the stress test requirement of paragraph (c)(1)(ii) of this section.

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

SOURCE: Reg. YY, 79 FR 17326, Mar. 27, 2014, unless otherwise noted.

#### § 252.150 Scope.

(a) This subpart applies to foreign banking organizations with total consolidated assets of \$50 billion or more and combined U.S. assets of \$50 billion or more. Foreign banking organizations with combined U.S. assets of \$50 billion or more and U.S. non-branch assets of \$50 billion or more are also subject to the U.S. intermediate holding company requirement contained in § 252.153.

(b) Total consolidated assets of a foreign banking organization are equal to the consolidated assets of the foreign banking organization. Combined U.S. assets of a foreign banking organization are equal to the sum of the consolidated assets of each top-tier U.S. subsidiary of the foreign banking organization (excluding any section 2(h)(2) company, if applicable) and the total assets of each U.S. branch and U.S. agency of the foreign banking organization. U.S. non-branch assets are equal to the sum of the consolidated assets of each top-tier U.S. subsidiary of the foreign banking organization (excluding any section 2(h)(2) company and DPC branch subsidiary, if applicable).

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#### § 252.152 Applicability.

(a) *General applicability.* Subject to the initial applicability provisions in paragraph (c) of this section, a foreign banking organization must:

(1) Comply with the requirements of this subpart (other than the U.S. inter-

mediate holding company requirement set forth in § 252.153) beginning on the first day of the ninth quarter following the date on which its combined U.S. assets equal or exceed \$50 billion; and

(2) Comply with the U.S. intermediate holding company requirement set forth in § 252.153 beginning on the first day of the ninth quarter following the date on which its U.S. non-branch assets equal or exceed \$50 billion.

(b) *Asset measures*—(1) *Combined U.S. assets.* Combined U.S. assets of a foreign banking organization are equal to the sum of the consolidated assets of each top-tier U.S. subsidiary of the foreign banking organization (excluding any section 2(h)(2) company, if applicable) and the total assets of each U.S. branch and U.S. agency of the foreign banking organization. For purposes of this subpart, “combined U.S. assets” are calculated as the average of the total combined assets of U.S. operations for the four most recent consecutive quarters as reported by the foreign banking organization on the FR Y-7Q, or, if the foreign banking organization has not reported this information on the FR Y-7Q for each of the four most recent consecutive quarters, the average of the combined U.S. assets for the most recent quarter or consecutive quarters as reported on the FR Y-7Q. Combined U.S. assets are measured on the as-of date of the most recent FR Y-7Q used in the calculation of the average.

(2) *U.S. non-branch assets.* U.S. non-branch assets are equal to the sum of the consolidated assets of each top-tier U.S. subsidiary of the foreign banking organization (excluding any section 2(h)(2) company and DPC branch subsidiary, if applicable).

(i) For purposes of this subpart, U.S. non-branch assets of a foreign banking organization are calculated as the average of the sum of the total consolidated assets of the top-tier U.S. subsidiaries of the foreign banking organization (excluding any section 2(h)(2) company and DPC branch subsidiary) for the four most recent consecutive quarters, as reported to the Board on the FR Y-7Q, or, if the foreign banking organization has not reported this information on the FR Y-7Q for each of

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the four most recent consecutive quarters, the average for the most recent quarter or consecutive quarters as reported on the FR Y-7Q.

(ii) In calculating U.S. non-branch assets, a foreign banking organization must reduce its U.S. non-branch assets calculated under this paragraph by the amount corresponding to balances and transactions between a top-tier U.S. subsidiary and any other top-tier U.S. subsidiary (excluding any 2(h)(2) company or DPC branch subsidiary) to the extent such items are not already eliminated in consolidation.

(iii) U.S. non-branch assets are measured on the as-of date of the most recent FR Y-7Q used in the calculation of the average.

(c) *Initial applicability.* (1) A foreign banking organization that, as of June 30, 2015, has combined U.S. assets of \$50 billion or more must comply with the requirements of this subpart, as applicable, beginning on July 1, 2016.

(2) A foreign banking organization that, as of June 30, 2015, has U.S. non-branch assets of \$50 billion or more must comply with the requirements of this subpart beginning on July 1, 2016. In addition, the foreign banking organization must:

(i) By July 1, 2016, establish a U.S. intermediate holding company and transfer its entire ownership interest in any bank holding company subsidiary (if not designated as its U.S. intermediate holding company), any insured depository institution subsidiary, and U.S. subsidiaries holding at least 90 percent of its U.S. non-branch assets not owned by such subsidiary bank holding company or insured depository institution subsidiary, if any, as such assets are measured as of June 30, 2015, to the U.S. intermediate holding company; and

(ii) By July 1, 2017, hold its ownership interest in all U.S. subsidiaries (other than section 2(h)(2) companies and DPC branch subsidiaries) through its U.S. intermediate holding company.

(d) *Cessation of requirements*—(1) *Enhanced prudential standards applicable to the foreign banking organization.* Subject to paragraph (d)(2) of this section, a foreign banking organization will remain subject to the applicable requirements of this subpart until its reported

combined U.S. assets on the FR Y-7Q are below \$50 billion for each of four consecutive calendar quarters.

(2) *Intermediate holding company requirement.* A foreign banking organization will remain subject to the U.S. intermediate holding company requirement set forth in § 252.153 until the sum of the total consolidated assets of the top-tier U.S. subsidiaries of the foreign banking organization (excluding any section 2(h)(2) company and DPC branch subsidiary) is below \$50 billion for each of four consecutive calendar quarters.

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

(a) *Requirement to form a U.S. intermediate holding company.* (1) A foreign banking organization with U.S. non-branch assets of \$50 billion or more must establish a U.S. intermediate holding company, or designate an existing subsidiary that meets the requirements of paragraph (a)(2) of this section, as its U.S. intermediate holding company.

(2) The U.S. intermediate holding company must be:

(i) Organized under the laws of the United States, any one of the fifty states of the United States, or the District of Columbia; and

(ii) Be governed by a board of directors or managers that is elected or appointed by the owners and that operates in an equivalent manner, and has equivalent rights, powers, privileges, duties, and responsibilities, to a board of directors of a company chartered as a corporation under the laws of the United States, any one of the fifty states of the United States, or the District of Columbia.

(3) *Notice.* Within 30 days of establishing or designating a U.S. intermediate holding company under this section, a foreign banking organization must provide to the Board:

(i) A description of the U.S. intermediate holding company, including its name, location, corporate form, and organizational structure;

(ii) A certification that the U.S. intermediate holding company meets the requirements of this subpart; and

(iii) Any other information that the Board determines is appropriate.

(b) *Holdings and regulation of the U.S. intermediate holding company*—(1) *General*. Subject to paragraph (c) of this section, a foreign banking organization that is required to form a U.S. intermediate holding company under paragraph (a) of this section must hold its entire ownership interest in any U.S. subsidiary (excluding each section 2(h)(2) company or DPC branch subsidiary, if any) through its U.S. intermediate holding company.

(2) *Reporting*. Each U.S. intermediate holding company shall submit information in the manner and form prescribed by the Board.

(3) *Examinations and inspections*. The Board may examine or inspect any U.S. intermediate holding company and each of its subsidiaries and prepare a report of their operations and activities.

(c) *Alternative organizational structure*—(1) *General*. Upon a written request by a foreign banking organization, the Board may permit the foreign banking organization: to establish or designate multiple U.S. intermediate holding companies; use an alternative organizational structure to hold its combined U.S. operations; or not transfer its ownership interests in certain subsidiaries to its U.S. intermediate holding company.

(2) *Factors*. In making a determination under paragraph (c)(1) of this section, the Board may consider whether applicable law would prohibit the foreign banking organization from owning or controlling one or more of its U.S. subsidiaries through a single U.S. intermediate holding company, or whether circumstances otherwise warrant an exception based on the foreign banking organization's activities, scope of operations, structure, or similar considerations.

(3) *Request*. A request under this section to establish or designate multiple U.S. intermediate holding companies must be submitted to the Board 180 days before the foreign banking organization must form a U.S. intermediate holding company. A request not to transfer any ownership interest in a subsidiary must be submitted to the Board either 180 days before the foreign

banking organization acquires the ownership interest in such U.S. subsidiary, or in a shorter period of time if permitted by the Board. The request must include a description of why the request should be granted and any other information the Board may require.

(4) *Conditions*. (i) The Board may grant relief under this section upon such conditions as the Board deems appropriate, including, but not limited to, requiring the U.S. operations of the relevant foreign banking organization to comply with additional enhanced prudential standards, or requiring such foreign banking organization to enter into supervisory agreements governing such alternative organizational structure.

(ii) If the Board permits a foreign banking organization to form two or more U.S. intermediate holding companies under this section and one or more of those U.S. intermediate holding companies does not meet an asset threshold governing applicability of any section of this subpart, such U.S. intermediate holding company shall be required to comply with those subparts as though it met or exceeded the applicable thresholds.

(iii) The Board may modify the application of any section of this subpart to a foreign banking organization that is required to form a U.S. intermediate holding company or to such U.S. intermediate holding company if appropriate to accommodate the organizational structure of the foreign banking organization or characteristics specific to such foreign banking organization and such modification is appropriate and consistent with the capital structure, size, complexity, risk profile, scope of operations, or financial condition of each U.S. intermediate holding company, safety and soundness, and the financial stability mandate of section 165 of the Dodd-Frank Act.

(d) *Implementation plan*—(1) *General*. A foreign banking organization must, by January 1, 2015, submit an implementation plan to the Board, if the sum of the total consolidated assets of the U.S. subsidiaries of the foreign banking organization, in aggregate, exceed \$50 billion as of June 30, 2014 (excluding any section 2(h)(2) company and DPC branch subsidiary and reduced by

amounts corresponding to balances and transactions between a top-tier U.S. subsidiary and any other top-tier U.S. subsidiary (excluding any 2(h)(2) company or DPC branch subsidiary) to the extent such items are not already eliminated in consolidation). The Board may accelerate or extend the date by which the implementation plan must be filed.

(2) *Mandatory elements of implementation plan.* An implementation plan must contain:

(i) A list of all U.S. subsidiaries controlled by the foreign banking organization setting forth the ownership interest in each subsidiary and an organizational chart showing the ownership hierarchy;

(ii) For each U.S. subsidiary that is a section 2(h)(2) company or a DPC branch subsidiary, the name, asset size, and a description of why the U.S. subsidiary qualifies as a section 2(h)(2) or a DPC branch subsidiary;

(iii) For each U.S. subsidiary for which the foreign banking organization expects to request an exemption from the requirement to transfer all or a portion of its ownership interest in the subsidiary to the U.S. intermediate holding company, the name, asset size, and a description of the reasons why the foreign banking organization intends to request that the Board grant it an exemption from the U.S. intermediate holding company requirement;

(iv) A projected timeline for the transfer by the foreign banking organization of its ownership interest in U.S. subsidiaries to the U.S. intermediate holding company, and quarterly pro forma financial statements for the U.S. intermediate holding company, including pro forma regulatory capital ratios, for the period from December 31, 2015 to January 1, 2018;

(v) A projected timeline for, and description of, all planned capital actions or strategies for capital accretion that will facilitate the U.S. intermediate holding company's compliance with the risk-based and leverage capital requirements set forth in paragraph (e)(2) of this section;

(vi) A description of the risk-management practices of the combined U.S. operations of the foreign banking organization and a description of how the

foreign banking organization and U.S. intermediate holding company will come into compliance with § 252.155; and

(vii) A description of the current liquidity stress testing practices of the U.S. operations of the foreign banking organization and a description of how the foreign banking organization and U.S. intermediate holding company will come into compliance with §§ 252.156 and 252.157.

(3) If a foreign banking organization plans to reduce its U.S. non-branch assets below \$50 billion for four consecutive quarters prior to July 1, 2016, the foreign banking organization may submit a plan that describes how it intends to reduce its U.S. non-branch assets below \$50 billion and any other information the Board determines is appropriate, instead of the information described in paragraph (d)(2) of this section.

(4) The Board may require a foreign banking organization that meets or exceeds the threshold for application of this section after June 30, 2014 to submit an implementation plan containing the information described in paragraph (d)(2) of this section if the Board determines that an implementation plan is appropriate.

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

(ii) *Initial applicability*—(A) *General.* A U.S. intermediate holding company required to be established by July 1, 2016

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must comply with the risk-based capital, risk management, and liquidity requirements set forth in paragraphs (e)(2)(i), (e)(3), and (e)(4) of this section beginning on July 1, 2016, and comply with the capital planning requirements set forth in (e)(2)(ii) of this section in accordance with § 225.8(c)(2) of the Board's Regulation Y (12 CFR 225.8(c)(2)).

(B) *Transition provisions for leverage.* (1) A U.S. intermediate holding company required to be established by July 1, 2016 must comply with the leverage capital requirements set forth in paragraph (e)(2)(i) of this section beginning on January 1, 2018, provided that each subsidiary bank holding company and insured depository institution controlled by the foreign banking organization immediately prior to the establishment or designation of the U.S. intermediate holding company, and each bank holding company and insured depository institution acquired by the foreign banking organization after establishment of the intermediate holding company, is subject to leverage capital requirements under 12 CFR part 217 until December 31, 2017.

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

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

(2) [Reserved]

[Reg. YY, 79 FR 17326, Mar. 27, 2014, as amended at 79 FR 64055, Oct. 27, 2014]

### **§ 252.154 Risk-based and leverage capital requirements for foreign banking organizations with combined U.S. assets of \$50 billion or more.**

(a) *General requirements.* (1) A foreign banking organization with combined U.S. assets of \$50 billion or more must certify to the Board that it meets capital adequacy standards on a consolidated basis established by its home-country supervisor that are consistent with the regulatory capital framework published by the Basel Committee on Banking Supervision, as amended from time to time (Basel Capital Framework).

