



**Billing Code: 6714-01-P**

**FEDERAL DEPOSIT INSURANCE CORPORATION**

**12 CFR Part 325, Subpart C**

**RIN: 3064-AD91**

**ANNUAL STRESS TEST**

**AGENCY:** Federal Deposit Insurance Corporation.

**ACTION:** Proposed rule with request for public comment.

**SUMMARY:** The Federal Deposit Insurance Corporation (the “Corporation” or “FDIC”) requests comment on this proposed rule that implements the requirements in Section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) regarding stress tests (“proposed rule”). This proposed rule would implement section 165(i)(2) by requiring state nonmember banks and state savings associations supervised by the Corporation with total consolidated assets of more than \$10 billion to conduct annual stress tests in accordance with the proposed rule, report the results of such stress tests to the Corporation and the Board of Governors of the Federal Reserve System (“Board”) at such time and in such a form containing the information required by the Corporation, and publish a summary of the results of the required stress tests.

**DATES:** Comments should be received on or before [INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION].

**ADDRESSES:** You may submit comments by any of the following methods:

- **Federal eRulemaking Portal:** <http://www.regulations.gov>. Follow the instructions for submitting comments.
- **Agency Web site:** <http://www.FDIC.gov/regulations/laws/federal/propose.html>.

- **Mail:** Robert E. Feldman, Executive Secretary, Attention: Comments/Legal ESS, **Federal Deposit Insurance Corporation**, 550 17th Street, NW, Washington, DC 20429.
- **Hand Delivered/Courier:** The guard station at the rear of the 550 17th Street Building (located on F Street), on business days between 7:00 a.m. and 5:00 p.m.
- **E-mail:** [Comments@FDIC.gov](mailto:Comments@FDIC.gov).

Instructions: Comments submitted must include “FDIC” and “RIN 3064-AD91.” Comments received will be posted without change to

<http://www.FDIC.gov/regulations/laws/federal/propose.html>, including any personal information provided.

FOR FURTHER INFORMATION CONTACT: George French, Deputy Director, Policy, (202) 898-3929, Robert Burns, Associate Director, Mid-Tier Bank Branch, (202) 898-3905, or Karl R. Reitz, Senior Capital Markets Specialist, (202) 898-6775, Division of Risk Management and Supervision; Mark G. Flanigan, Counsel, (202) 898-7426, or Ryan K. Clougherty, Senior Attorney, (202) 898-3843, Legal Division, Federal Deposit Insurance Corporation, 550 17th Street, NW, Washington, DC, 20429.

SUPPLEMENTARY INFORMATION:

## **I. Background.**

### **A. Overview of Section 165(i) of the Dodd-Frank Act**

Section 165(i)(2) of the Dodd-Frank Act requires the Corporation to issue regulations that require FDIC-insured state nonmember banks and FDIC-insured state-chartered savings associations with total consolidated assets of more than \$10 billion (“covered banks”) to conduct annual stress tests (“bank-run stress tests”).

For these stress tests, section 165(i)(2) requires that the Corporation issue regulations that: (1) define the term “stress test” for purposes of the regulations; (2) establish methodologies for the conduct of the stress tests that provide for at least three different sets of conditions, including baseline, adverse, and severely adverse conditions; (3) establish the form and content of a required report on the stress tests that banks subject to the regulation must submit to the Corporation; and (4) require covered banks to publish a summary of the results of the required stress tests.

Section 165(i)(2)(C) of the Dodd-Frank Act requires the Corporation, in coordination with the Board and the Federal Insurance Office, to issue consistent and comparable regulations to implement the requirements of this section. This proposed rule implements section 165(i)(2) as described further below.

## **B. Overview of Proposed Rule**

### **1. Annual Stress Tests**

#### **a. Purpose**

The Corporation views the bank-run stress tests required under the proposed rule as providing forward-looking information to assist the Corporation in its overall assessment of a covered bank’s capital adequacy, helping to better identify potential downside risks and the potential impact of adverse outcomes on the covered bank’s capital adequacy, and to assist it in ensuring the institution’s financial stability. Further, these stress tests are expected to improve the quality of covered banks’ internal assessments of capital adequacy and overall capital planning.

The proposed rule would require covered banks to conduct annual stress tests. The proposed rule defines a stress test as a process to assess the potential impact on a covered bank of

economic and financial conditions (“scenarios”) on the consolidated earnings, losses and capital of the covered bank over a set planning horizon, taking into account the current condition of the covered bank and its risks, exposures, strategies, and activities.

