

**Supporting Statement for the  
Reporting, Recordkeeping, and Disclosure Requirements Associated with  
Regulation YY (Enhanced Prudential Standards) (Reg YY; OMB No. 7100-0350)**

***Annual Company-Run Stress Test Requirements for Banking Organizations With Total  
Consolidated Assets Over \$10 Billion Other Than Covered Companies  
(Subpart H - Company-Run Stress Test Requirements for Banking Organizations With Total  
Consolidated Assets Over \$10 Billion That Are Not Covered Companies)  
(Docket No. R-1438) (RIN 7100-AD86)***

## **Summary**

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with revision, the Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulation YY (Enhanced Prudential Standards) (Reg YY; OMB No. 7100-0350). The Paperwork Reduction Act (PRA) classifies reporting, recordkeeping, or disclosure requirements of a regulation as an “information collection.”<sup>1</sup>

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)<sup>2</sup> requires the Federal Reserve to issue regulations that require financial companies with total consolidated assets of more than \$10 billion and for which the Federal Reserve is the primary federal financial regulatory agency to conduct stress tests on an annual basis. The Federal Reserve adopted a final rule to implement the company-run stress test requirements in the Dodd-Frank Act regarding company-run stress tests for bank holding companies with total consolidated assets greater than \$10 billion but less than \$50 billion and state member banks and savings and loan holding companies with total consolidated assets greater than \$10 billion. On January 5, 2012, the Federal Reserve published a notice of proposed rulemaking in the *Federal Register* for public comment (77 FR 594). The comment period expired on April 30, 2012. On October 12, 2012, the Federal Reserve published a notice of final rulemaking in the *Federal Register* (77 FR 62396). The final rule is effective on November 15, 2012.

The recordkeeping requirements are found in section 252.155(c) and the reporting requirements for state member banks are found in section 252.156. These information collection requirements will implement section 165(i)(2) of the Dodd-Frank Act for Federal Reserve-regulated companies with \$10 billion or more in total consolidated assets that are not covered companies. The current annual burden for this information collection is estimated to be 29,920 hours and would increase by 29,400 hours based on the proposed revisions. There are no required reporting forms associated with this information collection.

## **Background and Justification**

The Federal Reserve has long held the view that a banking organization, such as a bank holding company or insured depository institution, should operate with capital levels well above

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<sup>1</sup> See 44 U.S.C. § 3501 *et seq.*

<sup>2</sup> Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203, 124 Stat. 1376 (2010).

its minimum regulatory capital ratios and commensurate with its risk profile. A banking organization should also have internal processes for assessing its capital adequacy that reflect a full understanding of its risks and ensure that it holds capital commensurate with those risks. Moreover, a banking organization that is subject to the Federal Reserve's advanced approaches risk-based capital requirements must satisfy specific requirements relating to their internal capital adequacy processes in order to use the advanced approaches to calculate its minimum risk-based capital requirements. Stress testing is one tool that helps both bank supervisors and a banking organization measure the sufficiency of capital available to support the banking organization's operations throughout periods of stress. The Federal Reserve and the other federal banking agencies previously have highlighted the use of stress testing as a means to better understand the range of a banking organization's potential risk exposures.

In particular, as part of its effort to stabilize the U.S. financial system during the recent financial crisis, the Federal Reserve, along with other federal financial regulatory agencies and the Federal Reserve system, conducted stress tests of large, complex bank holding companies through the Supervisory Capital Assessment Program (SCAP). The SCAP was a forward-looking exercise designed to estimate revenue, losses, and capital needs under an adverse economic and financial market scenario. By looking at the broad capital needs of the financial system and the specific needs of individual companies, these stress tests provided valuable information to market participants, reduced uncertainty about the financial condition of the participating bank holding companies under a scenario that was more adverse than that which was anticipated to occur at the time, and had an overall stabilizing effect.

