

**OMB Supporting Statement for the  
Annual Company-Run Stress Test Report for \$10-50 Billion Companies  
(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 extend for three years, with revision, the mandatory Annual Company-Run Stress Test information collection for \$10-50 billion companies (FR Y-16, OMB No. 7100-0356). The annual FR Y-16 report collects quantitative projections of income, losses, assets, liabilities, and capital across three scenarios provided by the Federal Reserve (baseline, adverse, and severely adverse) and qualitative supporting information on the methodologies and processes used to develop these internal projections. The respondent panel includes any bank holding company (BHC) or savings and loan holding company (SLHC)<sup>1</sup> 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 companies.<sup>2</sup>

The Federal Reserve proposes the following revisions and clarifications to the FR Y-16 report for the report submission due annually beginning on March 31, 2015: (1) add common equity tier 1 capital as a data item, (2) add common equity tier 1 risk based capital ratio as a data item, and (3) modify the reporting instructions to clarify a number of items.

The total current annual paperwork burden for the FR Y-16 is estimated to be 38,288 hours and is estimated to increase by 335 hours for a proposed annual paperwork burden of 38,623 hours.

**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 Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), Pub. L. No. 111-203, § 165(i)(2). Under the final rule, a BHC, SLHC, or SMB that meets the asset threshold is required to conduct an annual stress test using scenarios provided by the Board.

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<sup>1</sup> SLHCs are not subject to Dodd-Frank Act annual company-run stress testing requirements until the calendar year after SLHCs become subject to regulatory capital requirements. All SLHCs except those substantially engaged in insurance underwriting or commercial activities are subject to capital requirements beginning in 2015. These “covered SLHCs” are required to report using the FR Y-16 in March 2017 (stress test as-of date September 30, 2016).

<sup>2</sup> “Covered companies” are defined as BHCs with at least \$50 billion in total consolidated assets and nonbank systemically important financial institutions, subject to annual supervisory stress tests and semi-annual company-run stress tests.

Results of the company-run annual stress test must be reported to the Federal Reserve Board by March 31<sup>st</sup> of each year. 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.

Information received in the FR Y-16 report is used in connection with the Federal Reserve's supervision and regulation of these financial institutions to form supervisory assessments of the quality of a company's stress testing process and overall results as part of the broader assessment of a company's capital adequacy and risk management process. Data collected on the FR Y-16 report provide the Federal Reserve with one of many tools available to Reserve Bank examiners to assist in the analysis and assessment of a company's capital position and planning process.

It is important to note that \$10-50 billion companies subject to the Board's rule requiring annual company-run stress tests are not subject to the Board's Capital Plan Rule, are not participants in the Board's Comprehensive Capital Analysis and Review process, and are not subject to the Board's supervisory stress testing program. Further, the Board's rule does not require the \$10-50 billion companies to maintain a minimum post-stress pro-forma capital ratio over the stress test planning horizon and there is no regulatory approval associated with the results of these internal company-run stress tests.

## **Description of Information Collection**

The FR Y-16 reporting form collects data through two primary schedules: (1) the 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) and (2) the Scenario Variables Schedule. In addition, respondents are required to submit a summary of the qualitative information supporting their quantitative projections. The qualitative supporting information must include:

- 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
- the use of the stress test results.

## **Results Schedule**

For each of the three supervisory scenarios (baseline, adverse, and severely adverse), data are reported on two supporting schedules: (1) the Income Statement Schedule and (2) the Balance Sheet Schedule. Therefore, two supporting schedules for each scenario (baseline, adverse, and severely adverse) are completed. In addition, the Results Schedule includes a Summary Schedule, which summarizes key results from the Income Statement and Balance Sheet Schedules.

Income statement data are collected on a projected quarterly basis showing both projections of revenues and losses. These data are organized in a similar fashion to the mandatory Consolidated Financial Statements for Holding Companies (FR Y-9C; OMB No.

7100-0128), Schedule HI – Consolidated Income Statement, and the Consolidated Report of Condition and Income (Call Report FFIEC 031/041; OMB No. 7100-0036), Schedule RI - Income Statement. For example, respondents project net charge-offs by loan type (stratified by twelve specific loan types), gains and losses on securities, pre-provision net revenue, and other key components of net income (i.e., provision for loan and lease losses, taxes, etc.).

