**Annual Stress Test Rule and**

**Company-Run Annual Stress Test Reporting Template and Documentation for Covered Institutions with Total Consolidated Assets of $10 Billion to $50 Billion and over $50 Billion under the Dodd-Frank Wall Street Reform and Consumer Protection Act**

Supporting Statement A

1557-0311

**A. Justification**

1. Circumstances Making the Collection of Information Necessary

This collection of information currently encompasses information collection requirements contained in the OCC’s annual stress testing rule and its stress testing templates for covered institutions with over $50 billion in total consolidated assets. The OCC is expanding this collection to include templates for institutions with total consolidated assets of $10 billion to $50 billion.

The annual stress test rule[[1]](#footnote-1) implemented Section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act[[2]](#footnote-2) (“Dodd-Frank Act”) which requires certain companies to conduct annual stress tests. National banks and Federal savings associations with total consolidated assets of more than $10 billion are be required to conduct annual stress tests and comply with reporting and disclosure requirements under the rule. The reporting templates for institutions with total consolidated assets of over $50 billion were finalized in 2012.[[3]](#footnote-3)

Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires certain financial companies, including national banks and Federal savings associations, to conduct annual stress tests[[4]](#footnote-4) and requires the primary financial regulatory agency[[5]](#footnote-5) of those financial companies to issue regulations implementing the stress test requirements.[[6]](#footnote-6) A national bank or Federal savings association is a “covered institution” and therefore subject to the stress test requirements if its’ total consolidated assets are more than $10 billion.

Under section 165(i)(2), a covered institution is required to submit to the Board of Governors of the Federal Reserve System (Board) and to its primary financial regulatory agency a report at such time, in such form, and containing such information as the primary financial regulatory agency may require.[[7]](#footnote-7)

1. Purpose and Use of the Information Collection

The OCC intends to use the data collected through these templates to assess the reasonableness of the stress test results of covered institutions and to provide forward-looking information to the OCC regarding a covered institution’s capital adequacy. The OCC also may use the results of the stress tests to determine whether additional analytical techniques and exercises could be appropriate to identify, measure, and monitor risks at the covered institution. The stress test results are expected to support ongoing improvement in a covered institution’s stress testing practices with respect to its internal assessments of capital adequacy and overall capital planning.

The Dodd-Frank Act stress testing requirements apply to all covered institutions, but the OCC recognizes that many covered institutions with consolidated total assets of $50 billion or more have been subject to stress testing requirements under the Board’s Comprehensive Capital Analysis and Review (CCAR). The OCC also recognizes that these institutions’ stress tests will be applied to more complex portfolios and therefore warrant a broader set of reports to adequately capture the results of the company-run stress tests. These reports will necessarily require more detail than would be appropriate for smaller, less complex institutions. Therefore, the OCC has decided to specify separate reporting templates for covered institutions with total consolidated assets between $10 and $50 billion and for covered institutions with total consolidated assets of $50 billion or more. In cases where a covered institution with assets less than $50 billion is affiliated with a banking organization with assets of $50 billion or more, the OCC reserves the authority to require that covered institution to use the reporting template for larger institutions with total consolidated assets of $50 billion or more. The OCC may also, on a case-by-case basis, require a covered institution with assets of $50 billion or more to report stress test results using a simpler format to be specified by the OCC.

1. Use of Improved Information Technology and Burden Reduction

Respondents may use any method of improved technology that meets the requirements of the collection.

1. Efforts to Identify Duplication and Use of Similar Information

The required information is unique and is not duplicative of any other information already collected.

1. Methods used to Minimize burden if the collection has a significant impact on Small Businesses or Other Small Entities

The information collection does not have a significant impact on a substantial number of small businesses or other small entities.

1. Consequences of Collecting the Information Less Frequently

The collection of information is required by Federal Statute. The consequences of collecting the information less frequently would prevent OCC from implementing Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act.[[8]](#footnote-8)

1. Special Circumstances Relating to the Guidelines of 5 CFR 1320.5

The information collection would be conducted in a manner consistent with 5 CFR Part 1320.5.

1. Comments in Response to the Federal Register Notice and Efforts to Consult Outside the Agency

In the Federal Registerof March 11, 2013 (78 FR 15403), OCC published a 60-day notice requesting public comment on the templates and the collection of information. OCC received comments from seven groups on the notice. Five of the commenters were banking organizations, one was an industry group, and one was a financial services consulting firm.Some commenters expressed concern about having to submit stress testing results in a Call report-type format, noting that their existing stress testing software was not developed with such a format in mind and asking for less detailed reporting forms. These commenters requested that the agencies consider further delaying implementation of the reporting requirements and/or limiting the report submissions to the OCC DFAST 10-50 summary schedule. The OCC has determined that using reporting templates modeled on the Call Report is the best solution because of familiarity with this format by the OCC, covered institutions and the public, particularly when mandatory public disclosure of summary results under the severely adverse scenario becomes effective in 2015. The OCC DFAST 10-50 results template, aligned to the Call Report, provides a format that is well understood and utilized by the industry. Therefore, the OCC believes that the reporting requirements will not place undue burden on institutions ability to report stress test results. Using the Call Report format would also ensure a high level of consistency and facilitate assessment of the results. The OCC has already delayed the application of the stress testing rules for the $10-$50 billion covered institutions, in part so that they would have time to create the necessary infrastructure to submit the appropriate stress testing results.

