Please note that the comments expressed herein are solely my personal views

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**- 12 CFR Part 252: Regulation YY; Docket No. OP-1452**
**- Policy Statement on the Scenario Design Framework for Stress Testing**

Dear Robert deV. Frierson.

Thank you for giving us the opportunity to comment on your Proposed Policy Statement on the Scenario Design Framework for Stress Testing.

The Board is requesting public comment on a policy statement on the approach to scenario design for stress testing that would be used in connection with the supervisory and company-run stress tests conducted under the Board's Regulation YY (12 CFR part 252, subparts F, G, and H) pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act or Act) and the Board's capital plan rule (12 CFR 225.8). The proposed policy statement highlights the importance of stress testing as an ongoing risk management practice that supports a banking organization's forward-looking assessment of its risks.

In Section 1. Background, it states that: "Currently, these stress tests primarily focus on credit risk and market risk - that is, risk of mark-to-market losses associated with firms' trading and counterparty positions - and not on other types of risk, such as liquidity risk or operational risk unrelated to the macroeconomic environment. Pressures stemming from these sources are considered in separate supervisory exercises. No single supervisory tool, including the stress tests, can provide an assessment of an institution's ability to withstand every potential source of risk." Whilst I agree with this, it is very important that all risks are considered together as a coherent whole. This may require running stress testing for all risks in one scenario, a "single equivalent scenario", or it may require combining the results of separate stress testing exercises appropriately. Either way, I would prefer and recommend a coherent, consistent approach to all stress testing, rather than a piecemeal approach.

It would be interesting to know more about your industry-wide findings concerning operational risk from the CCAR process. In any case, I would also recommend that you should specifically include operational risk as a potential risk factor for this stress testing.[1] Operational risk is critical as operational risk failures effectively allow other types of risk, such as credit risk and market risk to be excessive. I note that operational risk was mentioned as a risk factor for stress testing in the Basel Committee on Banking Supervision's report on Principles for sound stress testing practices and supervision.[2]

Naturally stress testing should allow for shocks and variations along the following lines, in order to test the robustness and reliability of stress testing results using ad hoc sceanrios:

1) changing individual assumptions and parameters (sensitivity testing);
2) changing several assumptions and parameters at the same time, where the assumptions and parameters could reasonably be expected to change together (scenario testing);
3) changing the dependencies assumed between assumptions and parameters.

The importance of point 3 above is often underestimated. I would recommend that you specifically emphasise the importance of considering dependencies and correlations under this stress testing, particularly as typically observed and expected dependencies may not apply in the tail conditions and events that underlie many stress conditions and scenarios.

Yours sincerely

C.R.B.

Chris Barnard

[1] Operational risk is commonly defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

[2] See page 3 in Principles for sound stress testing practices and supervision, BCBS, May 2009, available at: http://www.bis.org/publ/bcbs155.pdf