

**OMB Supporting Statement for the
Annual Company-Run Stress Test Projections
(FR Y-16; OMB No. 7100-0356)**

Summary

The Board of Governors of the Federal Reserve System (Board), under delegated authority from the Office of Management and Budget (OMB), proposes to implement the Annual Company-Run Stress Test Projections information collection (FR Y-16; OMB No. 7100-0356). The respondent panel would include any bank holding company (BHC) or savings and loan holding company (SLHC)¹ with average total consolidated assets of greater than \$10 billion but less than \$50 billion, and any affiliated or unaffiliated state member bank (SMB) that has average total consolidated assets of greater than \$10 billion but less than \$50 billion excluding SMB subsidiaries of covered companies². The initial respondent panel³ of “other financial companies” is expected to include 43 BHCs, 8 SLHCs and 11 SMBs.⁴

In October 2012, the Federal Reserve Board approved two final rules for capital stress testing requirements pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The final rules implemented the Dodd-Frank Act Stress Testing (DFAST) requirements, one for “covered companies” and one for “other financial companies.” The Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) also issued final rules for DFAST in October 2012 that are nearly identical to the requirements for “other financial companies” issued by the Federal Reserve Board.

This proposed information collection is required under Section 165(i)(2) of the Dodd-Frank Act and the Federal Reserve’s final rule on annual company-run stress tests for organizations with total consolidated assets over \$10 billion (other than covered companies), which was published in the *Federal Register* on October 12, 2012 (77 FR 62396) (12 C.F.R. Part 252, Subpart H). The annual FR Y-16 would collect quantitative projections of balance sheet, income, losses, and capital across three scenarios (baseline, adverse, and severely adverse) and qualitative information on methodologies used to develop internal projections of capital

1 SLHCs would not be subject to Dodd-Frank annual company-run stress testing requirements until the next calendar year after the SLHCs become subject to regulatory capital requirements.

2 “Covered companies” are defined as BHCs with at least \$50 billion in total assets and nonbank systemically important financial institutions, subject to annual supervisory stress tests and semi-annual company-run stress tests; “other financial companies” are defined as BHCs with total consolidated assets over \$10 billion but less than \$50 billion, SLHCs with assets over \$10 billion, and state-member banks with assets over \$10 billion, subject to annual company-run stress tests.

3 The initial respondent panel is based on (average) total consolidated assets for four consecutive quarters up to and including the September 30, 2012, reporting period. The actual list of respondents would be determined annually, effective as of September 30, 2013, by calculating the average assets over the prior four quarters (including the September 30, 2013 quarter end) as reported on Schedule RC-K of the Consolidated Reports of Condition and Income (Call Reports; FFIEC 031 and FFIEC 041; OMB No. 7100-0036) and Schedule HC-K of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128).

4 A U.S.-domiciled bank holding company that is a subsidiary of a foreign banking organization that is currently relying on Supervision and Regulation Letter 01-01 issued by the FRB (as in effect on May 19, 2010) must comply with the final rule requirements beginning with the stress test cycle that commences on October 1, 2015, unless that time is extended by the FRB in writing. The reporting requirements for U.S.-domiciled BHC subsidiaries of foreign banking organizations would be proposed at a later date.

across these scenarios. Each of the banking agencies is developing its own reporting templates for the institutions they supervise, and each agency plans to publish its own proposal in the *Federal Register*. The banking agencies have committed to developing very similar, if not identical, reporting templates.

The total annual burden for the FR Y-16 is estimated to be 28,768 hours. The initial implementation burden is estimated to be 223,200 hours. The proposed reporting form and instructions are provided in the attachments.