Two commenters expressed concern about the differences among stress testing templates used to respond to different stress testing requirements and about the burden some banking organizations (companies with $50 billion or more in assets that control subsidiaries with $10-50 billion in assets) might face in having to prepare multiple sets of templates. The OCC notes that the final OCC DFA stress testing rule allows such subsidiaries to file the same template as filed by its parent. Per the final OCC DFA stress testing rule, “any $10 to $50 billion covered institution that elects to apply the requirements of an over $50 billion covered institution shall remain subject to the requirements applicable to an over $50 billion covered institution until otherwise approved by the OCC.” Additionally, implementation of the stress test requirements has already been delayed for the $10-$50 billion companies and public disclosure is not required until 2015.

One commenter suggested the application of generalized, bank-developed loss assumptions for immaterial portfolios. The commenter also noted that an immaterial portfolio exception is allowed for firms with $50 billion or more assets in stress testing submissions. The OCC has considered the burden of calculating losses for immaterial portfolios for companies with $10-$50 billion in assets and determined that providing a safe harbor that defines immaterial portfolios, where no or little consideration of the risk of these portfolios is undertaken, would be contrary to the purpose of a company-run stress test and could unintentionally mask or cause institutions to erroneously conclude that the aggregation of immaterial portfolios would always pose little or no risk to an institution. Although stress testing should be applied to all exposures, the OCC recognizes that the same level of rigor and analysis may not be necessary for lower-risk, immaterial portfolios. For such portfolios, it may be appropriate for a company to use a less sophisticated approach for its stress test projections, assuming the results of that approach are conservative and well-documented. The OCC has therefore not established a reporting threshold for immaterial portfolios in the reporting requirements for the proposed OCC DFAST 10-50 results template. Institutions should refer to the proposed interagency supervisory guidance on implementing Dodd-Frank Act company-run stress tests for banking organizations with total consolidated assets of more than $10 billion but less than $50 billion for more information on estimates for immaterial portfolios.

One commenter asked for clarification regarding the calculation and reporting of regulatory capital and risk-weighted assets (RWAs), noting the expectation that capital and RWA calculations and definitions would change over the planning horizon as new rules are implemented (specifically noting new definitions when the Basel III final rule is adopted). In addition, this commenter also requested clarification on the calculation of tier 1 non-common capital elements.

OCC staff acknowledges that tier 1 common equity and non-common capital elements for institutions with total assets of less than $50 billion were not defined by regulation or rule prior to the final rule recently adopted to implement Basel III. There are three line items in the proposed OCC DFAST 10-50 results template that would be specifically affected by the capital framework that implements Basel III standards: tier 1 common equity capital, non-common capital elements, and RWAs. Common equity tier 1 capital was recently defined in the Basel III final rule for all institutions and generally will not become effective for institutions with $10-$50 billion in assets until 2015. To effectively model alternative capital calculations more than halfway through the planning horizon for these banking organizations adds complexity and increases the potential or likelihood of erroneous calculations or assumptions. This complexity and increased risk of error could cause institutions to detract from the main purpose of conducting a company-run stress test; mainly to make a forward-looking assessment of capital planning processes and internal capital needs under various scenarios. Lastly, as the first required public disclosure will not commence until the 2014 stress test cycle with disclosure occurring in June of 2015, the additional burden of transitioning to a new capital calculation more than halfway through the 2013 stress test planning horizon will not provide the public with any insight into a firm’s capital adequacy or planning process in this instance.

Accordingly, the OCC removed tier 1 common and non-common capital line items, and the associated equity ratios, from the DFAST 10-50 results template for the 2013 stress test cycle. The final template requires covered institutions to report capital and RWAs for the entire planning horizon using the regulatory capital rules and definitions that are applicable on the “as of” date of each report for this initial reporting submission. For the 2013 stress testing cycle institutions should use the OCC’s applicable risk-based capital rules as they are effective as of September 30, 2013.

