

Supporting Statement for the Recordkeeping Provisions Associated with Stress Testing Guidance (FR 4202; OMB No. 7100-0348)

Summary

The Board of Governors of the Federal Reserve System (Board), under authority delegated by the Office of Management and Budget (OMB), proposes to extend for three years, without revision, the Recordkeeping Provisions Associated with Stress Testing Guidance (FR 4202; OMB No. 7100-0348).¹ The Stress Testing Guidance was issued jointly by the Board, Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC) (collectively, the agencies) on May 17, 2012. The interagency guidance outlines high-level principles for stress testing practices applicable to all Board-supervised banking organizations with more than \$10 billion in total consolidated assets. Board-supervised banking organizations include state member banks, bank holding companies, and all other institutions for which the Board is the primary federal supervisor.

The estimated total annual burden for the FR 4202 is 13,920 hours.

Background and Justification

All banking organizations should have the capacity to understand their risks and the potential impact of stressful events and circumstances on their financial condition. The U.S. federal banking agencies have previously highlighted the use of stress testing as a means to better understand the range of banking organizations' potential risk exposures. The financial crisis that occurred between 2007 and 2009 further underscored the need for banking organizations to incorporate stress testing into their risk management, as banking organizations unprepared for stressful events and circumstances can suffer acute threats to their financial condition and viability.

On May 17, 2012, the agencies jointly published the Stress Testing Guidance in the *Federal Register*.² The Stress Testing Guidance outlines high-level principles for firms' stress testing practices and highlights the importance of stress testing as an ongoing risk management practice that supports a banking organization's forward-looking assessment of its risks.

The guidance is consistent with industry practices and with international supervisory standards.³ The guidance does not explicitly address the stress testing requirements imposed upon certain companies by section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). In October 2012, the Board approved final rules to

¹ There is no formal reporting form for this collection of information (the FR 4202 designation is for internal purposes only).

² [77 FR 29458 \(May 17, 2012\)](https://www.federalreserve.gov/press/pr01212.htm).

³ See "Principles for Sound Stress Testing Practices and Supervision," Basel Committee on Banking Supervision, May 2009, <https://www.bis.org/publ/bcbs155.htm>.

implement the stress testing requirements contained in section 165(i) of the Dodd-Frank Act.⁴ The provisions in those final rules are consistent with the principles in the guidance.

Description of Information Collection

The Stress Testing Guidance recommends that banking organizations (1) have a stress testing framework that includes clearly defined objectives, well-designed scenarios tailored to the banking organization's business and risks, well-documented assumptions, conceptually sound methodologies to assess potential impact on the banking organization's financial condition, informative management reports, and recommended actions based on stress test results and (2) have policies and procedures for a stress testing framework. These voluntary recordkeeping activities are collections of information under the Paperwork Reduction Act.

An organization should have written policies, annually reviewed and approved by its board, that direct and govern the implementation of the stress testing framework in a comprehensive manner. Policies, along with procedures to implement them, should:

- describe the overall purpose of stress testing activities,
- articulate consistent and sufficiently rigorous stress testing practices across the entire organization,
- indicate stress testing roles and responsibilities, including controls over external resources used for any part of stress testing (such as vendors and data providers),
- describe the frequency and priority with which stress testing activities should be conducted,
- indicate how stress test results are used and by whom, and
- be reviewed and updated as necessary to ensure that stress testing practices remain appropriate and keep up to date with changes in market conditions, organization products and strategies, organization exposures and activities, the organization's established risk appetite, and industry stress testing practices.

Respondent Panel

The FR 4202 panel comprises all Board-supervised banking organizations with more than \$10 billion in total consolidated assets.

Frequency and Time Schedule

The records associated with the FR 4202 are maintained as needed. The documentation associated with the activities described in the Stress Testing Guidance is maintained by each institution and may be reviewed by Federal Reserve System examiners.

Public Availability of Data

There are no data related to this information collection available to the public.

⁴ See Annual Company-Run Stress Test Requirements for Banking Organizations With Total Consolidated Assets Over \$10 Billion Other Than Covered Companies, [77 FR 62396](#) (Oct. 12, 2012); Supervisory and Company-Run Stress Test Requirements for Covered Companies, [77 FR 62378](#) (Oct. 12, 2012).

