SUPPORTING STATEMENT

Stress Testing Recordkeeping and Reporting
OMB Control No. 3064-0189

INTRODUCTION

The Federal Deposit Insurance Corporation (FDIC) has issued a rule that revises the FDIC's requirements for stress testing by FDIC-supervised institutions, consistent with changes made by Section 401 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA). Specifically, the rule amends the FDIC's existing stress testing regulations at 12 CFR Part 325 to change the minimum threshold for applicability from $10 billion to $250 billion, revises the frequency of required stress tests by FDIC-supervised institutions, and reduces the number of required stress testing scenarios from three to two. The rule also makes certain conforming and technical changes that were previously included in an April 2019 notice of proposed rulemaking that was superseded, in part, by the enactment of EGRRCPA.

On May 17, 2012, the Federal Deposit Insurance Corporation (FDIC) the Office of the Comptroller of the Currency (OCC) and the Board of Governors of the Federal Reserve (FRB), published guidance on the use of stress testing as a means to better understand the range of a banking organization's potential risk exposures.[1] The guidance is intended for institutions with total consolidated assets of more than $10 billion and provides an overview of how a banking organization should structure its stress testing activities to ensure they fit into the banking organization's overall risk management program. The purpose of the guidance is to outline broad principles for a satisfactory stress testing framework and describe the manner in which stress testing should be used, that is as an integral component of risk management applicable at various levels of aggregation within a banking organization as well as a tool for capital and liquidity planning. While the guidance is not intended to provide detailed instructions for conducting stress testing for any particular risk or business area, it does include descriptions of several types of stress testing activities and how they may be most appropriately used by banking organizations. The guidance also does not explicitly address the stress testing requirements imposed upon certain companies by section 165(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

A. JUSTIFICATION

1. Circumstances that make the collection necessary:

Prior to the enactment of EGRRCPA, section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act[2] ("Dodd-Frank Act") required a financial

[1] Supervisory Guidance on Stress Testing for Banking Organizations with More than $10 Billion in Total Consolidated Assets ("Supervisory Guidance on Stress Testing" or "guidance") 77 FR 29459 (May 17, 2012).
[2] 12 U.S.C. 5365(i).

company, including an insured depository institution, with total consolidated assets of more than $10 billion and regulated by a primary Federal regulatory agency to conduct annual stress tests and submit a report to the Board of Governors of the Federal Reserve System ("Board") and to its primary federal regulatory agency. Section 165(i)(2)(C) required each primary Federal regulator to issue consistent and comparable regulations to: (1) implement the stress testing requirements, including establishing methodologies for conducting stress tests that provided for at least three different sets of conditions, including baseline, adverse, and severely adverse; (2) establish the form and content of the required reports, and (3) require companies to publish a summary of the stress test results.

In October 2012, the FDIC published in the *Federal Register* its rule implementing the Dodd-Frank Act stress testing requirement.[3] The FDIC regulation at 12 CFR Part 325 implements the company-run stress test requirements of section 165(i)(2) of the Dodd-Frank Act with respect to state nonmember banks and state savings associations with more than $10 billion in assets ("covered banks"). Although 12 CFR Part 325 applies to all covered banks that exceed $10 billion in assets, the regulation differentiated between "$10 billion to $50 billion covered banks" and "over $50 billion covered banks."

EGRRCPA, enacted on May 24, 2018,[4] amended certain aspects of the company-run stress-testing requirements in section 165(i)(2) of the Dodd-Frank Act. Specifically, section 401 of EGRRCPA raises the minimum asset threshold for the company-run stress testing requirement from $10 billion to $250 billion; replaces the requirement for banks to conduct stress tests "annually" with the requirement to conduct stress tests "periodically;" and no longer requires the "adverse" stress-testing scenario, thus reducing the number of required stress test scenarios from three to two. The EGRRCPA amendments to the section 165(i)(2) stress testing requirements are effective eighteen months after enactment.

2. Use of the information:

Consistent with past practice, the FDIC intends to use the data collected to assess the reasonableness of the stress test results of covered banks and to provide forward-looking information to the FDIC regarding a covered institution's capital adequacy. The FDIC 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 bank. The stress test results are expected to support ongoing improvement in a covered bank's stress testing practices with respect to its internal assessments of capital adequacy and overall capital planning.

