July 29, 2011

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve
20th Street and Constitution Avenue, NW
Washington, DC 20551
Docket No. OP–1411

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Incorporation
550 17th Street, NW
Washington, DC 20429

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
Docket Number OCC–2011–0011

Dear Sir or Madam,

The Conference of State Bank Supervisors (CSBS) appreciates the opportunity to comment on the agencies' "Proposed Guidance on Stress Testing for Banking Organizations with More than $10 Billion in Total Consolidated Assets" (proposed guidance). We generally support the concept of stress testing institutions with assets greater than $10 billion, and we endorse other philosophies outlined in the proposed guidance regarding flexibility in approach and expectations reflecting business models. Further, as outlined in our October 2010 white paper entitled "The Case for Stress Testing at Community Banks," CSBS believes stress testing can be a valuable risk management tool banks of all sizes can employ to better inform decision making. To that end, we believe this guidance may serve as best practices or provide some insight into how institutions below $10 billion can shape their stress testing strategies. However, we caution the agencies against the prospect of supervisory expectations tied to this guidance trickling down to smaller institutions. Institutions below $10 billion should not be held to this guidance or the standards that will come from the stress testing requirements of Dodd-Frank.

As we have learned from the financial crisis, both supervisors and bank management teams need to implement more forward looking risk management standards and approaches. The FDIC has overtly acknowledged this need through its forward looking supervision initiative. We believe the proposed stress testing guidance is a positive step in continuing efforts to implement more robust risk management practices. The stress testing techniques outlined in the proposed guidance should help institutions to begin thinking about "what-if" scenarios related to all aspects of safety and soundness and also focus on areas of their portfolios needing improvement. Our stress testing white paper acknowledged many of the risk management issues which plagued institutions throughout the financial crisis and offered stress testing as a potential method for strengthening risk management practices in banks and informing business decisions. We released the white paper based on a policy position maintaining stress testing in community banks should be: an industry driven solution; and designed to meet the risk management needs of the bank. Stress testing should not be a regulatory exercise. Although the Dodd-Frank Act establishes a certain class of institutions for which federal regulators must enforce stress testing standards, we believe the agencies should take appropriate steps to ensure stress testing is not simply a regulatory exercise but rather a risk management exercise driven by the institution. The industry has generally supported the concept of stress testing, but has expressed concerns in how the results will be used in the examination process. To that end, regulators should avoid criticism of bank management for identifying its vulnerability. Bank management should be evaluated on mitigation efforts.

The agencies make clear the proposed guidance is not intended to be a prescriptive guidance. Further, the agencies maintain "A banking organization should develop and implement its stress testing framework in a manner commensurate with its size, complexity, business activities, and overall risk profile." We strongly believe the agencies, in crafting the final guidance, should uphold these philosophies, and we caution the agencies against the prospect of these standards becoming prescriptive in the future. Obtaining data suitable for stress testing purposes can be a challenge for institutions of all sizes. Initial efforts should focus on ensuring institutions gather reliable data for stress testing purposes, recognizing this will take some time to achieve.

During the large institution stress testing efforts over the past few years, including the Supervisory Capital Assessment Program (SCAP) and the Comprehensive Capital Analysis and Review (CCAR), the standards for stress testing during the processes were not always explicit. While this strategy may have been appropriate during those two isolated stress tests, we do not believe the federal regulators should apply the same opacity to stress tests going forward. The Dodd-Frank Act requires the FRB to provide at least three different sets of conditions for firms to stress test against. In the proposed guidance, the agencies acknowledge this guidance does not implement the Dodd-Frank mandated stress testing requirements but any future Dodd-Frank related rulemaking will be consistent with the principles in the proposed guidance. Federal regulators should ensure stress testing processes and standards are applied in a transparent manner through this guidance and any future rulemaking in this area. Further, supervisory processes related to stress testing should be focused on the institution's assumptions and inputs and not measured against results generated by a regulatory stress testing model unknown to the institution.

The SCAP and CCAR were developed and controlled totally by the federal regulators. We request the agencies work with the state chartering authorities in developing and implementing stress testing expectations for specific institutions. State banking regulators oversee many institutions above $10 billion, and will undoubtedly have insights about critical aspects of these institutions' business models which regulators should focus stress testing efforts. Further, we request the federal regulators coordinate with the states on any examiner training initiatives they intend to develop related to stress testing.

Thank you for the opportunity to comment. We believe this proposed guidance continues to advance needed improvements in risk management, and we look forward to working with the federal regulators in this area.

Best regards,

Neil Milner
President and CEO