Legal Status

The FR 4202 is authorized pursuant to section 11 of the Federal Reserve Act⁵ (state member banks); sections 25 and 25A of the Federal Reserve Act⁶ (Edge and Agreement corporations); section 5 of the Bank Holding Company Act⁷ (bank holding companies and, in conjunction with section 8 of the International Banking Act,⁸ foreign banking organizations); section 7(c) of the International Banking Act⁹ (branches and agencies of foreign banks); section 10 of the Home Owners' Loan Act¹⁰ (savings and loan holding companies); and section 165(i) of the Dodd-Frank Act¹¹ (nonbank financial companies supervised by the Board).

Because the collections of information associated with the FR 4202 only involve internal recordkeeping by firms subject to the Stress Testing Guidance and do not involve the submission of information to the Board, no issues of confidentiality would normally arise. To the extent that the Board collects information kept by a banking organization as a record during an examination of the banking organization, confidential treatment may be afforded to the records under exemption 8 of the Freedom of Information Act (FOIA), which protects information collected as part of the Board's supervisory process.¹² Additionally, individual respondents may request that certain information collected by the Board during an examination be afforded confidential treatment pursuant to exemption 4 of FOIA¹³ if the information has not previously been publicly disclosed and the release of the data would likely cause substantial harm to the competitive position of the respondent.¹⁴

Consultation Outside the Agency

The Board consulted with the FDIC and OCC and confirmed that there will be no revisions to the guidance at this time.

Public Comments

On February 16, 2024, the Board published an initial notice in the Federal Register (89 FR 12339) requesting public comment for 60 days on the extension, without revision, of the FR 4202. The comment period for this notice will expire on April 16, 2024.

⁵ 12 U.S.C. § 248

⁶ 12 U.S.C. §§ 602 and 625.

⁷ 12 U.S.C. § 1844.

⁸ 12 U.S.C. § 3106.

⁹ 12 U.S.C. § 3105(c).

¹⁰ 12 U.S.C. § 1467a.

¹¹ 12 U.S.C. § 5365(i).

¹² 5 U.S.C. § 552(b)(8).

¹³ 5 U.S.C. § 552(b)(4).

¹⁴ See 12 CFR 261.17.

Estimate of Respondent Burden

As shown in the table below, the estimated total annual burden for the FR 4202 is 13,920 hours. The Board estimates that it takes the approximately 135 Board-supervised institutions with more than \$10 billion in total consolidated assets 40 hours to document the assumptions used in its stress tests and note the degree of uncertainty that may be incorporated into the tools used for stress testing and 40 hours to maintain a summary of test results. In addition to the 135 current institutions, an estimated 12 new institutions crossing over the \$10 billion threshold will take an estimated additional 180 hours to develop the recommended policies and procedures. Those 12 new institutions will also be subject to the assumption documentation and test summary requirements, for a total of 260 hours per year. That estimate is based on the average number of new firms crossing the threshold from 2017 to 2023. These recordkeeping provisions represent less than 1 percent of the Board's total paperwork burden.

FR 4202	<i>Estimated number of respondents¹⁵</i>	<i>Estimated annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Recordkeeping (Initial)	12	1	260	3,120
Recordkeeping (Ongoing)	135	1	80	<u>10,800</u>
<i>Total</i>				13,920

The estimated total annual cost to the public for the FR 4202 is \$922,200.¹⁶

Sensitive Questions

This information collection contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The estimated cost to the Federal Reserve System is negligible since the FR 4202 does not require the Federal Reserve to collect any information.

¹⁵ Of these respondents, none are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$850 million in total assets). Size standards effective March 17, 2023. See <https://www.sba.gov/document/support-table-size-standards>.

¹⁶ Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at \$22, 45% Financial Managers at \$80, 15% Lawyers at \$79, and 10% Chief Executives at \$118). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor Statistics (BLS), *Occupational Employment and Wages*, May 2022, published April 25, 2023, <https://www.bls.gov/news.release/ocwage.t01.htm>. Occupations are defined using the BLS Standard Occupational Classification System, <https://www.bls.gov/soc/>.