The Corporation expects that the stress tests required under the proposed rule would be one component of the broader stress testing activities conducted by covered banks. The broader stress testing activities should address the impact of a broad range of potentially adverse outcomes across a broad set of risk types affecting other aspects of a bank’s financial condition beyond capital adequacy alone. For example, under existing guidance, supervisors expect banks to evaluate their liquidity under stressed conditions and their exposure to changes in interest rates.<sup>1</sup> In addition, a full assessment of a bank’s capital adequacy must take into account a range of factors, including evaluation of its capital planning processes, the governance over those processes, regulatory capital measures, results of supervisory stress tests where applicable, and market assessments, among other factors. The Corporation notes that the stress tests described in the proposed rule focus on capital adequacy and do not focus on other aspects of financial condition.

b. Applicability

The proposed rule would apply to covered banks. Covered banks are defined under the proposed rule as any state nonmember bank or state-chartered savings association that has more than \$10 billion in total consolidated assets, as determined based on the average total consolidated assets as reported on the state nonmember bank’s four most recent Consolidated Reports of Condition and Income (“Call Reports”) or on the state savings association’s four most

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<sup>1</sup> On June 15, 2011, the Corporation, along with the other banking agencies, published for comment proposed guidance on covered banks’ stress testing as a part of overall institution risk management. The guidance included stress testing non-capital related aspects of financial condition. (76 FR 35072)

recent Thrift Financial Reports (“TFRs”), respectively. Once a state nonmember bank or state savings association becomes a covered bank, it will remain so for purposes of the proposed rule unless and until the state nonmember bank or state savings association has \$10 billion or less in total consolidated assets as determined on each of, for state nonmember banks, the four most recent Call Reports or, for state savings associations, each of the four most recent TFRs.

The Corporation may accelerate or extend any specified deadline for stress testing if the Corporation determines such modification is appropriate in light of the institution’s activities, operations, risk profile, or regulatory capital.

c. Process Overview

Except as otherwise provided in the proposed rule, a bank that becomes a covered bank no less than 90 days before September 30 of any given calendar year must comply with the requirements, including the timing of required submissions to the Corporation, of the proposed rule from September 30 forward. With respect to initial applicability, a bank that is a covered bank on the effective date of the proposed rule is subject to the proposed requirements as of the effective date, including the timing of required submissions to the Corporation. The Corporation expects to use the following general process and timetables in connection with the stress tests.

i. Reporting by Covered Banks

Under the proposed rule, the Corporation would collect the covered bank’s stress test results and additional qualitative and quantitative information about the tests on a confidential basis. The Corporation plans to publish notice of both specific requirements and related instructions for the report to be submitted to the Corporation, as described below. Following the annual stress test, each covered bank would be required to publish a summary of its results.

ii. Annual Stress Test

Each year, in advance of the annual stress test required of all covered banks on a schedule to be established, the Corporation would provide to such banks at least three scenarios, including baseline, adverse, and severely adverse, that each covered bank must use to conduct its annual stress test required under the proposed rule.

*iii. Proposed Steps for Annual Stress Test*

Table A below describes proposed steps for the stress test cycle for covered banks, including proposed general time frames for each step. The proposed time frames are illustrative and are subject to change.

<b>Table A</b>	
<b>Process Overview of Annual Stress Test Cycle</b>	
<b>(using data as of September 30)</b>	
<b>Step</b>	<b>Proposed Timeframe</b>
1. FDIC provides covered banks with scenarios for annual stress tests	No later than mid-November
2. Covered banks submit required regulatory reports to the FDIC on their stress tests	By January 5
3. Covered banks make required public disclosures	By early April

*d. Overview of Stress Test Requirements*

*i. General Requirements for Stress Tests*

Under the proposed rule, each covered bank would be required to conduct annual stress tests using the bank’s financial data as of September 30 of that year to assess the potential impact of different scenarios on the consolidated earnings and capital of that bank and certain related items over a nine-quarter forward-looking planning horizon, taking into account all relevant exposures and activities.