Two commenters argued that the level of detail demanded by the templates was excessive. These commenters stated that separating 1-4 family construction loans from all other construction loans would require more detailed reporting for the OCC DFAST 10-50 results template than what is required for firms subject to CCAR, and firms with $50 billion or more in assets that report the DFAST 14-A form. While the templates for firms with $50 billion or more in assets do not segment 1-4 family construction loans, that specific data item is required for these firms on both the FR Y-14Q and M input data reports. More importantly, the OCC believes this data item is particularly relevant to these smaller organizations which reported material concentrations in this product type and given that a significant amount of the industry’s losses during the most recent economic downturn emanated from this product. These data would provide necessary information for the institutions to effectively manage risk and appropriately assess and plan for their capital needs.

One commenter also argued that requiring separate line items for retail and wholesale funding would add unnecessary complexity and burden. The OCC, however, believes it is necessary to maintain these separate items. The breakdown of deposits between retail and wholesale is easily facilitated through Call Report data and the proposed OCC DFAST 10-50 instructions indicate that institutions should use the Call Report segmentation definitions to project these line items. In addition, retail and wholesale funding have historically reacted differently under stressed economic conditions and projecting the retail and wholesale deposit structure throughout the planning horizon as proposed would provide useful information to the institutions and regulators with respect to how an institution internally assesses capital adequacy, plans for their capital needs, and manages risk.

One commenter stated that gathering available-for-sale (AFS) and held-to-maturity (HTM) balances for U.S. government obligations and obligations of government sponsored entities (GSE) would require more detailed reporting for the OCC DFAST 10-50 templates than what is required for the DFAST 14A. Another commenter suggested separating GSE obligations from other government obligations on the OCC DFAST 10-50 balance sheet consistent with the treatment on the Call Report income statement. While the DFAST 14A collects only total AFS and HTM balances on the balance sheet worksheet, this reporting series requires more granular data than the OCC DFAST 10-50 on government securities through other schedules within the DFAST 14A report. The reporting requirements for the Call Report balance sheet require more detailed information on AFS and HTM GSE obligations relative to the reporting requirements for the OCC DFAST 10-50. Gathering AFS and HTM balances for U.S. government obligations and obligations of GSEs would provide relevant and required data to project net income and regulatory capital over the planning horizon.

Commenters also favored the elimination of several line items. Several commenters stated that the level of detail required by the balance sheet memoranda items were not informative or necessary to the loss estimation process, or entailed more detail than what was required by the DFAST 14A. Specific memoranda items cited by commenters included troubled debt restructurings and loans secured by 1-4 family in foreclosure. Based on this comment, the OCC also evaluated the utility of another balance sheet memoranda item: loans and leases guaranteed by either U.S. government or GSE guarantees (i.e., non-FDIC loss sharing agreements). The OCC agrees that these memoranda data items are already captured within the OCC DFAST 10-50 reporting requirements for loans and leases and that eliminating these items from the reporting template would not affect an institution’s ability to project pre-provision net revenue, net income, or regulatory capital in order to assess their capital needs under stressed conditions. Therefore, the OCC eliminated these three supplemental balance sheet memoranda reporting items.

Commenters also requested that common stock, retained earnings, surplus, and other equity components be reported as a single line item. The OCC agrees with this comment and has combined the aforementioned capital components into one line item to be reported as “equity capital.”

One commenter noted that separately modeling average rates for each type of deposit would also involve a significant amount of work and potentially affect other company-run models. The OCC agrees that the average rate information is not a necessary data input needed for an institution to project losses, pre-provision net revenue, or capital. Further, the additional burden placed on institutions to calculate the projected average rates could unnecessarily distract institutions from the primary goal of the annual company-run stress test – to effectively estimate the possible impact of an economic downturn on a firm’s capital position in order to plan for capital needs and identify and manage risk. Therefore, the OCC has removed all average rate memoranda items on the balance sheet. This change is consistent with the OCC’s goal of making the DFAST 10-50 report similar to the Call Report and of reducing new burden on covered institutions.

Two commenters favored the elimination of the income statement item for Gains and Losses on Other Real Estate Owned (OREO). One commenter noted that this element could effectively be combined with forecasting of other OREO expenses. The other commenter stated that the level of detail for this element is more granular than what is required for the DFAST 14A template. The OCC notes that gains or losses on OREO are captured in the pre-prevision net revenue metrics worksheet of the DFAST 14A template; therefore, this requirement would not be more burdensome for the $10-$50 billion firms. Nevertheless, the OCC has eliminated this item since gains and losses on OREO would already be captured within the noninterest income statement memoranda item “itemize and describe amounts greater than 15% of noninterest income” or in the “itemize and describe amounts greater than 15% of noninterest expense” when the amount meets the 15% threshold required by the proposed OCC DFAST 10-50 results template.