3. Consideration of the use of improved information technology:

[3] 77 FR 62417 (October 15, 2012) (FDIC); 77 FR 62380 (October 12, 2012) (Federal Reserve); 77 FR 61238 (October 9, 2012) (OCC).
[4] Pub. L. 115-174, 132 Stat. 1296-1368 (2018).

Covered banks may use any information technology that permits review by FDIC examiners and meets the requirements of the collection.

4. Efforts to identify duplication:

The information required is unique. It is not duplicated elsewhere.

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

The information collection under 12 CFR Part 325 affects only large institutions that have more than $250 billion in total consolidated assets. Likewise, the Supervisory Guidance on Stress Testing applies to large institutions that have more than $10 Billion in total consolidated assets. The information collection therefore does not have a significant impact on a substantial number of small entities.

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

Congress, by statute, has determined that this information is to be collected periodically. Conducting the collection less frequently would potentially present safety and soundness risks to those entities otherwise subject to testing. The Supervisory Guidance on Stress Testing is voluntary and is intended to be consistent with sound industry practices.

7. Special circumstances necessitating collection inconsistent with 5 CFR Part 1320.5(d)(2):

There are no special circumstances. This information collection is conducted in accordance with the guidelines in 5 CFR 1320.5(d)(2).

8. Efforts to consult with persons outside the agency:

On December 28, 2018, the FDIC published a notice of proposed rulemaking in the Federal Register that includes an information collection notice with a 60-day comment period.[5] The FDIC received six comments in response to the proposed rule.

With respect to raising the applicability threshold from $10 to $250 billion, some commenters supported raising the threshold, others acknowledged that such a revision was statutorily required, and others expressed concern that eliminating stress testing requirements for banks under $250 billion may raise prudential concerns. Similarly, some commenters supported the proposed rule's elimination of the "adverse" scenario, positing that the adverse scenario is of limited utility,[6] some acknowledged that removing the

[5] 83 FR 67149 (December 28, 2018).
[6] One commenter recommended that the FDIC, OCC, and FRB (agencies) not include the adverse scenario in the 2019 stress tests. The FDIC did not consider it necessary to do so, and notes that the EGRRCPA amendments to the Dodd-Frank Act's company-run stress testing requirements are effective November 24, 2019.

“adverse” scenario is statutorily required, and others expressed concern that eliminating the “adverse” scenario may reduce the efficacy of company-run stress testing. The FDIC appreciates the concerns raised by commenters, but does not believe that they warrant changes to the proposal. In this regard, the rule will become effective on November 25, 2019, as proposed, to align the regulatory threshold for company-run stress testing by covered banks with the statutory threshold of $250 billion established by section 401 of EGRCCPA, and to eliminate the “adverse” scenario requirement, consistent with section 401 of EGRCCPA.

With respect to the proposed rule’s requirement that covered banks generally be subject to biennial stress testing, some commenters supported biennial stress testing as being an appropriate frequency for most covered banks, while others contended that reducing the frequency from annual to biennial would not be appropriate. Among the concerns highlighted by these commenters was that such a reduction in the frequency of stress testing could lead to complacency by covered banks in managing risk, and that biennial stress tests would not be sufficiently current to be credible. One commenter specifically suggested that a data-driven empirical analysis should support the change from annual to biennial stress testing, and that biennial stress testing would not be appropriate since firms make choices about dividends and repurchases on an annual basis. This commenter also suggested that the risks associated with reducing the frequency of stress testing would be amplified by other regulatory proposals addressing capital and liquidity requirements.

Based on its experience in overseeing and reviewing the results of company-run stress testing, the FDIC believes that biennial stress testing would be appropriate under most conditions for covered banks. The FDIC expects biennial stress testing to sufficiently satisfy the purposes of stress testing, including assisting in an overall assessment of a covered bank’s capital adequacy, identifying risks and the potential impact of adverse financial and economic conditions on a covered bank’s capital adequacy, and determining whether additional analytical techniques and exercises would be appropriate for a covered bank to employ in identifying, measuring, and monitoring risks to the soundness of the covered bank. In addition, the FDIC would continue to review the covered bank’s stress testing processes and procedures. Under the final rule, all covered banks that conduct stress tests on a biennial basis are required to conduct stress tests in the same reporting year (i.e., the reporting years for biennial stress testing covered banks would be synchronized). By requiring these covered banks to conduct their stress tests in the same reporting year, the final rule allows the FDIC to make comparisons across banks for supervisory purposes and assess macroeconomic trends and risks to the banking industry. The FDIC also notes that it retains the ability to require more frequent stress testing pursuant to its reservation of authority under 12 CFR 325.1(c).