The Corporation recognizes that certain parent company structures of covered banks may include one or more financial companies, each with total consolidated assets greater than \$10 billion. The stress test requirements of section 165(i)(2) apply to the parent company and to each subsidiary financial company (including covered banks) regulated by a primary federal financial regulatory agency that has more than \$10 billion in total consolidated assets. To avoid unnecessary complexity or duplication of effort associated with this requirement, the Corporation intends to coordinate with the other primary federal financial regulatory agencies, to the extent needed. For example, the Corporation will aim to coordinate, as appropriate, with the other primary federal financial regulatory agencies in providing scenarios to be used by multiple entities within a holding company structure when meeting the requirements of the stress tests described in the proposed rule.

*ii. Scenarios*

The proposed rule would require each covered bank to use a minimum of three sets of economic and financial conditions, including baseline, adverse, and severely adverse scenarios, or such additional conditions as the Corporation determines appropriate. The Corporation would provide at least three scenarios (baseline, adverse, and severely adverse) in advance of the annual stress tests.

*iii. Methodologies and Practices*

Under the proposed rule, each covered bank would be required to use the applicable scenarios discussed above in conducting its stress tests to calculate, for each quarter-end within the planning horizon, the impact on its potential losses, pre-provision revenues, loan loss reserves, and *pro forma* capital positions over the planning horizon, including the impact on capital levels and ratios. Each covered bank would also be required to calculate, for each

quarter-end within the planning horizon, the potential impact of the specific scenarios on its capital ratios, including regulatory and any other capital ratios specified by the Corporation.

The proposed rule would require each covered bank to establish and maintain a system of controls, oversight, and documentation, including policies and procedures, designed to ensure that the stress testing processes used by the bank are effective in meeting the requirements of the proposed rule. The covered bank's policies and procedures must, at a minimum, outline the bank's stress testing practices and methodologies, validation, use of stress test results, and processes for updating the bank's stress testing practices consistent with relevant supervisory guidance. The board of directors and senior management of each covered bank must approve and annually review the controls, oversight, and documentation, including policies and procedures, of the covered bank established in the proposed rule.

*iv. Stress Test Information and Results*

1. Required Report to the FDIC of Stress Test Information and Results

On or before January 5 of each year, each covered bank would be required to report to the Corporation, in the manner and form prescribed in the proposed rule, the results of the stress tests conducted by the bank during the immediately preceding year ("required report"). The Corporation plans to publish for comment a description of items to be included in the required report to the Corporation. It is anticipated that the required report would include (but not necessarily be limited to) the following qualitative and quantitative information.

Qualitative information:

- a general description of the use of stress tests required by the proposed rule in the bank's capital planning and capital adequacy assessments;

- a description of the types of risks (*e.g.*, credit, market, operational, etc.) being captured in the stress test;
- a general description of the methodologies employed to estimate losses, pre-provision net revenues, loan loss reserves, changes in capital levels and ratios, and changes in the bank's balance sheet over the planning horizon;
- assumptions about potential capital distributions over the planning horizon; and
- any other relevant qualitative information to facilitate supervisory assessment of the tests, upon request by the Corporation.

Quantitative information under each scenario:

- estimated *pro forma* capital levels and capital ratios, including regulatory and any other capital ratios specified by the Corporation;
- estimated losses by exposure category;
- estimated pre-provision net revenue;
- estimated changes in loan loss reserves;
- estimated total assets and risk-weighted assets;
- estimated aggregate loan balances;
- potential capital distributions over the planning horizon; and
- any other relevant quantitative information to facilitate supervisory understanding of the tests, upon request by the primary supervisor of the covered bank.

The confidentiality of information submitted to the Corporation under the proposed rule shall be determined in accordance with applicable law including any available exemptions under the Freedom of Information Act (5 U.S.C. 552(b)) and the FDIC's Rules and Regulations regarding the Disclosure of Information (12 C.F.R. Part 309).

The Corporation may also obtain supplemental information as needed.

Question: What are the anticipated costs on covered banks associated with internal data collection and developing methodologies for stress testing in line with requirements in the regulation?

## 2. Supervisory Review of Covered Banks' Stress Test Processes and Results

Based on information submitted by a covered bank in the required report to the Corporation, as well as other relevant information, the Corporation would conduct an analysis of the quality of the bank's stress test processes and related results. The Corporation envisions that feedback concerning such analysis would be provided to a covered bank through the supervisory process. In addition, each covered bank would be required to take the results of the annual stress test, in conjunction with the Corporation's analyses of those results, into account in making changes, as appropriate, to: the bank's capital structure (including the level and composition of capital); its exposures, concentrations, and risk positions; any plans of the covered bank for recovery and resolution; and to improve the overall risk management of the firm. The Corporation may also require other actions consistent with safety and soundness of the covered bank.