(i) For purposes of this paragraph, home-country capital adequacy standards that are consistent with the Basel Capital Framework include all minimum risk-based capital ratios, any minimum leverage ratio, and all restrictions based on any applicable capital buffers set forth in "Basel III: A global regulatory framework for more resilient banks and banking systems" (2010) (Basel III Accord), each as applicable and as implemented in accordance with the Basel III Accord, including any transitional provisions set forth therein.

(ii) [Reserved]

(2) In the event that a home-country supervisor has not established capital adequacy standards that are consistent with the Basel Capital Framework, the foreign banking organization must demonstrate to the satisfaction of the Board that it would meet or exceed capital adequacy standards at the consolidated level that are consistent with the Basel Capital Framework were it subject to such standards.

(b) *Reporting.* A foreign banking organization with combined U.S. assets of \$50 billion or more must provide to the Board reports relating to its compliance with the capital adequacy measures described in paragraph (a) of this section concurrently with filing the FR Y-7Q.

(c) *Noncompliance with the Basel Capital Framework.* If a foreign banking organization does not satisfy the requirements of this section, the Board may

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impose requirements, conditions, or restrictions relating to the activities or business operations of the U.S. operations of the foreign banking organization. The Board will coordinate with any relevant State or Federal regulator in the implementation of such requirements, conditions, or restrictions. If the Board determines to impose one or more requirements, conditions, or restrictions under this paragraph, the Board will notify the company before it applies any requirement, condition or restriction, and describe the basis for imposing such requirement, condition, or restriction. Within 14 calendar days of receipt of a notification under this paragraph, the company may request in writing that the Board reconsider the requirement, condition, or restriction. The Board will respond in writing to the company's request for reconsideration prior to applying the requirement, condition, or restriction.

**§ 252.155 Risk-management and risk-committee requirements for foreign banking organizations with combined U.S. assets of \$50 billion or more.**

(a) *U.S. risk committee*—(1) *General.* Each foreign banking organization with combined U.S. assets of \$50 billion or more must maintain a U.S. risk committee that approves and periodically reviews the risk management policies of the combined U.S. operations of the foreign banking organization and oversees the risk-management framework of such combined U.S. operations. The U.S. risk committee's responsibilities include the liquidity risk-management responsibilities set forth in § 252.156(a).

(2) *Risk-management framework.* The foreign banking organization's risk-management framework for its combined U.S. operations must be commensurate with the structure, risk profile, complexity, activities, and size of its combined U.S. operations and consistent with its enterprise-wide risk management policies. The framework must include:

(i) Policies and procedures establishing risk-management governance, risk-management procedures, and risk-control infrastructure for the combined U.S. operations of the foreign banking organization; and

(ii) Processes and systems for implementing and monitoring compliance with such policies and procedures, including:

(A) Processes and systems for identifying and reporting risks and risk-management deficiencies, including regarding emerging risks, on a combined U.S. operations basis and ensuring effective and timely implementation of actions to address emerging risks and risk-management deficiencies;

(B) Processes and systems for establishing managerial and employee responsibility for risk management of the combined U.S. operations;

(C) Processes and systems for ensuring the independence of the risk-management function of the combined U.S. operations; and

(D) Processes and systems to integrate risk management and associated controls with management goals and the compensation structure of the combined U.S. operations.

(3) *Placement of the U.S. risk committee.* (i) A foreign banking organization that conducts its operations in the United States solely through a U.S. intermediate holding company must maintain its U.S. risk committee as a committee of the board of directors of its U.S. intermediate holding company (or equivalent thereof).

(ii) A foreign banking organization that conducts its operations through U.S. branches or U.S. agencies (in addition to through its U.S. intermediate holding company, if any) may maintain its U.S. risk committee either:

(A) As a committee of the global board of directors (or equivalent thereof), on a standalone basis or as a joint committee with its enterprise-wide risk committee (or equivalent thereof); or

(B) As a committee of the board of directors of its U.S. intermediate holding company (or equivalent thereof), on a standalone basis or as a joint committee with the risk committee of its U.S. intermediate holding company required pursuant to § 252.153(e)(3).

(4) *Corporate governance requirements.* The U.S. risk committee must meet at least quarterly and otherwise as needed, and must fully document and maintain records of its proceedings, including risk-management decisions.

(5) *Minimum member requirements.* The U.S. risk committee must:

(i) Include at least one member having experience in identifying, assessing, and managing risk exposures of large, complex financial firms; and

(ii) Have at least one member who:

(A) Is not an officer or employee of the foreign banking organization or its affiliates and has not been an officer or employee of the foreign banking organization or its affiliates during the previous three years; and

(B) Is not a member of the immediate family, as defined in § 225.41(b)(3) of the Board's Regulation Y (12 CFR 225.41(b)(3)), of a person who is, or has been within the last three years, an executive officer, as defined in § 215.2(e)(1) of the Board's Regulation O (12 CFR 215.2(e)(1)) of the foreign banking organization or its affiliates.

(b) *U.S. chief risk officer*—(1) *General.* A foreign banking organization with combined U.S. assets of \$50 billion or more or its U.S. intermediate holding company, if any, must appoint a U.S. chief risk officer with experience in identifying, assessing, and managing risk exposures of large, complex financial firms.

(2) *Responsibilities.* (i) The U.S. chief risk officer is responsible for overseeing:

(A) The measurement, aggregation, and monitoring of risks undertaken by the combined U.S. operations;

(B) The implementation of and ongoing compliance with the policies and procedures for the foreign banking organization's combined U.S. operations set forth in paragraph (a)(2)(i) of this section and the development and implementation of processes and systems set forth in paragraph (a)(2)(ii) of this section; and

(C) The management of risks and risk controls within the parameters of the risk-control framework for the combined U.S. operations, and the monitoring and testing of such risk controls.

(ii) The U.S. chief risk officer is responsible for reporting risks and risk-management deficiencies of the combined U.S. operations, and resolving such risk-management deficiencies in a timely manner.

(3) *Corporate governance and reporting.* The U.S. chief risk officer must:

(i) Receive compensation and other incentives consistent with providing an objective assessment of the risks taken by the combined U.S. operations of the foreign banking organization;

(ii) Be employed by and located in the U.S. branch, U.S. agency, U.S. intermediate holding company, if any, or another U.S. subsidiary;

(iii) Report directly to the U.S. risk committee and the global chief risk officer or equivalent management official (or officials) of the foreign banking organization who is responsible for overseeing, on an enterprise-wide basis, the implementation of and compliance with policies and procedures relating to risk-management governance, practices, and risk controls of the foreign banking organization, unless the Board approves an alternative reporting structure based on circumstances specific to the foreign banking organization;

(iv) Regularly provide information to the U.S. risk committee, global chief risk officer, and the Board regarding the nature of and changes to material risks undertaken by the foreign banking organization's combined U.S. operations, including risk-management deficiencies and emerging risks, and how such risks relate to the global operations of the foreign banking organization; and

(v) Meet regularly and as needed with the Board to assess compliance with the requirements of this section.

(4) *Liquidity risk-management requirements.* The U.S. chief risk officer must undertake the liquidity risk-management responsibilities set forth in § 252.156(b).

(c) *Responsibilities of the foreign banking organization.* The foreign banking organization must take appropriate measures to ensure that its combined U.S. operations implement the risk management policies overseen by the U.S. risk committee described in paragraph (a) of this section, and its combined U.S. operations provide sufficient information to the U.S. risk committee to enable the U.S. risk committee to carry out the responsibilities of this subpart.

(d) *Noncompliance with this section.* If a foreign banking organization does not satisfy the requirements of this section, the Board may impose requirements, conditions, or restrictions relating to the activities or business operations of the combined U.S. operations of the foreign banking organization. The Board will coordinate with any relevant State or Federal regulator in the implementation of such requirements, conditions, or restrictions.

**§ 252.156 Liquidity risk-management requirements for foreign banking organizations with combined U.S. assets of \$50 billion or more.**

(a) *Responsibilities of the U.S. risk committee.* (1) The U.S. risk committee established by a foreign banking organization pursuant to § 252.155(a) (or a designated subcommittee of such committee composed of members of the board of directors (or equivalent thereof) of the U.S. intermediate holding company or the foreign banking organization, as appropriate) must:

(i) Approve at least annually the acceptable level of liquidity risk that the foreign banking organization may assume in connection with the operating strategies for its combined U.S. operations (liquidity risk tolerance), with concurrence from the foreign banking organization's board of directors or its enterprise-wide risk committee, taking into account the capital structure, risk profile, complexity, activities, size of the foreign banking organization and its combined U.S. operations and the enterprise-wide liquidity risk tolerance of the foreign banking organization; and

(ii) Receive and review information provided by the senior management of the combined U.S. operations at least semi-annually to determine whether the combined U.S. operations are operating in accordance with the established liquidity risk tolerance and to ensure that the liquidity risk tolerance for the combined U.S. operations is consistent with the enterprise-wide liquidity risk tolerance established for the foreign banking organization.

(iii) Approve the contingency funding plan for the combined U.S. operations described in paragraph (e) of this section at least annually and whenever

the foreign banking organization revises its contingency funding plan, and approve any material revisions to the contingency funding plan for the combined U.S. operations prior to the implementation of such revisions.

(b) *Responsibilities of the U.S. chief risk officer*—(1) *Liquidity risk.* The U.S. chief risk officer of a foreign banking organization with combined U.S. assets of \$50 billion or more must review the strategies and policies and procedures established by senior management of the U.S. operations for managing the risk that the financial condition or safety and soundness of the foreign banking organization's combined U.S. operations would be adversely affected by its inability or the market's perception of its inability to meet its cash and collateral obligations (liquidity risk).

(2) *Liquidity risk tolerance.* The U.S. chief risk officer of a foreign banking organization with combined U.S. assets of \$50 billion or more must review information provided by the senior management of the U.S. operations to determine whether the combined U.S. operations are operating in accordance with the established liquidity risk tolerance. The U.S. chief risk officer must regularly, and, at least semi-annually, report to the foreign banking organization's U.S. risk committee and enterprise-wide risk committee, or the equivalent thereof (if any) (or a designated subcommittee of such committee composed of members of the relevant board of directors (or equivalent thereof)) on the liquidity risk profile of the foreign banking organization's combined U.S. operations and whether it is operating in accordance with the established liquidity risk tolerance for the U.S. operations, and must establish procedures governing the content of such reports.

(3) *Business lines or products.* (i) The U.S. chief risk officer of a foreign banking organization with combined U.S. assets of \$50 billion or more must approve new products and business lines and evaluate the liquidity costs, benefits, and risks of each new business line and each new product offered, managed or sold through the foreign banking organization's combined U.S.

operations that could have a significant effect on the liquidity risk profile of the U.S. operations of the foreign banking organization. The approval is required before the foreign banking organization implements the business line or offers the product through its combined U.S. operations. In determining whether to approve the new business line or product, the U.S. chief risk officer must consider whether the liquidity risk of the new business line or product (under both current and stressed conditions) is within the foreign banking organization's established liquidity risk tolerance for its combined U.S. operations.

(ii) The U.S. risk committee must review at least annually significant business lines and products offered, managed or sold through the combined U.S. operations to determine whether each business line or product creates or has created any unanticipated liquidity risk, and to determine whether the liquidity risk of each strategy or product is within the foreign banking organization's established liquidity risk tolerance for its combined U.S. operations.

(4) *Cash-flow projections.* The U.S. chief risk officer of a foreign banking organization with combined U.S. assets of \$50 billion or more must review the cash-flow projections produced under paragraph (d) of this section at least quarterly (or more often, if changes in market conditions or the liquidity position, risk profile, or financial condition of the foreign banking organization or the U.S. operations warrant) to ensure that the liquidity risk of the foreign banking organization's combined U.S. operations is within the established liquidity risk tolerance.

(5) *Liquidity risk limits.* The U.S. chief risk officer of a foreign banking organization with combined U.S. assets of \$50 billion or more must establish liquidity risk limits as set forth in paragraph (f) of this section and review the foreign banking organization's compliance with those limits at least quarterly (or more often, if changes in market conditions or the liquidity position, risk profile, or financial condition of the U.S. operations of the foreign banking organization warrant).

(6) *Liquidity stress testing.* The U.S. chief risk officer of a foreign banking organization with combined U.S. assets of \$50 billion or more must:

(i) Approve the liquidity stress testing practices, methodologies, and assumptions required in §252.157(a) at least quarterly, and whenever the foreign banking organization materially revises its liquidity stress testing practices, methodologies or assumptions;

(ii) Review the liquidity stress testing results produced under §252.157(a) of this subpart at least quarterly; and

(iii) Approve the size and composition of the liquidity buffer established under §252.157(c) of this subpart at least quarterly.

(c) *Independent review function.* (1) A foreign banking organization with combined U.S. assets of \$50 billion or more must establish and maintain a review function that is independent of the management functions that execute funding for its combined U.S. operations to evaluate the liquidity risk management for its combined U.S. operations.

(2) The independent review function must:

(i) Regularly, but no less frequently than annually, review and evaluate the adequacy and effectiveness of the foreign banking organization's liquidity risk management processes within the combined U.S. operations, including its liquidity stress test processes and assumptions;

(ii) Assess whether the foreign banking organization's liquidity risk management function of its combined U.S. operations complies with applicable laws, regulations, supervisory guidance, and sound business practices; and

(iii) Report material liquidity risk management issues to the U.S. risk committee and the enterprise-wide risk committee in writing for corrective action, to the extent permitted by applicable law.

(d) *Cash-flow projections.* (1) A foreign banking organization with combined U.S. assets of \$50 billion or more must produce comprehensive cash-flow projections for its combined U.S. operations that project cash flows arising from assets, liabilities, and off-balance sheet exposures over, at a minimum, short- and long-term time horizons.