Balance sheet data are collected on a quarterly basis for projections of certain assets, liabilities, and capital. These data are organized in a similar fashion to the FR Y-9C, Schedule HC – Consolidated Balance Sheet, and Call Report, Schedule RC - Balance Sheet. For example, respondents would project loans, allowance for loan and lease losses, securities, funding sources, and equity capital. Capital data are also collected on a projected quarterly basis and include components of regulatory capital, including the projections of risk weighted assets and capital actions such as common stock dividends and share repurchases.

### **Scenario Variables Schedule**

To conduct the stress tests, an institution may choose to project additional economic and financial variables beyond the mandatory supervisory scenario variables 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. The Scenario Variables Schedule collects information on the additional scenario variables used over the planning horizon for each supervisory scenario.

### **Proposed Revisions**

On July 2, 2013, the Federal Reserve approved revised risk based and leverage capital requirements for banking organizations that implement the Basel III regulatory capital reforms and certain changes required by the Dodd-Frank Act (revised capital framework).<sup>3</sup> The revised capital framework introduces the new common equity tier 1 capital component and a new common equity tier 1 risk based capital ratio, changes the definition of regulatory capital items, and changes the calculation of risk-weighted assets. All banking organizations that are not subject to the advanced approaches rule must begin to comply with the revised capital framework beginning on January 1, 2015.<sup>4</sup> Under the Federal Reserve's rules implementing the stress tests established by the Dodd-Frank Act,<sup>5</sup> banking organizations would be required to reflect the new capital rules, including the new common equity tier 1 capital component and ratio, in their company-run stress test planning horizon as the revised capital framework becomes applicable. However, on September 30, 2013, the Board provided BHCs and SMBs with total

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<sup>3</sup> See Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule (July 2, 2013), available at: <http://www.federalreserve.gov/newsevents/press/bcreg/20130702a.htm> (Revised capital framework).

<sup>4</sup> A banking organization is subject to the advanced approaches rule if it has consolidated assets greater than or equal to \$250 billion, if it has total consolidated on-balance sheet foreign exposures of at least \$10 billion, or if it elects to apply the advanced approaches rule.

<sup>5</sup> See 77 FR 62378 (October 12, 2012) (codified at 12 CFR part, 252 subpart H) (stress test rule).

consolidated assets of more than \$10 but less than \$50 billion (other than state member banks that are subsidiaries of BHCs with total consolidated assets of \$50 billion or more) with a one-year transition period to incorporate the revised capital framework into their company-run stress tests.<sup>6</sup> Therefore, the FR Y-16 did not include the effects of the revised capital framework for the initial 2014 stress test cycle.

The Federal Reserve proposes to revise the FR Y-16 by adding a common equity tier 1 capital data item to the Balance Sheet Schedule and a common equity tier 1 risk based capital ratio data item to the Summary Schedule and the Balance Sheet Schedule in order to reflect the requirements of the revised capital framework. These revisions would be effective for the 2015 stress test cycle (with reporting in March 2015). In addition, the Federal Reserve proposes to clarify the FR Y-16 instructions to emphasize that companies should transition to the revised capital framework requirements in its company-run stress test projections in the quarter in which the requirements become effective. Specifically, companies would be required to transition to the revised capital framework and begin including the common equity tier 1 capital data item and common equity tier 1 risk based capital ratio data item in projected quarter two (1<sup>st</sup> quarter 2015) through projected quarter nine (4<sup>th</sup> quarter 2016) for each supervisory scenario for the 2015 stress test cycle.

The Federal Reserve also proposes several clarifications to the FR Y-16 report instructions, including: indicating that the Scenario Variables Schedule would be collected as a reporting form in the Reporting Central application (instead of as a file submitted in Adobe Acrobat PDF format); clarifying that covered SLHCs will begin reporting in March 2017; clarifying what BHCs and SLHCs should include in line items 32 and 33 (retail and wholesale funding); and finally clarifying how the supporting qualitative information should be organized.

