

SUPPORTING STATEMENT

Recordkeeping and Disclosure Provisions Associated with Annual Stress Test Final Rule; Stress Test Reporting for \$10-\$50 Billion Banks OMB Control No. 3064-0187

Introduction

The Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Board of Governors of the Federal Reserve System (Board) (collectively, the banking agencies or the agencies) are proposing to combine their three separate, yet identical, stress test report forms, which are currently approved collections of information, into a single new interagency report, the Federal Financial Institutions Examination Council (FFIEC) 016, Annual Dodd-Frank Act Company-Run Stress Test Report for Depository Institutions and Holding Companies with \$10-\$50 Billion in Total Consolidated Assets. Thus, the FDIC proposes to replace its existing DFAST 10-50, Company-Run Annual Stress Test Reporting Template and Documentation for Covered Institutions with Total Consolidated Assets of \$10 Billion to \$50 Billion under the Dodd-Frank Wall Street Reform and Consumer Protection Act, with the proposed FFIEC 016. Subject to OMB approval, the proposed FFIEC 016 would take effect for the stress test reports due July 31, 2018.

The respondents for the proposed FFIEC 016 are, and will continue to be, depository institutions and holding companies with average total consolidated assets of more than \$10 billion, but less than \$50 billion. As part of their proposed adoption of the new FFIEC 016 report, the agencies also are proposing to implement a limited number of revisions that would align the proposed FFIEC 016 report with recent changes to the FFIEC 031 and FFIEC 041 Consolidated Reports of Condition and Income¹ and the Board's FR Y-9C Consolidated Financial Statements for Holding Companies.² In addition, the agencies are proposing to have respondents provide their Legal Entity Identifier (LEI) on the report form, if they already have one. The proposed FFIEC 016 reporting requirements reflect the company-run stress testing requirements promulgated by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

A. Justification

1. Circumstances that make the collection necessary:

Each of the agencies has issued rules applicable to the banking organizations it supervises with total consolidated assets of more than \$10 billion, but less than \$50 billion, that implement the company-run stress testing requirement promulgated by section 165(i)(2) of the Dodd-Frank Act (12 U.S.C. 5365(i)(2)).³ Under the agencies' respective rules, institutions that meet this asset threshold are required to conduct, and report the results of, an annual stress test using scenarios

¹ OMB Control Nos.: OCC, 1557-0081; Board, 7100-0036; and FDIC, 3064-0052.

² OMB Control No.: Board, 7100-0128.

³ 12 CFR part 46 (OCC); 12 CFR part 252, subpart B (Board); 12 CFR part 325, subpart C (FDIC).

provided by the agencies. The annual as-of date of the stress test report is December 31, and the submission deadline for the report is the following July 31.

The rules across the banking agencies are consistent and comparable as required by the Dodd-Frank Act. The FDIC's rule defines "stress test" as "the process to assess the potential impact of scenarios on the consolidated earnings, losses, and capital of a covered bank over the planning horizon, taking into account the current condition of the covered bank and the covered bank's risks, exposures, strategies, and activities," and it requires covered banks to perform annual stress tests, report their results to the FDIC, and publish a summary of their test results.

2. Use of the information:

As required by section 165(i)(2) of the Dodd-Frank Act, the banking agencies provide three clearly defined macroeconomic and market scenarios (baseline, adverse, and severely adverse) each year. With these scenarios, covered banks use their own financial data as of December 31 to estimate pre-provision net revenue, aggregate losses, loan loss provisions, net income, and the potential impact on regulatory capital levels and ratios over a 9-quarter horizon. The board of directors and senior management of each covered bank must use the results of the stress tests in the normal course of business, including but not limited to, the covered bank's capital planning, assessment of capital adequacy, and risk management. The agencies' rules also require covered banks to establish and maintain a system of controls, oversight, and documentation, including policies and procedures, designed to ensure that the stress testing processes used by the bank are effective in meeting the requirements of the rules. The rules also require covered banks to report data to their primary federal supervisors.

Consistent with the existing FDIC DFAST 10-50 report, the proposed FFIEC 016 reporting form would collect data through two primary schedules: (1) The Results Schedules (which include 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. As part of their proposed adoption of the new FFIEC 016 report, the agencies also are proposing to make limited changes to the quantitative and qualitative information currently collected in their separate, yet identical, report forms to implement a limited number of revisions that would align the new report with recent burden-reducing changes to the FFIEC 031, FFIEC 041, and the Board's FR Y-9C. The revisions relate to other-than-temporary impairments on debt securities, brokered deposits, and loans covered by FDIC loss-sharing agreements.⁴ The agencies also are proposing to have respondents provide their LEI on the report form, if they already have one.⁵ These revisions are not expected to change the estimated reporting burden for the proposed new FFIEC 016 compared to the estimated reporting burden for the agencies' existing stress test report forms.