The foreign banking organization must update short-term cash-flow projections daily and must update longer-term cash-flow projections at least monthly.

(2) The foreign banking organization must establish a methodology for making cash-flow projections for its combined U.S. operations that results in projections which:

(i) Include cash flows arising from contractual maturities, intercompany transactions, new business, funding renewals, customer options, and other potential events that may impact liquidity;

(ii) Include reasonable assumptions regarding the future behavior of assets, liabilities, and off-balance sheet exposures;

(iii) Identify and quantify discrete and cumulative cash-flow mismatches over these time periods; and

(iv) Include sufficient detail to reflect the capital structure, risk profile, complexity, currency exposure, activities, and size of the foreign banking organization and its combined U.S. operations, and include analyses by business line, currency, or legal entity as appropriate.

(e) *Contingency funding plan.* (1) A foreign banking organization with combined U.S. assets of \$50 billion or more must establish and maintain a contingency funding plan for its combined U.S. operations that sets out the foreign banking organization's strategies for addressing liquidity needs during liquidity stress events. The contingency funding plan must be commensurate with the capital structure, risk profile, complexity, activities, size, and the established liquidity risk tolerance for the combined U.S. operations. The foreign banking organization must update the contingency funding plan for its combined U.S. operations at least annually, and when changes to market and idiosyncratic conditions warrant.

(2) *Components of the contingency funding plan—(i) Quantitative assessment.* The contingency funding plan for the combined U.S. operations must:

(A) Identify liquidity stress events that could have a significant impact on the liquidity of the foreign banking organization and its combined U.S. operations;

(B) Assess the level and nature of the impact on the liquidity of the foreign banking organization and its combined U.S. operations that may occur during identified liquidity stress events;

(C) Identify the circumstances in which the foreign banking organization would implement its action plan described in paragraph (e)(2)(i)(A) of this section, which circumstances must include failure to meet any minimum liquidity requirement imposed by the Board on the foreign banking organization's U.S. operations;

(D) Assess available funding sources and needs during the identified liquidity stress events;

(E) Identify alternative funding sources that may be used during the identified liquidity stress events; and

(F) Incorporate information generated by the liquidity stress testing required under § 252.157(a) of this subpart.

(ii) *Liquidity event management process.* The contingency funding plan for the combined U.S. operations must include an event management process that sets out the foreign banking organization's procedures for managing liquidity during identified liquidity stress events for the combined U.S. operations. The liquidity event management process must:

(A) Include an action plan that clearly describes the strategies that the foreign banking organization will use to respond to liquidity shortfalls in its combined U.S. operations for identified liquidity stress events, including the methods that the company or the combined U.S. operations will use to access alternative funding sources;

(B) Identify a liquidity stress event management team that would execute the action plan in paragraph (e)(2)(i) of this section for the combined U.S. operations;

(C) Specify the process, responsibilities, and triggers for invoking the contingency funding plan, describe the decision-making process during the identified liquidity stress events, and describe the process for executing contingency measures identified in the action plan; and

(D) Provide a mechanism that ensures effective reporting and communication within the combined U.S. operations of the foreign banking organization and with outside parties, including the Board and other relevant supervisors, counterparties, and other stakeholders.

(iii) *Monitoring.* The contingency funding plan for the combined U.S. operations must include procedures for monitoring emerging liquidity stress events. The procedures must identify early warning indicators that are tailored to the capital structure, risk profile, complexity, activities, and size of the foreign banking organization and its combined U.S. operations.

(iv) *Testing.* A foreign banking organization must periodically test:

(A) The components of the contingency funding plan to assess the plan's reliability during liquidity stress events;

(B) The operational elements of the contingency funding plan, including operational simulations to test communications, coordination, and decision-making by relevant management; and

(C) The methods it will use to access alternative funding sources for its combined U.S. operations to determine whether these funding sources will be readily available when needed.

(f) *Liquidity risk limits*—(1) *General.* A foreign banking organization with combined U.S. assets of \$50 billion or more must monitor sources of liquidity risk and establish limits on liquidity risk for the combined U.S. operations, including limits on:

(i) Concentrations in sources of funding by instrument type, single counterparty, counterparty type, secured and unsecured funding, and if applicable, other forms of liquidity risk;

(ii) The amount of liabilities that mature within various time horizons; and

(iii) Off-balance sheet exposures and other exposures that could create funding needs during liquidity stress events.

(2) *Size of limits.* Each limit established pursuant to paragraph (f)(1) of this section must be consistent with the established liquidity risk tolerance for the combined U.S. operations and

reflect the capital structure, risk profile, complexity, activities, and size of the combined U.S. operations.

(g) *Collateral, legal entity, and intraday liquidity risk monitoring.* A foreign banking organization with combined U.S. assets of \$50 billion or more must establish and maintain procedures for monitoring liquidity risk as set forth in this paragraph.

(1) *Collateral.* The foreign banking organization must establish and maintain policies and procedures to monitor assets that have been or are available to be pledged as collateral in connection with transactions to which entities in its U.S. operations are counterparties. These policies and procedures must provide that the foreign banking organization:

(i) Calculates all of the collateral positions for its combined U.S. operations on a weekly basis (or more frequently, as directed by the Board), specifying the value of pledged assets relative to the amount of security required under the relevant contracts and the value of unencumbered assets available to be pledged;

(ii) Monitors the levels of unencumbered assets available to be pledged by legal entity, jurisdiction, and currency exposure;

(iii) Monitors shifts in the foreign banking organization's funding patterns, including shifts between intraday, overnight, and term pledging of collateral; and

(iv) Tracks operational and timing requirements associated with accessing collateral at its physical location (for example, the custodian or securities settlement system that holds the collateral).

(2) *Legal entities, currencies and business lines.* The foreign banking organization must establish and maintain procedures for monitoring and controlling liquidity risk exposures and funding needs of its combined U.S. operations, within and across significant legal entities, currencies, and business lines and taking into account legal and regulatory restrictions on the transfer of liquidity between legal entities.

(3) *Intraday exposure.* The foreign banking organization must establish and maintain procedures for monitoring intraday liquidity risk exposure

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for its combined U.S. operations. These procedures must address how the management of the combined U.S. operations will:

- (i) Monitor and measure expected daily inflows and outflows;
- (ii) Maintain, manage and transfer collateral to obtain intraday credit;
- (iii) Identify and prioritize time-specific obligations so that the foreign banking organizations can meet these obligations as expected and settle less critical obligations as soon as possible;
- (iv) Control the issuance of credit to customers where necessary; and
- (v) Consider the amounts of collateral and liquidity needed to meet payment systems obligations when assessing the overall liquidity needs of the combined U.S. operations.

**§ 252.157 Liquidity stress testing and buffer requirements for foreign banking organizations with combined U.S. assets of \$50 billion or more.**

- (a) *Liquidity stress testing requirement—(1) General.* (i) A foreign banking organization with combined U.S. assets of \$50 billion or more must conduct stress tests to separately assess the potential impact of liquidity stress scenarios on the cash flows, liquidity position, profitability, and solvency of:
- (A) Its combined U.S. operations as a whole;
  - (B) Its U.S. branches and agencies on an aggregate basis; and
  - (C) Its U.S. intermediate holding company, if any.
- (ii) Each liquidity stress test required under this paragraph (a)(1) must use the stress scenarios described in paragraph (a)(3) of this section and take into account the current liquidity condition, risks, exposures, strategies, and activities of the U.S. operations.
- (iii) The liquidity stress tests required under this paragraph (a)(1) must take into consideration the balance sheet exposures, off-balance sheet exposures, size, risk profile, complexity, business lines, organizational structure and other characteristics of the foreign banking organization and its combined U.S. operations that affect the liquidity risk profile of the U.S. operations.
- (iv) In conducting a liquidity stress test using the scenarios described in paragraphs (a)(3)(i) and (iii) of this sec-

tion, the bank holding company must address the potential direct adverse impact of associated market disruptions on the foreign banking organization's combined U.S. operations and the related indirect effect such impact could have on the combined U.S. operations of the foreign banking organization and incorporate the potential actions of other market participants experiencing liquidity stresses under the market disruptions that would adversely affect the foreign banking organization or its combined U.S. operations.

(2) *Frequency.* The liquidity stress tests required under paragraph (a)(1) of this section must be performed at least monthly. The Board may require the foreign banking organization to perform stress testing more frequently than monthly.

(3) *Stress scenarios.* (i) Each liquidity stress test conducted under paragraph (a)(1) of this section must include, at a minimum:

- (A) A scenario reflecting adverse market conditions;
- (B) A scenario reflecting an idiosyncratic stress event for the U.S. branches/agencies and the U.S. intermediate holding company, if any; and
- (C) a scenario reflecting combined market and idiosyncratic stresses.

(ii) The foreign banking organization must incorporate additional liquidity stress scenarios into its liquidity stress test as appropriate based on the financial condition, size, complexity, risk profile, scope of operations, or activities of the combined U.S. operations, the U.S. branches and agencies, and the U.S. intermediate holding company, as applicable. The Board may require the foreign banking organization to vary the underlying assumptions and stress scenarios.

(4) *Planning horizon.* Each stress test conducted under paragraph (a)(1) of this section must include an overnight planning horizon, a 30-day planning horizon, a 90-day planning horizon, a 1-year planning horizon, and any other planning horizons that are relevant to the liquidity risk profile of the combined U.S. operations, the U.S. branches and agencies, and the U.S. intermediate holding company, if any.

For purposes of this section, a “planning horizon” is the period over which the relevant stressed projections extend. The foreign banking organization must use the results of the stress test over the 30-day planning horizon to calculate the size of the liquidity buffers under paragraph (c) of this section.

(5) *Requirements for assets used as cash-flow sources in a stress test.* (i) To the extent an asset is used as a cash flow source to offset projected funding needs during the planning horizon in a liquidity stress test, the fair market value of the asset must be discounted to reflect any credit risk and market volatility of the asset.

(ii) Assets used as cash-flow sources during the planning horizon must be diversified by collateral, counterparty, borrowing capacity, or other factors associated with the liquidity risk of the assets.

(iii) A line of credit does not qualify as a cash flow source for purposes of a stress test with a planning horizon of 30 days or less. A line of credit may qualify as a cash flow source for purposes of a stress test with a planning horizon that exceeds 30 days.

(6) *Tailoring.* Stress testing must be tailored to, and provide sufficient detail to reflect, the capital structure, risk profile, complexity, activities, and size of the combined U.S. operations of the foreign banking organization and, as appropriate, the foreign banking organization as a whole.

(7) *Governance—(i) Stress test function.* A foreign banking organization with combined U.S. assets of \$50 billion or more, within its combined U.S. operations and its enterprise-wide risk management, must establish and maintain policies and procedures governing its liquidity stress testing practices, methodologies, and assumptions that provide for the incorporation of the results of liquidity stress tests in future stress testing and for the enhancement of stress testing practices over time.

(ii) *Controls and oversight.* The foreign banking organization must establish and maintain a system of controls and oversight that is designed to ensure that its liquidity stress testing processes are effective in meeting the requirements of this section. The controls and oversight must ensure that

each liquidity stress test appropriately incorporates conservative assumptions with respect to the stress scenario in paragraph (a)(3) of this section and other elements of the stress-test process, taking into consideration the capital structure, risk profile, complexity, activities, size, and other relevant factors of the U.S. operations. These assumptions must be approved by U.S. chief risk officer and subject to independent review consistent with the standards set out in §252.156(c).

(iii) *Management information systems.* The foreign banking organization must maintain management information systems and data processes sufficient to enable it to effectively and reliably collect, sort, and aggregate data and other information related to the liquidity stress testing of its combined U.S. operations.

(b) *Reporting of liquidity stress tests required by home-country regulators.* A foreign banking organization with combined U.S. assets of \$50 billion or more must make available to the Board, in a timely manner, the results of any liquidity internal stress tests and establishment of liquidity buffers required by regulators in its home jurisdiction. The report required under this paragraph must include the results of its liquidity stress test and liquidity buffer, if required by the laws or regulations implemented in the home jurisdiction, or expected under supervisory guidance.

(c) *Liquidity buffer requirement—(1) General.* A foreign banking organization with combined U.S. assets of \$50 billion or more must maintain a liquidity buffer for its U.S. intermediate holding company, if any, calculated in accordance with paragraph (c)(2) of this section, and a separate liquidity buffer for its U.S. branches and agencies, if any, calculated in accordance with paragraph (c)(3) of this section.

(2) *Calculation of U.S. intermediate holding company buffer requirement.* (i) The liquidity buffer for the U.S. intermediate holding company must be sufficient to meet the projected net stressed cash-flow need over the 30-day planning horizon of a liquidity stress test conducted in accordance with paragraph (a) of this section under

each scenario set forth in paragraphs (a)(3)(i) through (iii) of this section.

(ii) *Net stressed cash-flow need.* The net stressed cash-flow need for the U.S. intermediate holding company is equal to the sum of its net external stressed cash-flow need (calculated pursuant to paragraph (c)(2)(iii) of this section) and its net internal stressed cash-flow need (calculated pursuant to paragraph (c)(2)(iv) of this section) over the 30-day planning horizon.

(iii) *Net external stressed cash-flow need calculation.* The net external stressed cash-flow need for a U.S. intermediate holding company equals the difference between:

(A) The projected amount of cash-flow needs that results from transactions between the U.S. intermediate holding company and entities that are not its affiliates; and

(B) The projected amount of cash-flow sources that results from transactions between the U.S. intermediate holding company and entities that are not its affiliates.

(iv) *Net internal stressed cash-flow need calculation—(A) General.* The net internal stressed cash-flow need for the U.S. intermediate holding company equals the greater of:

(1) The greatest daily cumulative net intragroup cash-flow need over the 30-day planning horizon as calculated under paragraph (c)(2)(iv)(B) of this section; and

(2) Zero.