9. Payment or Gift to Respondents:

There is no payment to respondents.

10. Any assurance of confidentiality:

Information collected will be kept private to the extent allowed by law. No assurance of confidentiality is made.

11. Justification for questions of a sensitive nature:

The information collection does not request information of a sensitive nature.

12. Estimate of Hour Burden Including Annualized Hourly Costs:

Summary of Annual Burden						
Information Collection Description	**Type of Burden**	**Obligation to Respond**	**Estimated Number of Respondents**[7]	**Estimated Frequency of Responses**	**Estimated Time per Response**	**Estimated Annual Burden**
Methodologies and Practices (12 CFR Part 325)	Recordkeeping	Mandatory	1	Annually	640 hours	640 hours
Stress Test Reporting (12 CFR Part 325)	Reporting	Mandatory	1	Annually	240 hours	240 hours
Publications (12 CFR Part 325)	Disclosure	Mandatory	1	Annually	160 hours	160 hours
Documentation of Assumptions, Uncertainties and Limitations (Guidance)	Recordkeeping	Voluntary	39	Annually	40 hours	1,560 hours
Summary of Test Result (Guidance)	Recordkeeping	Voluntary	39	Annually	40 hours	1,560 hours
Policies and Procedures Implementation (Guidance)	Recordkeeping	Voluntary	1[8]	Annually	180 hours	180 hours
Estimated Total Annual Burden						**4, 340 hours**

On average, FDIC staff estimates that respondents will spend 4,340 hours at a cost of $107.88[9] per hour to collect and prepare information for each annual submission, resulting in a cost of $468,199.20. FDIC staff expects that key drivers of costs of compliance will be the magnitude of the changes in activities and operations of each covered bank.

[7] FDIC estimates that none of the existing FDIC-supervised institutions are currently subject to the recordkeeping, reporting or disclosure requirements of 12 CFR part 325. However, FDIC is reporting one respondent as a placeholder to preserve the burden estimate in case an institution becomes subject to these requirements in the future. There are 39 FDIC-supervised institutions that could adopt the voluntary recommendations contained in the Supervisory Guidance on Stress Testing. For purposes of estimating burden, FDIC assumes all of these institutions will do so.

[8] FDIC assumes all existing FDIC-supervised institutions to which the Supervisory Guidance on Stress Testing is addressed have now implemented policies and procedures. However, FDIC is reporting one respondent as a placeholder to preserve the burden estimate in case a new institution meets the Supervisory Guidance on Stress Testing asset threshold.

[9] To estimate hourly wages, we used data from May 2018 for wages (by industry and occupation) from the U.S. Bureau of Labor Statistics (BLS). To estimate compensation costs associated with the rule, we used $73.18 per hour, which is the average of the 90th percentile for seven occupations (i.e., accountants and auditors, compliance officers, financial analysts, lawyers, management occupations, software developers, and statisticians). We added 45.77 percent for private sector benefits, based on the *Employer Costs for Employee Compensation Summary*, BLS (Dec 2017). We also added the inflation rate of 1.65 percent.

13. Estimate of Start-up Costs to Respondents:

None.

14. Estimate of annualized costs to the government:

None.

15. Analysis of change in burden:

The change in burden is entirely due to EGRRCPA's increase in the stress testing asset threshold from $10 billion to $250 billion. This has effectively excluded all existing FDIC-supervised institutions from the recordkeeping, reporting and disclosure requirements in 12 CFR part 325. However, FDIC is reporting one respondent as a placeholder to preserve the burden estimate in case an institution becomes subject to these requirements in the future. The change in burden is due to the reduction in estimated respondents from five (5) to one (1). There is no change in the burden associated with the Supervisory Guidance on Stress Testing.

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

The results of this collection will not be published for statistical use.

17. Display of Expiration Date

Not applicable.

B. STATISTICAL METHODS

Not applicable.