## 3. Publication of Results

Consistent with the requirements of the Dodd-Frank Act, the proposed rule would require each covered bank to publish a summary of the results of its annual stress tests within 90 days of the required date for submitting its stress test report to the Corporation. The summary may be published on a covered bank's website or any other forum that is reasonably accessible to the public. It is expected that a covered bank that is a subsidiary of a parent company also subject to section 165(i)(2) summary publication requirements could publish its summary on the parent

company's website or in another forum with the parent company's summary. The required information publicly disclosed by each covered bank, as applicable, would, at a minimum, include:

- (1) A description of the types of risks being included in the stress test;
- (2) A general description of the methodologies employed to estimate losses, pre-provision net revenue, loss reserves, and changes in capital positions over the planning horizon; and
- (3) Aggregate losses, pre-provision net revenue, loss reserves, net income, and *pro forma* capital levels and capital ratios (including regulatory and any other capital ratios specified by the Corporation) over the planning horizon, under each scenario.

Question: Is the proposed method of public disclosure appropriate and why? If not, what alternatives would be more appropriate? Do commenters have concerns with the content of public disclosures, including the details of qualitative and quantitative information?

## **II. Request for Comments**

The Corporation requests comments on all aspects of the proposed rule for stress testing. What, if any, specific 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 requirements?

Is the proposed timing of stress testing appropriate and why? If not, what alternatives would be more appropriate? What, if any, specific challenges exist with respect to the proposed steps and time frames? What specific alternatives exist to address these challenges that still allow the Corporation to meet its statutory requirements? Please comment on the use of the "as

of” date of September 30, the January 5 reporting date, the publication date, and the sufficiency of time for completion of the stress test. Does the immediate effectiveness of the proposed rule provide sufficient time for a covered bank as of the effective date of the rule to conduct its first stress test?

### **III. Administrative Law Matters**

#### **A. Paperwork Reduction Act Analysis**

##### *A. Request for Comment on Proposed Information Collection*

In accordance with the requirements of the Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3521)(“PRA”), the Corporation may not conduct or sponsor, and the respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (“OMB”) control number. The information collection requirements contained in this notice of proposed rulemaking have been submitted by the Corporation to OMB for review and approval under section 3506 of the PRA and section 1320.11 of OMB’s implementing regulations (5 CFR Part 1320).

Comments are invited on:

- (a) Whether the collection of information is necessary for the proper performance of the agency’s functions, including whether the information has practical utility;
- (b) The accuracy of the estimates of the burden of the information collection, including the validity of the methodology and assumptions used;
- (c) Ways to enhance the quality, utility, and clarity of the information to be collected;
- (d) Ways to minimize the burden of the information collection on respondents, including through the use of automated collection techniques or other forms of information technology; and

(e) Estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

You may submit written comments by any of the following methods:

- *Agency Web Site:* <http://www.fdic.gov/regulations/laws/federal/propose.html>. Follow the instructions for submitting comments on the FDIC Web Site.
- *Federal eRulemaking Portal:* <http://www.regulations.gov>. Follow the instructions for submitting comments.
- *E-mail:* [Comments@FDIC.gov](mailto:Comments@FDIC.gov). Include RIN 3064-AD91 on the subject line of the message.
- *Mail:* Robert E. Feldman, Executive Secretary, Attention: Comments, FDIC, 550 17th Street, NW, Washington, DC 20429.
- *Hand Delivery/Courier:* Guard station at the rear of the 550 17th Street Building (located on F Street) on business days between 7 a.m. and 5 p.m.

*Public Inspection:* All comments received will be posted without change to <http://www.fdic.gov/regulations/laws/federal/propose.html>, including any personal information provided. Comments may be inspected at the FDIC Public Information Center, 3501 North Fairfax Drive, Room E-1002, Arlington, VA 22226 between 9 a.m. and 4:30 p.m. on business days.

A copy of the comments may also be submitted to the OMB desk officer for the agencies: By mail to the U.S. Office of Management and Budget, 725 17th Street, NW, #10235, Washington, DC 20503 or by facsimile to (202)–395–6974, Attention: Federal Banking Agency Desk Officer.

### *B. Proposed Information Collection*

*Title of Information Collection:* Stress Test Reporting

*Frequency of Response:* Annually.