(B) *Daily cumulative net intragroup cash-flow need calculation.* The daily cumulative net intragroup cash-flow need for the U.S. intermediate holding company for purposes of paragraph (c)(2)(iv)(A) of this section is calculated as follows:

(1) *Daily cumulative net intragroup cash-flow need.* For any given day in the stress-test horizon, the daily cumulative net intragroup cash-flow need is a daily cumulative net intragroup cash flow that is greater than zero.

(2) *Daily cumulative net intragroup cash flow.* For any given day of the planning horizon, the daily cumulative net intragroup cash flow equals the sum of the net intragroup cash flow calculated for that day and the net intragroup cash flow calculated for each previous day of the stress-test ho-

zison, as calculated in accordance with paragraph (c)(2)(iv)(C) of this section.

(C) *Net intragroup cash flow.* For any given day of the stress-test horizon, the net intragroup cash flow equals the difference between:

(1) The amount of cash-flow needs resulting from transactions between the U.S. intermediate holding company and its affiliates (including any U.S. branch or U.S. agency) for that day of the planning horizon; and

(2) The amount of cash-flow sources resulting from transactions between the U.S. intermediate holding company and its affiliates (including any U.S. branch or U.S. agency) for that day of the planning horizon.

(D) *Amounts secured by highly liquid assets.* For the purposes of calculating net intragroup cash flow under this paragraph, the amounts of intragroup cash-flow needs and intragroup cash-flow sources that are secured by highly liquid assets (as defined in paragraph (c)(7) of this section) must be excluded from the calculation.

(3) *Calculation of U.S. branch and agency liquidity buffer requirement.* (i) The liquidity buffer for the foreign banking organization's U.S. branches and agencies must be sufficient to meet the projected net stressed cash-flow need of the U.S. branches and agencies over the first 14 days of a stress test with a 30-day planning horizon, conducted in accordance with paragraph (a) of this section under the scenarios described in paragraphs (a)(3)(i) through (iii) of this section.

(ii) *Net stressed cash-flow need.* The net stressed cash-flow need of the U.S. branches and agencies of a foreign banking organization is equal to the sum of its net external stressed cash-flow need (calculated pursuant to paragraph (c)(3)(iii) of this section) and net internal stressed cash-flow need (calculated pursuant to paragraph (c)(3)(iv) of this section) over the first 14 days of the 30-day planning horizon.

(iii) *Net external stressed cash-flow need calculation.* (A) The net external stressed cash-flow need of the U.S. branches and agencies equals the difference between:

(1) The projected amount of cash-flow needs that results from transactions between the U.S. branches and agencies

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and entities other than the foreign bank's non-U.S. offices and its U.S. and non-U.S. affiliates; and

(2) The projected amount of cash-flow sources that results from transactions between the U.S. branches and agencies and entities other than the foreign bank's non-U.S. offices and its U.S. and non-U.S. affiliates.

(iv) *Net internal stressed cash-flow need calculation*—(A) *General*. The net internal stressed cash-flow need of the U.S. branches and agencies of the foreign banking organization equals the greater of:

(1) The greatest daily cumulative net intragroup cash-flow need over the first 14 days of the 30-day planning horizon, as calculated under paragraph (c)(3)(iv)(B) of this section; and

(2) Zero.

(B) *Daily cumulative net intragroup cash-flow need calculation*. The daily cumulative net intragroup cash-flow need of the U.S. branches and agencies of a foreign banking organization for purposes of paragraph (c)(3)(iv) of this section is calculated as follows:

(1) *Daily cumulative net intragroup cash-flow need*. For any given day of the stress-test horizon, the daily cumulative net intragroup cash-flow need of the U.S. branches and agencies means a daily cumulative net intragroup cash flow that is greater than zero.

(2) *Daily cumulative net intragroup cash flow*. For any given day of the planning horizon, the daily cumulative net intragroup cash flow of the U.S. branches and agencies equals the sum of the net intragroup cash flow calculated for that day and the net intragroup cash flow calculated for each previous day of the planning horizon, each as calculated in accordance with this paragraph (c)(3)(iv)(C) of this section.

(C) *Net intragroup cash flow*. For any given day of the planning horizon, the net intragroup cash flow must equal the difference between:

(1) The amount of projected cash-flow needs resulting from transactions between a U.S. branch or U.S. agency and the foreign bank's non-U.S. offices and its affiliates; and

(2) The amount of projected cash-flow sources resulting from transactions between a U.S. branch or U.S. agency and

the foreign bank's non-U.S. offices and its affiliates.

(D) *Amounts secured by highly liquid assets*. For the purposes of calculating net intragroup cash flow of the U.S. branches and agencies under this paragraph, the amounts of intragroup cash-flow needs and intragroup cash-flow sources that are secured by highly liquid assets (as defined in paragraph (c)(7) of this section) must be excluded from the calculation.

(4) *Location of liquidity buffer*—(i) *U.S. intermediate holding companies*. A U.S. intermediate holding company must maintain in accounts in the United States the highly liquid assets comprising the liquidity buffer required under this section. To the extent that the assets consist of cash, the cash may not be held in an account located at a U.S. branch or U.S. agency of the affiliated foreign banking organization or other affiliate that is not controlled by the U.S. intermediate holding company.

(ii) *U.S. branches and agencies*. The U.S. branches and agencies of a foreign banking organization must maintain in accounts in the United States the highly liquid assets comprising the liquidity buffer required under this section. To the extent that the assets consist of cash, the cash may not be held in an account located at the foreign banking organization's U.S. intermediate holding company or other affiliate.

(7) *Asset requirements*. The liquidity buffer required in this section for the U.S. intermediate holding company or the U.S. branches and agencies must consist of highly liquid assets that are unencumbered, as set forth below:

(i) *Highly liquid asset*. The asset must be a highly liquid asset. For these purposes, a highly liquid asset includes:

(A) Cash;

(B) Securities issued or guaranteed by the United States, a U.S. government agency, or a U.S. government-sponsored enterprise; or

(C) Any other asset that the foreign banking organization demonstrates to the satisfaction of the Board:

(1) Has low credit risk and low market risk;

(2) Is traded in an active secondary two-way market that has committed market makers and independent bona

fide offers to buy and sell so that a price reasonably related to the last sales price or current bona fide competitive bid and offer quotations can be determined within one day and settled at that price within a reasonable time period conforming with trade custom; and

(3) Is a type of asset that investors historically have purchased in periods of financial market distress during which market liquidity has been impaired.

(ii) *Unencumbered.* The asset must be unencumbered. For these purposes, an asset is unencumbered if it:

(A) Is free of legal, regulatory, contractual, or other restrictions on the ability of such company promptly to liquidate, sell or transfer the asset; and

(B) Is either:

(1) Not pledged or used to secure or provide credit enhancement to any transaction; or

(2) Pledged to a central bank or a U.S. government-sponsored enterprise, to the extent potential credit secured by the asset is not currently extended by such central bank or U.S. government-sponsored enterprise or any of its consolidated subsidiaries.

(iii) *Calculating the amount of a highly liquid asset.* In calculating the amount of a highly liquid asset included in the liquidity buffer, the bank holding company must discount the fair market value of the asset to reflect any credit risk and market price volatility of the asset.

(iv) *Diversification.* The liquidity buffer must not contain significant concentrations of highly liquid assets by issuer, business sector, region, or other factor related to the foreign banking organization's risk, except with respect to cash and securities issued or guaranteed by the United States, a U.S. government agency, or a U.S. government-sponsored enterprise.

**§ 252.158 Capital stress testing requirements for foreign banking organizations with combined U.S. assets of \$50 billion or more.**

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

(1) *Eligible asset* means any asset of the U.S. branch or U.S. agency held in

the United States that is recorded on the general ledger of a U.S. branch or U.S. agency of the foreign banking organization (reduced by the amount of any specifically allocated reserves held in the United States and recorded on the general ledger of the U.S. branch or U.S. agency in connection with such assets), subject to the following exclusions, and, for purposes of this definition, as modified by the rules of valuation set forth in paragraph (a)(1)(ii) of this section.

(i) The following assets do not qualify as eligible assets:

(A) Equity securities;

(B) Any assets classified as loss at the preceding examination by a regulatory agency, outside accountant, or the bank's internal loan review staff;

(C) Accrued income on assets classified loss, doubtful, substandard or value impaired, at the preceding examination by a regulatory agency, outside accountant, or the bank's internal loan review staff;

(D) Any amounts due from the home office, other offices and affiliates, including income accrued but uncollected on such amounts;

(E) The balance from time to time of any other asset or asset category disallowed at the preceding examination or by direction of the Board for any other reason until the underlying reasons for the disallowance have been removed;

(F) Prepaid expenses and unamortized costs, furniture and fixtures and leasehold improvements; and

(G) Any other asset that the Board determines should not qualify as an eligible asset.

(ii) The following rules of valuation apply:

(A) A marketable debt security is valued at its principal amount or market value, whichever is lower;

(B) An asset classified doubtful or substandard at the preceding examination by a regulatory agency, outside accountant, or the bank's internal loan review staff, is valued at 50 percent and 80 percent, respectively;

(C) With respect to an asset classified value impaired, the amount representing the allocated transfer risk reserve that would be required for such exposure at a domestically chartered

bank is valued at 0 and the residual exposure is valued at 80 percent; and

(D) Real estate located in the United States and carried on the accounting records as an asset are valued at net book value or appraised value, whichever is less.

(2) *Liabilities of all U.S. branches and agencies of a foreign banking organization* means all liabilities of all U.S. branches and agencies of the foreign banking organization, including acceptances and any other liabilities (including contingent liabilities), but excluding:

(i) Amounts due to and other liabilities to other offices, agencies, branches and affiliates of such foreign banking organization, including its head office, including unremitted profits; and

(ii) Reserves for possible loan losses and other contingencies.

(3) *Pre-provision net revenue* means revenue less expenses before adjusting for total loan loss provisions.

(4) *Stress test cycle* has the same meaning as in subpart F of this part.

(5) *Total loan loss provisions* means the amount needed to make reserves adequate to absorb estimated credit losses, based upon management's evaluation of the loans and leases that the company has the intent and ability to hold for the foreseeable future or until maturity or payoff, as determined under applicable accounting standards.

(b) *In general.* (1) A foreign banking organization with combined U.S. assets of \$50 billion or more and that has a U.S. branch or U.S. agency must:

(i) Be subject on a consolidated basis to a capital stress testing regime by its home-country supervisor that meets the requirements of paragraph (b)(2) of this section;

(ii) Conduct such stress tests or be subject to a supervisory stress test and meet any minimum standards set by its home-country supervisor with respect to the stress tests; and

(iii) Provide to the Board the information required under paragraph (c) of this section.

(2) The capital stress testing regime of a foreign banking organization's home-country supervisor must include:

(i) An annual supervisory capital stress test conducted by the foreign

banking organization's home-country supervisor or an annual evaluation and review by the foreign banking organization's home-country supervisor of an internal capital adequacy stress test conducted by the foreign banking organization; and

(ii) Requirements for governance and controls of stress testing practices by relevant management and the board of directors (or equivalent thereof) of the foreign banking organization;

(c) *Information requirements*—(1) *In general.* A foreign banking organization with combined U.S. assets of \$50 billion or more must report to the Board by January 5 of each calendar year, unless such date is extended by the Board, summary information about its stress-testing activities and results, including the following quantitative and qualitative information:

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

(ii) A description of the conditions or scenarios used in the stress test;

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

(iv) Estimates of:

(A) Aggregate losses;

(B) Pre-provision net revenue;

(C) Total loan loss provisions;

(D) Net income before taxes; and

(E) Pro forma regulatory capital ratios required to be computed by the home-country supervisor of the foreign banking organization and any other relevant capital ratios; and

(v) An explanation of the most significant causes for any changes in regulatory capital ratios.

(2) *Additional information required for foreign banking organizations in a net due from position.* If, on a net basis, the U.S. branches and agencies of a foreign banking organization with combined U.S. assets of \$50 billion or more provide funding to the foreign banking organization's non-U.S. offices and non-U.S. affiliates, calculated as the average daily position over a stress test cycle for a given year, the foreign banking organization must report the following information to the Board by January 5 of each calendar year, unless such date is extended by the Board:

(i) A detailed description of the methodologies used in the stress test, including those employed to estimate

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losses, revenues, and changes in capital positions;

(ii) Estimates of realized losses or gains on available-for-sale and held-to-maturity securities, trading and counterparty losses, if applicable; and loan losses (dollar amount and as a percentage of average portfolio balance) in the aggregate and by material sub-portfolio; and

(iii) Any additional information that the Board requests.

(d) *Imposition of additional standards for capital stress tests.* (1) Unless the Board otherwise determines in writing, a foreign banking organization that does not meet each of the requirements in paragraph (b)(1) and (2) of this section must:

(i) Maintain eligible assets in its U.S. branches and agencies that, on a daily basis, are not less than 108 percent of the average value over each day of the previous calendar quarter of the total liabilities of all U.S. branches and agencies of the foreign banking organization; and

(ii) To the extent that a foreign banking organization has not established a U.S. intermediate holding company, conduct an annual stress test of its U.S. subsidiaries to determine whether those subsidiaries have the capital necessary to absorb losses as a result of adverse economic conditions; and report to the Board on an annual basis a summary of the results of the stress test that includes the information required under paragraph (b)(1) of this section and any other information specified by the Board.

(2) An enterprise-wide stress test that is approved by the Board may meet the stress test requirement of paragraph (d)(1)(ii) of this section.

(3) *Intragroup funding restrictions or liquidity requirements for U.S. operations.* If a foreign banking organization does not meet each of the requirements in paragraphs (b)(1) and (2) of this section, the Board may require the U.S. branches and agencies of the foreign banking organization and, if the foreign banking organization has not established a U.S. intermediate holding company, any U.S. subsidiary of the foreign banking organization, to maintain a liquidity buffer or be subject to intragroup funding restrictions.