Building on the SCAP and other supervisory work coming out of the crisis, the Federal Reserve initiated the annual Comprehensive Capital Analysis and Review (CCAR) in late 2010 to assess the capital adequacy and the internal capital planning processes of large, complex bank holding companies and to incorporate stress testing as part of the Federal Reserve's regular supervisory program for assessing capital adequacy and capital planning practices at large bank holding companies. The CCAR represents a substantial strengthening of previous approaches to assessing capital adequacy and promotes thorough and robust processes at large banking organizations for measuring capital needs and for managing and allocating capital resources. The CCAR focuses on the risk measurement and management practices supporting organizations' capital adequacy assessments, including their ability to deliver credible inputs to their loss estimation techniques, as well as the governance processes around capital planning practices. On November 22, 2011, the Federal Reserve issued an amendment (capital plan rule) to its Regulation Y to require all U.S. bank holding companies with total consolidated assets of \$50 billion or more to submit annual capital plans to the Federal Reserve to allow the Federal Reserve to assess whether they have robust, forward looking capital planning processes and have sufficient capital to continue operations throughout times of economic and financial stress.

In the wake of the financial crisis, Congress enacted the Dodd-Frank Act, which requires the Federal Reserve to implement enhanced prudential supervisory standards, including requirements for stress tests, for covered companies to mitigate the threat to financial stability posed by these institutions. Section 165(i)(1) of the Dodd-Frank Act requires the Federal Reserve to conduct an annual stress test of each covered company to evaluate whether the covered company has sufficient capital, on a total consolidated basis, to absorb losses as a result

of adverse economic conditions (supervisory stress tests). The Dodd-Frank Act requires that the supervisory stress test provide for at least three different sets of conditions—baseline, adverse, and severely adverse conditions—under which the Federal Reserve would conduct its evaluation. The Dodd-Frank Act also requires the Federal Reserve to publish a summary of the supervisory stress test results.

In addition, section 165(i)(2) of the Dodd-Frank Act requires the Federal Reserve to issue regulations that require covered companies to conduct stress tests semiannually and require financial companies with total consolidated assets of more than \$10 billion that are not covered companies and for which the Federal Reserve is the primary federal financial regulatory agency to conduct stress tests on an annual basis (collectively, company-run stress tests). The Dodd-Frank Act requires that the Federal Reserve issue regulations that: (1) define the term “stress test”; (2) establish methodologies for the conduct of the company-run 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 the report that companies subject to the regulation must submit to the Federal Reserve; and (4) require companies to publish a summary of the results of the required stress tests.

On October 12, 2012, the Federal Reserve published a notice of final rulemaking that would implement the enhanced prudential standards required to be established under section 165 of the Dodd-Frank Act and the early remediation requirements established under Section 166 of the Act, including final rules regarding supervisory and company-run stress tests. Under the final rules, the Federal Reserve would conduct an annual supervisory stress test of covered companies under three sets of scenarios, using data as of September 30 of each year as reported by covered companies, and publish a summary of the results of the supervisory stress tests in early April of the following year. In addition, the final rule required each covered company to conduct two company-run stress tests each year: (1) an “annual” company-run stress test using data as of September 30 of each year and the three scenarios provided by the Federal Reserve and (2) an additional company-run stress test using data as of March 31 of each year and three scenarios developed by the company. The final rule required each covered company to publish the summary of the results of its company-run stress tests within 90 days of submitting the results to the Federal Reserve.

Together, the supervisory stress tests and the company-run stress tests are intended to provide supervisors with forward-looking information to help identify downside risks and the potential effect of adverse conditions on capital adequacy at covered companies. The stress tests will estimate the covered company’s net income and other factors affecting capital and how each covered company’s capital resources would be affected under the scenarios and will produce pro forma projections of capital levels and regulatory capital ratios in each quarter of the planning horizon, under each scenario. The publication of summary results from these stress tests will enhance public information about covered companies’ financial condition and the ability of those companies to absorb losses as a result of adverse economic and financial conditions. The Federal Reserve will use the results of the supervisory stress tests and company-run stress tests in its supervisory evaluation of a covered company’s capital adequacy and capital planning practices. In addition, the stress tests will also provide a means to assess capital adequacy across companies more fully and support the Federal Reserve’s financial stability efforts.

## **Description of Information Collection**

The recordkeeping and disclosure requirements are found in section 252.146(c)(1) and 252.148. The Federal Reserve adopted these requirements to implement the stress test requirements for covered companies established in the Dodd-Frank Act. Compliance with the information collection is mandatory. No other federal law mandates these recordkeeping and disclosure requirements.