*Affected Public:* State nonmember banks and state savings associations supervised by the Corporation.

*Abstract:* The information collection requirements are found in sections 325.204, 325.205, and 325.207 of the proposed rule. These requirements implement the stress testing and stress testing reporting requirements set forth in Section 165(i) of the Dodd-Frank Act. Section 325.204(a) identifies the calculations of the potential impact on capital that must be made during each quarter of the planning horizon. Section 325.204(c) requires that each covered bank must establish and maintain a system of controls, oversight, and documentation, including policies and procedures that describe the covered bank's stress test practices and methodologies, and processes for updating such bank's stress test practices. Section 325.205 sets forth the requirements for stress test reports to be filed annually with the Corporation and the Board in the time, manner and form specified by the Corporation. Section 325.205(d) includes a written request for institutions to request an extension of time to submit the stress test reports under certain situations that have been identified by the Corporation. Section 325.207 requires that a covered bank shall publish a summary of the results of its annual stress tests. The summary must include a description of the types of risks being included in the stress test, a general description of the methodologies employed to estimate losses, pre-provision net revenue, loss reserves, and changes in capital positions over the planning horizon and aggregate losses, pre-provision net revenue, loss reserves, net income, and *pro forma* capital levels and capital ratios (including regulatory and any other capital ratios specified by the Corporation) over the planning horizon, under each scenario.

	Number of Respondents	Annual Frequency	Hourly Estimate	Total Hours
<b>Initial Paperwork Burden</b>				
Initial Report	23	1	2,000	46,000
<b>Total</b>	<b>23</b>	<b>1</b>	<b>2,000</b>	<b>46,000</b>
<b>Ongoing Paperwork Burden</b>				
Annual Report	23	1	1,040	23,920
<b>Total</b>	<b>23</b>	<b>1</b>	<b>1,040</b>	<b>23,920</b>

**B. Regulatory Flexibility Act Analysis**

The Regulatory Flexibility Act, 5 U.S.C. 601, *et seq.* (“RFA”), requires that each federal agency either certify that a proposed rule would not, if adopted in final form, have a significant economic impact on a substantial number of small entities or prepare an initial regulatory flexibility analysis of the rule and publish the analysis for comment.<sup>2</sup> The proposed rule would apply only to state nonmember banks and state savings associations with more than \$10 billion in total consolidated assets. Under regulations issued by the Small Business Administration (“SBA”), a bank or other depository institution is considered “small” if it has \$175 million or less in assets.<sup>3</sup> As of December 31, 2010, there are approximately 2,685 small state nonmember banks and state savings associations. Since the proposed rule would apply only to state nonmember banks and state savings associations with more than \$10 billion in total consolidated assets, the Corporation does not expect that the proposed rule will directly affect a substantial number of small entities. It is hereby certified that this rule will not have a significant economic

<sup>2</sup> See 5 U.S.C. 603, 604, and 605.

<sup>3</sup> 13 CFR 121.201.

impact on a substantial number of small entities and therefore, a regulatory flexibility analysis under the RFA is not required.

### **C. Solicitation of Comments and Use of Plain Language**

Section 722 of the Gramm-Leach-Bliley Act (Pub. L. No. 106-102, 113 Stat. 1338, 1471, 12 U.S.C. 4809) requires federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The Corporation has sought to present the proposed rule in a simple and straightforward manner and invites comment on how to make the proposed rule easier to understand. For example:

- Is the material organized to suit your needs? If not, how could the rule be more clearly presented?
- Are the requirements in the rule clearly stated? If not, how could the rule be more clearly stated?
- Do the regulations contain technical language or jargon that is not clear? If so, which language requires clarification?
- Would a different format (grouping and order of sections, use of headings, paragraphing) make the regulation easier to understand? If so, what changes would achieve that?
- Is this section format adequate? If not, which of the sections should be changed and how?
- What other changes can the Corporation incorporate to make the regulation easier to understand?

## List of Subjects

### 12 CFR Part 325, Subpart C

Administrative practice and procedure, banks, banking, Federal Deposit Insurance Corporation, reporting and recordkeeping requirements, state savings associations, stress tests.