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(e) *Notice and response.* If the Board determines to impose one or more conditions under paragraph (d)(3) of this section, the Board will notify the company before it applies the condition, and describe the basis for imposing the condition. Within 14 calendar days of receipt of a notification under this paragraph, the company may request in writing that the Board reconsider the requirement. The Board will respond in writing to the company's request for reconsideration prior to applying the condition.

### Subparts P–T [Reserved]

### Subpart U—Debt-to-Equity Limits for U.S. Bank Holding Companies and Foreign Banking Organizations

SOURCE: Reg. YY, 79 FR 17337, Mar. 27, 2014, unless otherwise noted.

#### § 252.220 Debt-to-equity limits for U.S. bank holding companies.

(a) *Definitions*—(1) *Debt-to-equity ratio* means the ratio of a company's total liabilities to a company's total equity capital less goodwill.

(2) *Debt* and *equity* have the same meaning as “total liabilities” and “total equity capital,” respectively, as reported by a bank holding company on the FR Y–9C.

(b) *Notice and maximum debt-to-equity ratio requirement.* The Council, or the Board on behalf of the Council, will provide written notice to a bank holding company to the extent that the Council makes a determination, pursuant to section 165(j) of the Dodd-Frank Act, that a bank holding company poses a grave threat to the financial stability of the United States and that the imposition of a debt-to-equity requirement is necessary to mitigate such risk. Beginning no later than 180 days after receiving written notice from the Council or from the Board on behalf of the Council, the bank holding company must achieve and maintain a debt-to-equity ratio of no more than 15-to-1.

(c) *Extension.* The Board may, upon request by the bank holding company

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for which the Council has made a determination pursuant to section 165(j) of the Dodd-Frank Act, extend the time period for compliance established under paragraph (b) of this section for up to two additional periods of 90 days each, if the Board determines that the identified company has made good faith efforts to comply with the debt-to-equity ratio requirement and that each extension would be in the public interest. Requests for an extension must be received in writing by the Board not less than 30 days prior to the expiration of the existing time period for compliance and must provide information sufficient to demonstrate that the bank holding company has made good faith efforts to comply with the debt-to-equity ratio requirement and that each extension would be in the public interest.

(d) *Termination.* The debt-to-equity ratio requirement in paragraph (b) of this section shall cease to apply to a bank holding company as of the date it receives notice from the Council of a determination that the bank holding company no longer poses a grave threat to the financial stability of the United States and that the imposition of a debt-to-equity requirement is no longer necessary.

### § 252.221 Debt-to-equity limits for foreign banking organizations.

(a) *Definitions.* For purposes of this subpart, the following definitions apply:

(1) *Debt* and *equity* have the same meaning as “total liabilities” and “total equity capital,” respectively, as reported by a U.S. intermediate holding company or U.S. subsidiary on the FR Y-9C, or other reporting form prescribed by the Board.

(2) *Debt-to-equity ratio* means the ratio of total liabilities to total equity capital less goodwill.

(3) *Eligible assets and liabilities of all U.S. branches and agencies of a foreign bank* have the same meaning as in § 252.158(a).

(b) *Notice and maximum debt-to-equity ratio requirement.* Beginning no later than 180 days after receiving written notice from the Council or from the Board on behalf of the Council that the Council has made a determination, pur-

suant to section 165(j) of the Dodd-Frank Act, that the foreign banking organization poses a grave threat to the financial stability of the United States and that the imposition of a debt-to-equity requirement is necessary to mitigate such risk:

(1) The U.S. intermediate holding company, or if the foreign banking organization has not established a U.S. intermediate holding company, and any U.S. subsidiary (excluding any section 2(h)(2) company or DPC branch subsidiary, if applicable), must achieve and maintain a debt-to-equity ratio of no more than 15-to-1; and

(2) The U.S. branches and agencies of the foreign banking organization must maintain eligible assets in its U.S. branches and agencies that, on a daily basis, are not less than 108 percent of the average value over each day of the previous calendar quarter of the total liabilities of all branches and agencies operated by the foreign banking organization in the United States.

(c) *Extension.* The Board may, upon request by a foreign banking organization for which the Council has made a determination pursuant to section 165(j) of the Dodd-Frank Act, extend the time period for compliance established under paragraph (b) of this section for up to two additional periods of 90 days each, if the Board determines that such company has made good faith efforts to comply with the debt to equity ratio requirement and that each extension would be in the public interest. Requests for an extension must be received in writing by the Board not less than 30 days prior to the expiration of the existing time period for compliance and must provide information sufficient to demonstrate that the foreign banking organization has made good faith efforts to comply with the debt-to-equity ratio requirement and that each extension would be in the public interest.

(d) *Termination.* The requirements in paragraph (b) of this section cease to apply to a foreign banking organization as of the date it receives notice from the Council of a determination that the company no longer poses a grave threat to the financial stability of the United States and that imposition of the requirements in paragraph

(b) of this section are no longer necessary.

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

1. BACKGROUND

a. The Board has imposed stress testing requirements through its regulations (stress test rules) implementing section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act or Act) and through its capital plan rule (12 CFR 225.8). Under the stress test rules issued under section 165(i)(1) of the Act, the Board conducts an annual stress test (supervisory stress tests), on a consolidated basis, of each bank holding company with total consolidated assets of \$50 billion or more and each nonbank financial company that the Financial Stability Oversight Council has designated for supervision by the Board (together, covered companies).<sup>1</sup> In addition, under the stress test rules issued under section 165(i)(2) of the Act, covered companies must conduct stress tests semi-annually and other financial companies with total consolidated assets of more than \$10 billion and for which the Board is the primary regulatory agency must conduct stress tests on an annual basis (together company-run stress tests).<sup>2</sup> The Board will provide for at least three different sets of conditions (each set, a scenario), including baseline, adverse, and severely adverse scenarios for both supervisory and company-run stress tests (macro-economic scenarios).<sup>3</sup>

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

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

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

b. The stress test rules provide that, for the stress test cycle beginning on October 1, 2014, the Board will notify covered companies by no later than November 15, 2014 of the scenarios it will use to conduct its annual supervisory stress tests and the scenarios that covered companies must use to conduct their annual company-run stress tests.<sup>4</sup> For each stress test cycle beginning thereafter, the Board will provide a description of these scenarios to covered companies by no later than February 15 of that calendar year. Under the stress test rules, the Board may require certain companies to use additional components in the adverse or severely adverse scenario or additional scenarios.<sup>5</sup> For example, the Board expects to require large banking organizations with significant trading activities to include a trading and counterparty component (market shock, described in the following sections) in their adverse and severely adverse scenarios. The Board will provide any additional components or scenario by no later than December 1 of each year.<sup>6</sup> The Board expects that the scenarios it will require the companies to use will be the same as those the Board will use to conduct its supervisory stress tests (together, stress test scenarios).

c. In addition, §225.8 of the Board’s Regulation Y (capital plan rule) requires all U.S. bank holding companies with total consolidated assets of \$50 billion or more to submit annual capital plans, including stress test results, 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.<sup>7</sup>

d. Stress tests required under the stress test rules and under the capital plan rule require the Board and financial companies to calculate pro-forma capital levels—rather than “current” or actual levels—over a specified planning horizon under baseline and stressful scenarios. This approach integrates key lessons of the 2007–2009 financial crisis into the Board’s supervisory framework.

than those associated with the adverse scenario and may include trading or other additional components.” See 12 CFR 252.132(a), (d), (m), and (n); 12 CFR 252.142(a), (d), (o), and (p); 12 CFR 252.152(a), (e), (o), and (p).

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

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> See Capital plans, 76 FR 74631 (Dec. 1, 2011) (codified at 12 CFR 225.8).

During the financial crisis, investor and counterparty confidence in the capitalization of financial companies eroded rapidly in the face of changes in the current and expected economic and financial conditions, and this loss in market confidence imperiled companies' ability to access funding, continue operations, serve as a credit intermediary, and meet obligations to creditors and counterparties. Importantly, such a loss in confidence occurred even when a financial institution's capital ratios were in excess of regulatory minimums. This is because the institution's capital ratios were perceived as lagging indicators of its financial condition, particularly when conditions were changing.

e. The stress tests required under the stress test rules and capital plan rule are a valuable supervisory tool that provides a forward-looking assessment of large financial companies' capital adequacy under hypothetical economic and financial market conditions. Currently, these stress tests primarily focus on credit risk and market risk—that is, risk of mark-to-market losses associated with companies' trading and counterparty positions—and not on other types of risk, such as liquidity risk. Pressures stemming from these sources are considered in separate supervisory exercises. No single supervisory tool, including the stress tests, can provide an assessment of a company's ability to withstand every potential source of risk.

f. Selecting appropriate scenarios is an especially significant consideration for stress tests required under the capital plan rule, which ties the review of a bank holding company's performance under stress scenarios to its ability to make capital distributions. More severe scenarios, all other things being equal, generally translate into larger projected declines in banks' capital. Thus, a company would need more capital today to meet its minimum capital requirements in more stressful scenarios and have the ability to continue making capital distributions, such as common dividend payments. This translation is far from mechanical, however; it will depend on factors that are specific to a given company, such as underwriting standards and the company's business model, which would also greatly affect projected revenue, losses, and capital.

## 2. OVERVIEW AND SCOPE

a. This policy statement provides more detail on the characteristics of the stress test scenarios and explains the considerations and procedures that underlie the approach for formulating these scenarios. The considerations and procedures described in this policy statement apply to the Board's stress testing framework, including to the stress tests required under 12 CFR part 252, sub-

parts E, F, and G, as well as the Board's capital plan rule (12 CFR 225.8).<sup>8</sup>

b. Although the Board does not envision that the broad approach used to develop scenarios will change from year to year, the stress test scenarios will reflect changes in the outlook for economic and financial conditions and changes to specific risks or vulnerabilities that the Board, in consultation with the other federal banking agencies, determines should be considered in the annual stress tests. The stress test scenarios should not be regarded as forecasts; rather, they are hypothetical paths of economic variables that will be used to assess the strength and resilience of the companies' capital in various economic and financial environments.

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

## 3. CONTENT OF THE STRESS TEST SCENARIOS

a. The Board will publish a minimum of three different scenarios, including baseline, adverse, and severely adverse conditions, for use in stress tests required in the stress test rules.<sup>9</sup> In general, the Board anticipates that it will not issue additional scenarios. Specific circumstances or vulnerabilities that in any given year the Board determines require particular vigilance to ensure the resilience of the banking sector will be captured in either the adverse or severely adverse scenarios. A greater number of scenarios could be needed in some years—for example, because the Board identifies a large number of unrelated and uncorrelated but nonetheless significant risks.

b. While the Board generally expects to use the same scenarios for all companies subject

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

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

to the final rule, it may require a subset of companies—depending on a company’s financial condition, size, complexity, risk profile, scope of operations, or activities, or risks to the U.S. economy—to include additional scenario components or additional scenarios that are designed to capture different effects of adverse events on revenue, losses, and capital. One example of such components is the market shock that applies only to companies with significant trading activity. Additional components or scenarios may also include other stress factors that may not necessarily be directly correlated to macroeconomic or financial assumptions but nevertheless can materially affect companies’ risks, such as the unexpected default of a major counterparty.

c. Early in each stress testing cycle, the Board plans to publish the macroeconomic scenarios along with a brief narrative summary that provides a description of the economic situation underlying the scenario and explains how the scenarios have changed relative to the previous year. In addition, to assist companies in projecting the paths of additional variables in a manner consistent with the scenario, the narrative will also provide descriptions of the general path of some additional variables. These descriptions will be general—that is, they will describe developments for broad classes of variables rather than for specific variables—and will specify the intensity and direction of variable changes but not numeric magnitudes. These descriptions should provide guidance that will be useful to companies in specifying the paths of the additional variables for their company-run stress tests. Note that in practice it will not be possible for the narrative to include descriptions on all of the additional variables that companies may need to for their company-run stress tests. In cases where scenarios are designed to reflect particular risks and vulnerabilities, the narrative will also explain the underlying motivation for these features of the scenario. The Board also plans to release a broad description of the market shock components.

### 3.1 Macroeconomic Scenarios

a. The macroeconomic scenarios will consist of the future paths of a set of economic and financial variables.<sup>10</sup> The economic and financial variables included in the scenarios will likely comprise those included in the “2014 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital

<sup>10</sup>The future path of a variable refers to its specification over a given time period. For example, the path of unemployment can be described in percentage terms on a quarterly basis over the stress testing time horizon.

