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Annual Stress Test

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Questions for comment:

1. Is the proposed method of public disclosure appropriate and why? If not, what alternatives would be more appropriate? Are there concerns with the content of public disclosures, including the details of qualitative and quantitative information?

The forum proposed for public disclosure is certainly appropriate, although somewhat vague. Having the bank publish the summary of the stress test results on their website offers the benefits of being inexpensive to the bank and of being quite accessible to the public at large. However, given the lack of uniformity and regulation of bank website design, a bank with poor results could conceivably bury their report in an almost unnoticeable or inaccessible portion of their website. Furthermore, technical issues with the website may result in the report being unavailable, which may go unnoticed by the public and regulators for some time. Additionally, the language "any other forum that is reasonably accessible to the public" allows for banks to make attempts to limit the accessibility by broadening the term "reasonably accessible."

To combat these two issues, I suggest amending the disclosure requirement to include a provision that the bank must also include either the results, or directions as to how to obtain the result report, in its annual report or annual letter to clients. This will ensure that not only is the report accessible, but it will be readily disseminated so that clients and potential investors, lenders, financial institutions or other banks will be able to easily locate this report to make more informed decisions regarding their relationship to the reporting bank.

I have no initial concerns with the content of these public disclosures. The figures being released are projections of numbers that these banks disclose in annual reports, so this information is not likely to be considered very sensitive by the banks. Furthermore, if the banks consider their methodologies for creating the estimates required by the stress testing to be proprietary, the proposed rule only requires a general description of the methods used. Therefore, there should be few concerns regarding the dissemination of proprietary information and methodology.

2. What challenges exist with respect to the proposed steps and time frames? What specific alternatives exist to address these challenges that still allow the companies to meet their statutory requirement? Is the proposed timing of the stress tests appropriate and why? If not, which alternatives would be more appropriate?

The largest challenge to the banks with respect to meeting the deadlines set by the proposed rule is the time of the year during which they must conduct these tests. Essentially, the September 30th cutoff and January 5th deadlines ensure that the banks will be conducting the required stress testing during the fourth quarter of the calendar year. While the particular class of banks covered by this provision may not be as burdened during year end as national banks and other financial institutions, they still see an increase in activity. Having previously worked for a bank, I know that the end of the year is the busiest time of the year outside of tax season as clients and customers scrambled to squeeze in transactions before year end for tax purposes. Additionally, the covered banks in this proposed rule may have to work side by side with larger banks, bank holding companies and other financial institutions to complete the required testing. These other institutions are also quite burdened during this time of the year.

Instead, I would propose that the cutoff for determining covered banks should be moved forward a quarter to June 30th, and the deadline to submit the required result reports to the FDIC should be moved up to September 30th, with the public disclosure report coming 90 days after that. This would avoid the issue of the banks being unusually busy during the end of the calendar year and it would not conflict with tax season either. This will allow the banks to focus on the stress tests and avoid having to split personnel resources between overflow functions and performing the stress tests.

3. Does the immediate effectiveness of the rule provide sufficient time to conduct its first test?

As long as the rule is enacted and disseminated before September 30th, then covered banks should be able to complete the first stress tests by the January 5th deadline. However, exceptions and extensions should be more readily granted during the first year as some banks may have structural issues preventing a timely creation of policy and procedure to complete the test. The proposal could include a clause calling for a "good faith effort" to properly comply for any bank conducting its initial stress test that would grant leniency if the report is not furnished on time but is nearing completion.

However, if the timing of the determination of which banks are covered and the timing of the reporting are moved up in the calendar year, then there would likely not be sufficient time to conduct the first round of stress testing. If the deadline were to be moved forward, I would recommend an additional 30-45 days added in between the determination of which banks are covered and when the reports are due to the FDIC for the first year of the rule only.