## Federal Deposit Insurance Corporation

### 12 CFR Chapter III

#### Authority and Issuance

The Corporation proposes to amend part 325 of chapter III of title 12 of the Code of Federal Regulations as follows:

#### **PART 325 – CAPITAL MAINTENANCE**

1. The authority citation for part **325** is revised to read as follows:

**Authority:** 12 U.S.C. 1815(a), 1815(b), 1816, 1818(a), 1818(b), 1818(c), 1818(t), 1819(Tenth), 1828(c), 1828(d), 1828(i), 1828(n), 1828(o), 1831o, 1835, 3907, 3909, 4808; Pub. L. 102–233, 105 Stat. 1761, 1789, 1790 (12 U.S.C. 1831n note); Pub. L. 102–242, 105 Stat. 2236, as amended by Pub. L. 103–325, 108 Stat. 2160, 2233 (12 U.S.C. 1828 note); Pub. L. 102–242, 105 Stat. 2236, 2386, as amended by Pub. L. 102–550, 106 Stat. 3672, 4089 (12 U.S.C. 1828 note); **12 U.S.C. 5365(i)**.

2. Add subpart C to part 325 to read as follows:

#### **SUBPART C —ANNUAL STRESS TEST.**

Sec.

325.201 Authority, purpose, applicability, and reservation of authority.

325.202 Definitions.

325.203 Annual stress tests required.

325.204 Methodologies and practices.

325.205 Report to the FDIC of stress test results and related information.

325.206 Supervisory review of stress tests and post-assessment actions.

325.207 Publication of summary of results.

#### **SUBPART C—ANNUAL STRESS TEST.**

##### **§325.201 Authority, purpose, applicability, and reservation of authority.**

- (a) Authority. This subpart is issued by the Federal Deposit Insurance Corporation (the “Corporation” or “FDIC”) under section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) (Pub. L. No. 111-203, 124 Stat. 1376, 1430-1431, 12 U.S.C. 5365(i)(2)).
- (b) Purpose. This subpart implements section 165(i)(2) of the Dodd Frank Act (12 U.S.C. 5365(i)(2)), which requires the Corporation (in coordination with the Board of Governors of the Federal Reserve System (“Board”) and the Federal Insurance Office) to issue regulations implementing the requirement that each covered bank supervised by the Corporation with total consolidated assets of more than \$10 billion conduct annual stress tests.
- (c) Applicability. (1) Except as otherwise provided in this subpart, a bank that becomes a covered bank no less than 90 days before September 30 of that calendar year is subject to the requirements of this subpart.

- (2) Initial applicability. A bank that is a covered bank on the effective date of this subpart is subject to the requirements, including timing of required submissions to the Corporation, of this subpart.
- (d) Reservation of authority. (1) Notwithstanding any other provisions of this subpart, the Corporation may accelerate or extend any deadline for stress testing, reporting or publication, or require additional tests if the Corporation determines that such modification is appropriate in light of the covered bank's activities, operations, risk profile, or regulatory capital.
- (2) If the Corporation determines that the stress testing techniques and methodologies of a covered bank are deficient under §325.204, the Corporation may determine that additional analytical techniques and methodologies are appropriate for the covered bank to use in identifying, measuring, and monitoring risks to its safety and soundness and require it to implement such techniques and methodologies.
- (3) The Corporation reserves the authority to require a covered bank to make additional publications beyond those required by this subpart if the Corporation determines that such covered bank's publication does not adequately address one or more material elements of the stress test. Further, nothing in this subpart limits the authority of the Corporation under any other provision of law or regulation to take supervisory or enforcement action, including action to address unsafe and unsound practices or conditions, or violations of law or regulation.

### **§325.202 Definitions.**

For purposes of this subpart--

(a) Covered bank means

(1) Any state nonmember bank or state savings association that has more than \$10 billion in total consolidated assets, as determined based on the average of total consolidated assets as reported on the state nonmember bank's four most recently-filed Consolidated Reports of Condition and Income (Call Report), or on the state savings association's four most recently-filed Thrift Financial Reports (TFRs).

(2) Any state nonmember bank or state savings association that meets the requirements of paragraph (1) shall remain a covered bank for purposes of this subpart unless and until the state nonmember bank has \$10 billion or less in total consolidated assets as determined based on its four most recently-filed Call Reports, or the state savings association has \$10 billion or less in total consolidated assets as determined based on each of its four most recently-filed TFRs.

(b) Planning horizon means the period over which the bank's stress test projections will extend: specifically nine quarters.

(c) Scenarios are sets of economic and financial conditions used in the covered banks' stress tests, including baseline, adverse, and severely adverse.

(d) State nonmember bank and state savings association shall each have the same respective meaning contained in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813).