Plan Rule” (2013 supervisory scenarios). The domestic U.S. variables provided for in the 2013 supervisory scenarios included:

i. Six measures of economic activity and prices: real and nominal gross domestic product (GDP) growth, the unemployment rate of the civilian non-institutional population aged 16 and over, real and nominal disposable personal income growth, and the Consumer Price Index (CPI) inflation rate;

ii. Four measures of developments in equity and property markets: The Core Logic National House Price Index, the National Council for Real Estate Investment Fiduciaries Commercial Real Estate Price Index, the Dow Jones Total Stock Market Index, and the Chicago Board Options Exchange Market Volatility Index; and

iii. Six measures of interest rates: the rate on the three-month Treasury bill, the yield on the 5-year Treasury bond, the yield on the 10-year Treasury bond, the yield on a 10-year BBB corporate security, the prime rate, and the interest rate associated with a conforming, conventional, fixed-rate, 30-year mortgage.

b. The international variables provided for in the 2014 supervisory scenarios included, for the euro area, the United Kingdom, developing Asia, and Japan:

i. Percent change in real GDP;

ii. Percent change in the Consumer Price Index or local equivalent; and

iii. The U.S./foreign currency exchange rate.<sup>11</sup>

c. The economic variables included in the scenarios influence key items affecting financial companies’ net income, including pre-provision net revenue and credit losses on loans and securities. Moreover, these variables exhibit fairly typical trends in adverse economic climates that can have unfavorable implications for companies’ net income and, thus, capital positions.

d. The economic variables included in the scenario may change over time. For example, the Board may add variables to a scenario if the international footprint of companies that are subject to the stress testing rules changed notably over time such that the variables already included in the scenario no longer sufficiently capture the material risks of these companies. Alternatively, historical relationships between macroeconomic variables could change over time such that one variable (*e.g.*, disposable personal income growth) that previously provided a good proxy for another (*e.g.*, light vehicle sales) in modeling companies’ pre-provision net revenue or credit losses ceases to do so, resulting in the need to create a separate path, or alternative proxy, for the other

<sup>11</sup>The Board may increase the range of countries or regions included in future scenarios, as appropriate.

variable. However, recognizing the amount of work required for companies to incorporate the scenario variables into their stress testing models, the Board expects to eliminate variables from the scenarios only in rare instances.

e. The Board expects that the company may not use all of the variables provided in the scenario, if those variables are not appropriate to the company's line of business, or may add additional variables, as appropriate. The Board expects the companies will ensure that the paths of such additional variables are consistent with the scenarios the Board provided. For example, the companies may use, as part of their internal stress test models, local-level variables, such as state-level unemployment rates or city-level house prices. While the Board does not plan to include local-level macro variables in the stress test scenarios it provides, it expects the companies to evaluate the paths of local-level macro variables as needed for their internal models, and ensure internal consistency between these variables and their aggregate, macro-economic counterparts. The Board will provide the macroeconomic scenario component of the stress test scenarios for a period that spans a minimum of 13 quarters. The scenario horizon reflects the supervisory stress test approach that the Board plans to use. Under the stress test rules, the Board will assess the effect of different scenarios on the consolidated capital of each company over a forward-looking planning horizon of at least nine quarters.

### 3.2 Market Shock Component

a. The market shock component of the adverse and severely adverse scenarios will only apply to companies with significant trading activity and their subsidiaries.<sup>12</sup> The component consists of large moves in market prices and rates that would be expected to generate losses. Market shocks differ from macroeconomic scenarios in a number of ways, both in their design and application. For instance, market shocks that might typically be observed over an extended period (*e.g.*, 6 months) are assumed to be an instantaneous event which immediately affects the market value of the companies' trading assets and liabilities. In addition,

<sup>12</sup>Currently, companies with significant trading activity include the six bank holding companies that are subject to the market risk rule and have total consolidated assets greater than \$500 billion, as reported on their FR Y-9C. The Board may also subject a state member bank subsidiary of any such bank holding company to the market shock component. The set of companies subject to the market shock component could change over time as the size, scope, and complexity of financial company's trading activities evolve.

under the stress test rules, the as-of date for market shocks will differ from the quarter-end, and the Board will provide the as-of date for market shocks no later than December 1 of each year. Finally, as described in section 4, the market shock includes a much larger set of risk factors than the set of economic and financial variables included in macroeconomic scenarios. Broadly, these risk factors include shocks to financial market variables that affect asset prices, such as a credit spread or the yield on a bond, and, in some cases, the value of the position itself (*e.g.*, the market value of private equity positions).

b. The Board envisions that the market shocks will include shocks to a broad range of risk factors that are similar in granularity to those risk factors trading companies use internally to produce profit and loss estimates, under stressful market scenarios, for all asset classes that are considered trading assets, including equities, credit, interest rates, foreign exchange rates, and commodities. Examples of risk factors include, but are not limited to:

- i. Equity indices of all developed markets, and of developing and emerging market nations to which companies with significant trading activity may have exposure, along with term structures of implied volatilities;
- ii. Cross-currency FX rates of all major and many minor currencies, along term structures of implied volatilities;
- iii. Term structures of government rates (*e.g.*, U.S. Treasuries), interbank rates (*e.g.*, swap rates) and other key rates (*e.g.*, commercial paper) for all developed markets and for developing and emerging market nations to which companies may have exposure;
- iv. Term structures of implied volatilities that are key inputs to the pricing of interest rate derivatives;
- v. Term structures of futures prices for energy products including crude oil (differentiated by country of origin), natural gas, and power;
- vi. Term structures of futures prices for metals and agricultural commodities;
- vii. "Value-drivers" (credit spreads or instrument prices themselves) for credit-sensitive product segments including: corporate bonds, credit default swaps, and collateralized debt obligations by risk; non-agency residential mortgage-backed securities and commercial mortgage-backed securities by risk and vintage; sovereign debt; and, municipal bonds; and
- viii. Shocks to the values of private equity positions.

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

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

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

c. Each of these scenarios is described further in sections below as follows: baseline (subsection 4.1), severely adverse (subsection 4.2), and adverse (subsection 4.3)

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

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

b. The baseline scenario will be developed around a macroeconomic projection that captures the prevailing views of private-sector forecasters (*e.g.* Blue Chip Consensus Forecasts and the Survey of Professional Forecasters), government agencies, and other public-sector organizations (*e.g.*, the International Monetary Fund and the Organization for Economic Co-operation and Development) near the beginning of the annual stress-test cycle. The baseline scenario is designed to represent a consensus expectation of certain economic variables over the time period of the tests and it is not the Board's internal forecast for those economic variables. For example, the baseline path of short-term interest rates is constructed from consensus forecasts and may differ from that

implied by the FOMC's *Summary of Economic Projections*.

c. For some scenario variables—such as U.S. real GDP growth, the unemployment rate, and the consumer price index—there will be a large number of different forecasts available to project the paths of these variables in the baseline scenario. For others, a more limited number of forecasts will be available. If available forecasts diverge notably, the baseline scenario will reflect an assessment of the forecast that is deemed to be most plausible. In setting the paths of variables in the baseline scenario, particular care will be taken to ensure that, together, the paths present a coherent and plausible outlook for the U.S. and global economy, given the economic climate in which they are formulated.

##### 4.2 Approach for Formulating the Macroeconomic Assumptions in the Severely Adverse Scenario

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

##### 4.2.1 General Approach: The Recession Approach

a. The Board intends to use a recession approach to develop the severely adverse scenario. In the recession approach, the Board will specify the future paths of variables to reflect conditions that characterize post-war U.S. recessions, generating either a typical or specific recreation of a post-war U.S. recession. The Board chose this approach because it has observed that the conditions that typically occur in recessions—such as increasing unemployment, declining asset prices, and contracting loan demand—can put significant stress on companies' balance sheets. This stress can occur through a variety of channels, including higher loss provisions due to increased delinquencies and defaults; losses on trading positions through sharp moves in market prices; and lower bank income through reduced loan originations. For these reasons, the Board believes that the paths of economic and financial variables in the severely adverse scenario should, at a minimum, resemble the paths of those variables observed during a recession.

b. This approach requires consideration of the type of recession to feature. All post-war U.S. recessions have not been identical: some

recessions have been associated with very elevated interest rates, some have been associated with sizable asset price declines, and some have been relatively more global. The most common features of recessions, however, are increases in the unemployment rate and contractions in aggregate incomes and economic activity. For this and the following reasons, the Board intends to use the unemployment rate as the primary basis for specifying the severely adverse scenario. First, the unemployment rate is likely the most representative single summary indicator of adverse economic conditions. Second, in comparison to GDP, labor market data have traditionally featured more prominently than GDP in the set of indicators that the National Bureau of Economic Research reviews to inform its recession dates.<sup>13</sup> Third and finally, the growth rate of potential output can cause the size of the decline in GDP to vary between recessions. While changes in the unemployment rate can also vary over time due to demographic factors, this seems to have more limited implications over time relative to changes in potential output growth. The unemployment rate used in the severely adverse scenario will reflect an unemployment rate that has been observed in *severe* post-war U.S. recessions, measuring severity by the absolute level of and relative increase in the unemployment rate.<sup>14</sup>

c. After specifying the unemployment rate, the Board will specify the paths of other macroeconomic variables based on the paths of unemployment, income, and activity. However, many of these other variables have taken wildly divergent paths in previous recessions (*e.g.*, house prices), requiring the Board to use its informed judgment in selecting appropriate paths for these variables. In general, the path for these other variables will be based on their underlying structure at the time that the scenario is designed (*e.g.*, the relative fragility of the housing finance system).

d. The Board considered alternative methods for scenario design of the severely ad-

verse scenario, including a probabilistic approach. The probabilistic approach constructs a baseline forecast from a large-scale macroeconomic model and identifies a scenario that would have a specific probabilistic likelihood given the baseline forecast. The Board believes that, at this time, the recession approach is better suited for developing the severely adverse scenario than a probabilistic approach because it guarantees a recession of some specified severity. In contrast, the probabilistic approach requires the choice of an extreme tail outcome—relative to baseline—to characterize the severely adverse scenario (*e.g.*, a 5 percent or a 1 percent tail outcome). In practice, this choice is difficult as adverse economic outcomes are typically thought of in terms of how variables evolve in an absolute sense rather than how far away they lie in the probability space away from the baseline. In this sense, a scenario featuring a recession may be somewhat clearer and more straightforward to communicate. Finally, the probabilistic approach relies on estimates of uncertainty around the baseline scenario and such estimates are in practice model-dependent.

#### 4.2.2 Setting the Unemployment Rate Under the Severely Adverse Scenario

a. The Board anticipates that the severely adverse scenario will feature an unemployment rate that increases between 3 to 5 percentage points from its initial level over the course of 6 to 8 calendar quarters.<sup>15</sup> The initial level will be set based on the conditions at the time that the scenario is designed. However, if a 3 to 5 percentage point increase in the unemployment rate does not raise the level of the unemployment rate to at least 10 percent—the average level to which it has increased in the most recent three severe recessions—the path of the unemployment rate in most cases will be specified so as to raise the unemployment rate to at least 10 percent.

b. This methodology is intended to generate scenarios that feature stressful outcomes but do not induce greater procyclicality in the financial system and macroeconomy. When the economy is in the early stages of a recovery, the unemployment rate in a baseline scenario generally trends downward, resulting in a larger difference between the path of the unemployment rate in the severely adverse scenario

<sup>13</sup>More recently, a monthly measure of GDP has been added to the list of indicators.

<sup>14</sup>Even though all recessions feature increases in the unemployment rate and contractions in incomes and economic activity, the size of this change has varied over post-war U.S. recessions. Table 1 documents the variability in the depth of post-war U.S. recessions. Some recessions—labeled mild in Table 1—have been relatively modest with GDP edging down just slightly and the unemployment rate moving up about a percentage point. Other recessions—labeled severe in Table 1—have been much harsher with GDP dropping 3½ percent and the unemployment rate moving up a total of about 4 percentage points.

<sup>15</sup>Six to eight quarters is the average number of quarters for which a severe recession lasts plus the average number of subsequent quarters over which the unemployment rate continues to rise. The variable length of the timeframe reflects the different paths to the peak unemployment rate depending on the severity of the scenario.

and the baseline scenario and a severely adverse scenario that is relatively more intense. Conversely, in a sustained strong expansion—when the unemployment rate may be below the level consistent with full employment—the unemployment in a baseline scenario generally trends upward, resulting in a smaller difference between the path of the unemployment rate in the severely adverse scenario and the baseline scenario and a severely adverse scenario that is relatively less intense. Historically, a 3 to 5 percentage point increase in unemployment rate is reflective of stressful conditions. As illustrated in Table 1, over the last half-century, the U.S. economy has experienced four severe post-war recessions. In all four of these recessions the unemployment rate increased 3 to 5 percentage points and in the three most recent of these recessions the unemployment rate reached a level between 9 percent and 11 percent.

c. Under this method, if the initial unemployment rate were low—as it would be after a sustained long expansion—the unemployment rate in the scenario would increase to a level as high as what has been seen in past severe recessions. However, if the initial unemployment rate were already high—as would be the case in the early stages of a recovery—the unemployment rate would exhibit a change as large as what has been seen in past severe recessions.

d. The Board believes that the typical increase in the unemployment rate in the severely adverse scenario will be about 4 percentage points. However, the Board will calibrate the increase in unemployment based on its views of the status of cyclical systemic risk. The Board intends to set the unemployment rate at the higher end of the range if the Board believed that cyclical systemic risks were high (as it would be after a sustained long expansion), and to the lower end of the range if cyclical systemic risks were low (as it would be in the earlier stages of a recovery). This may result in a scenario that is slightly more intense than normal if the Board believed that cyclical systemic risks were increasing in a period of robust expansion.<sup>16</sup> Conversely, it will allow the Board to specify a scenario that is slightly less intense than normal in an environment where systemic risks appeared subdued, such as in the early stages of an expansion. However, even at the lower end of the range of unemployment-rate increases, the scenario will still feature an increase in the unemployment rate similar to what has been seen

in about half of the severe recessions of the last 50 years.

e. As indicated previously, if a 3 to 5 percentage point increase in the unemployment rate does not raise the level of the unemployment rate to 10 percent—the average level to which it has increased in the most recent three severe recessions—the path of the unemployment rate will be specified so as to raise the unemployment rate to 10 percent. Setting a floor for the unemployment rate at 10 percent recognizes the fact that not only do cyclical systemic risks build up at financial intermediaries during robust expansions but that these risks are also easily obscured by the buoyant environment.

f. In setting the increase in the unemployment rate, the Board will consider the extent to which analysis by economists, supervisors, and financial market experts finds cyclical systemic risks to be elevated (but difficult to be captured more precisely in one of the scenario's other variables). In addition, the Board—in light of impending shocks to the economy and financial system—will also take into consideration the extent to which a scenario of some increased severity might be necessary for the results of the stress test and the associated supervisory actions to sustain confidence in financial institutions.

g. While the approach to specifying the severely adverse scenario is designed to avoid adding sources of procyclicality to the financial system, it is not designed to explicitly offset any existing procyclical tendencies in the financial system. The purpose of the stress test scenarios is to make sure that the companies are properly capitalized to withstand severe economic and financial conditions, not to serve as an explicit countercyclical offset to the financial system.

h. In developing the approach to the unemployment rate, the Board also considered a method that would increase the unemployment rate to some fairly elevated fixed level over the course of 6 to 8 quarters. This will result in scenarios being more severe in robust expansions (when the unemployment rate is low) and less severe in the early stages of a recovery (when the unemployment rate is high) and so would not result in pro-cyclicality. Depending on the initial level of the unemployment rate, this approach could lead to only a very modest increase in the unemployment rate—or even a decline. As a result, this approach—while not procyclical—could result in scenarios not featuring stressful macroeconomic outcomes.