Background and Justification

On October 12, 2012, the Federal Reserve published a final rule in the *Federal Register* (77 FR 62396) (12 C.F.R. Part 252, Subpart H) outlining the annual company-run stress testing requirements for banking organizations with total consolidated assets over \$10 billion other than covered companies. The rule implements the company-run stress testing requirement promulgated by the Dodd-Frank Act, Pub. L. No. 111-203, § 165(i)(2). Under the final rule a BHC, SLHC, or an SMB that meets the asset threshold will be required to conduct an annual stress test using scenarios provided by the Board.⁵

Under the final rule, results of the company-run annual stress test must be reported to the Federal Reserve by March 31st of each year. As required by the Dodd-Frank Act, the final rule requires each BHC, SMB, and SLHC to report the results of the stress tests conducted by the company in the manner and form prescribed by the Board. Under the rule, the Board may also request supplemental information, as needed.

Information received in the FR Y-16 report would be used to form supervisory assessments of how effectively these banking organizations internally plan for their capital needs, identify risk, and measure and assess their own capital adequacy. Data collected on the FR Y-16 report would provide the Federal Reserve with the additional information and perspective needed to help assess how these banking organizations manage their capital relative to the unique nuances of each company's risk profile. Information gathered in this data collection would also be used in connection with the Federal Reserve's supervision and regulation of these financial institutions.

Description of Information Collection

The proposed annual FR Y-16 reporting form would collect data through three primary schedules: (1) Results Schedule (which includes the quantitative results of the stress tests under the baseline, adverse, and severely adverse scenarios for each quarter of the planning horizon: i.e.; aggregate losses, pre-provision net revenue, provision for loan and lease losses, net income, and pro forma capital ratios (including regulatory and any other capital ratios specified by the Board)), (2) Scenario Variables Schedule, and (3) Contact Information Schedule. The supplemental report of the results of the stress test, as required under the Board's rule, would

⁵ Depending on the systemic footprint and scope of operations and activities of a BHC, SLHC, or SMB, as described in the preamble to the final rule, the Board may require a company to include additional components in its adverse and severely adverse scenarios or to use additional scenarios that are designed to capture salient risks stemming from specific lines of business.

include, the following qualitative information under the baseline, adverse, and severely adverse scenarios:

- a description of the types of risks included in the stress test;
- a summary description of the methodologies used in the stress test;
- an explanation of the most significant causes for the changes in regulatory capital ratios, and
- any other information required by the Board.

It is also expected that, in order to fully evaluate the data submissions, the Federal Reserve may conduct follow up discussions with or request responses to follow up questions from respondents, as needed.

Results Schedule (Baseline, Adverse, and Severely Adverse Scenarios and Summary of Results)

For each of the three scenarios (Baseline, Adverse, and Severely Adverse), data would be reported for the (1) income statement and (2) balance sheet and capital. Therefore, two sets of worksheets for each scenario (baseline, adverse, and severely adverse) would be completed and submitted, along with the submission cover sheet and a summary of results worksheet.

Income statement data would be collected on a projected quarterly basis showing both projections of revenues and losses. These data are organized in a similar (but not identical) fashion to the mandatory Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128) and Schedule HI - Income Statement or the Consolidated Report of Condition and Income (FFIEC 031/041; OMB No. 7100-0036), Schedule RI - Income Statement. For example, respondents would project net charge-offs by loan type (stratified into twelve specific loan types); gains and losses on securities; pre-provision net revenue; and other key components of revenue (i.e., net interest income, provision for loan and lease losses, taxes, etc.).

Balance sheet data would be collected on a quarterly basis for projections of certain assets, liabilities, and capital. For example, respondents would project loans, allowance for loan and lease losses, deposits, and unrealized gains (losses) on securities. These data are organized in a similar (but not identical) fashion to the FR Y-9C, Schedule HC - Balance Sheet and FFIEC 031/041, Schedule RC - Balance Sheet.

Capital data would be collected on a projected quarterly basis and include components of equity and regulatory capital. Additionally, the capital data would capture projections of risk weighted assets and capital actions such as common dividends and share repurchases that affect a respondent's equity capital and projections and deductions necessary to estimate regulatory capital.

The summary of results worksheet would be comprised of 12 key data points from each scenario. Therefore, all information on the summary worksheet would be automatically populated when the scenario projections are completed.