- (e) Stress test is a process used to assess the potential impact on a covered bank of economic and financial conditions (scenarios) on the consolidated earnings, losses, and capital of a covered bank over a set planning horizon, taking into account the current condition of the covered bank and the covered bank's risks, exposures, strategies, and activities.

**§325.203 Annual stress tests required.**

- (a) (1) Each covered bank shall complete an annual stress test of itself based on data of the covered bank as of September 30 of that calendar year.
- (2) The stress test shall be conducted in accordance with this section and the methodologies and practices described in section 325.204.
- (b) Scenarios provided by the Corporation. In conducting its stress tests under this section, each covered bank must use scenarios provided by the Corporation that reflect a minimum of three sets of economic and financial conditions, including a baseline, adverse, and severely adverse scenario. In advance of these stress tests, the Corporation will provide to all covered banks a description of the baseline, adverse, and severely adverse scenarios that each covered bank shall use to conduct its annual stress tests under this subpart.

**§325.204 Methodologies and practices.**

- (a) Potential impact on capital.

- (1) In conducting a stress test under section 325.203, each covered bank shall calculate how each of the following are impacted during each quarter of the stress test planning horizon for each scenario:
  - (i) Potential losses, pre-provision net revenues, loan loss reserves, and *pro forma* capital positions over the planning horizon; and
  - (ii) Capital levels and capital ratios, including regulatory and any other capital ratios specified by the Corporation.
- (b) Planning horizon. Each covered bank must use a planning horizon of at least nine quarters over which the impact of specified scenarios would be assessed.
- (c) Controls and oversight of stress testing processes.
  - (1) Each covered bank must establish and maintain a system of controls, oversight, and documentation, including policies and procedures, designed to ensure that the stress testing processes used by the covered bank are effective in meeting the requirements in this subpart. These policies and procedures must, at a minimum, describe the covered bank's stress testing practices and methodologies, validation, and use of stress testing results, as well as processes for updating the covered bank's stress testing practices consistent with relevant supervisory guidance.
  - (2) The board of directors and senior management of each covered bank shall approve and annually review the controls, oversight, and documentation, including policies and procedures of the covered bank pursuant to this subpart.

**§325.205 Report to the FDIC of stress test results and related information.**

- (a) Report required for stress tests. On or before January 5 of each year, each covered bank must report the results of the stress test required under section 325.203 to the FDIC in accordance with paragraph 325.205(b) .
- (b) Content of report for annual stress tests. Each covered bank must file a report in the manner, in such form, and containing the information established by the Corporation.
- (c) Confidential treatment of information submitted. The confidentiality of information submitted to the Corporation under this subpart and related materials shall be determined in accordance with applicable law including any available exemptions under the Freedom of Information Act (5 U.S.C. 552(b)) and the FDIC's Rules and Regulations regarding the Disclosure of Information (12 C.F.R. Part 309).
- (d) Extension. The Corporation may, in its discretion, and upon request by a covered bank, extend the time period for compliance established under paragraph 325.205(a) for up to an additional 60 days.

**§325.206 Supervisory review of stress tests and post-assessment actions.**

- (a) Each covered bank shall take the results of the stress tests conducted under section 325.203 into account in making changes, as appropriate, to: the covered bank's capital structure (including the level and composition of capital); its exposures, concentrations, and risk positions; any plans for recovery and resolution; and to improve overall risk management.

**§325.207 Publication of summary of results..**

- (a) Public disclosure of results required for stress tests of covered banks. Within 90 days of the date required for submitting a report under section 325.205(a) for its required stress test under section 325.203, a covered bank shall publicly disclose a summary of the results of the stress tests required under section 325.203.
  
- (b) Information to be disclosed in the summary. The information disclosed by each covered bank shall, at a minimum, include—
  - (1) A description of the types of risks being included in the stress test;
  - (2) A general description of the methodologies employed to estimate losses, pre-provision net revenue, loss reserves, and changes in capital positions over the planning horizon;
  - (3) Aggregate losses, pre-provision net revenue, loss reserves, net income, and *pro forma* capital levels and capital ratios (including regulatory and any other capital ratios specified by the Corporation) over the planning horizon under each scenario.

Dated at Washington, D.C., this 17<sup>th</sup> day of January, 2012

By order of the Board of Directors.

Federal Deposit Insurance Corporation.

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Robert E. Feldman,  
Executive Secretary

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