#### 4.2.3 Setting the Other Variables in the Severely Adverse Scenario

a. Generally, all other variables in the severely adverse scenario will be specified to be consistent with the increase in the unemployment rate. The approach for specifying the paths of these variables in the scenario

<sup>16</sup>Note, however, that the severity of the scenario would not exceed an implausible level: even at the upper end of the range of unemployment-rate increases, the path of the unemployment rate would still be consistent with severe post-war U.S. recessions.

will be a combination of (1) how economic models suggest that these variables should evolve given the path of the unemployment rate, (2) how these variables have typically evolved in past U.S. recessions, and (3) and evaluation of these and other factors.

b. Economic models—such as medium-scale macroeconomic models—should be able to generate plausible paths consistent with the unemployment rate for a number of scenario variables, such as real GDP growth, CPI inflation and short-term interest rates, which have relatively stable (direct or indirect) relationships with the unemployment rate (*e.g.*, Okun's Law, the Phillips Curve, and interest rate feedback rules). For some other variables, specifying their paths will require a case-by-case consideration. For example, declining house prices, which are an important source of stress to a company's balance sheet, are not a steadfast feature of recessions, and the historical relationship of house prices with the unemployment rate or any other variable that deteriorates in recessions is not strong. Simply adopting their typical path in a severe recession would likely underestimate risks stemming from the housing sector. In this case, some modified approach—in which perhaps recessions in which house prices declined were judgmentally weighted more heavily—will be appropriate.

c. In addition, judgment is necessary in projecting the path of a scenario's international variables. Recessions that occur simultaneously across countries are an important source of stress to the balance sheets of companies with notable international exposures but are not an invariable feature of the international economy. As a result, simply adopting the typical path of international variables in a severe U.S. recession would likely underestimate the risks stemming from the international economy. Consequently, an approach like that used for projecting house prices is followed where judgment and economic models together inform the path of international variables.

#### 4.2.4 Adding Salient Risks to the Severely Adverse Scenario

a. The severely adverse scenario will be developed to reflect specific risks to the economic and financial outlook that are especially salient but will feature minimally in the scenario if the Board were only to use approaches that looked to past recessions or relied on historical relationships between variables.

b. There are some important instances when it will be appropriate to augment the recession approach with salient risks. For example, if an asset price were especially elevated and thus potentially vulnerable to an abrupt and potentially destabilizing decline, it would be appropriate to include such a decline in the scenario even if such a large

drop were not typical in a severe recession. Likewise, if economic developments abroad were particularly unfavorable, assuming a weakening in international conditions larger than what typically occurs in severe U.S. recessions would likely also be appropriate.

c. Clearly, while the recession component of the severely adverse scenario is within some predictable range, the salient risk aspect of the scenario is far less so, and therefore, needs an annual assessment. Each year, the Board will identify the risks to the financial system and the domestic and international economic outlooks that appear more elevated than usual, using its internal analysis and supervisory information and in consultation with the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC). Using the same information, the Board will then calibrate the paths of the macroeconomic and financial variables in the scenario to reflect these risks.

d. Detecting risks that have the potential to weaken the banking sector is particularly difficult when economic conditions are buoyant, as a boom can obscure the weaknesses present in the system. In sustained robust expansions, therefore, the selection of salient risks to augment the scenario will err on the side of including risks of uncertain significance.

e. The Board will factor in particular risks to the domestic and international macroeconomic outlook identified by its economists, bank supervisors, and financial market experts and make appropriate adjustments to the paths of specific economic variables. These adjustments will not be reflected in the general severity of the recession and, thus, all macroeconomic variables; rather, the adjustments will apply to a subset of variables to reflect co-movements in these variables that are historically less typical. The Board plans to discuss the motivation for the adjustments that it makes to variables to highlight systemic risks in the narrative describing the scenarios.<sup>17</sup>

<sup>17</sup>The means of effecting an adjustment to the severely adverse scenario to address salient systemic risks differs from the means used to adjust the unemployment rate. For example, in adjusting the scenario for an increased unemployment rate, the Board would modify all variables such that the future paths of the variables are similar to how these variables have moved historically. In contrast, to address salient risks, the Board may only modify a small number of variables in the scenario and, as such, their future paths in the scenario would be somewhat more atypical, albeit not implausible, given existing risks.

4.3 Approach for Formulating Macroeconomic Assumptions in the Adverse Scenario

a. The adverse scenario can be developed in a number of different ways, and the selected approach will depend on a number of factors, including how the Board intends to use the results of the adverse scenario.<sup>18</sup> Generally, the Board believes that the companies should consider multiple adverse scenarios for their internal capital planning purposes, and likewise, it is appropriate that the Board consider more than one adverse scenario to assess a company's ability to withstand stress. Accordingly, the Board does not identify a single approach for specifying the adverse scenario. Rather, the adverse scenario will be formulated according to one of the possibilities listed below. 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, in light of current condition of the economy and the financial services industry.

b. The simplest method to specify the adverse scenario is to develop a less severe version of the severely adverse scenario. For example, the adverse scenario could be formulated such that the deviations of the paths of the variables relative to the baseline were simply one-half of or two-thirds of the deviations of the paths of the variables relative to the baseline in the severely adverse scenario. *A priori*, specifying the adverse scenario in this way may appear unlikely to provide the greatest possible informational value to supervisors—given that it is just a less severe version of the severely adverse scenario. However, to the extent that the effect of macroeconomic variables on company loss positions and incomes are nonlinear, there could be potential value from this approach.

c. Another method to specify the adverse scenario is to capture risks in the adverse scenario that the Board believes should be understood better or should be monitored, but does not believe should be included in the severely adverse scenario, perhaps because these risks would render the scenario implausibly severe. For instance, the adverse scenario could feature sizable increases in oil or natural gas prices or shifts in the yield curve that are atypical in a recession. The adverse scenario might also feature less acute, but still consequential, adverse outcomes, such as a disruptive slowdown in growth from emerging-market economies.

d. Under the Board's stress test rules, covered companies are required to develop their own scenarios for mid-cycle company-run

stress tests.<sup>19</sup> A particular combination of risks included in these scenarios may inform the design of the adverse scenario for annual stress tests. In this same vein, another possibility would be to use modified versions of the circumstances that companies describe in their living wills as being able to cause their failures.

e. It might also be informative to periodically use a stable adverse scenario, at least for a few consecutive years. Even if the scenario used for the stress test does not change over the credit cycle, if companies tighten and relax lending standards over the cycle, their loss rates under the adverse scenario—and indirectly the projected changes to capital—would decrease and increase, respectively. A consistent scenario would allow the direct observation of how capital fluctuates to reflect growing cyclical risks.

f. The Board may consider specifying the adverse scenario using the probabilistic approach described in section 4.2.1 (that is, with a specified lower probability of occurring than the severely adverse scenario but a greater probability of occurring than the baseline scenario). The approach has some intuitive appeal despite its shortcomings. For example, using this approach for the adverse scenario could allow the Board to explore an alternative approach to develop stress testing scenarios and their effect on a company's net income and capital.

g. Finally, the Board could design the adverse scenario based on a menu of historical experiences—such as, a moderate recession (*e.g.*, the 1990–1991 recession); a stagflation event (*e.g.*, stagflation during 1974); an emerging markets crisis (*e.g.*, the Asian currency crisis of 1997–1998); an oil price shock (*e.g.*, the shock during the run up to the 1990–1991 recession); or high inflation shock (*e.g.*, the inflation pressures of 1977–1979). The Board believes these are important stresses that should be understood; however, there may be notable benefits from formulating the adverse scenario following other approaches—specifically, those described previously in this section—and consequently the Board does not believe that the adverse scenario should be limited to historical episodes only.

h. With the exception of cases in which the probabilistic approach is used to generate the adverse scenario, the adverse scenario will at a minimum contain a mild to moderate recession. This is because most of the value from investigating the implications of the risks described above is likely to be obtained from considering them in the context of balance sheets of companies that are under some stress.

<sup>18</sup>For example, in the context of CCAR, the Board currently uses the adverse scenario as one consideration in evaluating a bank holding company's capital adequacy.

<sup>19</sup>12 CFR 252.55.

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

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

b. The development of the market shock component that are detailed in this section are as follows: baseline (subsection 5.1), severely adverse (subsection 5.2), and adverse (subsection 5.3).

##### *5.1 Approach for Formulating the Market Shock Component Under the Baseline Scenario*

By definition, market shocks are large, previously unanticipated moves in asset prices and rates. Because asset prices should, broadly speaking, reflect consensus opinions about the future evolution of the economy, large price movements, as envisioned in the market shock, should not occur along the baseline path. As a result, the market shock will not be included in the baseline scenario.

##### *5.2 Approach for Formulating the Market Shock Component Under the Severely Adverse Scenario*

This section addresses possible approaches to designing the market shock component in the severely adverse scenario, including important considerations for scenario design, possible approaches to designing scenarios, and a development strategy for implementing the preferred approach.

##### *5.2.1 Design Considerations for Market Shocks*

a. The general market practice for stressing a trading portfolio is to specify market shocks either in terms of extreme moves in observable, broad market indicators and risk factors or directly as large changes to the mark-to-market values of financial instruments. These moves can be specified either in relative terms or absolute terms. Supplying values of risk factors after a “shock” is roughly equivalent to the macroeconomic scenarios, which supply values for a set of

economic and financial variables; however, trading stress testing differs from macroeconomic stress testing in several critical ways.

b. In the past, the Board used one of two approaches to specify market shocks. During SCAP and CCAR in 2011, the Board used a very general approach to market shocks and required companies to stress their trading positions using changes in market prices and rates experienced during the second half of 2008, without specifying risk factor shocks. This broad guidance resulted in inconsistency across companies both in terms of the severity and the application of shocks. In certain areas companies were permitted to use their own experience during the second half of 2008 to define shocks. This resulted in significant variation in shock severity across companies.

c. To enhance the consistency and comparability in market shocks for the stress tests in 2012 and 2013, the Board provided to each trading company more than 35,000 specific risk factor shocks, primarily based on market moves in the second half of 2008. While the number of risk factors used in companies’ pricing and stress-testing models still typically exceed that provided in the Board’s scenarios, the greater specificity resulted in more consistency in the scenario across companies. The benefit of the comprehensiveness of risk factor shocks is at least partly offset by potential difficulty in creating shocks that are coherent and internally consistent, particularly as the framework for developing market shocks deviates from historical events.

d. Also importantly, the ultimate losses associated with a given market shock will depend on a company’s trading positions, which can make it difficult to rank order, *ex ante*, the severity of the scenarios. In certain instances, market shocks that include large market moves may not be particularly stressful for a given company. Aligning the market shock with the macroeconomic scenario for consistency may result in certain companies actually benefiting from risk factor moves of larger magnitude in the market scenario if the companies are hedging against salient risks to other parts of their business. Thus, the severity of market shocks must be calibrated to take into account how a complex set of risks, such as directional risks and basis risks, interacts with each other, given the companies’ trading positions at the time of stress. For instance, a large depreciation in a foreign currency would benefit companies with net short positions in the currency while hurting those with net long positions. In addition, longer maturity positions may move differently from shorter maturity positions, adding further complexity.

e. The instantaneous nature of market shocks and the immediate recognition of

mark-to-market losses add another element to the design of market shocks, and to determining the appropriate severity of shocks. For instance, in previous stress tests, the Board assumed that market moves that occurred over the six-month period in late 2008 would occur instantaneously. The design of the market shocks must factor in appropriate assumptions around the period of time during which market events will unfold and any associated market responses.

#### 5.2.2 Approaches to Market Shock Design

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

b. For the market shock component in the severely adverse scenario, the Board plans to use the hybrid approach to develop shocks. The hybrid approach allows the Board to maintain certain core elements of consistency in market shocks each year while providing flexibility to add hypothetical elements based on market conditions at the time of the stress tests. In addition, this approach will help ensure internal consistency in the scenario because of its basis in historical episodes; however, combining the historical episode and hypothetical events may require small adjustments to ensure mutual consistency of the joint moves. In general, the hybrid approach provides considerable flexibility in developing scenarios that are relevant each year, and by introducing variations in the scenario, the approach will also reduce the ability of companies with significant trading activity to modify or shift their portfolios to minimize expected losses in the severely adverse market shock.

c. The Board has considered a number of alternative approaches for the design of market shocks. For example, the Board explored an option of providing tailored market shocks for each trading company, using information on the companies' portfolio gathered through ongoing supervision, or other means. By specifically targeting known or

potential vulnerabilities in a company's trading position, the tailored approach will be useful in assessing each company's capital adequacy as it relates to the company's idiosyncratic risk. However, the Board does not believe this approach to be well-suited for the stress tests required by regulation. Consistency and comparability are key features of annual supervisory stress tests and annual company-run stress tests required in the stress test rules. It would be difficult to use the information on the companies' portfolio to design a common set of shocks that are universally stressful for all covered companies. As a result, this approach will be better suited to more customized, tailored stress tests that are part of the company's internal capital planning process or to other supervisory efforts outside of the stress tests conducted under the capital rule and the stress test rules.

