

**Supporting Statement for the
Annual Company-Run Stress Test Report for State Member Banks, Bank Holding
Companies, and Savings and Loan Holding Companies with Total Consolidated Assets
Greater Than \$10 Billion and Less Than \$50 Billion (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 revise and extend for three years the mandatory Annual Company-Run Stress Test Report for State Member Banks (SMBs), Bank Holding Companies (BHCs), and Savings and Loan Holding Companies (SLHCs) with Total Consolidated Assets Greater Than \$10 Billion and Less Than \$50 Billion (FR Y-16, OMB No. 7100-0356). The annual FR Y-16 report collects quantitative projections of revenues, losses, assets, liabilities, and capital across three scenarios provided by the Board (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 BHC or SLHC¹ with average total consolidated assets of greater than \$10 billion but less than \$50 billion, and any affiliated or unaffiliated SMB that has average total consolidated assets of greater than \$10 billion but less than \$50 billion, excluding SMB subsidiaries of covered companies.²

The revisions to the FR Y-16 would be effective for the 2016 stress test cycle and would (1) change the report as-of date from September 30 to December 31, (2) change the reporting submission or due date from March to July, and (3) modify the reporting instructions to make corresponding changes to the dates, reflect technical changes related to final implementation of BASEL III requirements, and to clarify certain instructions in coordination with the other federal regulatory agencies. None of the changes impose additional information collection requirements.

The total current annual paperwork burden for the FR Y-16 is estimated to be 39,561 hours. The proposed revisions would not change the current paperwork burden estimate.

Background and Justification

On October 27, 2014, the Board published a final rule (Regulation YY) in the *Federal Register* (79 FR 64026) revising its \$10-50 billion company stress test requirements to shift the start of the stress test cycle by one calendar quarter and the related deadline for submission of results by four months. Beginning with the 2016 stress test cycle, the annual company-run Dodd-Frank Act stress tests will cover a nine-quarter planning horizon beginning on the first day of a stress test cycle (on January 1) and will use position information as of December 31 of the preceding calendar year, while the report submission date for institutions will be the close of

¹ The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) annual company-run stress testing requirements do not apply to SLHCs until 2017, and will only apply to an SLHC that is subject to minimum regulatory capital requirements. See 12 C.F.R. 252.13(b)(2)(iii).

² “Covered company” is defined in 12 C.F.R. 252(g) as a BHC (other than a foreign banking organization (FBO)) with average total consolidated assets of \$50 billion or more; a U.S. intermediate holding company (IHC) subject to 12 C.F.R. 252.153, and a nonbank financial company supervised by the Board.

business July 31 of each calendar year. The revisions to the FR Y-16 incorporate these revised dates into the reporting form and instructions.

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 in the FR Y-16 report provides Reserve Bank examiners with an important tool 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 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 its 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. 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 (FFIEC 031 and FFIEC 041; OMB No. 7100-0036) (Call Report), 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 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 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. The Scenario Variables Schedule collects information on the additional scenario variables used over the planning horizon for each supervisory scenario.

Proposed Revisions

As a result of the Regulation YY 2014 final rule, beginning with the 2016 stress test cycle, the annual company-run Dodd-Frank stress tests will cover a nine-quarter planning horizon beginning on the first day of a stress test cycle (on January 1) and will use position information as of December 31 of the preceding calendar year, while the report submission date for institutions will be the close of business July 31 of each calendar year. The revisions to the FR Y-16 incorporate these revised dates into the reporting form and instructions.

The revisions to the FR Y-16 would be effective for the 2016 stress test cycle and would (1) change the report as-of date from September 30 to December 31, (2) change the reporting submission or due date from March to July, and (3) modify the reporting instructions to make corresponding changes to the dates and to reflect changes related to final implementation of BASEL III requirements.

Respondent Panel

The respondent panel includes any BHC or 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 are 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. A BHC or SMB that exceeds the asset threshold for the first time on or before March 31 of a given year must comply with the company-run stress test requirements beginning on January 1 of the following year, unless that time is extended by the Board in writing. Similarly, a BHC or SMB that exceeds the asset threshold for the first time after March 31 of a given year must comply with the company-run stress test requirements

beginning on January 1 of the second year following that given year, unless that time is extended by the Board in writing. The FR Y-16 report does not apply to FBOs. However, the report does apply to U.S. domiciled BHC subsidiaries or SMB subsidiaries of an FBO that meet the asset threshold.³

Time Schedule for Information Collection

Respondents would be required to submit data annually, no later than July 31 each year based on financial data as of December 31 of the prior year.

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, which 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 BHCs, section 5(c) of the Bank Holding Company Act (12 U.S.C. § 1844(c)) authorizes the Board to require a BHC 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 SMBs 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 SLHCs, under section 312 of the Dodd-Frank Act (12 U.S.C. § 5412), the Board succeeded to all powers and authorities of the Office of Thrift Supervision, U.S. Department of the Treasury, 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)).

The 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)).

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

³ U.S. domiciled BHC subsidiaries of FBOs that meet the asset threshold and are currently relying on SR Letter 01-01 are not required to report until the stress-test cycle that commences on January 1, 2016.

result in substantial competitive harm to the submitting institution, under National Parks & Conservation Association v. Morton, 498 F.2d 765 (D.C. Cir. 1974).

Consultation Outside the Agency

Board staff has consulted with the Office of the Comptroller of the Currency, U.S. Department of the Treasury, and with the Federal Deposit Insurance Corporation 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). Reporting Central is a central point of entry for the Federal Reserve, FFIEC, and U.S. Department of the Treasury for certain electronic reports submission and file uploads, and is a system many institutions already use for other regulatory reports. Each primary federal regulator has access to its respective institutions’ submissions.

On July 8, 2015, the Federal Reserve published a notice in the *Federal Register* (80 FR 39117) requesting public comment for 60 days on the extension, with revision, of the FR Y-16. The comment period for this notice expired on September 8, 2015. The Federal Reserve did not receive any comments. On January 13, 2016, the Federal Reserve published a final notice in the *Federal Register* (81 FR 1630).

Estimate of Respondent Burden

The annual burden for the reporting requirements of this information collection is estimated to be 469 hours per respondent, for a total of 32,361 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 less than 1 percent of the total Federal Reserve System paperwork burden.

FR Y-16	<i>Number of respondents⁴</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
BHCs	52	1	469	24,388
SLHCs	7	1	469	3,283
SMBs	10	1	469	4,690
One-Time Implementation	2	1	3,600	<u>7,200</u>
<i>Total</i>				39,561

⁴ 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.

The total annual cost to the public is estimated to be \$2,047,282.⁵

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.

⁵ 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 \$17, 45% Financial Managers at \$63, 15% Lawyers at \$64, and 10% Chief Executives at \$87). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages May 2014*, published March 25, 2015, www.bls.gov/news.release/ocwage.nr0.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.