In response to a few technical comments received, the OCC has adjusted the templates and instructions accordingly. These changes include correction of formulaic errors; correction of MDRM reference errors; clarified reporting instructions for income statement memoranda items; and more detailed technical reporting instructions, including the elimination of the contact information schedule as this information would be collected through the results template cover sheet and related data collection application.

1. Explanation of Any Payment or Gift to Respondents

OCC has not provided and has no intention to provide any payment or gift to respondents under this information collection.

1. Assurance of Confidentiality Provided to Respondents

The information collection request will be kept confidential to the extent permissible by law.

1. Justification for Sensitive Questions

There are no questions of a sensitive nature.

1. Estimates of Annualized Burden Hours and Costs

OCC estimates the burden of this collection of information as follows. This table includes estimates for (i) reporting templates for institutions with between $10 and $50 billion in assets,(ii) reporting templates for institutions with $50 billion or more in assets (previously approved), and (iii) information collection requirements pursuant to the annual stress test rule (previously approved).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Reporting Templates | No. of Respondents | No. of Responses per Respondent | Annual No. of Responses | Burden per Response | Total Hours |
|  |  |  |  |  |  |
| Reporting Templates for Institutions with $50B or More in Assets |  |  |  |  |  |
| OCC DFAST-14A Summary Schedule | 22 | 3 | 1 | 276 | 8,784 |
| OCC DFAST-14A Counterparty Risk Template | 4 | 1 | 1 | 382 | 764 |
| OCC DFAST-14A Basel III Capital Template | 22 | 1 | 1 | 20 | 220 |
| OCC DFAST-14A Regulatory Capital Template | 22 | 1 | 1 | 20 | 220 |
| OCC DFAST-14A Operational Risk Template | 22 | 1 | 1 | 12 | 96 |
| OCC DFAST-14A Scenario Template | 22 | 1 | 1 | 31 | 341 |
| OCC DFAST-14A Contact Template | 22 | 1 | 1 | 22 | 11 |
| **50B or More Template Total** |  |  |  |  | **10,436** |
|  |  |  |  |  |  |
| Reporting Templates for Institutions with $10-$50B in Assets |  |  |  |  |  |
| DFAST 10-50B Results Template | 33 | 3 | 1 | 146.67 | 14,520 |
| DFAST 10-50B Scenario Variables Template | 33 | 1 | 1 | 24 | 792 |
| **10B-50B Template Total** |  |  |  |  | **15,312** |
|  |  |  |  |  |  |
| **Annual Stress Test Final Rule Total** |  |  |  |  | **63,440** |
| **Total Burden for Collection** |  |  |  |  | **89,188** |

1. Estimates of Annual Cost Burden to Respondents and Record Keepers

Total annual cost burden:

(a) Total annualized capital and start-up costs associated with the Templates are estimated to be $0 (zero dollars). In general, reporting on the Templates requires neither specialized capital equipment, nor fixed or variable costs that are not already associated with the customary and usual business practices of respondents.

(b) Total annualized operations, maintenance, and purchases of services costs are estimated to be $0 (zero dollars). Reporting on the forms does not in general impose operations, maintenance, or specialized services costs that are not already associated with the customary and usual practices of respondents.

The above cost estimates are not expected to vary widely among respondents.

1. Annualized Cost to the Federal Government

OCC estimates no annualized cost to the Federal government.

1. Explanation for Program Changes or Adjustments

Prior Burden: 73,876 hours.

Proposed Burden: 89,188 hours.

Difference: +15,312 hours.

The change in burden is due to the addition of the templates for institutions with $10 billion to $50 billion in total consolidated assets.

1. Plans for Tabulation and Publication and Project Time Schedule

There are no publications.

1. Reason(s) Display of OMB Expiration Date is Inappropriate

The agency is not seeking to display the expiration date of OMB approval of the information collection.

18. Exceptions to Certification for Paperwork Reduction Act Submissions

There are no exceptions to the certification.

B. Collections of Information Employing Statistical Methods

The collection of this information does not employ statistical methods. Statistical methods are not appropriate for the type of information collected and would not reduce burden or improve accuracy of results.

1. October 9, 2012 – Final Rule (77 FR 61238) [↑](#footnote-ref-1)
2. Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010). [↑](#footnote-ref-2)
3. 77 FR 49485 (August 16, 2012); 77 FR 66663 (November 6, 2012). [↑](#footnote-ref-3)
4. 12 U.S.C. 5365(i)(2)(A). [↑](#footnote-ref-4)
5. 12 U.S.C. 5301(12). [↑](#footnote-ref-5)
6. 12 U.S.C. 5365(i)(2)(C). [↑](#footnote-ref-6)
7. 12 U.S.C. 5365(i)(2)(B). [↑](#footnote-ref-7)
8. Public Law 111-203, 124 Stat. 1376, July 2010 [↑](#footnote-ref-8)