Scenario Variables Schedule

To conduct the stress tests according to the October 12, 2012 final rule, an institution would be able to choose to project additional economic and financial variables, beyond the mandatory supervisory scenarios provided, to estimate losses or revenues for some or all of its portfolios. In such cases, the institution would be required to complete the Scenario Variables Schedule for each scenario where the institution chooses to use additional variables.

Respondent Panel

The respondent panel would include any BHC or SLHC⁶ with average total consolidated assets of greater than \$10 billion but less than \$50 billion, and any affiliated or unaffiliated SMB with average total consolidated assets of more than \$10 billion but less than \$50 billion excluding SMB subsidiaries of covered companies. Average total consolidated assets is based on the average of the total consolidated assets as reported on a BHC's four most recent FR Y-9C filings or a SMB's four most recent Call Reports.

The final company-run stress testing rule does not apply to foreign banking organizations. However, after October 1, 2015, a U.S.-domiciled BHC subsidiary of a foreign banking organization that has total consolidated assets of between \$10 billion and \$50 billion is subject to the requirements of the final rule. The reporting requirements for U.S.-domiciled BHC subsidiaries of foreign banking organizations would be proposed at a later date.⁷

Time Schedule for Information Collection and Publication

Respondents would be required to submit data annually, no later than March 31st each year based on financial data as of September 30th of the prior year, beginning with the September 30, 2013 financial data and the March 31, 2014 submission date.

Legal Status

The Board's Legal Division has determined that this information collection is authorized pursuant Section 165(i)(2) of the Dodd-Frank Act that specifically authorizes the Board to issue regulations implementing the annual stress testing requirements for its supervised institutions. 12 U.S.C. § 5365(i)(2)(C). More generally, with respect to bank holding companies, Section 5(c) of the Bank Holding Company Act, 12 U.S.C. § 1844(c), authorizes the Board to require a bank holding company and any subsidiary "to keep the Board informed as to – (i) its financial condition, [and] systems for monitoring and controlling financial and operating risks" Section 9(6) of the Federal Reserve Act, 12 U.S.C. § 324, requires state member banks to make reports of condition to their supervising Reserve Bank in such form and containing such information as the Board may require. Finally, with respect to savings and loan holding companies, under Section 312 of the Dodd-Frank Act, 12 U.S.C. § 5412, the Board succeeded to

6 SLHCs would not be subject to Dodd-Frank annual company-run stress testing requirements until the next calendar year after the SLHCs become subject to regulatory capital requirements.

7 A U.S. domiciled bank holding company that is a subsidiary of a foreign banking organization that is currently relying on Supervision and Regulation Letter 01-01 issued by the FRB (as in effect on May 19, 2010) must comply with the final rule requirements beginning with the stress test cycle that commences on October 1, 2015, unless that time is extended by the Federal Reserve in writing.

all powers and authorities of the OTS and its Director, including the authority to require SLHCs to “file ... such reports as may be required ... in such form and for such periods as the [agency] may prescribe.” 12 U.S.C. § 1467a(b)(2).

Obligation to Respond is Mandatory: Section 165(i)(2)(A) provides that “financial companies that have total consolidated assets [meeting the asset thresholds] ... and are regulated by a primary Federal financial regulatory agency shall conduct annual stress tests.” Section 165(i)(2)(B) provides that a company required to conduct annual stress tests “shall submit a report to the Board of Governors and to its primary financial regulatory agency at such time, in such form, and containing such information as the primary financial regulatory agency shall require.” 12 U.S.C. § 5365(i)(2)(B).

Confidentiality: As noted under Section 165(i)(2)(C)(iv), companies conducting annual stress tests under these provisions are “require[d] ... to publish a summary of the results of the required stress tests.” 12 U.S.C. § 5365(i)(2)(C)(iv). Regarding the information collected by the Board, however, as such information will be collected as part of the Board’s supervisory process, it may be accorded confidential treatment under Exemption 8 of the Freedom of Information Act (FOIA), 5 U.S.C. § 552(b)(8). This information also is the type of confidential commercial and financial information that may be withheld under Exemption 4 of FOIA, 5 U.S.C. § 552(b)(4). As required information, it may be withheld under Exemption 4 only if public disclosure could result in substantial competitive harm to the submitting institution, under National Parks & Conservation Ass’n v. Morton, 498 F.2d 765 (D.C. Cir. 1974).