⁴ See 89 FR 46889-46890 (October 6, 2017).

⁵ See 89 FR 46890 (October 6, 2017).

3. Consideration of the use of improved information technology:

All reporting entities submit their completed reports via the Federal Reserve System's Reporting Central Application (<https://www.frbservices.org/centralbank/reportingcentral/index.html>).

4. Efforts to identify duplication:

The information required in the proposed FFIEC 016 is unique. It is not duplicated elsewhere.

5. Methods used to minimize burden if the collection has a significant impact on substantial number of small entities:

Not applicable. The information collection affects only large institutions with more than \$10 billion in consolidated total assets.

6. Consequences to the Federal program if the collection were conducted less frequently:

This collection is required by law to be conducted on an annual basis. Conducting the collection less frequently would also present safety and soundness risks.

7. Special circumstances necessitating collection inconsistent with 5 CFR Part 1320:

This information collection is conducted in a manner consistent with the guidelines in 5 CFR 1320.

8. Efforts to consult with persons outside the agency:

On October 6, 2017 (82 FR 42867), FDIC and the other banking agencies jointly published a Federal Register notice seeking comment on the proposed FFIEC 016 for 60 days. No comments were received.

9. Payment to respondents:

There is no payment to respondents.

10. Any assurance of confidentiality:

As the FFIEC 016 data would be collected as part of the supervisory process, they are subject to confidential treatment under Exemption 8 of the Freedom of Information Act (5 U.S.C. 552(b) (8)). In addition, the information contained in this report may be exempt from disclosure under Exemption 4 (5 U.S.C. 552(b)(4)). Disclosure determinations would be made on a case-by-case basis in accordance with each agency's disclosure regulations.⁶ However, the agencies' rules

⁶ For the FDIC, see 12 CFR Part 309.

require respondents to publish a summary of the results of its annual stress test in the period starting October 15 and ending October 31.⁷

11. Justification for questions of a sensitive nature:

No questions of a sensitive nature are asked.

12. Burden estimate:

(a) Initial Stress Test - 2 respondents x 2,000 hours per respondent = 4,000 burden hours

(b) Ongoing Annual Stress Test - 22 respondents x 469 hours per respondent = 10,318 burden hours

On average, FDIC staff estimates that 2 respondents will spend 2,000 hours each at a cost of \$112 per hour⁸ to collect and prepare information for their initial submissions, resulting in a cost of \$448,000. FDIC staff estimates that the costs of compliance decrease after the initial stress test, and are driven by the magnitude of the changes in activities and operations of each covered bank. Staff estimates that each of the 22 respondents will spend 469 hours on ongoing stress testing activities after the initial annual stress test, resulting in an annual cost of \$1,155,616

13. Estimate of annualized costs to respondents:

None.

14. Estimate of annualized costs to the government:

None.

15. Changes in burden:

The FDIC has two institutions that are now involved in their initial submissions compared to one institution performing its initial submission previously. The FDIC has 22 institutions that are in the ongoing phase of reporting, which is the same number of institutions as previously. Although the hours per initial and ongoing response have not changed, the addition of one institution to the population of respondents results in an increase in overall reporting burden of 2,000 hours per year, as follows:

⁷ For the FDIC, see 12 CFR 325.207.

⁸ Costs to respondents are estimated to be \$112.00 per hour. Using the May 2016 National Industry-Specific Occupational Employment and Wage Estimates from the U.S. Bureau of Labor Statistics (BLS) for NAICS 522100 - Depository Credit Intermediation, the wages portion of this estimated cost is based on the average of the 90th percentile for six occupations likely to be participating in activities associated with performing stress tests and completing the proposed FFIEC 016 report (i.e., accountants and auditors, financial analysts, lawyers, management occupations, operations research analysts, software developers-applications, and software developers-systems). To this average, we added 40 percent to cover estimated wage inflation, employee benefits, and general overhead costs.

Prior Burden: 12,318 hours.

Proposed Burden: 14,318 hours.

Difference: +2,000 hours.

16. Information regarding collections whose results are planned to be published for statistical use:

Not applicable.

17. Display of expiration date:

Not applicable.

18. Exceptions to certification statement:

None.

B. Collections of Information Employing Statistical Methods

Not applicable.