Section 252.146(c)(1) requires that each covered company must establish and maintain a system of controls, oversight, and documentation, including policies and procedures, that are designed to ensure that its stress testing processes are effective in meeting the requirements in Subpart G. These policies and procedures must, at a minimum, describe the covered company's stress testing practices and methodologies, and processes for validating and updating the covered institution's stress test practices and methodologies consistent with applicable laws, regulations, and supervisory guidance. Policies of covered companies must describe processes for scenario development for the mid-cycle stress test required under section 252.145.

Section 252.148 requires a covered company to publish a summary of the results of the stress test required under section 252.144 in the period beginning on March 15 and ending on March 31, unless that time is extended by the Federal Reserve in writing. A covered company must also publish a summary of the results of the stress test required under section 252.145 in the period beginning on September 15 and ending on September 30, unless that time is extended by the Federal Reserve in writing. The information disclosed by each covered company, at a minimum, include the following information regarding the severely adverse scenario: (1) a description of the types of risks being included in the stress test; (2) a general description of the methodologies used in the stress test, including those employed to estimate losses, revenues, provision for loan and lease losses, and changes in capital positions over the planning horizon; (3) estimates of pre-provision net revenue and other revenue; provisions for loan and lease losses, realized losses/gains on available-for-sale and held-to-maturity securities, trading and counterparty losses, and other losses or gains; net income before taxes; loan losses (dollar amount and as a percentage of average portfolio balance) in the aggregate and by subportfolio, including: domestic first-lien mortgages; domestic junior lien and home equity lines of credit; commercial and industrial loans; commercial real estate loans; credit cards; other consumer loans; and all other loans; and regulatory capital ratios and the tier 1 common ratio; (4) an explanation of the most significant causes for the changes in regulatory capital ratios and tier 1 common ratio; and (5) with respect to a stress test conducted by an insured depository institution subsidiary of the covered company pursuant to subpart H of this part 252, changes in regulatory capital ratios of the depository institution subsidiary over the planning horizon, including an explanation of the most significant causes for the changes in regulatory capital ratios.

## **Proposed Revisions**

Section 252.155(c) requires that each bank holding company, savings and loan holding company, or state member bank must establish and maintain a system of controls, oversight, and documentation, including policies and procedures, that are designed to ensure that its stress testing processes are effective in meeting the requirements in Subpart H. These policies and

procedures must, at a minimum, describe the company's stress testing practices and methodologies, and processes for validating and updating the company's stress test practices and methodologies consistent with applicable laws, regulations, and supervisory guidance.

Section 252.156 requires state member banks with \$50 billion or more in total consolidated assets to report the results of the stress test to the Board by March 31 of each calendar year, unless that time is extended by the Board in writing. The report must include, under the baseline scenario, adverse scenario, and severely adverse scenario, a description of the types of risks being included in the stress test, a summary description of the methodologies used in the stress test, for each quarter of the planning horizon, estimates of aggregate losses, pre-provision net revenue, provision for loan and lease losses, net income, and regulatory capital ratios; an explanation of the most significant causes for the changes in regulatory capital ratios; and any other information required by the Board. This requirement will remain applicable until such time as the Board issues a reporting form to collect the results of the stress test required under section 252.154.

### **Time Schedule for Information Collection**

The information collection pursuant to the recordkeeping requirements is event-generated and must be maintained on sight. The information collection pursuant to the disclosure requirements mandates that a covered company publish a summary of the results of the stress test (1) in the period beginning on March 15 and ending on March 31 and (2) in the period beginning on September 15 and ending on September 30. The proposed information collection pursuant to the reporting requirements mandates that a state member banks with \$50 billion or more in total consolidated assets report the results of the stress test to the Board by March 31 of each calendar year.

### **Legal Status**

The Board's Legal Division has determined that these information collections are required by sections 165(i)(1) and (2) of the Dodd-Frank Act (12 U.S.C. § 5365 and 5366) and Regulation YY (12 C.F.R. § 252). The data are regarded as confidential under the Freedom of Information Act until the institution discloses certain information to the public (5 U.S.C. §§ 552(b)(4) and (b)(8)).