Consultation Outside the Agency

The Federal Reserve has consulted with other federal regulators, including the OCC and the FDIC in an effort to coordinate the stress testing reporting requirements for BHCs and their depository institution subsidiaries. During the public comment period, the Federal Reserve would engage industry groups and possibly the respective respondents. This outreach would help to refine the data items in the final schedules and clarify the accompanying instructions.

On March 15, 2013, the Federal Reserve published a notice in the *Federal Register* (78 FR 16502) requesting public comment for 60 days on the proposal to implement the Annual Company-Run Stress Test Projections information collection. The comment period for this notice expired on May 14, 2013. The Federal Reserve received four comment letters addressing the proposed implementation of the FR Y-16: two from financial holding companies, one from a trade organization, and one from a modeling service provider. No comments specifically addressed the burden estimates. Some general comments were received regarding the report format, instructions, and the timing of implementation. In addition, the commenters focused on specific data items proposed for collection on the results schedules. In some cases, commenters compared the level of detail required in the proposed FR Y-16 to the requirements of the Capital Assessments and Stress Testing information collection (FR Y-14A/Q/M; OMB No. 7100-0341) applicable to BHCs with \$50 billion or more in total assets.⁸ Lastly, one commenter asked for

⁸ The FR Y-16 reporting requirements are tailored to the \$10-\$50 billion companies and require significantly less granular reporting segmentation relative to the FR Y-14A Summary Schedule that companies with greater than \$50 billion in assets use to report the results of their company-run stress tests..

clarification regarding whether to incorporate changes from the Board’s rule revising its risk-based and leverage capital requirements for banking organizations (“revised capital rule”)⁹ into their capital projections under the supervisory scenarios. On September 30, 2013, the Federal Reserve published a final notice in the *Federal Register* (78 FR 59930) implementing the FR Y-16 largely as proposed.

Estimate of Respondent Burden

The annual burden for the reporting requirements of this information collection is estimated to be 464 hours per respondent, for a total of 28,768 hours annually. The estimated total annual burden per respondent consists of 420 hours of work related to modeling efforts, 24 hours of work related to completion of the Scenario Variables Schedule, and 20 hours of data input. In an effort to more accurately reflect the burden imposed on the companies for reporting the FR Y-16, the Federal Reserve has included estimates for annual one-time implementation burden. The Federal Reserve estimates the automation burden for each new respondent would vary, but on average it is estimated to take approximately 3,600 hours (one-time implementation) per respondent to prepare their systems for submitting the data, for a total of 223,200 hours. The proposed annual burden for the FR Y-16 would represent approximately 2 percent of total Federal Reserve System paperwork burden.

FR Y-16	<i>Number of respondents¹⁰</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
BHCs	43	1	464	19,952
SLHCs	8	1	464	0
SMBs	11	1	464	<u>5,104</u> **
				Expression is faulty **
One-Time Implementation	62	1	3,600	<u>0</u> **
<i>Total</i>				Expression is faulty **

A one-time implementation cost to the public for this information collection is estimated to be \$11,137,680. On a continuing basis the annual cost to the public is estimated to be \$1,435,523.¹¹

⁹ See 12 CFR Parts 208, 217, and 225 (July 2, 2013).

¹⁰ 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.

¹¹ 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 at \$18, 45% Financial Managers at \$59, 15% Lawyers at \$63, and 10% Chief Executives at \$85). Hourly rate for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2012, www.bls.gov/news.release/ocwage.nr0.htm Occupations are defined using the BLS Occupational

Sensitive Questions

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

Estimate of Cost to the Federal Reserve System

For the September 30, 2013as-of-date, the cost estimate to the Federal Reserve System for the implementation of the new reporting requirements is estimated to be \$572,400; on a continuing basis the cost to the Federal Reserve System is estimated to be \$324,590.