

June 11, 2014

TO: The Board of Directors

FROM: Doreen R. Eberley
Director, Division of Risk Management Supervision

SUBJECT: Notice of Proposed Rulemaking to Adjust the Timing of the Annual Stress Testing Cycle

RECOMMENDATION

Staff recommends that the Board of Directors of the Federal Deposit Insurance Corporation (Board) issue the attached *Notice of Proposed Rulemaking* (proposed rule) that would adjust the timing of the stress test cycle by modifying the as of dates for financial data used for testing, and the corresponding reporting and public disclosure deadlines for covered banks under FDIC's Annual Stress Test Final Rule. The proposed amendments would become effective January 1, 2016. The Office of the Comptroller of the Currency (OCC) and the Board of Governors of the Federal Reserve System (Federal Reserve) will propose substantially similar rules to adjust the time periods for testing, reporting, and publication. If approved, the proposed rule will be published in the *Federal Register* with a 60-day comment period.

BACKGROUND

Section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires the Federal Reserve to conduct annual stress tests of holding companies with \$50 billion or more in assets ("supervisory stress tests") and the Federal banking agencies to issue regulations requiring financial companies with more than \$10 billion in total consolidated assets to conduct stress tests ("bank-run stress tests"). In October 2012, the FDIC, the OCC, and the

Federal Reserve issued consistent and comparable final rules implementing the bank-run stress test requirements.¹

The FDIC's Annual Stress Test Final Rule applies to "covered banks," defined as state nonmember banks and state savings associations that are either (1) "\$10 billion-to-\$50 billion covered banks" or (2) "over \$50 billion covered banks".² On an annual basis, the FDIC provides to covered banks a minimum of three economic scenarios (baseline, adverse, and severely adverse) and additional scenarios as the FDIC determines appropriate. Covered banks then must make projections that estimate their financial position under the different stress scenarios. The FDIC's Annual Stress Test Final Rule provides timeframes for the testing, reporting, and public disclosure of bank-run stress test results, depending on the size of the covered bank.

SUMMARY OF THE PROPOSED RULE

The FDIC review of the Dodd-Frank stress tests currently overlaps other supervisory responsibilities such as the review of resolution plans. Additionally, covered banks with experience in executing the bank-run stress tests have provided feedback that preparations for such stress tests at the end of the calendar year are made more difficult by other year-end regulatory reporting requirements and events, such as tax and securities filings, and preparation for financial statement audits. Covered banks have also raised concerns with the limited availability of critical resources at the end of the calendar year, including personnel who are needed to execute stress tests, validate and document results, and consult with senior management and the board of directors. Shifting the as of date for stress testing from September 30 to the end of the calendar year and at the same time extending the corresponding reporting

¹ 77 FR 62417 (October 15, 2012)(FDIC); 77 FR 61238 (October 9, 2012)(OCC); 77 FR 62396 (October 12, 2012)(Federal Reserve).

² A "\$10 billion-to-\$50 billion covered bank" is a state nonmember bank or state savings association with average total consolidated assets greater than \$10 billion but less than \$50 billion. An "over \$50 billion covered bank" is a state nonmember bank or state savings association with average total consolidated assets that are not less than \$50 billion.

and publication deadlines would more evenly distribute regulatory staff workload and improve the ability of covered banks to make timely modifications for the following year that address any issues identified in the bank-run stress test results.

For these reasons, FDIC staff recommends that the Board issue the notice of proposed rulemaking to modify the start dates of the bank-run stress test and corresponding reporting and publication deadlines effective January 1, 2016. Under the proposed rule, all covered banks would conduct bank-run stress tests using financial data as of December 31, which represents a 90-day shift from September 30 in the current rule. The FDIC would provide the economic scenarios to be used by covered banks in their bank-run stress tests no later than February 15 rather than November 15, as is provided under the existing rule.

Under the proposed rule, all \$10 billion-to-\$50 billion covered banks would be required to conduct and submit the results of their bank-run stress tests to the FDIC by July 31, rather than March 31 as under the current rule and publish those results between October 15 and October 31, rather than between June 15 and June 30 as under the current rule. Over \$50 billion covered banks would be required to conduct and submit the results of their bank-run stress tests to the FDIC by April 7, rather than January 5 as under the current rule, and publish those results between June 15 and July 15, rather than between March 15 and March 31 as is currently required. Please see the attached tables for modified annual stress test timelines for all covered banks.

A covered bank that is a subsidiary of a bank holding company or savings and loan holding company that is also required to conduct an annual company-run stress test under regulations of the Federal Reserve may continue to elect to conduct its stress test and report to the FDIC on the same timeline as its parent bank holding company or savings and loan holding company. Under the proposed rule, an over \$50 billion bank that is a subsidiary of a bank

holding company or savings and loan holding company that is subject to supervisory stress tests conducted by the Federal Reserve may publish the required summary of its bank-run stress test no earlier than the date that the Federal Reserve publishes supervisory stress test results for the organization, but no later than July 15.

CONCLUSION

For the reasons stated above, staff recommends that the Board issue the attached proposed rule for publication in the Federal Register.

CONCUR:

Richard J. Osterman, Jr.
Acting General Counsel

Contacts

RMS Contacts: Ryan Sheller (202-412-4861)
Legal Division Contacts: Mark Flanigan (202-898-7426)
Jason Fincke (202-898-3659)
Grace Pyun (202-898-3609)

Attachments

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

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

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

Action Required	Current Rule	Proposed Rule
“As of Date” for Financial Data	September 30	December 31
Distribution of Scenarios for Annual Stress Tests by FDIC	By November 15	By February 15
Reporting of Annual Stress Test Results	By January 5	By April 7
Public Disclosure of Annual Stress Test Results	Between March 15 and March 31	Between June 15 and July 15, except no earlier than publication of the supervisory stress test results of the covered bank’s holding company*

*If the Federal Reserve releases supervisory stress test results prior to June 15, then the covered bank may release its annual stress test results prior to June 15, but no earlier than the release of the supervisory stress test results and no later than July 15.