### **Consultation Outside the Agency and Discussion of Public Comment**

On January 5, 2012, the Federal Reserve published the proposed rule in the *Federal Register* (77 FR 594) requesting public comment on the proposed information collection. The comment period for this notice expired on April 30, 2012. The Federal Reserve received general comments regarding the burden of the proposed rule, particularly for companies with less than \$50 billion in total consolidated assets. Commenters suggested that companies with total consolidated assets greater than \$10 billion but less than \$50 billion that have not previously been subject to stress-testing requirements need more time to develop the necessary systems and procedures to be able to conduct company-run stress tests and to collect the information that the Federal Reserve may require in connection with these tests. In response to these comments and

to reduce burden, the final rule delays the compliance date for most smaller companies, extends the timeline for most smaller companies to submit the results of the test to the Board, tailors disclosure requirements, and synchronizes the disclosure regime for bank holding companies and their depository institution subsidiaries. On October 12, 2012, the Federal Reserve published the final rule in the *Federal Register* (77 FR 62396) and is effective on November 15, 2012.

### Estimate of Respondent Burden

The current annual burden for Reg YY is estimated to be 29,920 hours. The proposed reporting and recordkeeping requirement would increase the estimated annual burden hours by 29,400 hours as shown in the tables below. The Reg YY reporting, recordkeeping, and disclosure requirements represent less than 1 percent of the total Federal Reserve System paperwork burden.

	<i>Number of respondents<sup>3</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<b>Current</b>				
<b>Initial Set-up</b>				
Subpart G - Section 252.146c1 Recordkeeping (\$50 billion)	34	1	280	9,520
Subpart G - Section 252.148 Disclosure (\$50 billion)	34	2	200	13,600
<i>Total Initial Set-Up</i>				23,120
<b>Ongoing</b>				
Subpart G - Section 252.146c1 Recordkeeping (\$50 billion)	34	1	40	1,360
Subpart G - Section 252.148 Disclosure (\$50 billion)	34	2	80	5,440
<i>Total Ongoing</i>				6,800
<i>Total</i>				29,920

<sup>3</sup> Of these respondents, none are small entities as defined by the Small Business Administration (i.e., entities with less than \$175 million in total assets) [www.sba.gov/content/table-small-business-size-standards](http://www.sba.gov/content/table-small-business-size-standards).

	<i>Number of respondents<sup>4</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<b>Proposed</b>				
<b>Initial Set-up</b>				
Subpart G - Section 252.146c1 Recordkeeping (\$50 billion)	34	1	280	9,520
Subpart G - Section 252.148 Disclosure (\$50 billion)	34	2	200	13,600
Subpart H - Section 252.155c Recordkeeping (\$10 billion)	99	1	240	23,760
Subpart H - Section 252.156 Reporting (\$50 billion)	6	1	200	1,200
<i>Total Initial Set-Up</i>				48,080
<b>Ongoing</b>				
Subpart G - Section 252.146c1 Recordkeeping (\$50 billion)	34	1	40	1,360
Subpart G - Section 252.148 Disclosure (\$50 billion)	34	2	80	5,440
Subpart H - Section 252.155c Recordkeeping (\$10 billion)	99	1	40	3,960
Subpart H - Section 252.156 Reporting (\$50 billion)	6	1	80	480
<i>Total Ongoing</i>				11,240
<i>Total</i>				59,320
<i>Change</i>				29,400

The total cost to the public for this information collection is estimated to increase from the current level of \$1,341,912 to \$2,660,502.<sup>5</sup>

### Sensitive Questions

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

<sup>4</sup> Of these respondents, none are small entities as defined by the Small Business Administration (i.e., entities with less than \$175 million in total assets) [www.sba.gov/content/table-small-business-size-standards](http://www.sba.gov/content/table-small-business-size-standards).

<sup>5</sup> Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rate (30% Office & Administrative Support @ \$17, 45% Financial Managers @ \$52, 15% Legal Counsel @ \$55, and 10% Chief Executives @ \$81). Hourly rate for each occupational group are the median hourly wages (rounded up) from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages 2011*, [www.bls.gov/news.release/ocwage.nr0.htm](http://www.bls.gov/news.release/ocwage.nr0.htm). Occupations are defined using the BLS Occupational Classification System, [www.bls.gov/soc/](http://www.bls.gov/soc/).

## **Estimate of Cost to the Federal Reserve System**

The cost to the Federal Reserve System is negligible.