## **Respondent Panel**

The respondent panel includes any BHC or covered SLHC 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. An institution must report for the stress test cycle that commences in the calendar year after the year in which the company meets the asset threshold.

The FR Y-16 report does not apply to foreign banking organizations. However, the report does apply to U.S. domiciled BHC subsidiaries or SMB subsidiaries of a foreign banking organization that meet the asset threshold.<sup>7</sup>

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<sup>6</sup> See 78 FR 59791 (September 30, 2013)

<sup>7</sup> U.S. domiciled BHC subsidiaries of foreign banking organizations that meet the asset threshold that are currently relying on SR Letter 01-01 are not required to report until the stress test cycle that commences on October 1, 2015.

## **Time Schedule for Information Collection and Publication**

Respondents are required to submit data annually, no later than March 31<sup>st</sup> each year based on financial data as of September 30<sup>th</sup> of the prior year.

## **Legal Status**

The Board's Legal Division has determined that this information collection is authorized pursuant to 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 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 the OCC and the FDIC, in an effort to coordinate the stress testing reporting requirements for BHCs and their depository institution subsidiaries. The agencies' close collaboration in developing an identical regulatory report has facilitated the

use of a uniform electronic collection process for all companies (the Federal Reserve's Reporting Central application).<sup>8</sup> Reporting Central is a central point of entry for the Federal Reserve, FFIEC, and Treasury Department for certain electronic reports submission and file uploads, and is a system many institutions already use for other regulatory reports. Per each agency's final rules, each primary federal regulator will have access to their respective institutions' submissions.

On July 15, 2014, the Federal Reserve published a notice in the *Federal Register* (79 FR 41276) requesting public comment for 60 days on the proposed revisions to the FR Y-16. The comment period for this notice expired on September 15, 2014. The Federal Reserve received one comment letter on the proposed revisions to the FR Y-16 from a modeling service provider. The commenter questioned the introduction of the new regulatory capital, risk-weighted asset, and regulatory capital ratio calculations in the FR Y-16 for the March 2015 report; asserting that \$10-50 billion companies will lack relevant data for the proposed new capital items and definitions in advance of when these items are required to be reported in the Consolidated Report of Condition and Income (Call Report: OMB No. 7100-0036) and the Consolidated Financial Statements for Holding Companies (FR Y-9C: OMB No. 7100-0128), which will lead to inaccurate and misleading company projections. Details addressing the comment are included in the final *Federal Register* notice published October 24, 2014 (79 FR 63626).

### **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 31,088 hours annually. The estimated total annual burden per respondent consists of 444 hours of work related to modeling efforts and 20 hours of data input. With the proposed introduction of two new capital components, it is estimated there will be a slight increase in average hours per response to 469 hours per respondent, for a total of 31,423 hours annually. 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. The Federal Reserve estimates on average two new respondents per year may be required to implement and file this report for a total of 7,200 hours annually. The annual burden for the FR Y-16 represents approximately 2 percent of total Federal Reserve System paperwork burden.

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<sup>8</sup> All companies reported electronically through Reporting Central in 2014.

<b>FR Y-16</b>	<i>Number of respondents<sup>9</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<i>Current</i>				
BHCs	46	1	464	21,344
SLHCs	11	1	464	5,104
SMBs	10	1	464	4,640
One-Time Implementation	2	1	3,600	<u>7,200</u>
<i>Total</i>				38,288
<i>Proposed</i>				
BHCs	46	1	469	21,574
SLHCs	11	1	469	5,159
SMBs	10	1	469	4,690
One-Time Implementation	2	1	3,600	<u>7,200</u>
<i>Total</i>				38,623
<i>Change</i>				335

With the proposed revisions, the total annual cost to the public is estimated to change from \$1,948,859 to \$1,965,911.<sup>10</sup>

### **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**

The cost to the Federal Reserve System for collecting and processing the FR Y-16 is estimated to be \$324,590.

<sup>9</sup> Of these respondents, none are small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) [www.sba.gov/content/table-small-business-size-standards](http://www.sba.gov/content/table-small-business-size-standards).

<sup>10</sup> 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 \$18, 45% Financial Managers at \$61, 15% Lawyers at \$63, and 10% Chief Executives at \$86). Hourly rate for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2013, [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/)