#### 5.2.3 Development of the Market Shock

a. Consistent with the approach described above, the market shock component for the severely adverse scenario will incorporate key elements of market developments during the second half of 2008, but also incorporate observations from other periods or price and rate movements in certain markets that the Board deems to be plausible though such movements may not have been observed historically. Over time the Board also expects to rely less on market events of the second half of 2008 and more on hypothetical events or other historical episodes to develop the market shock.

b. The developments in the credit markets during the second half of 2008 were unprecedented, providing a reasonable basis for market shocks in the severely adverse scenario. During this period, key risk factors in virtually all asset classes experienced extremely large shocks; the collective breadth and intensity of the moves have no parallels in modern financial history and, on that basis, it seems likely that this episode will continue to be the most relevant historical scenario, although experience during other historical episodes may also guide the severity of the market shock component of the severely adverse scenario. Moreover, the risk factor moves during this episode are directly consistent with the "recession" approach that underlies the macroeconomic assumptions. However, market shocks based only on historical events could become stale and less relevant over time as the company's positions change, particularly if more salient features are not added each year.

c. While the market shocks based on the second half of 2008 are of unparalleled magnitude, the shocks may become less relevant over time as the companies' trading positions change. In addition, more recent events could highlight the companies' vulnerability

to certain market events. For example, in 2011, Eurozone credit spreads in the sovereign and financial sectors surpassed those observed during the second half of 2008, necessitating the modification of the severely adverse market shock in 2012 and 2013 to reflect a salient source of stress to trading positions. As a result, it is important to incorporate both historical and hypothetical outcomes into market shocks for the severely adverse scenario. For the time being, the development of market shocks in the severely adverse scenario will begin with the risk factor movements in a particular historical period, such as the second half of 2008. The Board will then consider hypothetical but plausible outcomes, based on financial stability reports, supervisory information, and internal and external assessments of market risks and potential flash points. The hypothetical outcomes could originate from major geopolitical, economic, or financial market events with potentially significant impacts on market risk factors. The severity of these hypothetical moves will likely be guided by similar historical events, assumptions embedded in the companies' internal stress tests or market participants, and other available information.

d. Once broad market scenarios are agreed upon, specific risk factor groups will be targeted as the source of the trading stress. For example, a scenario involving the failure of a large, interconnected globally active financial institution could begin with a sharp increase in credit default swap spreads and a precipitous decline in asset prices across multiple markets, as investors become more risk averse and market liquidity evaporates. These broad market movements will be extrapolated to the granular level for all risk factors by examining transmission channels and the historical relationships between variables, though in some cases, the movement in particular risk factors may be amplified based on theoretical relationships, market observations, or the saliency to company trading books. If there is a disagreement between the risk factor movements in the historical event used in the scenario and the hypothetical event, the Board will reconcile the differences by assessing *a priori* expectation based on financial and economic theory and the importance of the risk factors to the trading positions of the covered companies.

### 5.3 Approach for Formulating the Market Shock Under the Adverse Scenario

a. The market shock component included in the adverse scenario will feature risk factor movements that are generally less significant than the market shock component of the severely adverse scenario. However, the adverse market shock may also feature risk factor shocks that are substantively dif-

ferent from those included in the severely adverse scenario, in order to provide useful information to supervisors. As in the case of the macroeconomic scenario, the market shock component in the adverse scenario can be developed in a number of different ways.

b. The adverse scenario could be differentiated from the severely adverse scenario by the absolute size of the shock, the scenario design process (*e.g.*, historical events versus hypothetical events), or some other criteria. The Board expects that as the market shock component of the adverse scenario may differ qualitatively from the market shock component of the severely adverse scenario, the results of adverse scenarios may be useful in identifying a particularly vulnerable area in a trading company's positions.

c. There are several possibilities for the adverse scenario and the Board may use a different approach each year to better explore the vulnerabilities of companies with significant trading activity. One approach is to use a scenario based on some combination of historical events. This approach is similar to the one used for for the market shock in 2012, where the market shock component was largely based on the second half of 2008, but also included a number of risk factor shocks that reflected the significant widening of spreads for European sovereigns and financials in late 2011. This approach will provide some consistency each year and provide an internally consistent scenario with minimal implementation burden. Having a relatively consistent adverse scenario may be useful as it potentially serves as a benchmark against the results of the severely adverse scenario and can be compared to past stress tests.

d. Another approach is to have an adverse scenario that is identical to the severely adverse scenario, except that the shocks are smaller in magnitude (*e.g.*, 100 basis points for adverse versus 200 basis points for severely adverse). This "scaling approach" generally fits well with an intuitive interpretation of "adverse" and "severely adverse." Moreover, since the nature of the moves will be identical between the two classes of scenarios, there will be at least directional consistency in the risk factor inputs between scenarios. While under this approach the adverse scenario will be superficially identical to the severely adverse, the logic underlying the severely adverse scenario may not be applicable. For example, if the severely adverse scenario was based on a historical scenario, the same could not be said of the adverse scenario. It is also remains possible, although unlikely, that a scaled adverse scenario actually will result in greater losses, for some companies, than the severely adverse scenario with similar moves of greater magnitude. For example, if some companies are hedging against tail outcomes then the more extreme trading book dollar losses may not correspond to the most extreme market

moves. The market shock component of the adverse scenario in 2013 was largely based on the scaling approach where a majority of risk factor shocks were smaller in magnitude than the severely adverse scenario, but it also featured long-term interest rate shocks that were not part of the severely adverse market shock.

e. Alternatively, the market shock component of an adverse scenario could differ substantially from the severely adverse scenario with respect to the sizes and nature of the shocks. Under this approach, the market shock component could be constructed using some combination of historical and hypothetical events, similar to the severely adverse scenario. As a result, the market shock component of the adverse scenario could be viewed as an alternative to the severely adverse scenario and, therefore, it is possible that the adverse scenario could have larger losses for some companies than the severely adverse scenario.

f. Finally, the design of the adverse scenario for annual stress tests could be informed by the companies' own trading scenarios used for their BHC-designed scenarios in CCA and in their mid-cycle company-run stress tests.<sup>20</sup>

#### 6. CONSISTENCY BETWEEN THE MACROECONOMIC SCENARIOS AND THE MARKET SHOCK

a. As discussed earlier, the market shock comprises a set of movements in a very large number of risk factors that are realized instantaneously. Among the risk factors specified in the market shock are several variables also specified in the macroeconomic scenarios, such as short- and long-maturity interest rates on Treasury and corporate debt, the level and volatility of U.S. stock prices, and exchange rates.

b. The market shock component is an addition to the macroeconomic scenarios that is applied to a subset of companies, with no assumed effect on other aspects of the stress tests such as balances, revenues, or other losses. As a result, the market shock component may not be always directionally consistent with the macroeconomic scenario. Because the market shock is designed, in part, to mimic the effects of a sudden market dislocation, while the macroeconomic scenarios are designed to provide a description of the evolution of the real economy over two or more years, assumed economic conditions can move in significantly different ways. In effect, the market shock can simulate a market panic, during which financial asset prices move rapidly in unexpected directions, and the macroeconomic assumptions can simulate the severe recession that follows. Indeed, the pattern of a financial crisis, characterized by a short pe-

riod of wild swings in asset prices followed by a prolonged period of moribund activity, and a subsequent severe recession is familiar and plausible.

c. As discussed in section 4.2.4, the Board may feature a particularly salient risk in the macroeconomic assumptions for the severely adverse scenario, such as a fall in an elevated asset price. In such instances, the Board may also seek to reflect the same risk in one of the market shocks. For example, if the macroeconomic scenario were to feature a substantial decline in house prices, it may seem plausible for the market shock to also feature a significant decline in market values of any securities that are closely tied to the housing sector or residential mortgages.

d. In addition, as discussed in section 4.3, the Board may specify the macroeconomic assumptions in the adverse scenario in such a way as to explore risks qualitatively different from those in the severely adverse scenario. Depending on the nature and type of such risks, the Board may also seek to reflect these risks in one of the market shocks as appropriate.

#### 7. TIMELINE FOR SCENARIO PUBLICATION

a. The Board will provide a description of the macroeconomic scenarios by no later than November 15, 2014 (for the stress test cycle beginning on October 1, 2014) and no later than February 15 (for each stress test cycle beginning thereafter). During the period immediately preceding the publication of the scenarios, the Board will collect and consider information from academics, professional forecasters, international organizations, domestic and foreign supervisors, and other private-sector analysts that regularly conduct stress tests based on U.S. and global economic and financial scenarios, including analysts at the covered companies. In addition, the Board will consult with the FDIC and the OCC on the salient risks to be considered in the scenarios. For the stress test cycle beginning on October 1, 2014, the Board expects to conduct this process in July and August of 2014 and to update the scenarios based on incoming macroeconomic data releases and other information through the end of October. For each stress test cycle beginning thereafter, the Board expects to conduct this process in October and November of each year and to update the scenarios based on incoming macroeconomic data releases and other information through the end of January.

b. The Board expects to provide a broad overview of the market shock component along with the macroeconomic scenarios. The Board will publish the market shock templates by no later than December 1 of each year, and intends to publish the market shock earlier in the stress test and capital plan cycles to allow companies more time to conduct their stress tests.

<sup>20</sup> 12 CFR 252.55.

TABLE 1—CLASSIFICATION OF U.S. RECESSIONS

Peak	Trough	Severity	Duration (quarters)	Decline in Real GDP	Change in the Unemployment Rate during the Recession	Total change in the Unemployment rate (incl. after the Recession)
1957Q3 .....	1958Q2 .....	Severe .....	4 (Medium) .....	-3.6	3.2	3.2
1960Q2 .....	1961Q1 .....	Moderate .....	4 (Medium) .....	-1.0	1.6	1.8
1969Q4 .....	1970Q4 .....	Moderate .....	5 (Medium) .....	-0.2	2.2	2.4
1973Q4 .....	1975Q1 .....	Severe .....	6 (Long) .....	-3.1	3.4	4.1
1980Q1 .....	1980Q3 .....	Moderate .....	3 (Short) .....	-2.2	1.4	1.4
1981Q3 .....	1982Q4 .....	Severe .....	6 (Long) .....	-2.8	3.3	3.3
1990Q3 .....	1991Q1 .....	Mild .....	3 (Short) .....	-1.3	0.9	1.9
2001Q1 .....	2001Q4 .....	Mild .....	4 (Medium) .....	0.2	1.3	2.0
2007Q4 .....	2009Q2 .....	Severe .....	7 (Long) .....	-4.3	4.5	5.1
Average .....	.....	Severe .....	6 .....	-3.5	3.7	3.9
Average .....	.....	Moderate .....	4 .....	-1.1	1.8	1.8
Average .....	.....	Mild .....	3 .....	-0.6	1.1	1.9

Source: Bureau of Economic Analysis, National Income and Product Accounts, Comprehensive Revision on July 31, 2013.

[78 FR 71440, Nov. 29, 2013, as amended at 79 FR 64055, Oct. 27, 2014]

**PART 261—RULES REGARDING AVAILABILITY OF INFORMATION**

**Subpart A—General Provisions**

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- 261.1 Authority, purpose, and scope.
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**Subpart B—Published Information and Records Available to Public; Procedures for Requests**

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- 261.11 Records available for public inspection and copying.
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**Subpart C—Confidential Information Made Available to Supervised Institutions, Financial Institution Supervisory Agencies, Law Enforcement Agencies, and Others in Certain Circumstances**

- 261.20 Confidential supervisory information made available to supervised financial institutions and financial institution supervisory agencies.
- 261.21 Confidential information made available to law enforcement agencies and other nonfinancial institution supervisory agencies.
- 261.22 Other disclosure of confidential supervisory information.

261.23 Subpoenas, orders compelling production and other process.

AUTHORITY: 5 U.S.C. 552; 12 U.S.C. 248(i) and (k), 321 *et seq.*, 611 *et seq.*, 1442, 1467a, 1817(a)(2)(A), 1817(a)(8), 1818(u) and (v), 1821(o), 1821(t), 1830, 1844, 1951 *et seq.*, 2601, 2801 *et seq.*, 2901 *et seq.*, 3101 *et seq.*, 3401 *et seq.*; 15 U.S.C. 77uuu(b), 78q(c)(3); 29 U.S.C. 1204; 31 U.S.C. 5301 *et seq.*; 42 U.S.C. 3601; 44 U.S.C. 3510.

SOURCE: 53 FR 20815, June 7, 1988, unless otherwise noted.

**Subpart A—General Provisions**

SOURCE: 62 FR 54359, Oct. 20, 1997, unless otherwise noted.

**§ 261.1 Authority, purpose, and scope.**

(a) *Authority.* (1) This part is issued by the Board of Governors of the Federal Reserve System (the Board) pursuant to the Freedom of Information Act, 5 U.S.C. 552; Sections 9, 11, and 25A of the Federal Reserve Act, 12 U.S.C. 248(i) and (k), 321 *et seq.*, (including 326), 611 *et seq.*; Section 22 of the Federal Home Loan Bank Act, 12 U.S.C. 1442; section 10 of the Home Owners' Loan Act, 12 U.S.C. 1467a; the Federal Deposit Insurance Act, 12 U.S.C. 1817(a)(2)(A), 1817(a)(8), 1818(u) and (v), 1821(o); section 5 of the Bank Holding Company Act, 12 U.S.C. 1844; the Bank Secrecy Act, 12 U.S.C. 1951 *et seq.*, and Chapter 53 of title 31; the Home Mortgage Disclosure Act, 12 U.S.C. 2801 *et seq.*; the Community Reinvestment